



2020

CHINA MARKETING TRENDS

ANNUAL REPORT ON “CHINA MARKETING TRENDS”

This is Totem Media's fifth annual report on marketing in China. Over the past five years we have aimed to provide high-level summaries and analyses of the big issues shaping China's marketing landscape.

The aim of this annual analysis is about getting the timing right for the issues which are going to be salient in the year ahead. This requires balancing what was hot from the year before, with the promise of new opportunities, some of which might be too far out on the horizon.

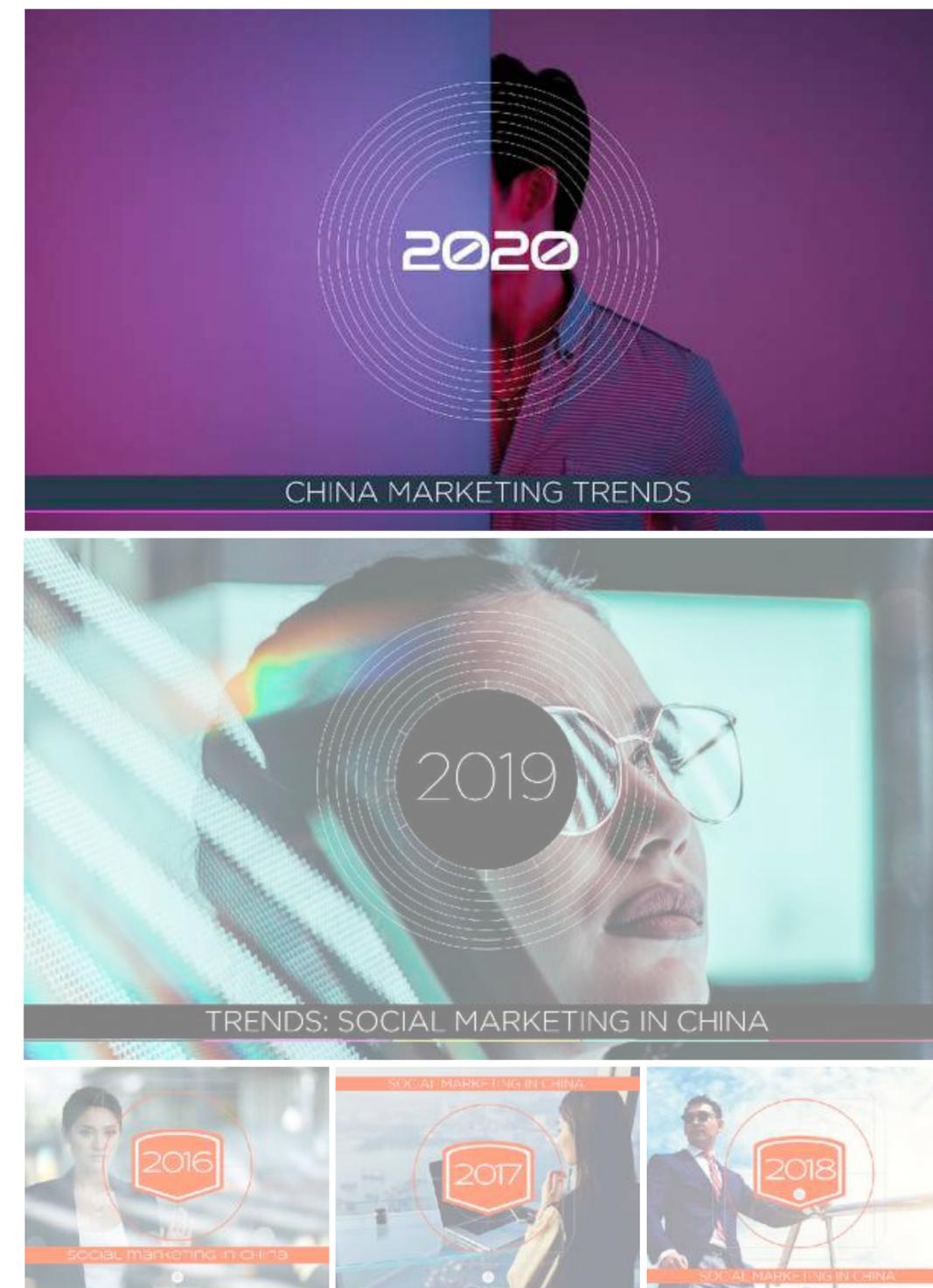
Trends which reached maximum effect in the preceding years are therefore not our focus. Short video apps (such as Douyin) fall into this category of 'trends' which have been covered before, and may be at or past peak. And, issues such as AI - which will not be widely implemented by marketers in short-term, are also not our focus. Our goal with the report is to provide insights to marketers which can be implemented in 2020, to address the current challenges in China.

Our analysis is strongly informed by the type of work we do with brands on strategy, data and analytics - so there is a good deal of opinion and point of view being put forward. But we also aim to provide some case studies and data to support these concepts.

The making of this report is a highly collaborative process. In the weeks and months leading up to the release of this report, we spoke with 30+ senior marketers in China, to capture a wide range of insights and opinions. These marketing professionals represent a wide range of expertise, with people from; brands (big and small), agencies (creative, media), digital consultancies, as well as independent brand strategists. Many of these interviewees are credited at the end of this presentation. And, many of the conversations were also recorded and will be released as audio podcasts for those who want to dive deeper into these issues.

We also collected a wide range of data and information from consultancies and research firms (which are credited per page). Finally, in order to fill in some missing information and questions, we surveyed a group of 42 brands - about their plans for 2020. These surveys helped us to answer important questions about; (1)expected budgets for the year ahead, (2)allocation of those budgets, and (3)recent experiences with marketing channels/practices, such as whether WeChat and Douyin investments are paying off.

To view our previous reports and additional insights, please visit us at: www.talktototem.com/insights



BRAND STRATEGY TO BE KEY IN 2020

2019 was a year of rising tension, across multiple levels. Trust, politics, rising costs, declining ROI and questions about growth and sustainability all contributed to a challenging year. 2020 is setup to be a year where this tension comes into sharp focus and a number of big questions are answered for brands in China.

Some brands will have to answer questions about whether they should continue to invest in the market - *amid challenging circumstances* - or pull out completely. Other brands will have to more clearly define their path in the market and make some profound strategy shifts.

Category leaders will want to press home the advantages they have built and consolidate their leadership positions to gain even larger market share leads. Middle-of-the-pack brands, will have to answer more challenging questions about sustainable ways forward. And, niche brands will need to find solutions to reliably scale up their businesses.

2020 will be a year, above all things, where the leaders separate themselves from the rest of the pack. It is therefore a year where strategies will diverge between the category leaders and the middle of the pack brands. In most categories, there is a growing consolidation of market share among the top players, in most categories the top 5-10 players have carved out a dominant share of the market. Brands outside of this dominant group, will have to re-frame the market and look toward new tactics, new segments and new geographic approaches.

Our major themes for 2020 all speak to this tension and the choices that brands large and small will need to make about how they approach the market.

Chris Baker
Founder, Totem Media

***Prior to launching this report, news of the Coronavirus also broke. We have added an opening section with some thoughts/insights on this challenging issue for brands.*



THE CORONAVIRUS WILL HAVE A PROFOUND EFFECT ON CHINA'S ECONOMY - CREATING MORE STRAIN DURING 'DOWN' YEAR.

Insight: Brands who are un-prepared for how to manage through this period will be compounding the challenges of what was already expected to be a difficult year.



The crisis is mostly negative - particularly from a revenue point of view.

Everyone will face challenges in the months ahead. And, for some brands, who are already struggling in China, it might be push them to retire.

For all brands, the crisis should be a reminder to revisit their position with stakeholders (employees, suppliers/partners, KOLs, etc).

And for brands on-top of their game, it's an opportunity to communicate (or reposition themselves) around authenticity and empathy - to be a positive force during a challenging time.

REDUCE FEAR, BE POSITIVE

Lessons that go beyond the crisis situation

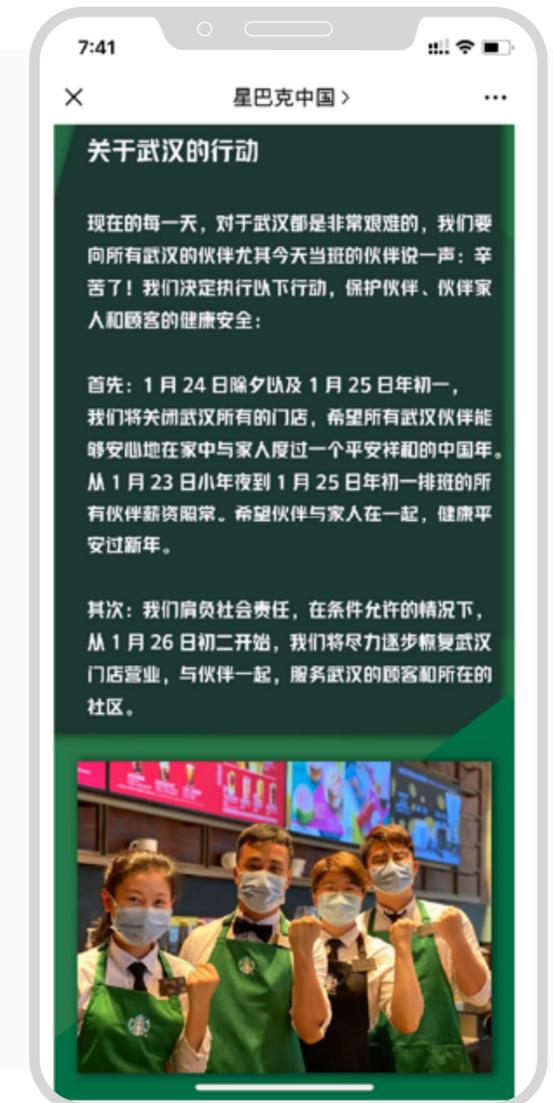
FIRST LEVEL RESPONSE FROM BRANDS

Starbucks has done an admirable job in getting in front of the issue, with communications that are:

1. Pro-active: answering concerns people might have about a visit to Starbucks during this time.
2. Positive: demonstrating an attitude that creates optimism

Long before most other businesses, Starbucks was communicating about what it is doing at its shops and the steps they are taking to maintain health and cleanliness. In Starbucks' case, these messages highlight brand attributes. This truth allowed them to respond quickly (as they did) and be authentic.

Other stories have emerged about how businesses are supporting, such as the small bakery in Shanghai where the owners pulled an all-nighter to make bread for frontline medical workers. These small acts of empathy create stories that stick with consumers.



Social messages from Starbucks on its actions in the face of the crisis.

CONTRIBUTE, BE SUPPORTIVE

Lessons that go beyond the crisis situation

RESPONDING IN BRAND-RELEVANT WAYS

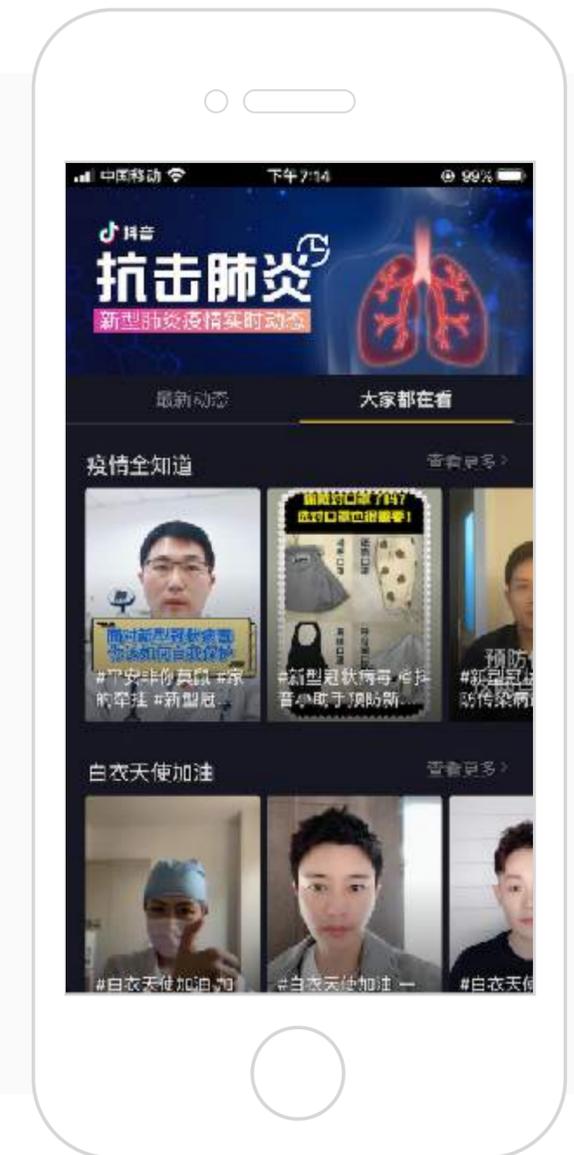
A growing number of tech and media companies have come forward to support this challenge. JD.com, Douyin and Xiaomi were among the early contributors in helping to deal with the Coronavirus.

JD.com will send 1.0 million medical masks and additional supplies to the city of Wuhan. Xiaomi followed suit and has pledged to send 300,000 medical masks together with thermometers. Douyin meanwhile has used its media prowess to encourage information sharing about the virus and to create messages of encouragement to those working on the frontlines.

Finding a way to contribute, which is in alignment with the brand's core capability is valuable but ultimately it's more about making an effort to contribute something positive to a challenging situation - rather than scoring brand wins.



N95 medical masks being transported by Xiaomi to Wuhan.



Douyin page to support frontline doctors

TAKE A LONG-TERM VIEW (EXPAND ON A PURPOSE)

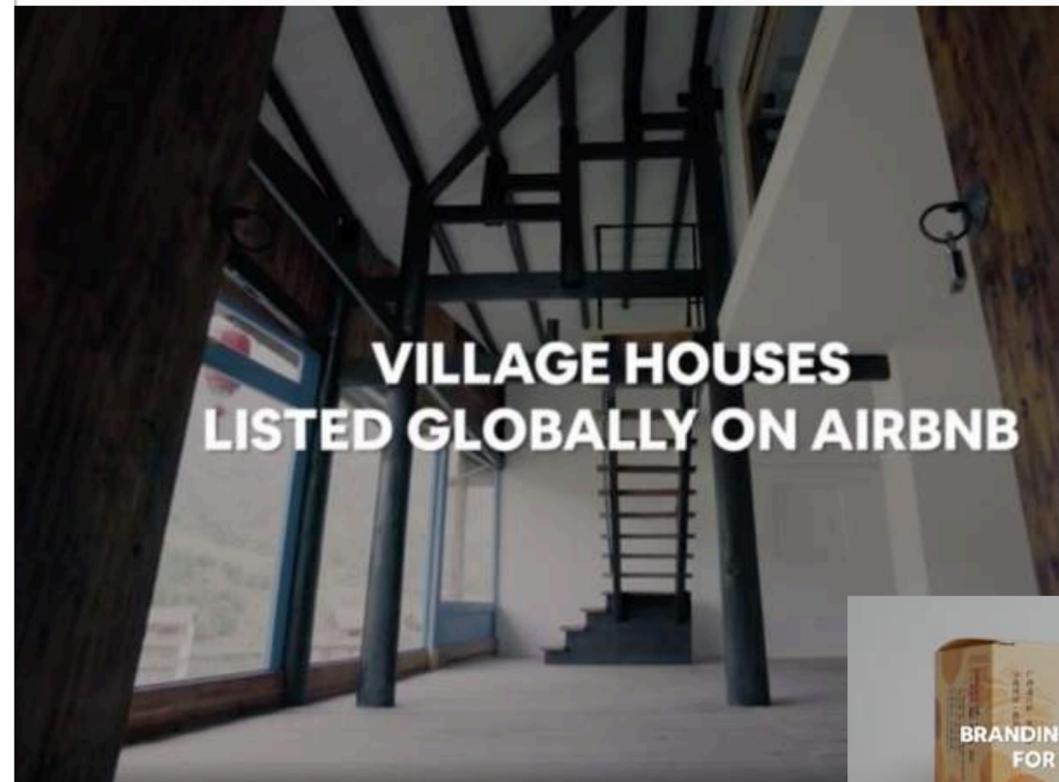
Beyond the crisis - Brands need to look at continuing social service, responsibility

AIRBNB HAS CREATED A SENSE OF PURPOSE

AirBNB's work to support small villages in China has helped define a purpose for the brand and gave it a rationale for follow up communications, while providing a social good.

Brands looking at contributing to the Coronavirus challenge, should do so, with the intent to follow it up with purpose-driven marketing in China. Global brands in China (perhaps) have a greater need to build this goodwill and do so consistently

AirBNB went into a small village that in recent years has become a 'hollow village' and worked with the local populace to revitalize it as a charming, cultural destination. They also trained the villagers as hosts - setup bookings globally for visitors - and supported local craft and food products (which were sold online). They achieved a 90% booking rate and raised local incomes.



AirBnB's Start Up Village project is aimed at creating lasting goodwill.

CHINA IS A DISTINCTLY DIGITAL MARKET - WITH MOBILE AND SOCIAL PLAYING KEY ROLES IN ADVERTISING SUCCESS.

Insight: It is also an environment which has put performance marketing, sales activations and other forms of short-term action as priority over long-term brand building, creative and customer cultivation/engagement.

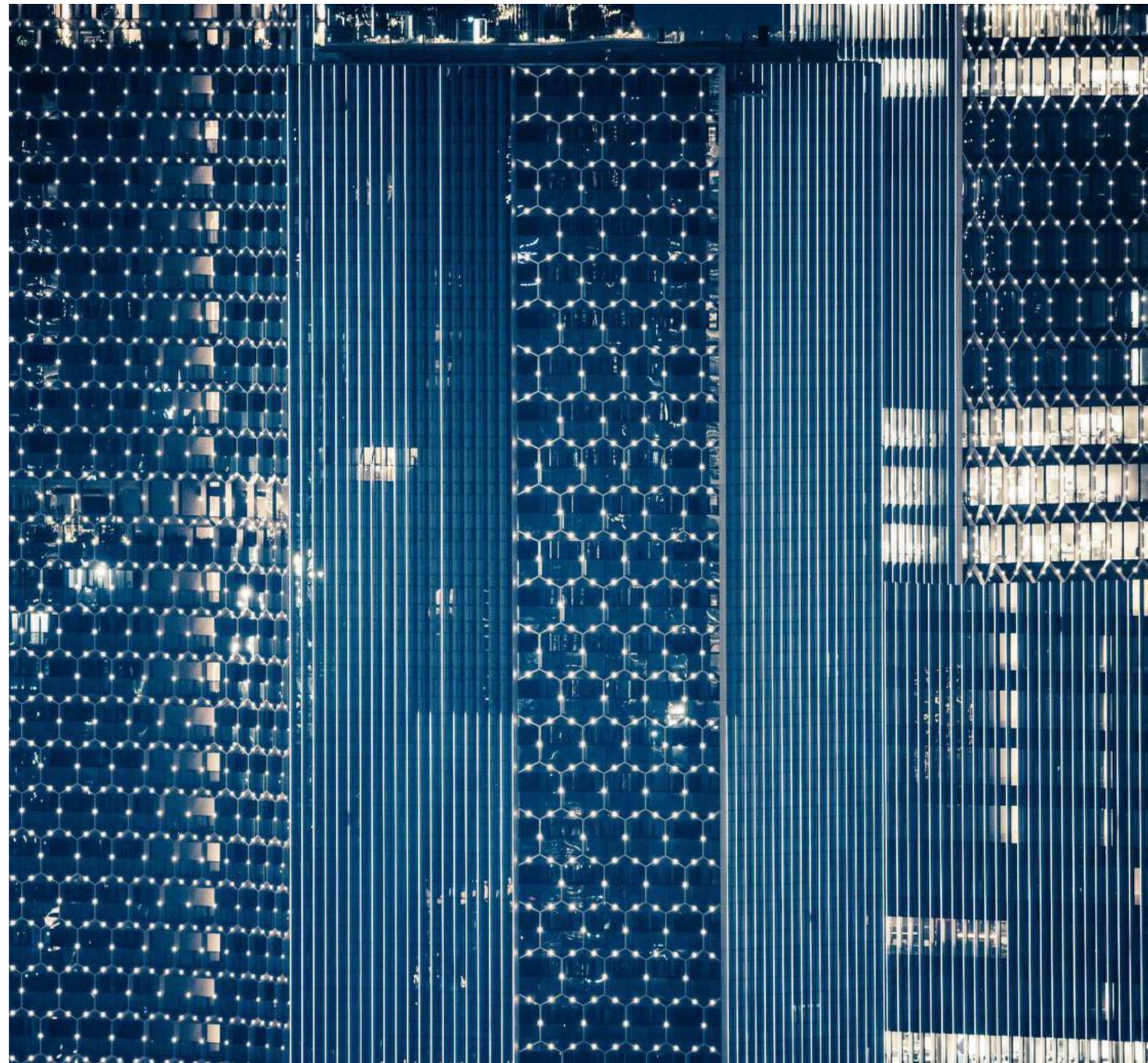
China's digital population continues to grow. There are 854 million Chinese netizens.

It's media (marketing) landscape is overwhelmingly digital. More than 70% of all ad spend is digital.

And, 80% of all digital advertising is targeted at mobile audiences.

For brands, effective planning links together social media, content and video branding - with ecommerce and omnichannel retail/sales opportunities.

Despite a slowdown in China during 2019/20, the market size and momentum warrant strong, long-term strategies from brands.



CHINA'S INTERNET POPULATION IS STILL GROWING

Mobile users represent 99.1% of all netizens

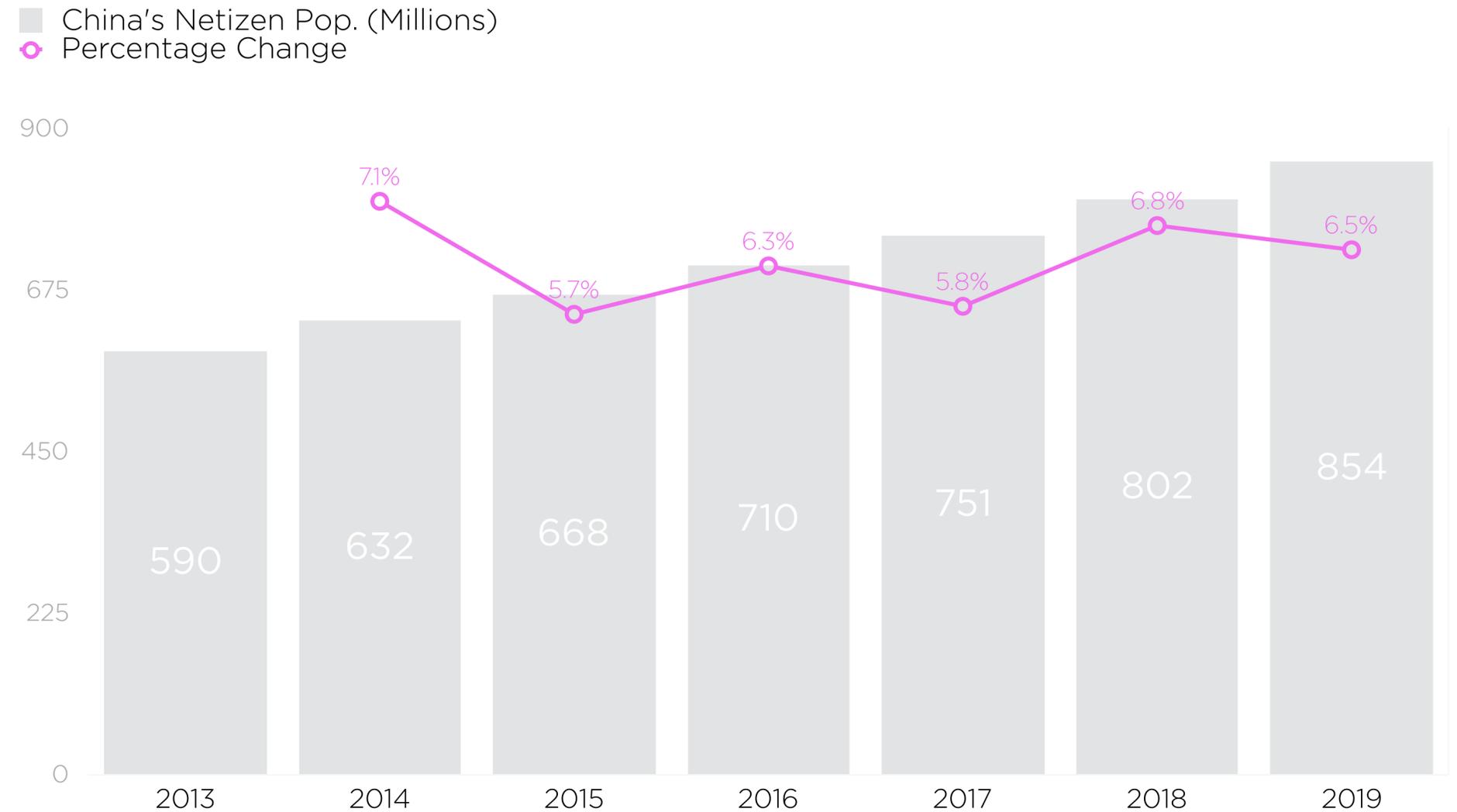
CHINA'S INTERNET POPULATION

While the total number of netizens in China continues to grow at around 6% year-on-year, mobile growth is slowing.

Mobile growth seems to be reaching a saturation point. According to the QuestMobile report, mobile internet user growth fell below 1 percent for the first time in 2019 (0.7% increase).

- China's total netizens: 854 million
- Netizens/Total Population: 61.2%

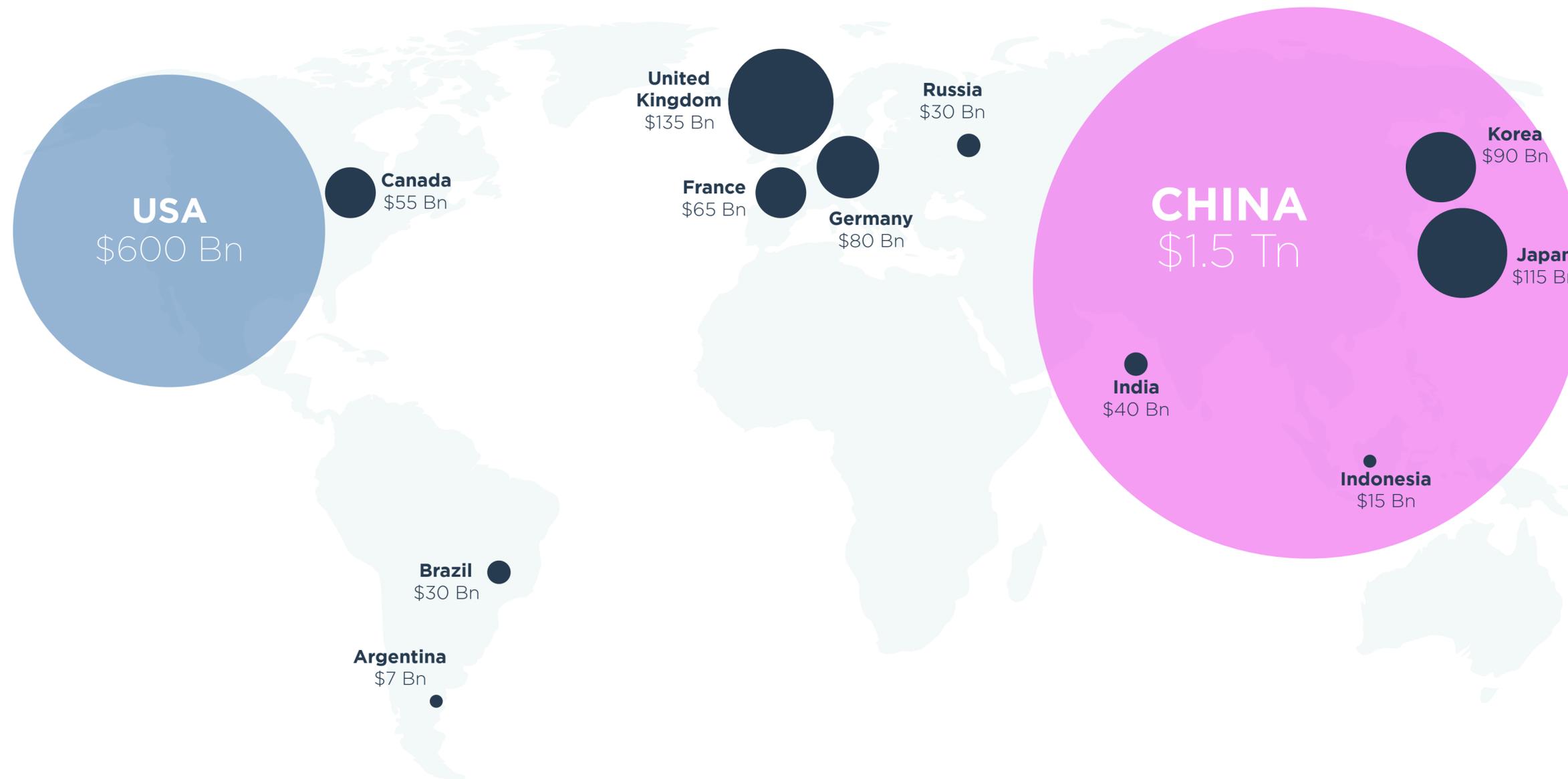
- Mobile netizens: 847 Million
- Mobile/Total: 99.1%



MARKET SIZE, MOMENTUM IN FAVOR OF GROWTH

China's ecommerce market is larger than the next 10 markets combined

ONLINE RETAIL TRANSACTION (B2B/B2C) VALUE 2019



DIGITAL DOMINATES AD SPENDING IN CHINA

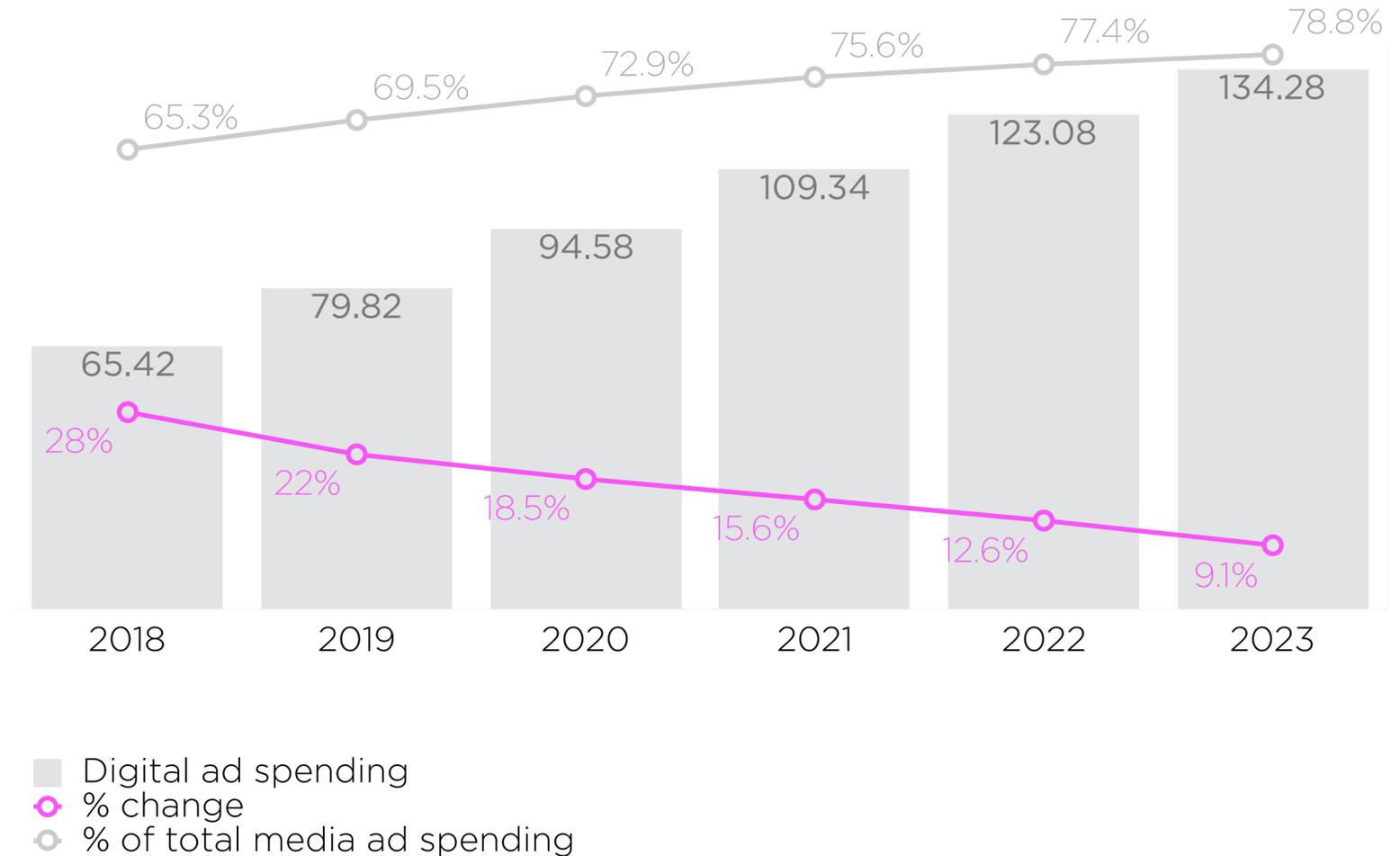
And mobile has the largest share of digital spending

DIGITAL AD SPEND CONTINUES GROWTH

China is overwhelmingly biased toward digital ad spending. Depending on the source and structure of calculations, digital represents 60-70% of all advertising spend in China, as of 2019-2020.

And, over 80% of all digital advertising spend is mobile versus only a <20% share for desktop spending. This ratio is projected to grow to 87:13 in favor of mobile by 2023, according to eMarketer.

DIGITAL AD SPENDING IN CHINA, 2018-2023 (BILLIONS)



MOBILE INTERNET, TIME SPENT

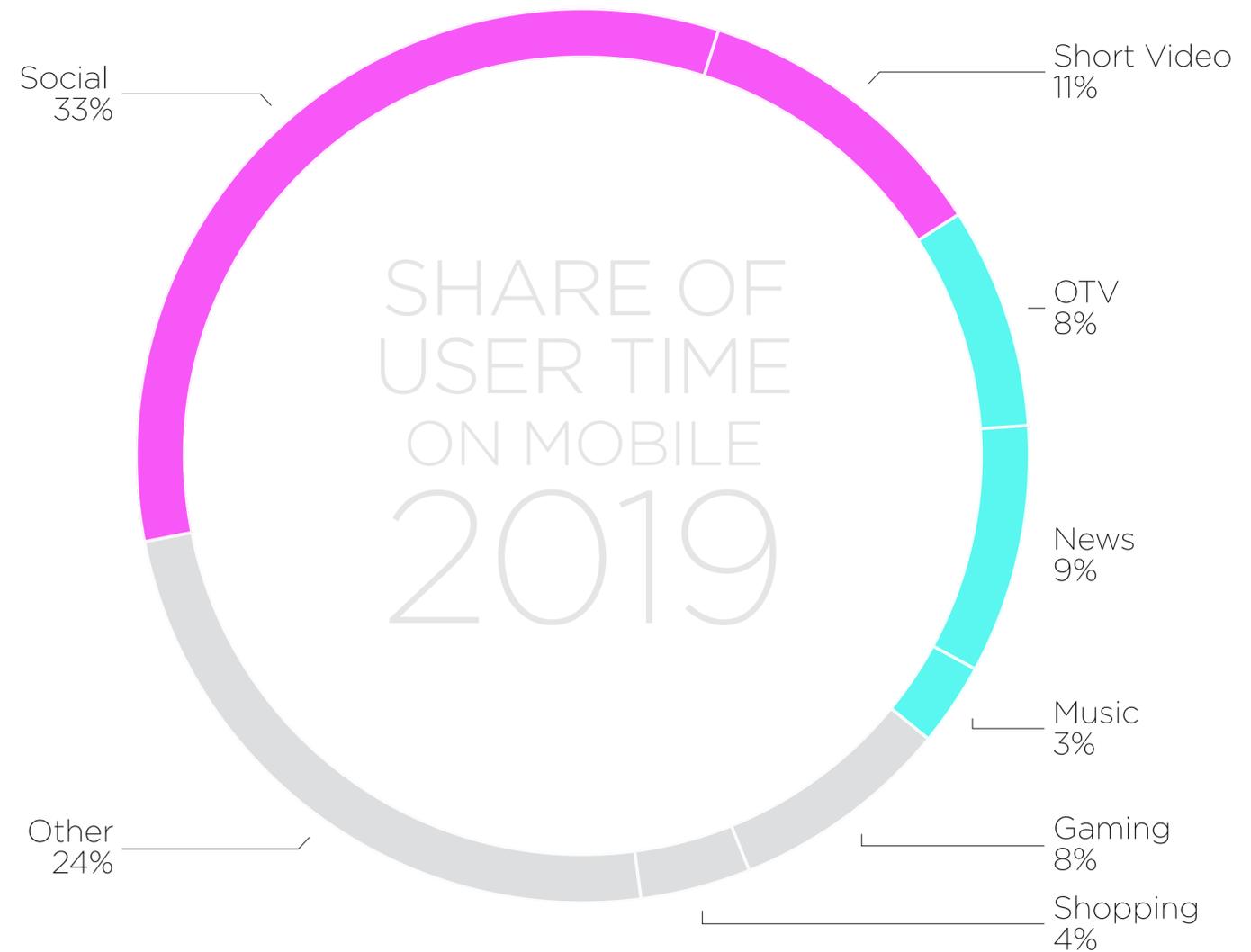
Social media, video and other content dominate mobile time

MOBILE MEDIA & ENTERTAINMENT

Social networking continues to dominate overall user activity on mobile in China.

However, social networking has lost ground to video in the past two years. Social networking went from 60% of all time on mobile in 2016, to 47% in 2018. Video's share of time grew from 13% in 2016, to 22% in 2018. Short video apps - namely Douyin - account for this big swing in attention to video.

News also enjoyed an increase in time spent by users. In this case, the big winner was Toutiao and similar news streams ...who have done a good job of customizing and socializing news to match individual interests (and growing interest-groups).



SOCIAL ALONG THE PATH-TO-PURCHASE

The role, importance of social media has increased for customers

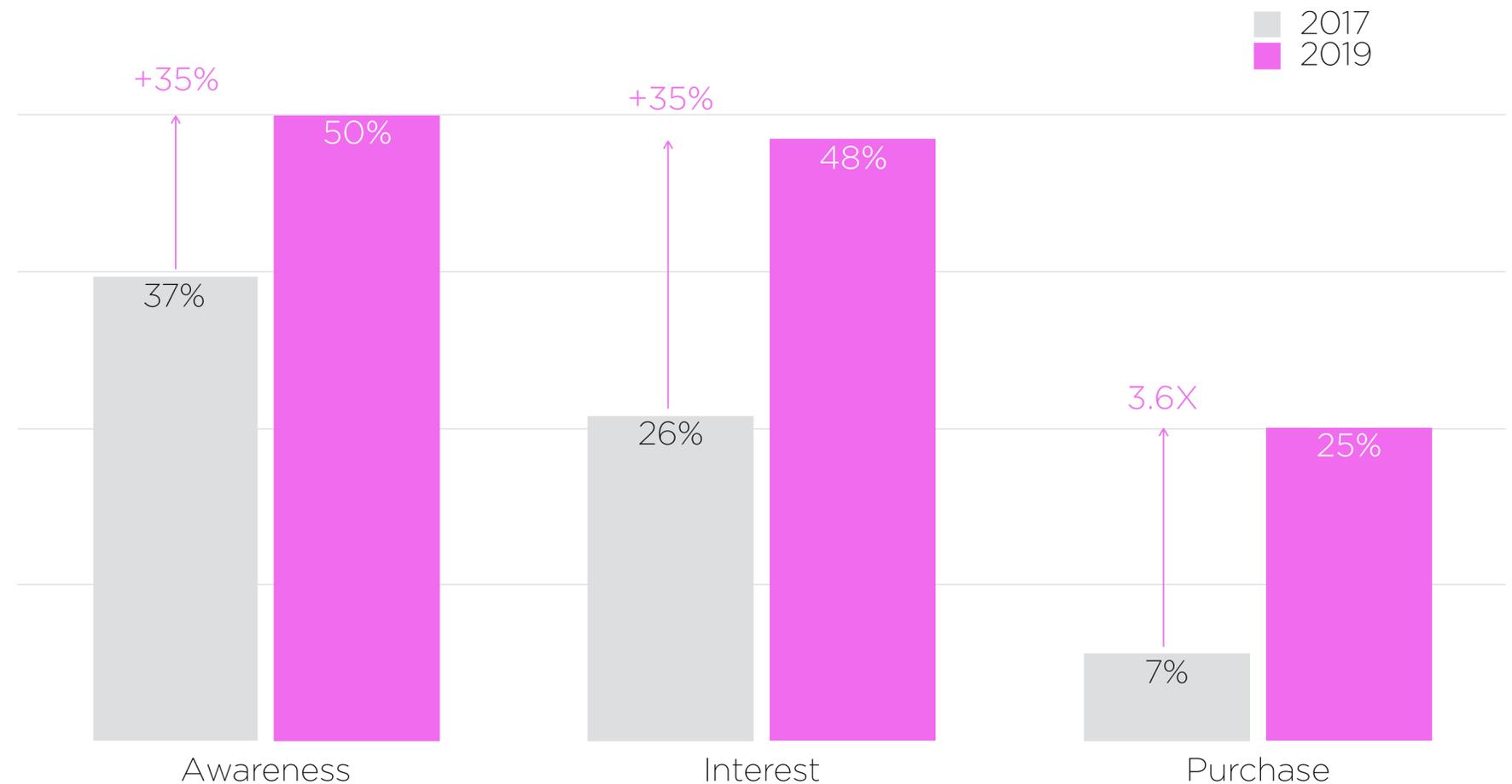
BRAND AUDIENCES CONNECT VIA SOCIAL

Globally, the effectiveness of social media for overall digital ROI has been hard to quantify. While the relationship between search and purchase is much more direct, social has found its role in the path-to-purchase considerably harder to define.

In China, where social and ecommerce are much more tightly connected, the importance of social is more clear.

Data from iConsumer and McKinsey show that the role and effectiveness of social is increasing in China.

PERCENT OF ONLINE SHOPPERS USING SOCIAL ON PATH-TO-PURCHASE



CHINESE NETIZENS ARE ASTUTE

Chinese audiences are among the World's most digitally astute, aware

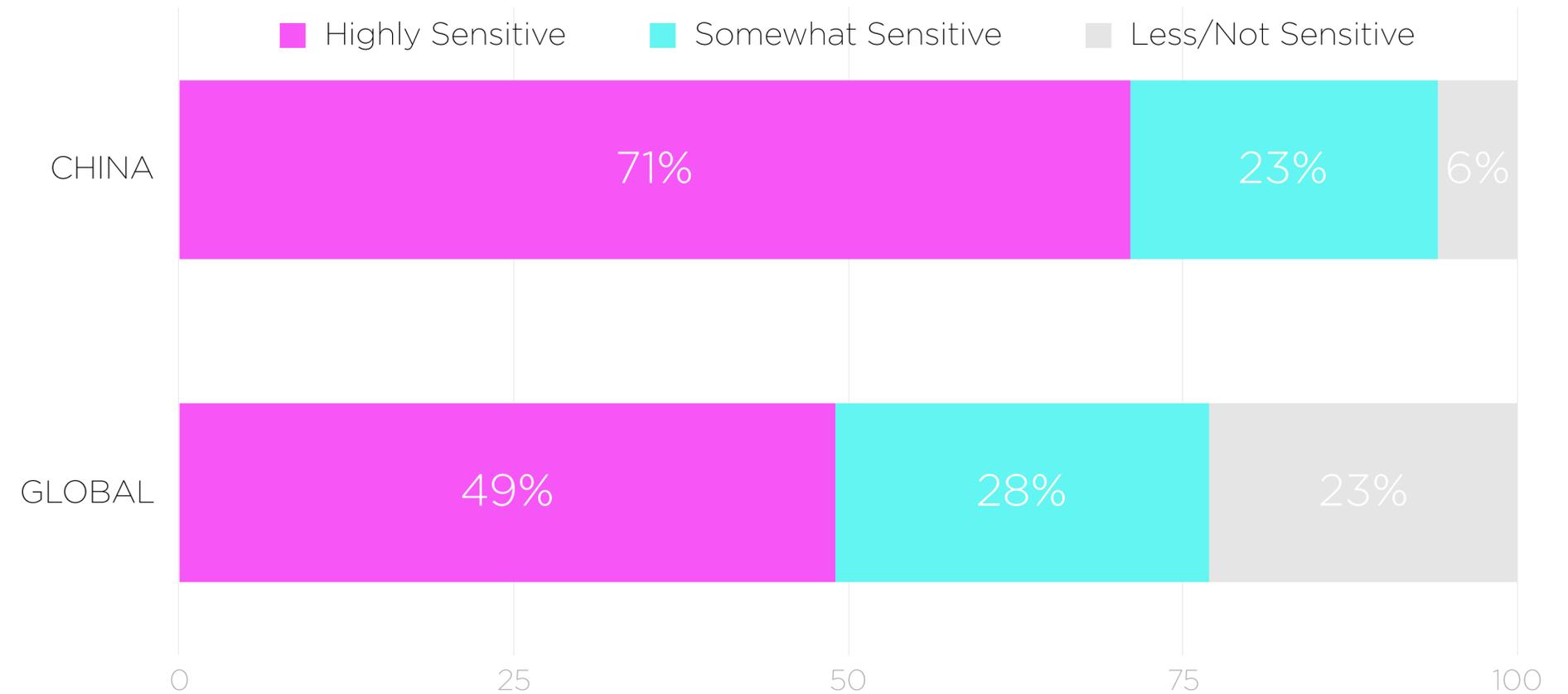
HIGHLY AWARE, HIGHLY SKEPTICAL

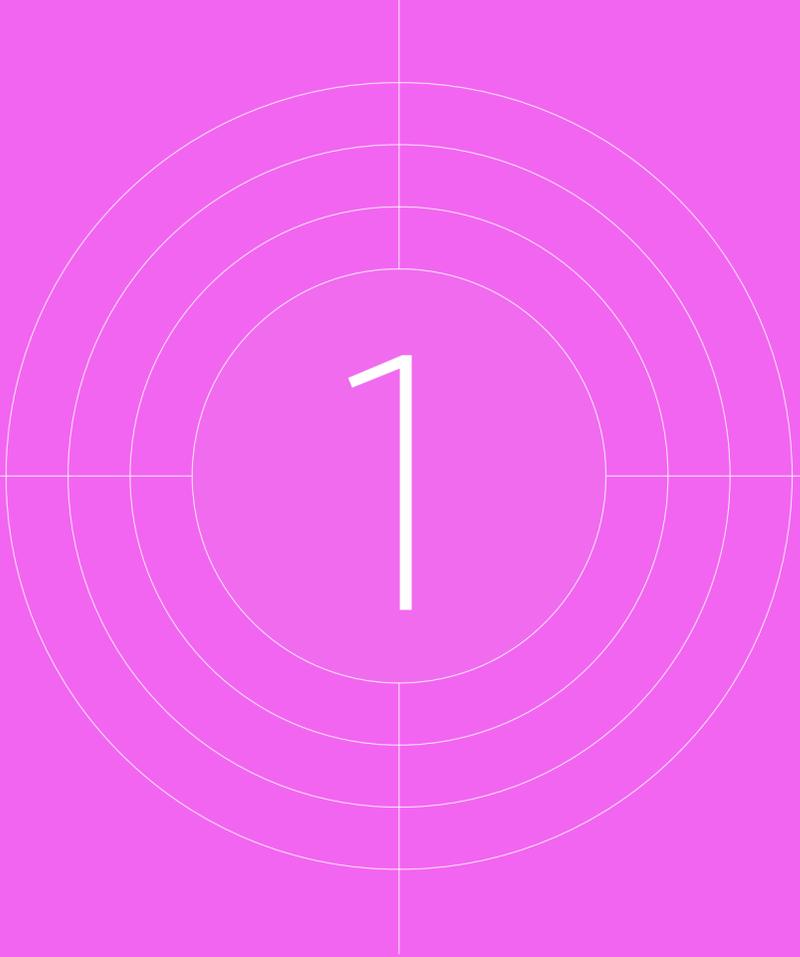
Repeated studies show that Chinese netizens are among the most sensitive and skeptical when it comes to issues of personal data security.

There is a delicate balance to be maintained between audiences, digital platforms, government and brands. Audiences are keenly aware of this and don't want to be caught up with issues when they flare up.

Data from Frost & Sullivan highlighted this issue in research from 2018, where they found 77% of Chinese respondents had "stopped using an online service after a data breach." By comparison, only 32% of respondents from the UK had taken similar action (51% from the US).

LEVEL OF SENSITIVITY FOR "PERSONAL DATA BEING USED"





1

CONSUMER SPENDING
HAS SLOWED DOWN



BRANDS ARE FACING A
CHALLENGING ENVIRONMENT WITH
HIGH COMPETITION AND COSTS, AND
LOWER CONSUMER CONFIDENCE.

Insight: Brands who are category leaders are in good shape and will have opportunities to make big gains in 2020, as some of the middle-of-pack brands fall away.

Most official reports on China's consumer confidence remain positive and projections for growth remain solid.

There is however, a profound undercurrent of caution and nervousness - especially among white-collar consumers in T1 & T2 cities, where real estate depreciation is most noticeable. Spending power in China has been strongly linked to these asset prices, and as they trend down, so too will consumer spending.

“When the property price was 4.8 million [yuan] previously, I felt relaxed and generous about my children's future education abroad, spending on various luxury goods and overseas trips. The confidence was based on the properties' prices and that they would be higher next year,” said Xu, from Guangzhou, who owns three flats in the city (*SCMP, Jan 16, 2020*).



'OFFICIAL' CONSUMER CONFIDENCE APPEARS STABLE

But there is growing caution and overall growth of spending has slowed

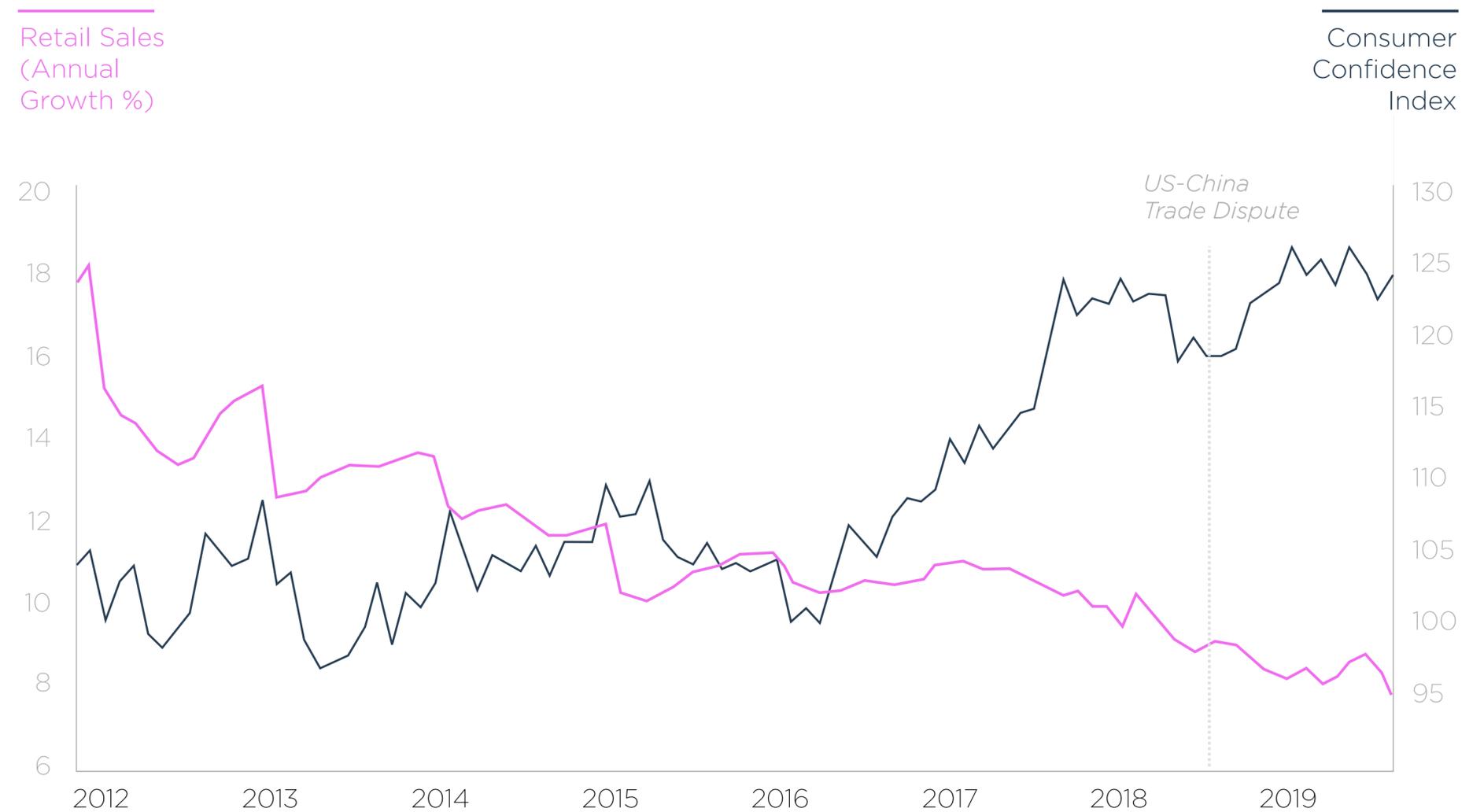
CONSUMER SPENDING IS SLOWING

Retail growth in China is a mixed bag at the moment. Top tier cities have slowed spending considerably and are being squeezed on costs. Lower tier cities are demonstrating far more optimism and are less price sensitive.

Looking past the official government statistics (from NBS), there is considerably more caution and concern among regular consumers in China.

Double 11 in 2019 printed new records for overall sales growth but for many brands these sales came as a result of steep discounting.

There is overall, a discernible slowdown in the economy and brands need to pay heed to this in 2020, with strategies to match.



DISCOUNTING ABOUNDS

Brands are meeting this slowdown with a bevy of discounting tactics

A DISCOUNTING WAR LOOMING?

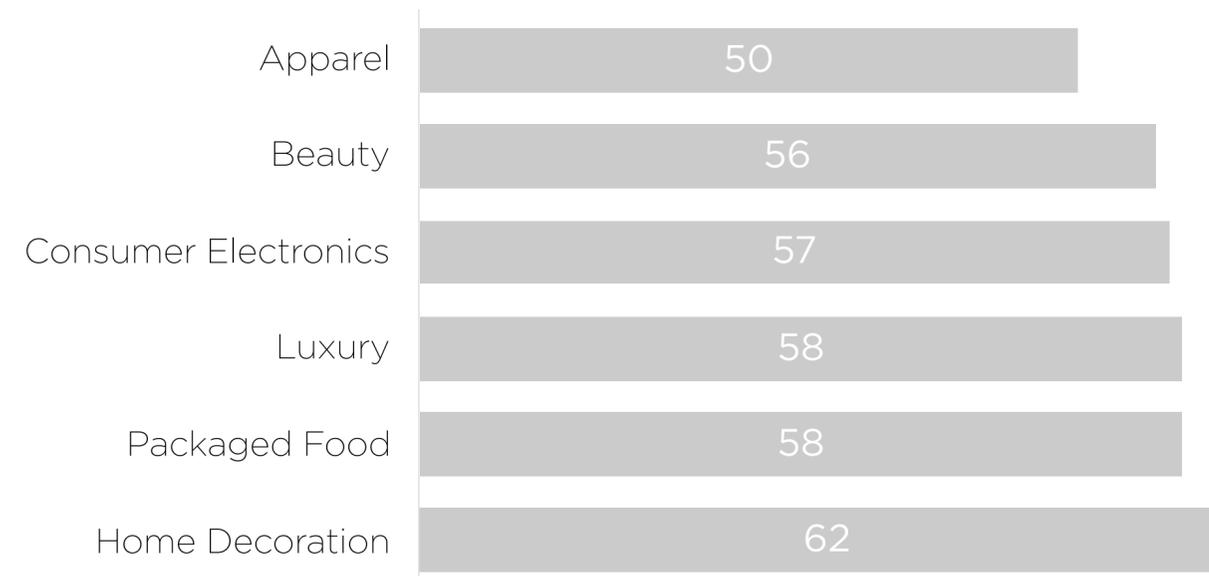
The consumption slowdown in 2019 has prompted many brands to discount more often and more creatively.

At the same time, there has been a lot of analysis on strategies for discounting. A review of consulting white papers goes to show that a lot of attention is being applied around how to boost sales, while consumers grow increasingly cautious.

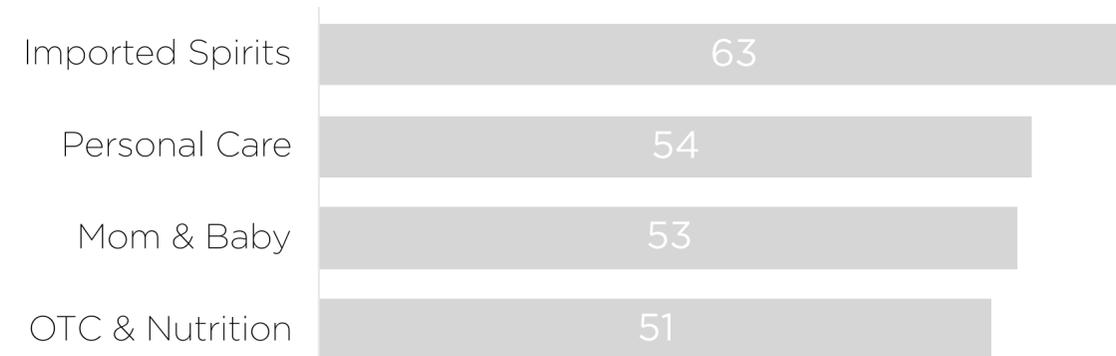
Brands making these moves by competing hotly on price may do lasting damage to their brand.

Instead of working on how to discount better, many brands should, instead be applying more attention to better branding, better messaging, or by focusing on new market sets.

CUSTOMERS PREFER: BIG EVENT-DRIVEN PROMOTIONS



CUSTOMERS PREFER: EVERYDAY LOW PRICES



CHINA TO OVERTAKE US IN RETAIL SALES

2020 is the year China projects to take the lead over US in retail sales

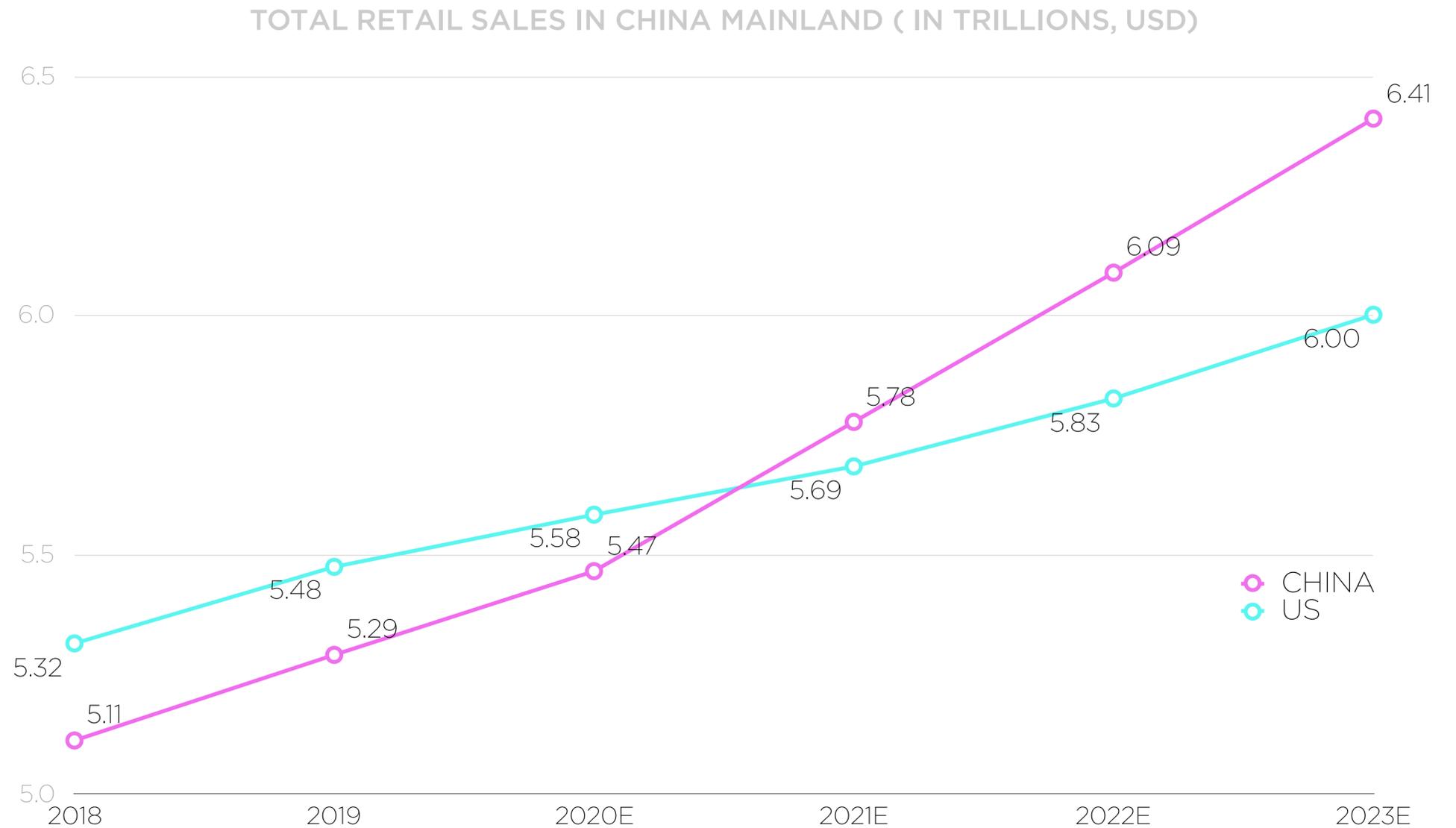
STRONG, LONG-TERM RETAIL MARKET

Despite a slowdown in China and declines in consumer confidence becoming more profound, the sheer scale of China's market will propel it forward.

Long term, the market will be a good investment for brands.

China's total population (1.4 Billion), its online population (854 million) and its population of online shoppers (639 million) all support a solid growth story.

But if the current slowdown continues, many brands will need to re-calibrate their approach in response to more discerning consumers, who will pick and choose brands more cautiously.



BRAND SPENDING REMAINS STABLE,
ESPECIALLY ON DIGITAL - WHICH IS
THE KEY MARKETING CHANNEL FOR
CHINA.

Insight: Brands should start looking beyond the major digital channels to new channels. By going into new channels, there is the prospect of (1) benefiting from under-priced audience attention and (2) surprising audiences with something new, different.



Totem's brand survey indicates that digital and social media spending will increase (*on average*) between 10-15% during 2020. By contrast, previous years' increases were >20%. So, brands are taking a more subdued approach to 2020.

However, our survey also shows that there is a split between leading brands and smaller brands. Leading brands plan to increase budgets, whereas middle-of-the-pack brands are keeping budgets un-changed.

And, while advertising spending has slowed down, brands continue to increase spend on digital (and social) channels at higher rates than traditional media.

MODEST AD SPEND INCREASES FOR 2020

The largest share of brands are maintaining same budgets as 2019

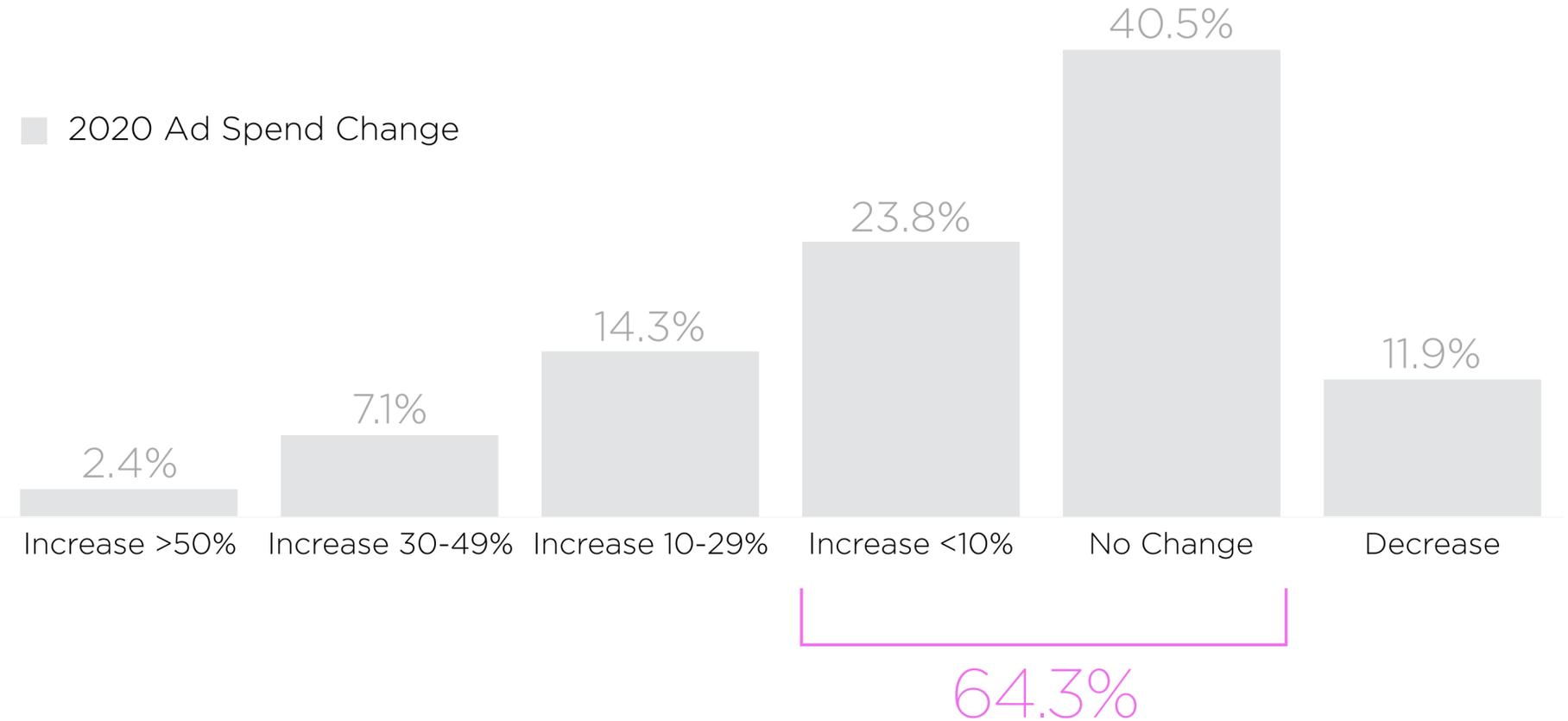
MOST BRANDS MAINTAIN STATUS QUO

The majority of brands surveyed planned to maintain budgets similar to 2019. 88% of brands surveyed planned to either maintain or increase budgets in 2020. 40.5% of brands planned to keep the same budget levels they had the previous year.

In 2017 and 2018 (survey data from AdMaster showed that average yearly ad budget increases were at/near 20%). Based on our research, average increases are projected to be (at/near) 10% for 2020.

About the survey: At the end of 2019, Totem Media surveyed a group of 42 brands on their advertising plans for 2020. This group of brands represents a cross section of (mostly global brands) from very large to medium sized - most of which have more than ten years experience in the market.

“HOW DO YOU PLAN ON ADJUSTING YOUR BRAND’S AD SPEND FOR 2020?”



DIGITAL AD SPEND TO CONTINUE GROWING

Digital is trending ahead of overall advertising spend in China

DIGITAL WILL (AGAIN) OUTPERFORM

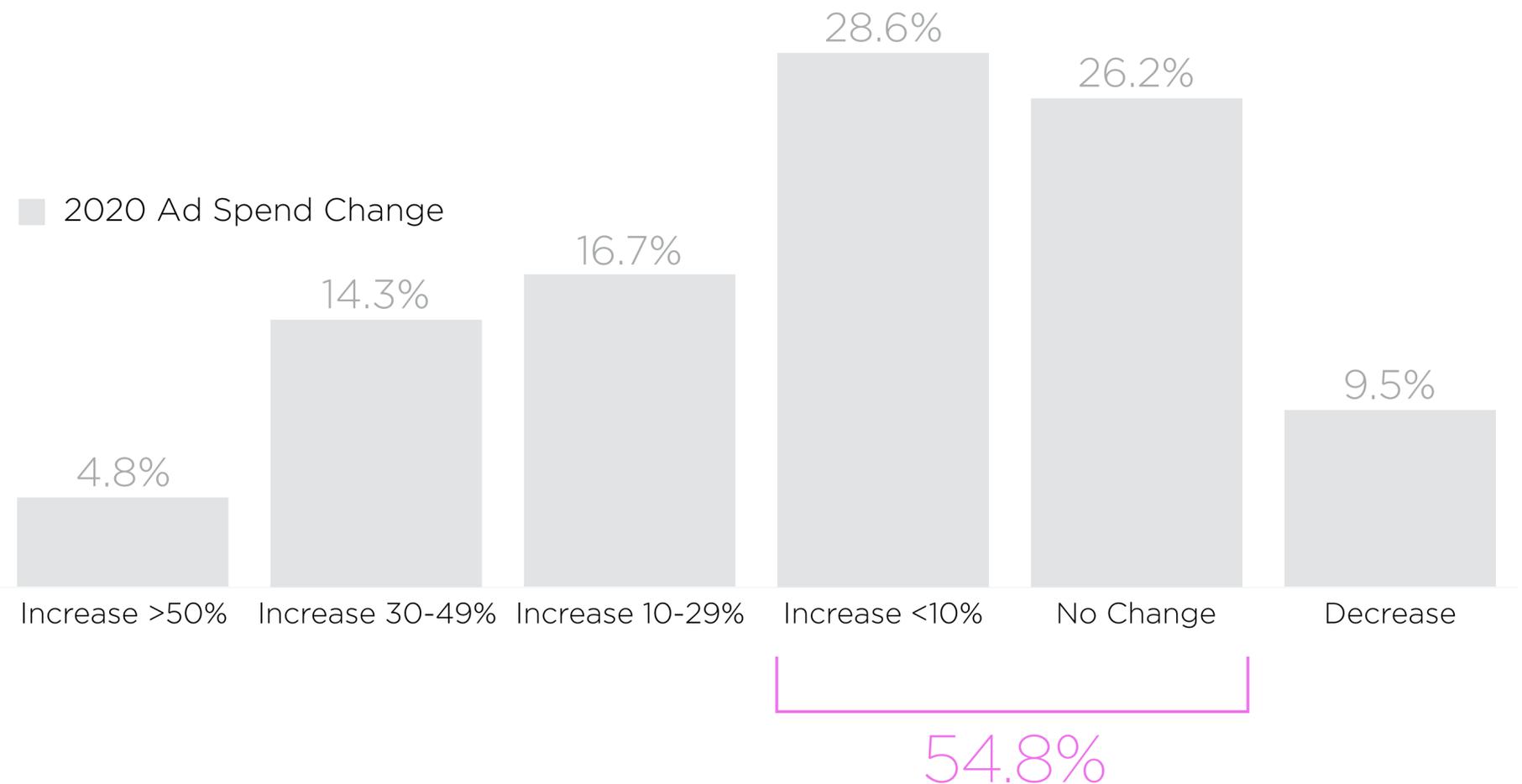
The majority (64.3%) of brands surveyed planned to increase digital spending in 2020.

The increases planned for 2020 are however lower than the increases seen in previous years.

Spending increases average between 10-15% for 2020, where average increases in previous years were >20%.

About the survey: At the end of 2019, Totem Media surveyed a group of 42 brands on their advertising plans for 2020. This group of brands represents a cross section of (mostly global brands) from very large to medium sized - most of which have more than ten years experience in the market.

“HOW DO YOU PLAN ON ADJUSTING YOUR BRAND’S DIGITAL SPEND FOR 2020?”



SOCIAL MEDIA SPENDING RISES SLIGHTLY

Following a similar pattern to overall digital marketing

SOCIAL SPENDING ALSO UP IN 2020

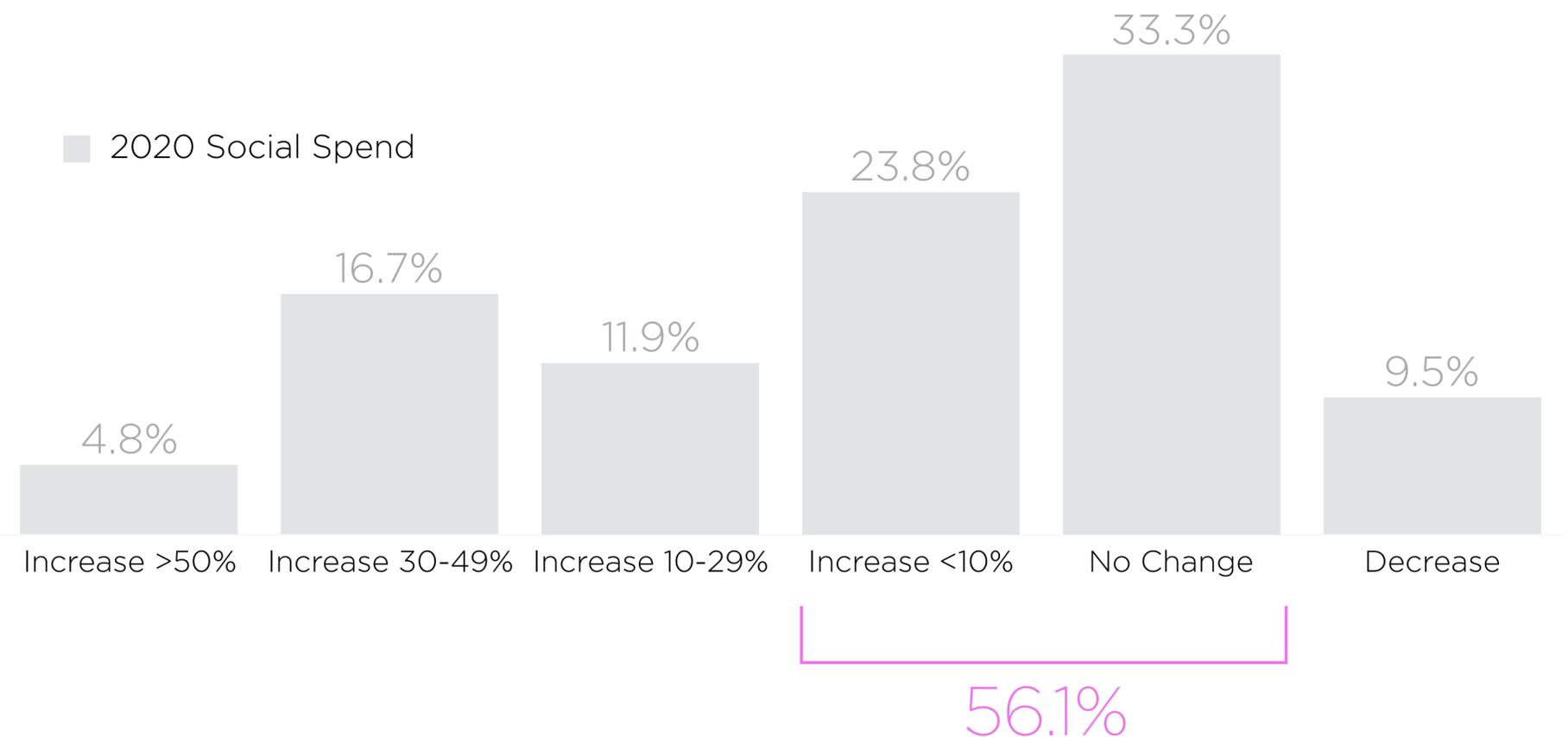
Social media runs in parallel with digital spending. The majority (57.2%) of brands surveyed planned to increase social spending in 2020.

Interesting to note, that while the number of brands planning to increase spend in social and digital were similar, the increases to planned social spend were slightly higher than digital as a whole.

Several brands cited big investments planned for Douyin and other short video apps as the reasons behind the increases into social media.

About the survey: At the end of 2019, Totem Media surveyed a group of 42 brands on their advertising plans for 2020. This group of brands represents a cross section of (mostly global brands) from very large to medium sized - most of which have more than ten years experience in the market.

“HOW DO YOU PLAN ON ADJUSTING YOUR BRAND’S SOCIAL SPEND FOR 2020?”



MEDIA INVESTMENT BY CATEGORY

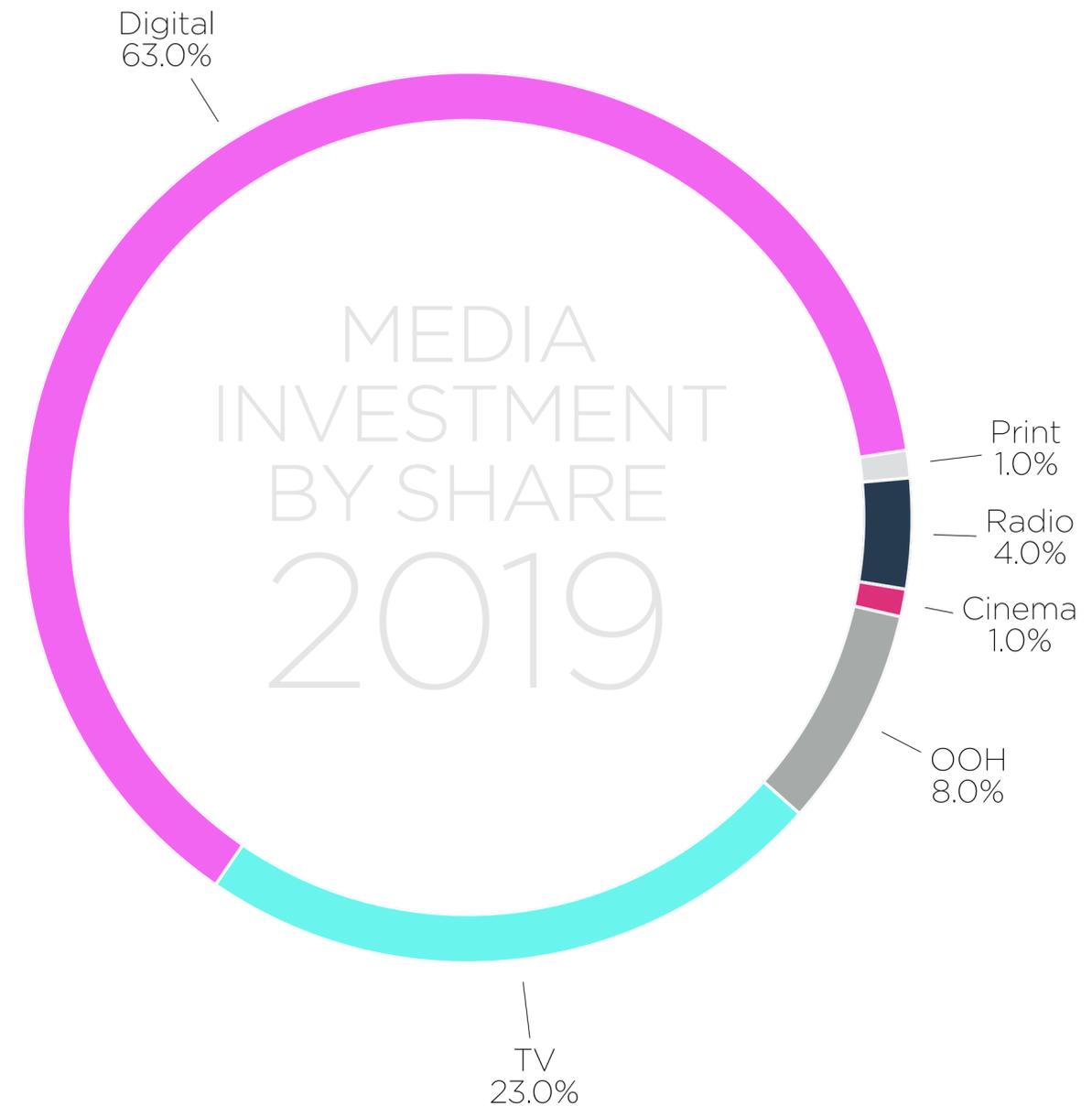
Digital dominates in China - everything is 'digital'

IN CHINA, IT'S ALL DIGITAL

Digital overtook traditional media many, many years ago in China. However, in a market like China, digital is omni-present and virtually all categories of media have a digital component. It is therefore very difficult to separate digital from traditional in categories such as TV, OOH and Radio. To this point, Video, OTV and OTT represent some of the most quickly growing segments of 'digital' and do not always count within the share of spend on 'TV.'

It's more valuable in the China context to just move beyond the concepts of digital and traditional - everything is digital in China.

Brands with budget to support a wide scope of channels might want to look toward more traditional channels, in order to stand out (zig when others are zagging) and to find relatively less expensive exposure to audiences.



INFLATION FORECAST BY MEDIA TYPE

Inflation rate growth in 2019 and 2020 has slowed down

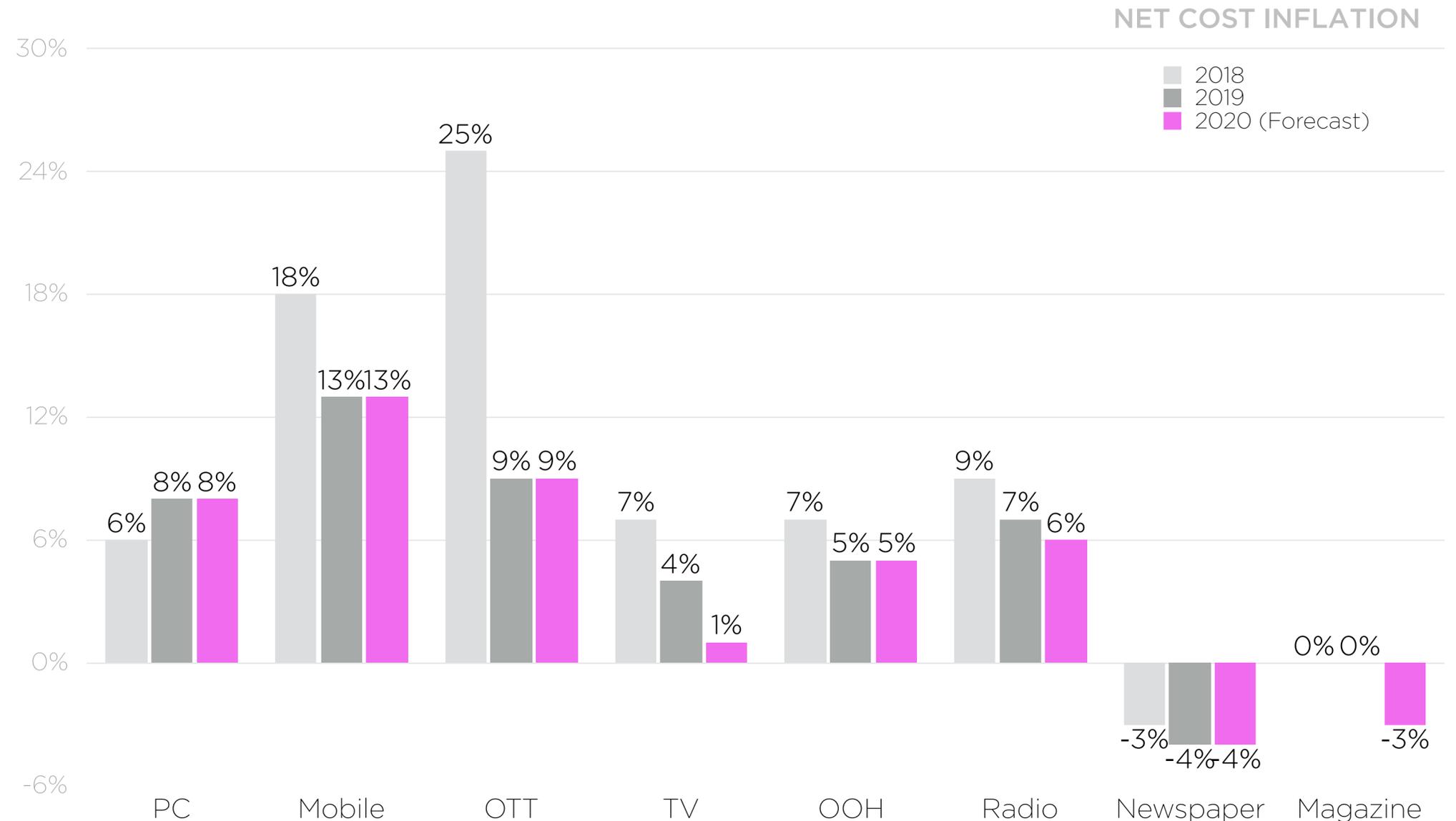
INCONSISTENCIES WITH MEDIA INFLATION

Hot categories continue to record significant inflation in media costs. Mobile OTT and PC continue to lead the way with near double-digit increases forecast for 2020.

Among more traditional media, TV has experienced modest inflation. Print (newspapers and magazines) continue to slide, as they have done over the past several years.

Radio is interesting among 'traditional' media in having seen 6-9% growth over the past three years. Audio consumption is on the rise, and radio has a large digital share (digital-analogue not separated).

For brands looking to build a lower-tier city approach, there is some value in looking at print media - for the role it plays a local-level and in lower tier cities.



MEDIA GROWTH TRENDS

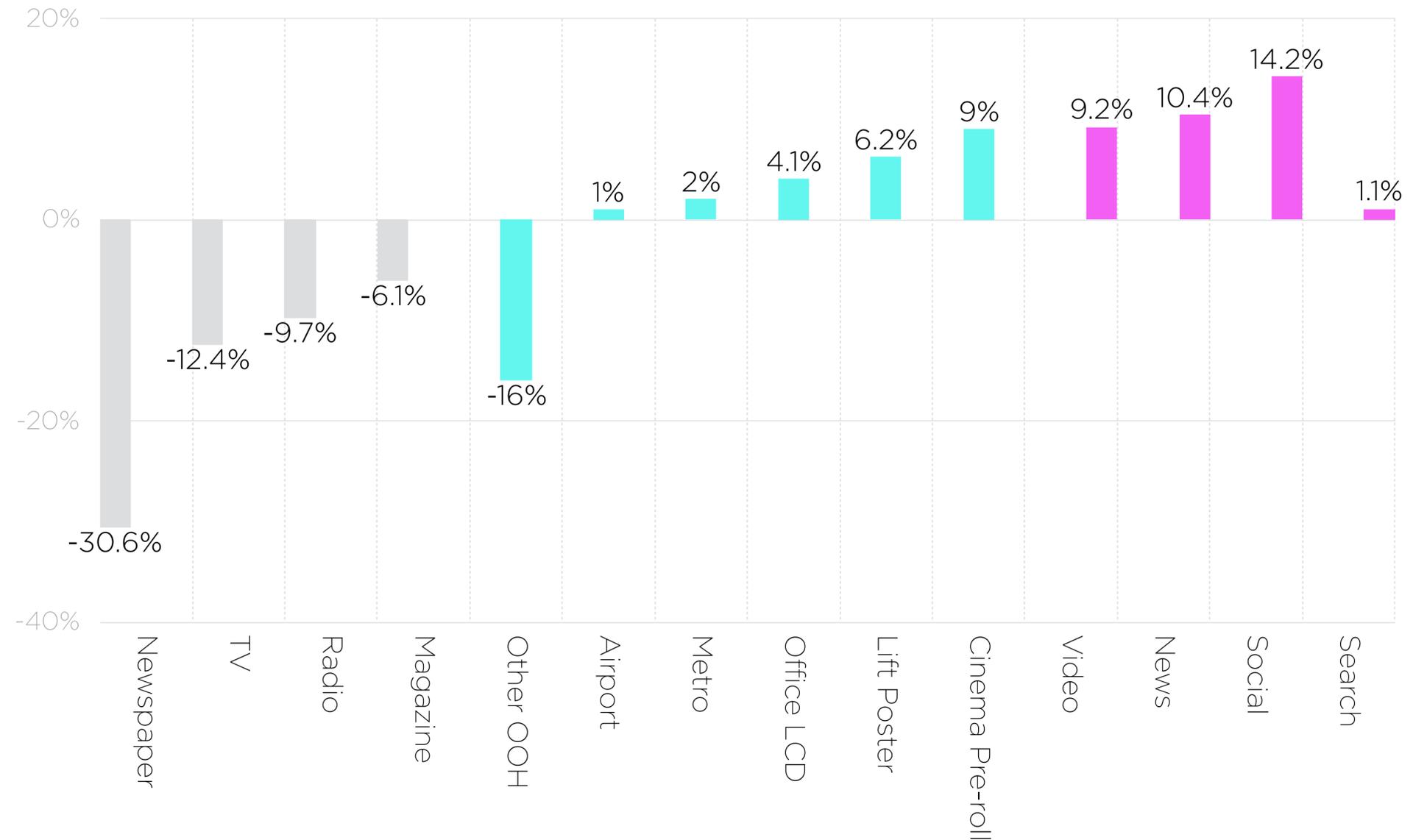
Overall media growth rates were low in 2019

THREE SPEEDS FOR MEDIA GROWTH

In terms of money spent per media, digital media lead the way, in growth during 2019, followed by a group of OOH (Out of Home) media channels.

Traditional media (TV, print and radio) experienced general declines in growth. At the extreme end, newspapers lost >30% from the prior year.

GROWTH RATE OF MEDIA INVESTMENT IN 2019





2

BRANDING HAS BECOME
HIGH PRIORITY



2

BRANDS AT A TURNING POINT IN CHINA

2019 was a stressful, challenging year for marketers in China. While consumption remained stable, trade war uncertainty, political risks, rising costs and competition muted the enthusiasm that many brands had for growth in China. 2020 looks to follow a similar tone as 2019 did for brands and, as a result, pressure will mount on brands who have not laid a solid foundation for themselves in the market.

There are more brands per category in China than in any other market worldwide. Brands from US, EU, Asia ... and China ...are all competing for what is seen as the big prize of China's 1.4 billion people. The cost/benefit equation for brands in China as been favorable until now but 2020 sets up to be a year in which this equation tips the other direction and a large number of brands have to make challenging decisions about their goals.

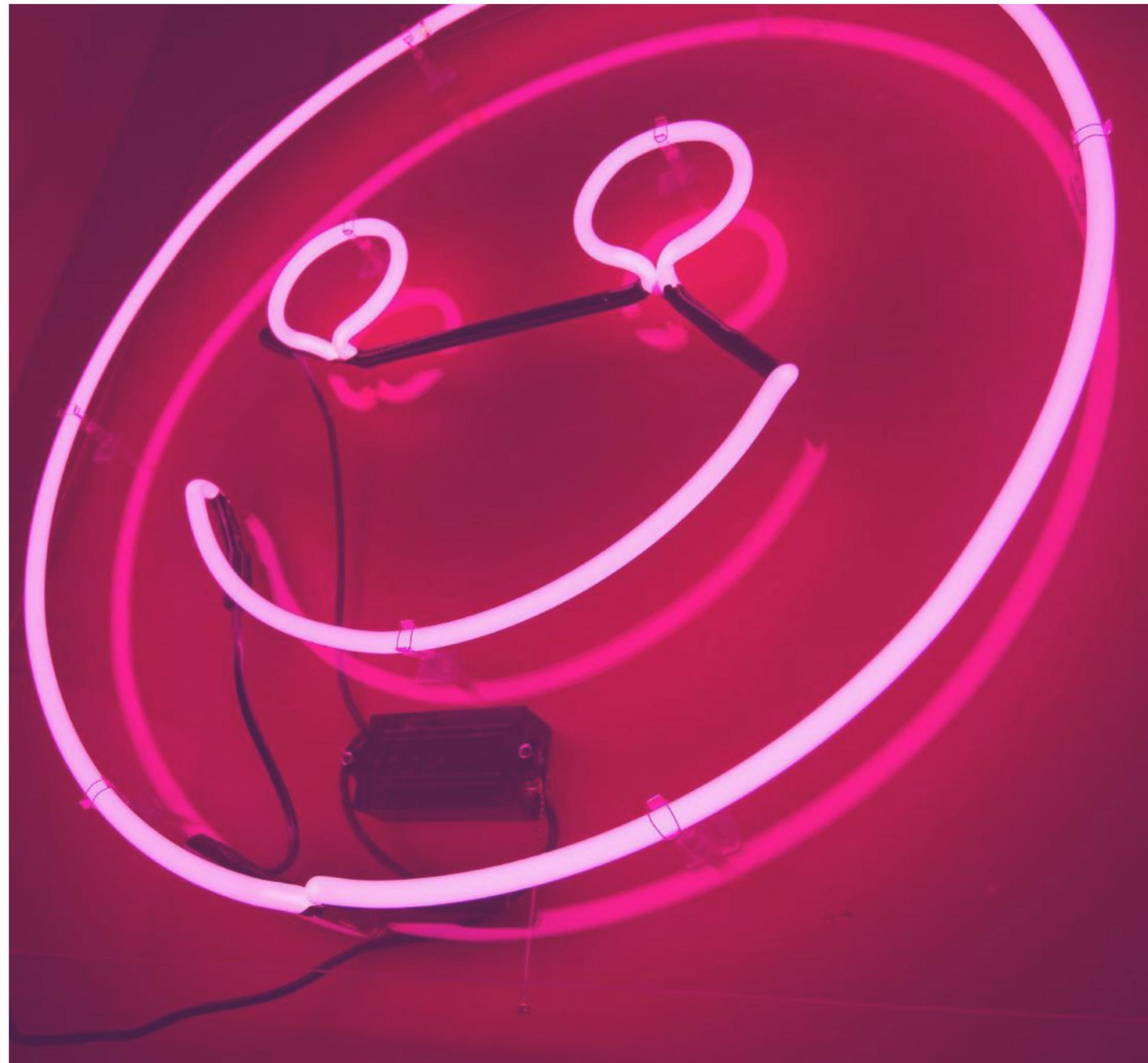
Large, category leaders (Top 3-5 brands per category) and niche (quality long-tail and DTC brands) will be in safe in 2020. The brands most at risk during the year ahead will be those that are stuck in the middle. And, in China, there are a lot of brands stuck in the middle, with low share of market, in-distinct positioning and low affinity with consumers. Over the past several years these brands have turned increasingly to sales promotions, price cutting and other short-term tactics to boost growth.

Double 11 in 2019, provided evidence for a growing divide between the top brands (category leaders) and the middle-of-pack brands. The category leaders generally had excellent results, selling more in both volume and value terms. Middle-of-pack brands had generally poor results, with many seeing steep sales declines and others having to offer up large discounts to maintain pace with previous years' results.

The need for brand building is at an all-time high. Too many brands have focused too much on price driven tactics, and have been chasing the market down.

While leading brands enjoyed solid results during Double 11, many weaker brands have been left teetering on the edge of failure in China. Too many years of prioritizing price competition over branding is catching up with many of the weaker brands.

Given this dynamic, stronger brands should press home their advantages in 2020 and consolidate further gains in market share. Weaker performing brands are faced with some challenging decisions.



2

THE WORLD'S MOST COMPETITIVE MARKET

China is the most competitive market in the World. Many brands have dramatically underestimated the scale of competition and have not calibrated their marketing spending to the right level of competition.

Across almost all industries and categories, China has the largest number of competitor brands per category. A brand entering China from another market can expect to face 5-10 times the number of competitors in China as they would in their home market.

China has been viewed as the big prize and everyone has gone after it. And, with barriers to entry being low over the past 15-20 years, there have been a lot of brands coming into the market to take a shot at capturing a share of the market. With entry costs having been very low, for a long time, there were (and are still) a lot of brands viewing China growth as a one-way bet.

Entry costs and growth costs are however two very different things. Entry costs are low but winning costs are very, very, very high in China. For many brands, low-entry costs could be misleading toward what the costs for winning in the market look like.

As the leaders continue to build and consolidate market share, the middle-of-the-pack brands are going to have a hard time rationalizing their place in the market. The question that will be asked by many is; 'why am I battling it out as the number 22 ranked brand in my category, with only a 0.5% market share, now as costs continue to rise and our margins are shrinking.'

CHINA IS THE WORLD'S MOST COMPETITIVE MARKET

The World's top brands have come to compete for what is a big prize

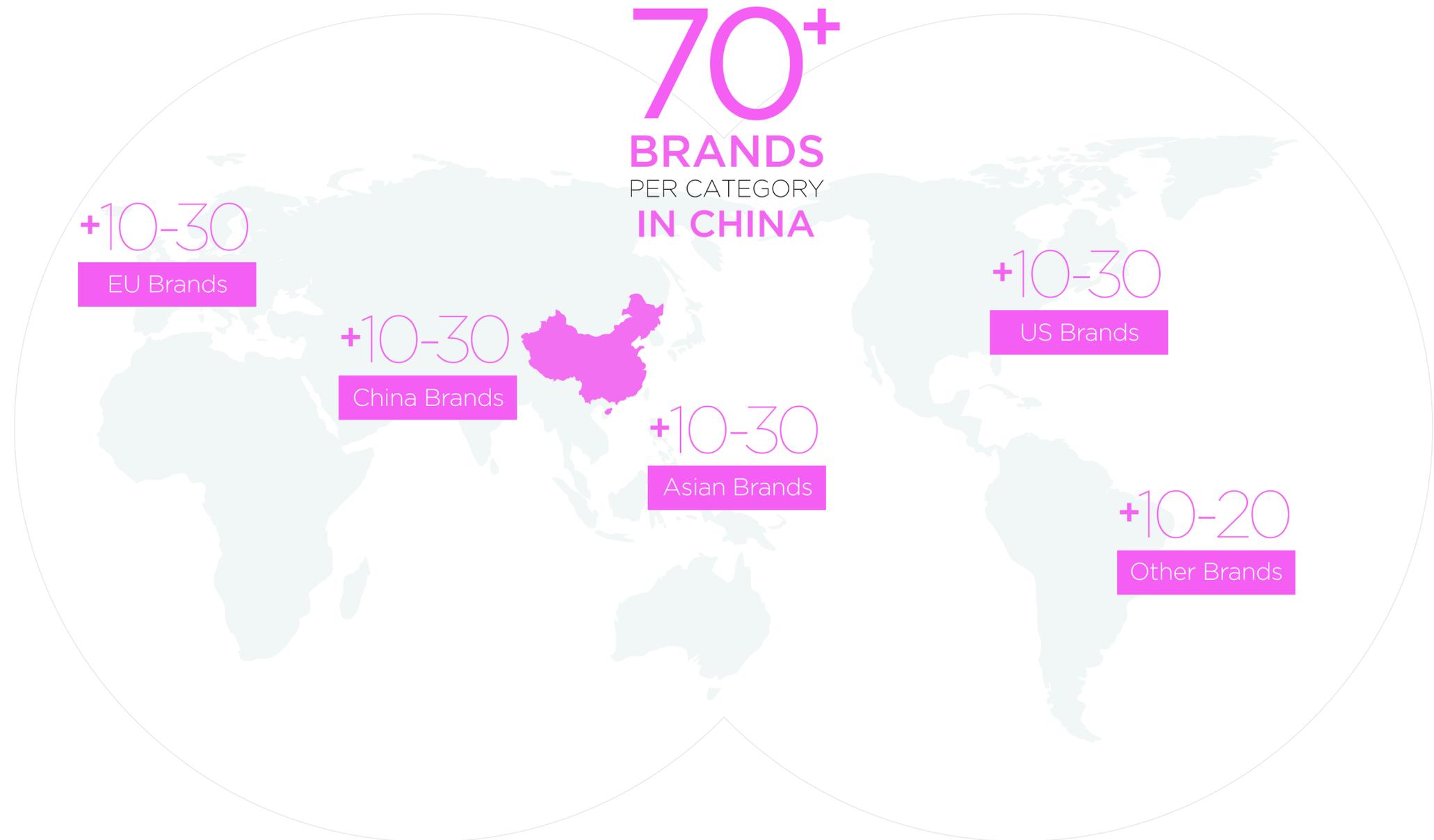
MORE BRANDS PER CATEGORY

There are more brands per category in China than in any other market worldwide. Brands from US, EU, Asia ...and China ...are all competing for what is seen as the big prize of China's 1.4 billion people.

Here is why the number of brand competitors in China is so high...

Take a category leader from Europe who is in China. That leading brand from Europe is joined by the other leaders from Europe, together with the leaders from the US, leaders from Asia, competitors from rest-of-world, as well as the best from China itself.

The number of competitors from China has been growing the most quickly in recent years and they are the most formidable - with most aggressive, market-ready tactics.



MIDDLE OF PACK BRANDS ARE STRUGGLING

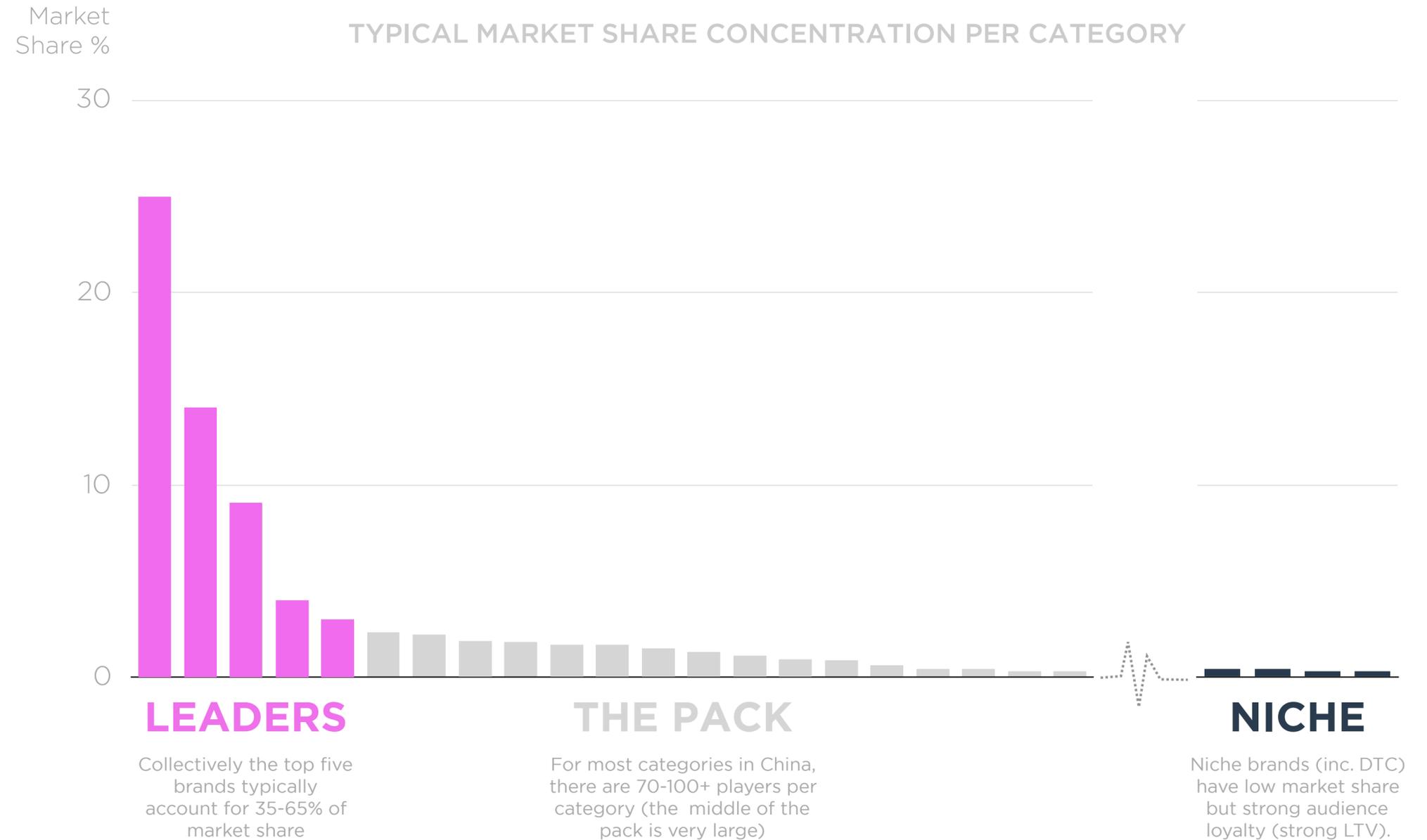
Marketshare is becoming concentrated with top 5-10 players per category

TOP BRANDS CONTROL CATEGORIES

The concentration of market share - by top players - per category in China is looking very similar to the level of concentration seen in other countries/ markets (eg. EU, US).

While the level of concentration varies by category, it is common to see the top 10 players in a category controlling 50-75% of the category sales and the top three per category controlling 25-50%. In less competitive markets, there might be enough share to go around for brands outside the top tier. But, in China there are often in excess of 100 brands per category, so the share for 'the pack' (non-leaders) is very small.

"In nearly all of the 50+ categories we've analyzed over the past year we see a continued trend that favors the top brand to acquire increasing market share over time." James Eron, KFD



COSTS OF CUSTOMER ACQUISITION
CONTINUE TO RISE, PUTTING
PRESSURE ON BRANDS WHO HAVE
NOT BUILT STRONG EQUITY.

Insight: The brands on Tmall that enjoy the lowest CAC are the ones who have strong brand equity. Those brands get 'free' traffic and enjoy better (longer) cLTV (customer Lifetime Value). Better brands win on both ends of the equation; lower CAC and higher LTV.

The top three players - Tmall, JD and Pinduoduo - together account for 90% of B2C ecommerce in China.

Given this serious market control, the costs for brands have risen steadily AND at the same time these platforms have had to create space for a growing number of competitors in each of the categories that they host.

A lot of brands are being squeezed by rising costs (ads, search and promotions) paid to the large platforms as they try to keep pace with category competition.

Double 11 in 2019 saw category leaders start to really separate themselves from the pack.



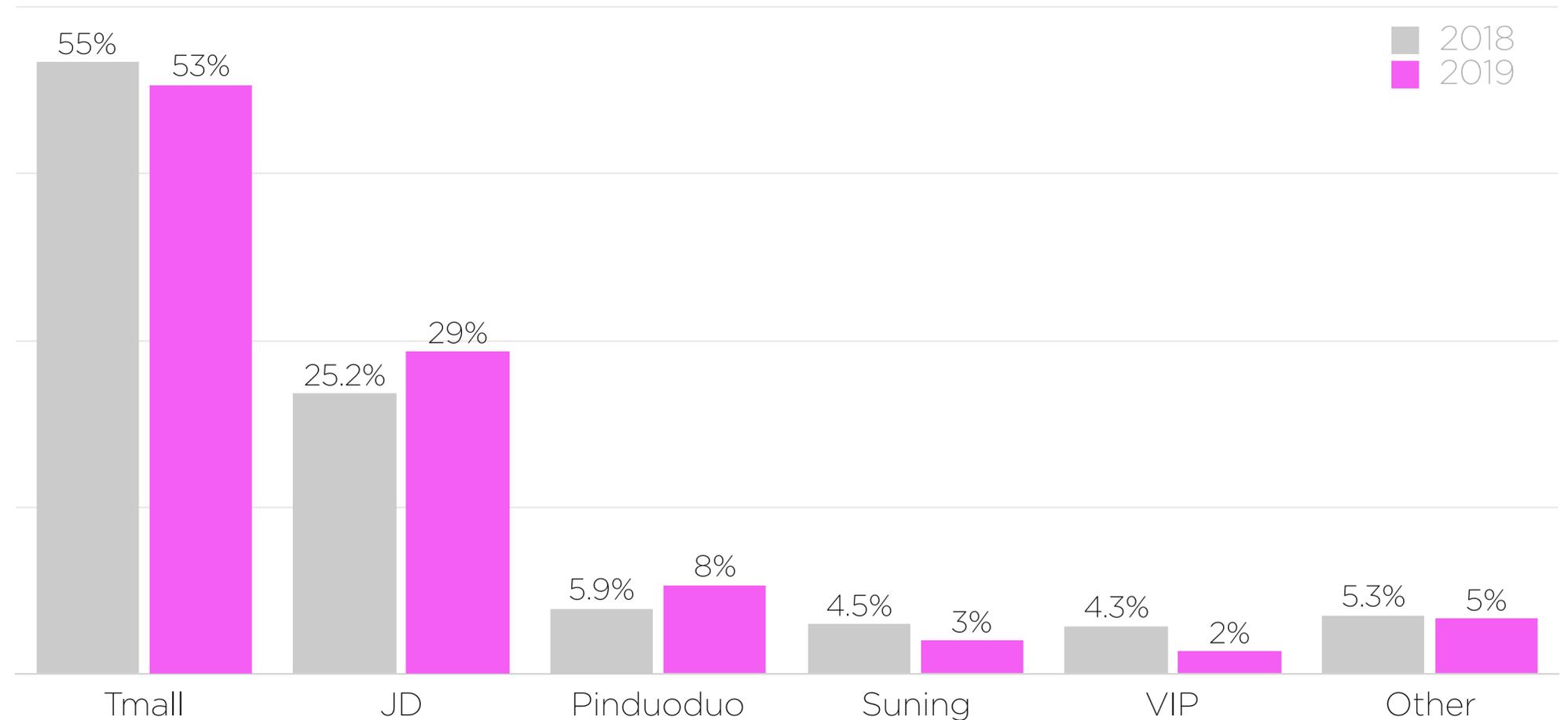
RETAIL ECOMMERCE - B2C MARKET SHARE

2018 vs 2019 - Based on GMV (Gross Merchandise Value)

ROI ON TMALL & JD IN QUESTION

Tmall is the leader in China's B2C ecommerce sector with a 53% share of the market (as of 2019). There are currently more than 150,000 brands on Tmall - including 18,000 international brands. And, some 80% of international brands used Tmall to initiate their market entry to China.

For top merchants with high brand awareness, Tmall and JD have proven very successful. However, as both of China's biggest ecommerce sites have become increasingly crowded and costly, lesser known brands are feeling the pinch. Some estimates suggest that 90% of stores on Tmall make less than RMB10 million per year in sales.



TMALL: CAC VS ARPU

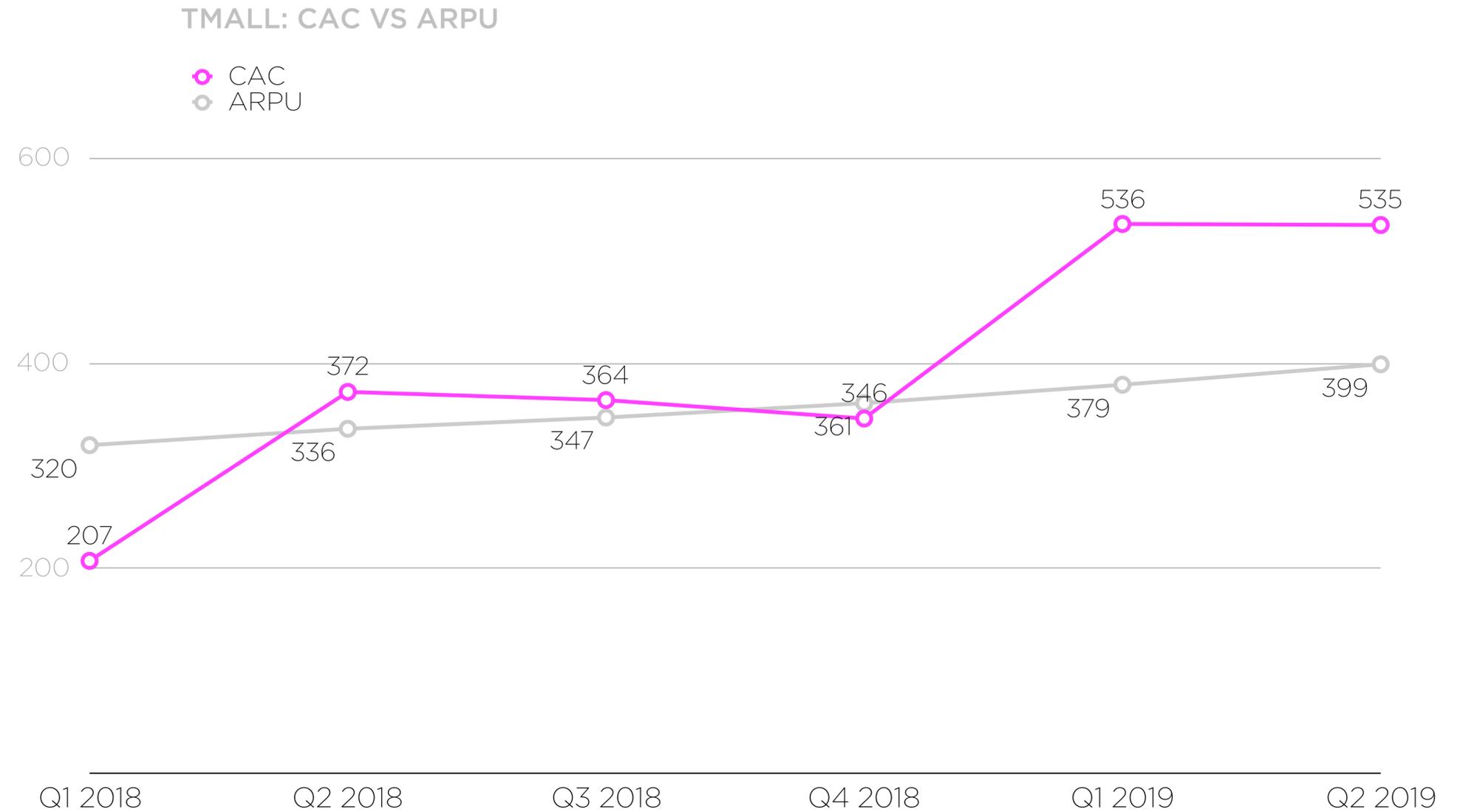
Negative margins await brands who cannot stimulate repeat purchase

INSIGHTS ON COST/BENEFIT CALCULATIONS

Average CAC vs ARPU on Tmall has created a challenging environment for 'average' brands. There are a couple of important insights which flow from this; (1)the better the brand, the lower the CAC on Tmall, and (2)brands must not only consider ARPU but also LTV of customers when evaluating CAC.

(1)Better brands pay less on Tmall. Paying for traffic on Tmall is a costly affair. Its money that goes to Tmall to fill your brands 'funnel' but is not helpful in building your brand. Lasting equity is low if you're paying for traffic as opposed to building your brand.

(2)If you only consider one-time ARPU vs CAC then the metrics don't add up. Brands who only achieve a one-time sale with customer are losing money on each transaction. Therefore, brands must develop better LTV. This comes from improved branding.



PINDUODUO: CAC VS ARPU

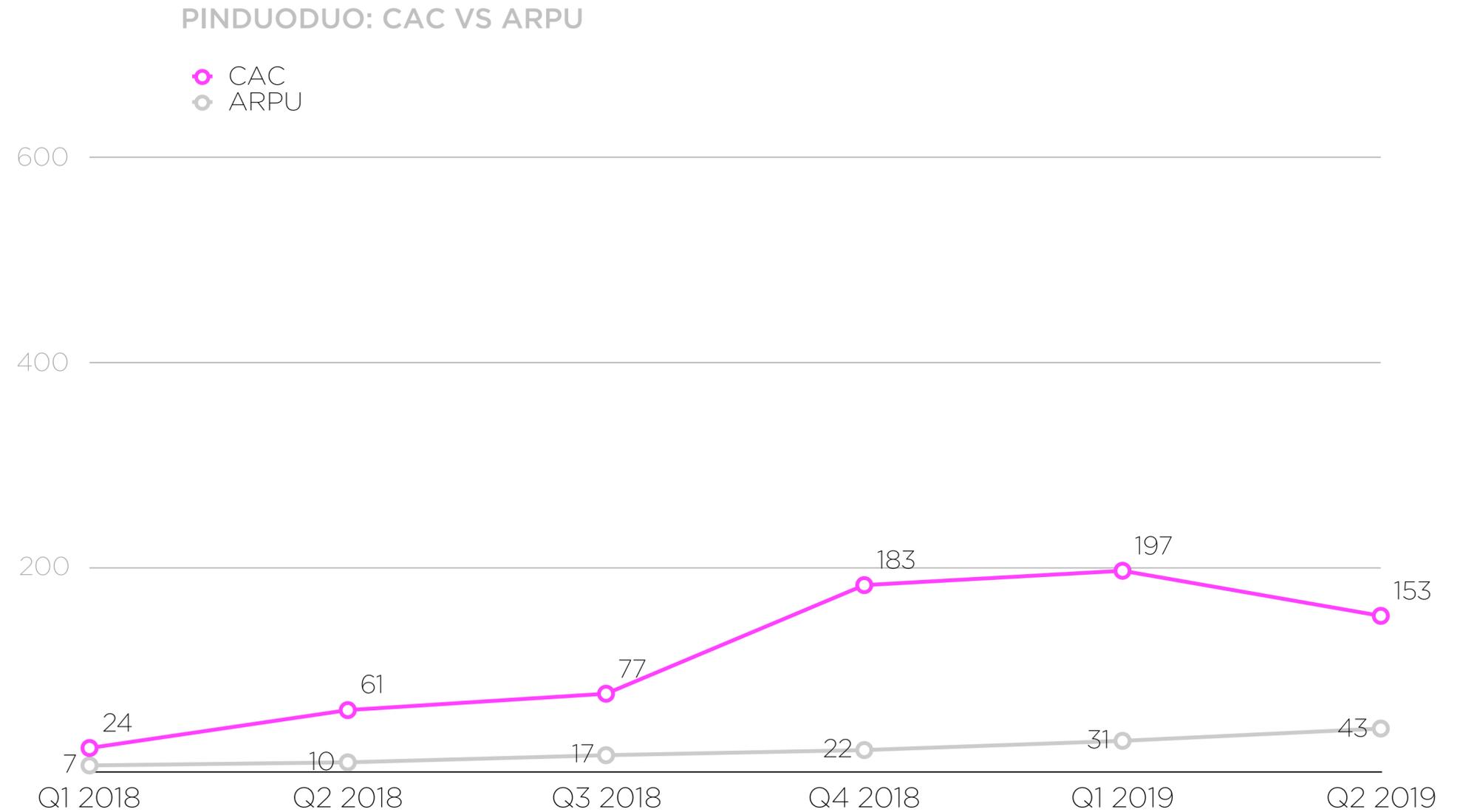
Similar negative yield as Tmall

PINDUODUO MIGHT BE MORE CHALLENGING

There was a good deal of enthusiasm in 2018 and 2019 for Pinduoduo (PDD) due to its lower CAC. While its CAC is still much lower than Tmall, its ARPU is also much lower. That might offer some smaller, newer brands an opportunity to get a bit of traction at lower cost but its probably a bad proposition for most larger brands.

The problem with all CAC vs ARPU calculations are in the idea that each sale is a discrete, one-time occurrence with a customer. In this context, PDD has poor (negative) margins. PDD also falls short of Tmall as a quality environment for branding. PDD offers very little space for brand building - its much more about bargain hunting and group buying.

One area where PDD might prove useful for larger brands is when applied to Lower Tier City strategies. PDD has until now been very strong in lower tier cities.



2

REBALANCING BRANDING VS SALES TACTICS

Too many brands have viewed China as a cash machine and have employed short term strategies - mostly focused on price promotions. These price promotions have maintained modest top-line returns but have left many brands with a diminishing bottom-line - and very few remaining tactics, to turn things around.

Companies cannot continually (and exclusively) harvest demand via short-term sales tactics. Companies must also build new (and refresh legacy) demand - from brand building strategies.

Price promotions, sales and discounts generally serve to bring forward sales into the present that would have happened in the future - harvesting sales from a set of customers who were already prepared to buy. More effort needs to go into widening the funnel. Less work on cashing in on the bottom of funnel.

According to the research and analysis of Field & Binet, over the long-term, it is share-of-voice that drives market share - not the other way around. Brand building works to grow share-of-voice and removes price sensitivity, allowing brands a larger group of prospective customers who are willing to pay full price. Field & Binet's research also goes to show that marketing budgets (for most brands) should be split 60% in favor of tactics that grow brand awareness/affinity, 40% on initiatives that help lead customers to purchase.

Companies who are facing an up-hill brand building effort, need to look toward bold, emotional campaigns via cost-efficient media.



Strong brands will be in a better position to weather any storms related to consumer confidence.

Over the past couple of years, luxury brands and category leaders have been powering through, and increasing sales. Weaker brands have turned increasingly to discounting tactics.

Look at China's auto sales which have been in steady decline over the past several years. While the overall market was down 8.2 percent in 2019, luxury brands saw increases. Mercedes was up 6.2%, BMW up 13%, and Audi was up 4.1%.

THE BENEFITS OF STRONG CAC VS LTV

Stronger brands enjoy benefits of lower CAC and higher LTV

LOWER CAC ON TMALL

Costs, inside of key ecommerce platforms (eg. Tmall and JD) have been rising steadily. And competition per category has accelerated - amid a spending downturn. In short, there are more companies, each spending more, to attract a smaller number of sales/customers.

Within this context, branding becomes more important than ever. For example, inside of Tmall, strong brands who (themselves) deliver traffic to the site are rewarded by the platform with much lower costs and additional benefits from Tmall. Tmall wants the traffic (they want it badly!) and will provide strong incentives to brands who have good branding game outside of their site.

Lifetime Value (LTV) is also strongly affected by brand. Strong brands inspire more repurchase, higher overall sentiment and much higher levels of WOM (word of mouth).



MORE NEEDS TO GO INTO BRANDING

Over-reliance on performance marketing & sales deplete the funnel

ECOMMERCE HAS BEEN OVEREMPHASIZED

China is a market which has skewed itself heavily in favor of sales activation and performance marketing. In a market that is so digital, it follows that digital performance and sales activations would be favored. With Tmall (and JD to lesser extent) controlling the lion's share of retail sales, marketing playbooks have been centered around these platforms.

While sales activations are measurable and aligned around producing sales ROI, they also tend to leave the top-of-funnel pretty empty, if they are not balanced by strong brand marketing efforts. It becomes like harvesting fruit from a tree that you stopped watering.



BRAND

BUILDING

Expanding pool of potential customers. Growth in reach while creating emotional connection/affinity/consideration.

SALES

ACTIVATION

Sales focused direct marketing. Targeting customers and 'look-alike' customers online. First-person data (CRM).

REBALANCING SALES FOCUS, WITH BRANDING

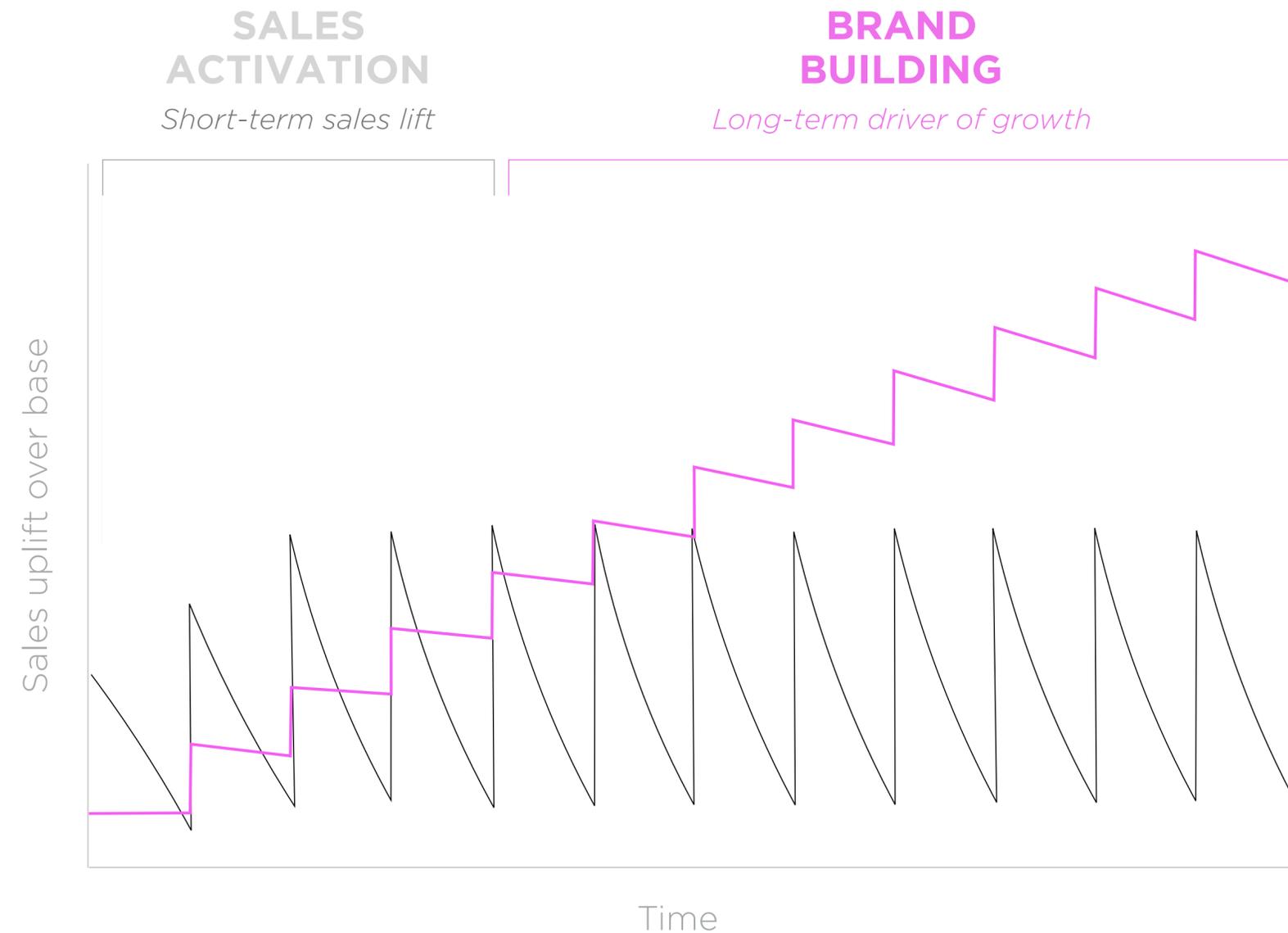
Sales activations can produce short-term sales lift. Brand building is needed in long term

60:40 SPLIT IN FAVOR OF BRANDING

Longitudinal research into how to balance branding and sales tactics from Field & Binet has demonstrated that for most brands (in most cases), the optimal split between these activities is 60:40 in favor of branding.

Sales tactics work really well in the near-term but an over-reliance on sales activations leaves brands operating on a treadmill, paying high customer acquisition costs, offering up discounts to convert, while retaining very little customer LTV.

To get out of this treadmill brands must balance short-term sales efforts with longer-term brand building. Branding creates; (1)identity, (2)wider awareness, (3)emotional engagement and (4)trust when it comes to the moment of truth (at purchase).



Most players in a category are basically the same and in the eyes of the consumer it is hard to tell one brand from the next.

One of the chief goals of branding is to create distinctiveness. When branding works well, distinctions are built in minds of consumers. These distinctions help separate a brand from its competitors.

Companies must therefore develop a set of codes (or iconic assets) which represent the company. These codes must be repeatedly deployed to reinforce distinctiveness.

Brand building also requires scale and reach to grow share of voice and increase market share.



BRAND CODES & ASSETS

Leveraging distinctiveness to build brand

INSPIRING NEW EMOTIONAL CONNECTIONS

A multitude of traditional brands in China did major refreshes in 2019. White Rabbit followed suit with a major branding effort, for its 60th anniversary.

Already an iconic brand in China, White Rabbit locked in clearly on its core brand codes/assets and re-initiated a whole new love for its brand - re-enforcing already strong emotional connections with older customers - establishing fresh connections with younger customers.

They also collaborated with two aligned brands; Happy Lemon (tea kiosks) and Smell Library. The Smell Library effort for 6.11 Children's Festival was particularly interesting, as they created a set of "Happy Childhood" scented products, with the White Rabbit brand. Younger audiences responded well - which was the ultimate goal.



*White Rabbit brand take-over at
Happy Lemon Kiosk*



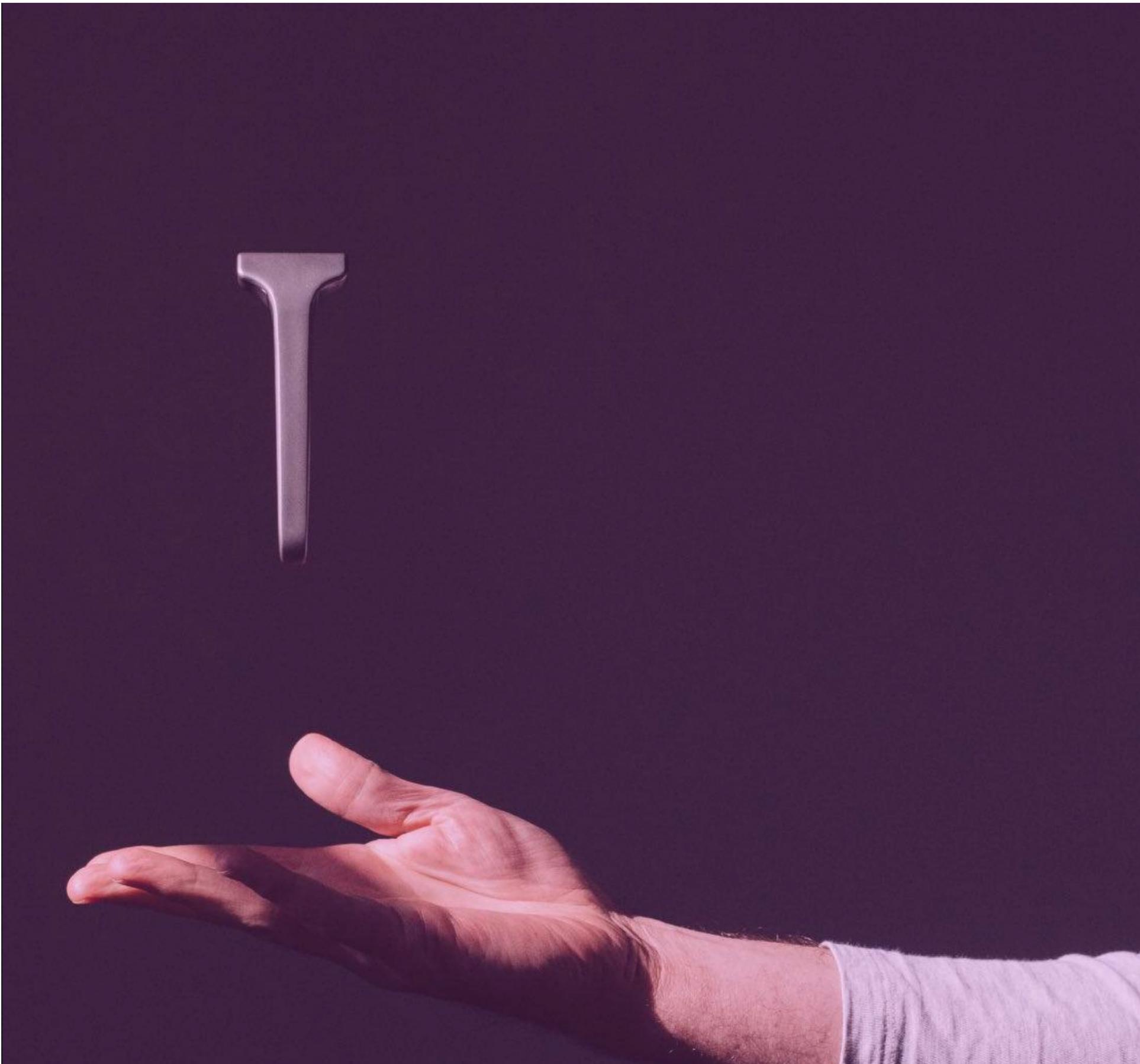
*Smell Library "Happy Childhood"
scented products.*



3

IMPORTANT LESSONS FROM DTC BRANDS





DTC and niche brands do a number of things very well. There are lessons to be had for larger brands in the way that DTCs approach market growth. Notable lessons from DTCs include, how;

1. They reframe categories, create their own (new categories) and then dominate their domain (however niche it may be)
2. They don't just use KOLs, they themselves try to become influencers
3. They go beyond selling a product and focus on the larger solutions. They develop authority over a need set
4. They focus on simple CAC to LTV metrics
5. They use comprehensive, agile data systems

3

DTC BRANDS ENJOYING SUCCESS

Despite the intense levels of competition among mainstream brands on a category by category basis, many of the smaller, niche, specialist brands are enjoying success in China. These 'long-tail' brands - many of whom are DTC (direct to consumer) brands - are building strong results among the most specialized users per category.

Where the mainstream leaders, have built up the categories with blunt force marketing campaigns, these specialist, long-tail brands are making gains with more crafty, esoteric tactics. These smaller, long-tail brands (both Chinese and Global) are winning by using smaller channels, with more emotional, informative and in-touch messaging. Where the larger, Global category leaders are trying to shoehorn global key visuals into over-priced mainstream channels, 'long-tail' (DTC) brands are using smaller communities (inc. WeChat groups), Instagram, vertical/specialist media to build connections closer to the core. What these 'long-tail' brands lack in scale, they can make up for with higher margins and better customer LTV (Life Time Value).

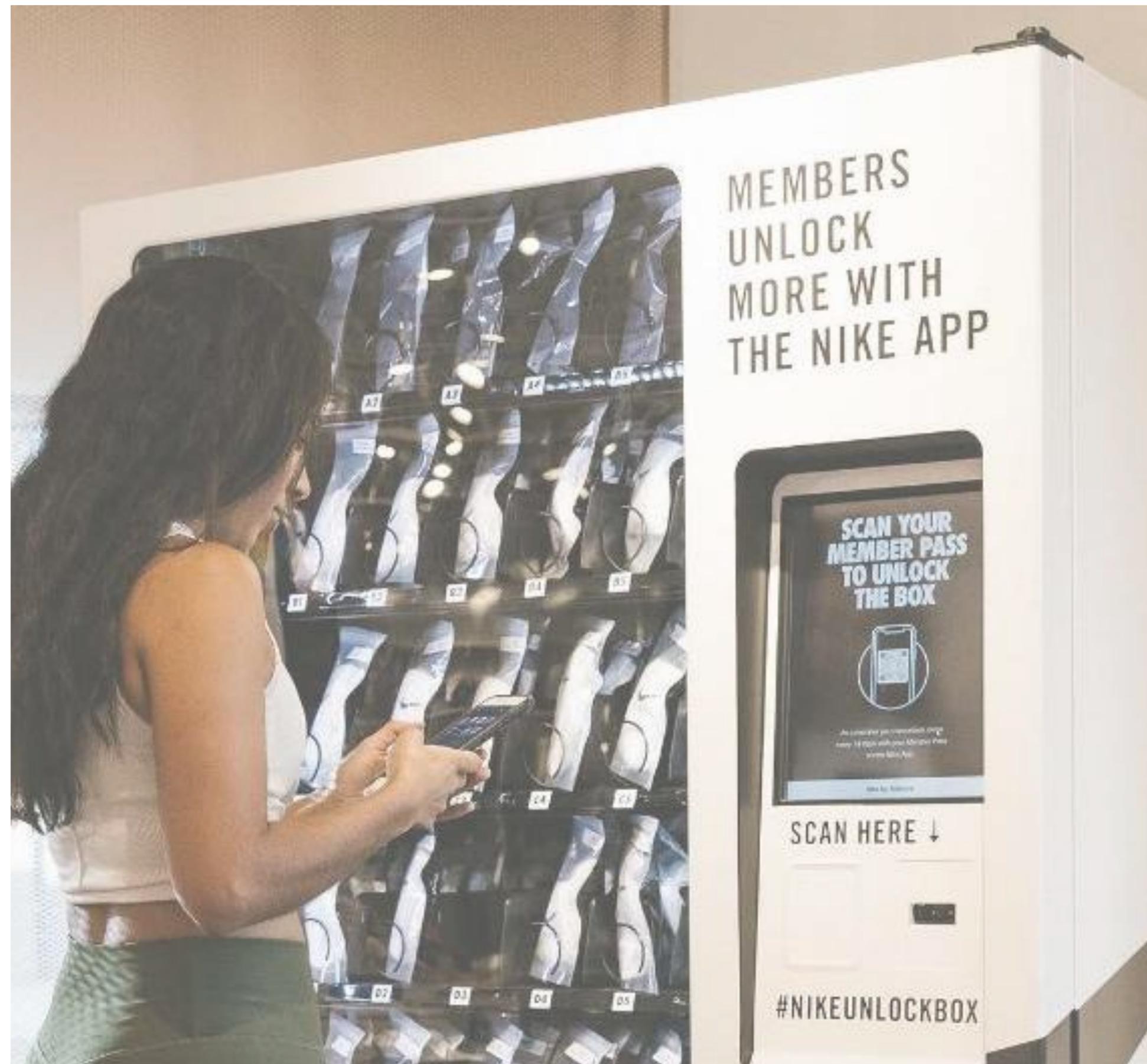
The key lesson here is not for larger brands to use smaller channels but rather, for them to focus on more interesting, emotive messaging - messaging which is more relevant for the Chinese market and the growing sophistication of core category users.

Most 'middling brands' in China are stuck with a relatively low market share and rising media costs. Better branding and more emotive, engaging messaging (content) can go along way to improving customer LTV and reverse the effects of market share attrition.

Nike is very quickly becoming a DTC brand. In APAC, its direct sales business is growing at 4x the rate of its wholesale market.

They have deployed a very potent DTC playbook, which includes;

1. Selling direct and pulling back from third-party channels
2. Robust brand campaigns and media enterprises of their own
3. Crystal clear brand messages and compelling content
4. Connecting its sales and branding efforts by using an array of data and CRM systems to manage a strong funnel



NIKE IS A DTC BRAND

Large brands are also deploying DTC playbooks

LAYING DOWN MORE DTC INFRASTRUCTURE

As a key initiative in its DTC strategy, Nike is working to tighten the link between its offline and online presence through improved apps and social CRM. It is one of the few brands that has the brand strength to truly sell direct in China. Most brands rely almost completely on Tmall and JD for online sales success.

With initiatives like its new App for China, Nike will funnel audiences from its array of brand building efforts. It will also be an interaction vehicle for the large number of O2O activations it runs.

The Nike App was launched in late 2019 into China. While Nike has had numerous apps and Mini-Programs, this version of the app will function more as a 'master app.' It will mesh together individualized content, programs and payments - and be much more focused on 1:1 membership. And of course, consumers can use Alipay and WeChat Pay to make quick payments. They can also login via WeChat ID and share it on social platforms.



The new Nike App for China.

3

DTC BRANDS CREATE NEW CATEGORIES

Another important reason that some newer DTC brands are able to make inroads and carve out a place in the market is due to the fact that they do not try to fit within the narrow confines of a category but instead create and define new categories which they, by default, own from day one.

These DTC brands can be seen as either niche players in the broader market or as category leaders in their own, narrow category. DTC brands do this by creating market positions which focus on broader solutions (vs product utility) and on creating shared values/purpose with audiences. The questions/challenge for these brands is in whether the niche/category and audiences served are large enough and sustainable.

In cases where audiences are very poorly served by category leaders and the market is open to new approaches, then a DTC player could very well (1)define a new category, (2)be the leader in that category, and (3)ultimately grow the new category to a point where they have an unassailable position.

SEGMENTED

Narrow

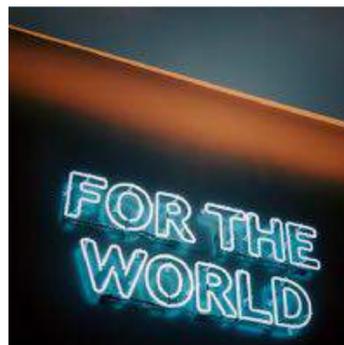
Broad

COMPREHENSIVE

EXPERIENTIAL
(Why)

PURPOSE

Purpose (missions) build depth with audiences and point of distinction. (eg. Environmentalism)



SOLUTIONS



Solutions are needs that go beyond an individual product, connect to a pervasive interest. (eg. Sleep)

Brands focus on segments to build affinity. This is useful early but limits growth. (eg. GenZ)



Products are sold to provide utility. Products (units) are how categories are measured. (eg. Mattresses).

PEOPLE

FUNCTIONAL
(Who/What)

PRODUCTS

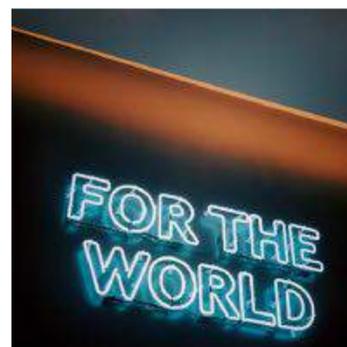
SEGMENTED

Narrow

PURPOSE

DTC BRANDS

DTC brands are good at understanding the 'codes' and 'ethics' of their target customers. Where traditional marketers are focused on demographics, DTCs are focused on the issues/causes that 'move' these audience groups - and shared purpose.



PEOPLE

EXPERIENTIAL
(Why)

SOLUTIONS

DTC BRANDS

Focusing on solutions above products alone, DTCs break out of product categories. Solutions represent interests that go beyond a single product purchase, creating scope for long-term engagement with audiences (and hopefully better LTV).



PRODUCTS

FUNCTIONAL
(Who/What)

COMPREHENSIVE
Broad

OPPORTUNITIES TO 'OWN' SOLUTIONS

Laddering up from product sales - to supporting wider solutions

GETTING SMART ABOUT LTV

Traditional cold/flu brand 999 is far from being a DTC brand but its efforts in 2019 have something in common with DTC best practice.

999, played on its core value of "Feeling Warm, from Heart to Heart," by launching a line of winter leggings to stay warm - and avoid colds. The leggings were statements of fashion and humor, with inscriptions such as 'Wearable Luck' leggings which will make your wishes come true. The effort inspired 130 million trending hashtags.

While the focus of this effort was on re-vitalizing a traditional brand, they also took an important step, shifting from selling a product to owning/supporting a solution. 999 is a go-to remedy but they also want to address the higher level concern which is staying healthy (cold prevention).



999 Branded leggings to prevent cold. Elevating the brand above providing a basic utility.

3

CHANGING THE ECONOMICS OF MARKETING

DTC (Direct to Consumer) brands have continued to shake up the world of marketing and branding - both globally and in China. Some of the most profound changes they have initiated have to do with the calculations that brands make on customer acquisition and marketing.

For established brands there is often a firm divide between marketing and sales teams, with the marketing team being responsible for generating awareness and delivering on new customers (footfall, traffic, intent-to-purchase), and the sales teams responsible for managing channels, retail and distributors. DTC brands typically merge these two functions and, as the title suggests and go-direct to consumers with fewer channels and more concentrated marketing. With sales and marketing merged under DTC operations, they focus on stripped-down CAC vs LTV metrics. DTC brands are betting that they can win first with niche audiences, through more affordable media and then retain customers for longer.

Given that most DTC brands have very high marketing budgets (as percentage of sales revenue), the calculus puts an emphasis mostly on better LTV. Sure, a lot of DTC brands are more savvy with digital media and under-the-radar channels and communities. But their focus is mostly on retaining customers and keeping them more engaged (happier) for longer. And, based on their assumption of being able to achieve better LTV, there is a willingness to spend more on marketing even if CAC costs are growing quickly.

The lesson here for larger, more established brands is mostly around refocusing more effort onto LTV by doing a better job with quality branding, messaging and customer engagement.

THE CHALLENGE OF CAC VS LTV FOR SMALLER BRANDS

DTC brands use customer data and positioning to raise LTV

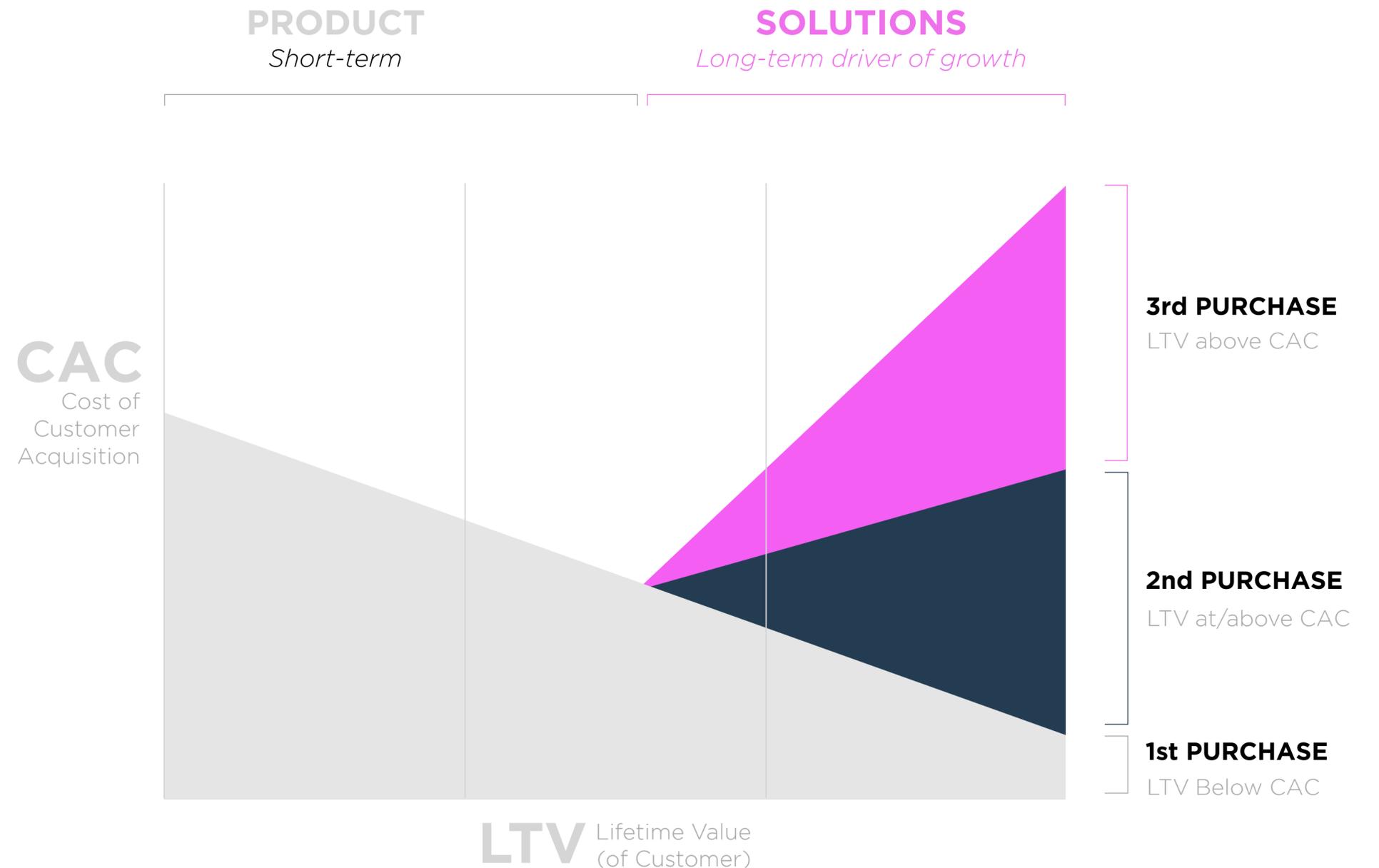
GETTING SMART ABOUT LTV

Larger brands have favorable CAC vs LTV metrics and often can achieve profitable outcomes simply due to scale and brand favorability.

DTC and niche brands must (1) hunt down lower CAC opportunities, and/or (2) improve LTV. As costs rise on key channels, such as Tmall, more brands will have to get good at extracting more, per customer.

Most DTC brands must stretch their category and merchandise around a wider solution set, or sell a lifestyle. This is why DTC brands ladder up from functional product categories and pitch 'solutions focused' or 'purpose' driven offers. It's how smaller brands succeed in the face of rising CAC.

For companies that have high purchase frequency (eg. razors), good LTV can be achieved by having the right systems in place.



XIAOMI IS THE “OG” OF DTC MARKETING

But has shifted to brand-driven tactics to compliment its strong ground game

XIAOMI IS THE “OG” OF DTC BUT...

Mobile phone maker Xiaomi was oh-so-close to changing the rules of marketing. Its ‘snap-up’ flash sales to release hot new products were near-revolutionary. It was DTC marketing at its best!

In the face of brands such as Oppo and Vivo who saturated the market with highly-scaled-up marketing programs (billboards, OTV ads, social, influencers ...the works!), Xiaomi - has shifted away from 100% DTC strategies. While it still works hard to build community and fuel social selling, Xiaomi - has added more wide ranging brand strategies.

Xiaomi's flash sales were designed to pre-heat interest with consumers - collect a small deposit - which in-turn permitted the consumer to take part in a limited run product sale (for a discounted, high-quality product). The beauty of the idea was that all the money that would have been spent on inventory, retail and marketing, became cost savings for the consumer.



Xiaomi's Redmi sub-brand builds community on Douyin.



4

THERE ARE REGIONAL
GROWTH OPPORTUNITIES



There are sharp differences in consumer confidence starting to emerge between top tier cities and lower tier cities

Top tier cities are becoming increasingly cost conscious and price sensitive, whereas lower tier cities are centers for growth.

Brands who do not already hold a leadership position in the top tier cities will likely pursue one of three paths in 2020; (1)improve overall branding efforts, (2)increase discounts and promotions to grow sales, and/or (3)re-focus on lower-tier cities and create a region-specific strategy.



CITY TIER - BUYING FACTORS FOR DOUBLE 11

T1 & T2 Cities are increasingly-motivated by price discounts

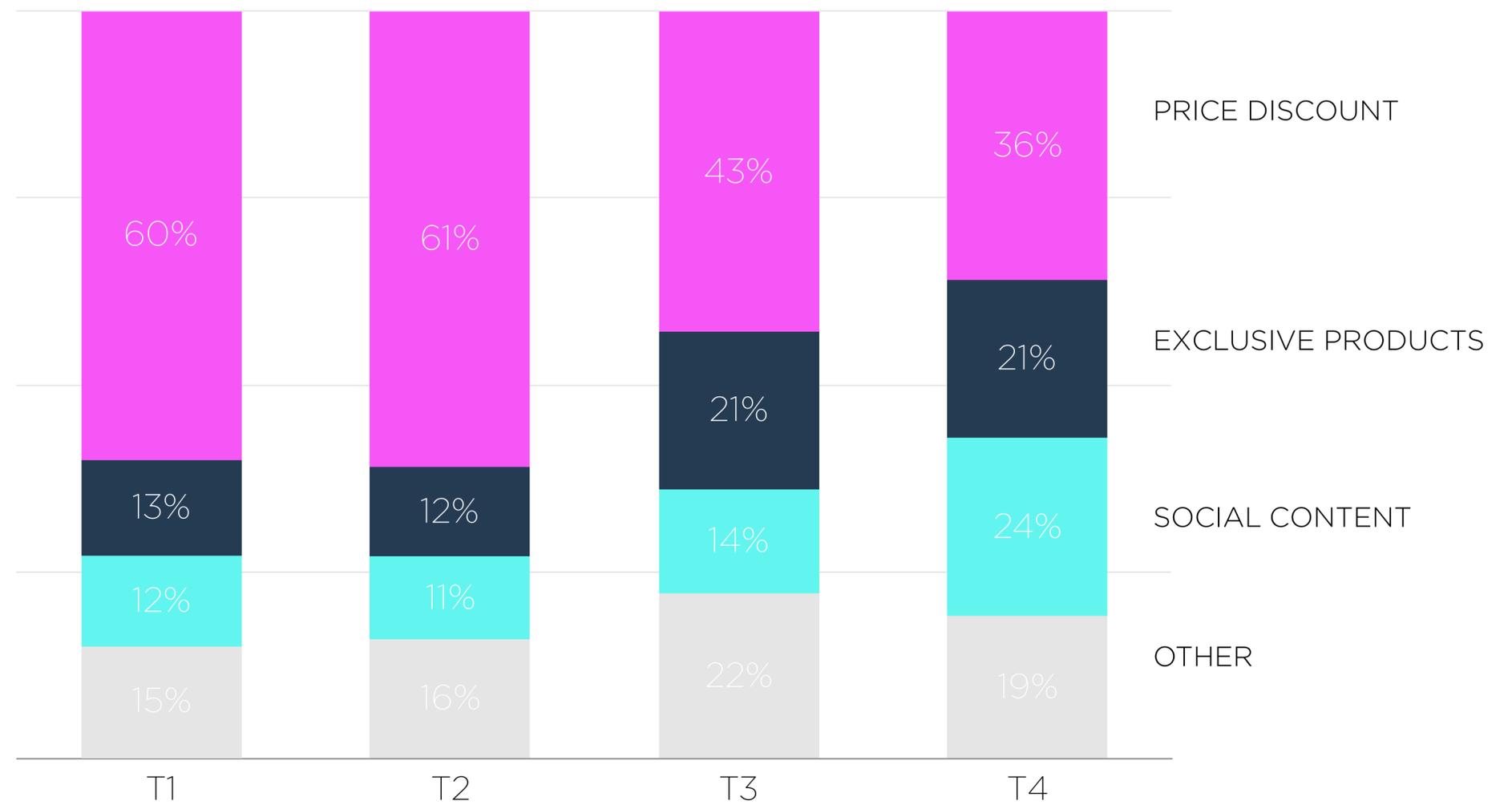
T1 & T2 CONSUMERS TIGHTEN SPENDING

Consumers in T1 & T2 cities are increasingly constrained financially and as data from McKinsey for Double 11 (2019) show, price discounts are now the key motivating factor for top tier cities. For lower tier consumers, there is far less price sensitivity.

T1 & T2 consumers were the most conservative in 2019 and will continue a trend of more controlled spending into 2020. Too many large expenses are cutting too deeply into discretionary spending - and wealth from robust property appreciation has cooled.

Data from Tencent Cloud also demonstrate that there is a notable split between T1 and Lower Tier cities when it comes to optimism about career prospects. There is greater optimism in Lower Tier cities for salary increases and promotions. High competition has dampened expectations in T1 cities.

WHAT MOTIVATES A SALE, PER CITY TIER



MIDDLE CLASS GROWTH IS COMING FROM LOWER TIER

Lower tier cities are catching up quickly

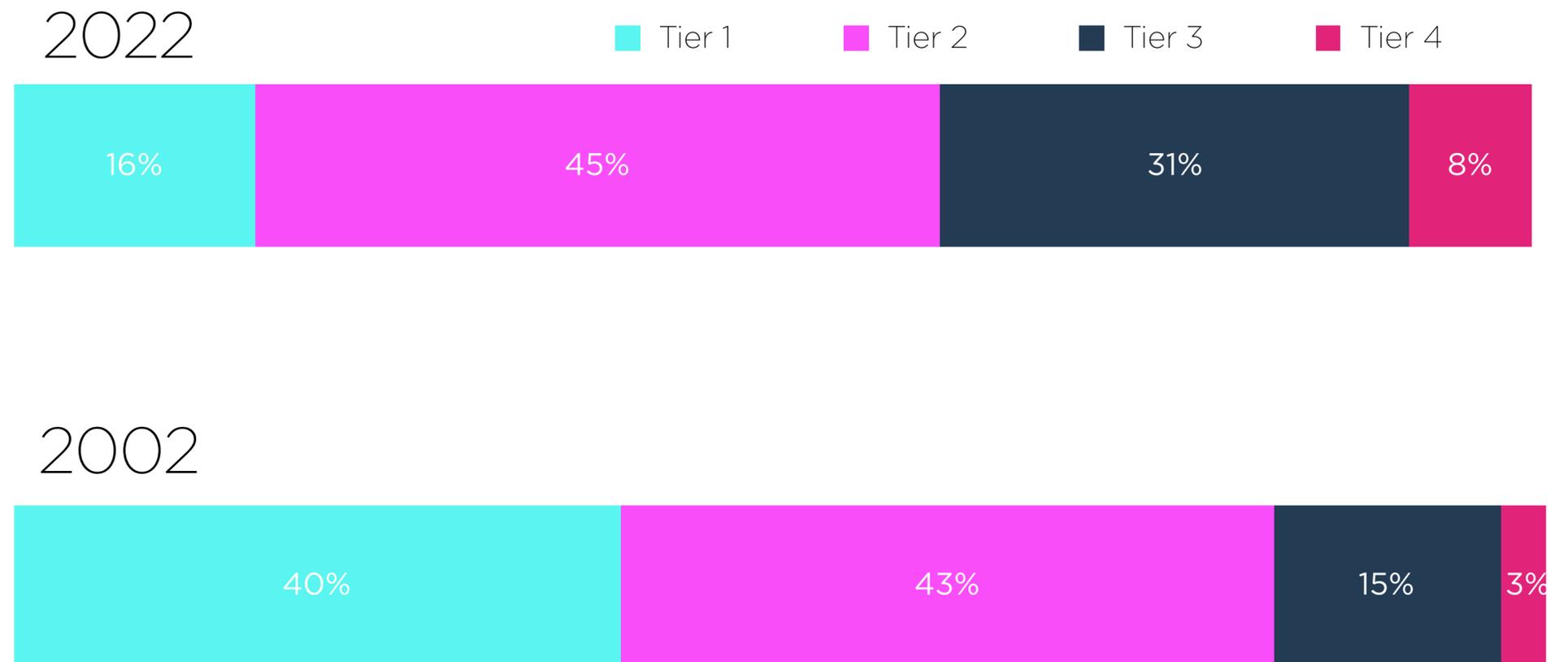
FINDING A MARKET BELOW T1 & T2 CITIES

For many brands entering China there is comfort in focusing on Tier 1 cities. Often, the expectation is that, only in cities like Shanghai will a cosmopolitan brand be able to build affinity with customers. Historically there is some truth to this notion and to the idea that lower tier cities do not have a critical mass of sophisticated, informed customers. These dynamics are changing quickly and lower tier strategies are now 'mission critical.'

Brands looking at lower tier markets should be very targeted. A blanket approach of all T3 cities would be daunting but an approach that focused on a region like Sichuan could be very efficient and create defensible audience/brand equity.

The middle class (household income between USD16,000 - 34,000) is expanding most quickly in lower tier cities. By 2022, the middle class in T3 cities will be twice the size of T1 cities..

SHARE OF MIDDLE-CLASS BY TYPE OF CITY





Too much attention has gone into T1 cities historically - particularly Beijing and Shanghai.

Brands who are struggling to make an impact nationally - especially those with a small marketshare (and un-differentiated brands) should consider regional strategies.

Successful regional strategies work by committing to a high-growth region (lead by one or more key cities). With this focus, brands can then more specifically tailor messaging to local cultures. Improved impact is also gained by narrowing the scope of media investment around a specific geography/audience.

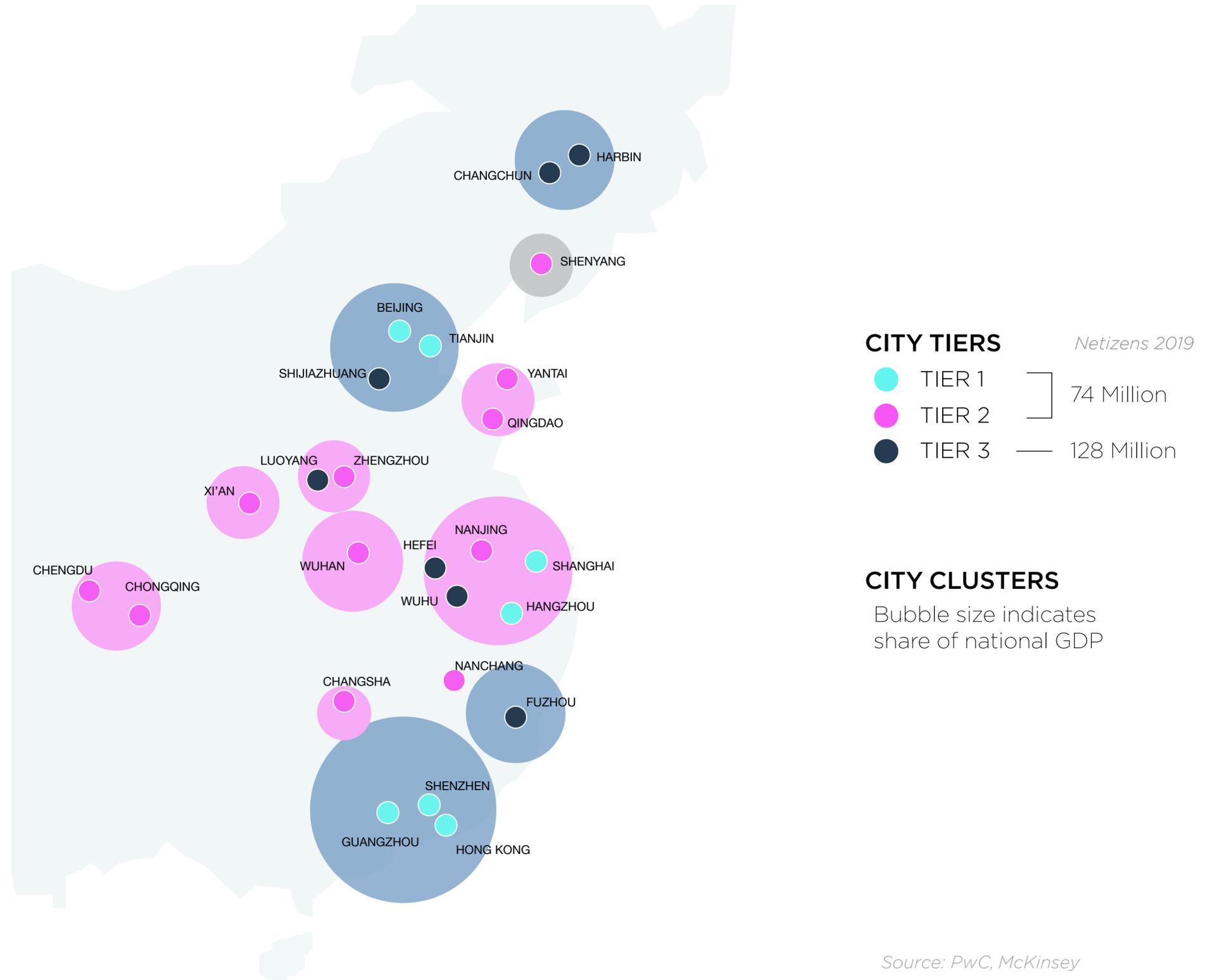
CITY CLUSTERS KEY FOR GROWTH

Lower tier cities now account for the largest share of population and growth potential

BRANDS SHOULD HAVE TIER CITY STRATEGIES

Brands should take a deeper look into lower tier cities for growth. Lower tier cities hold the bulk of China's 1.4 Billion population - and largest share of netizens. Tier 1 & 2 cities account for 74 million of China's internet users, where T3 cities hold 128 million netizens. For added measure, Beijing and Shanghai populations have stagnated (or in decline, in the case of Beijing), due to the high costs of living in these metropolises.

Analysis from McKinsey show that T1 & T2 consumers are becoming increasingly price sensitive. Lower tier consumers are less financially constrained and correspondingly less motivated by price (discounts). Rather than discounts, lower tier consumers are looking for the excitement that comes with brand discovery and the creative campaigns that accompany those products.



MEDIA INFLATION ACROSS CITY TIERS

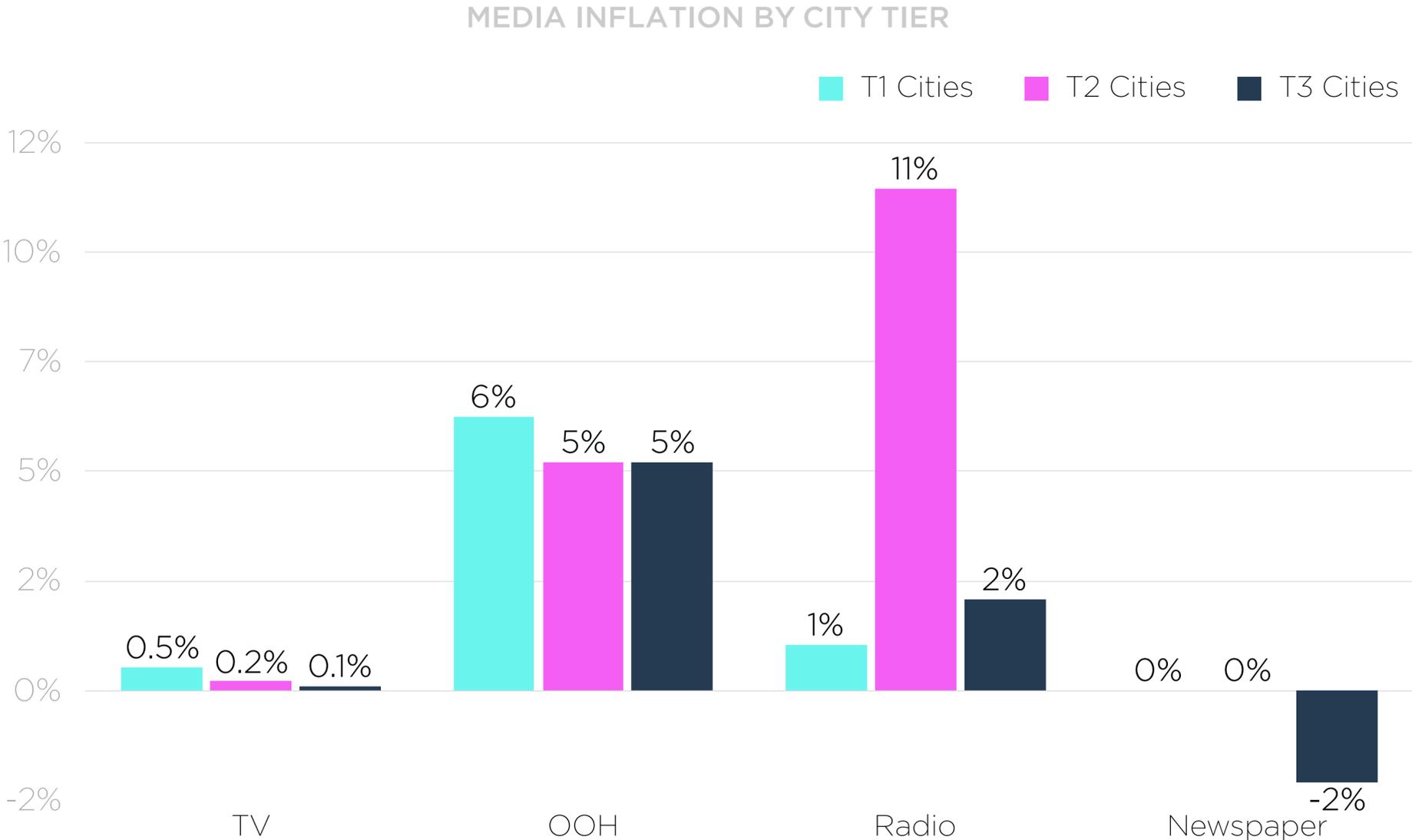
Rates of inflation are (mostly) consistent across all city tiers

MODEST MEDIA INFLATION IN LOWER TIERS

Lower tier cities hold strong promise with growing populations, higher consumer confidence and increasingly sophisticated consumers.

On top of this, there is an added benefit for brands who want to target lower tier cities - that is the fact that media costs and media inflation in lower tier cities is much lower than in top tier cities. There is simply less competition from brands in lower tier cities.

The data from R3 do not address digital inflation in lower tier cities but much like TV, OOH, Radio and Print, digital (ie. geo-targeted ads) are generally much lower cost than top tier cities.



Source: R3 Worldwide 2019

While regional strategies might offer a reprieve to middle-of-pack brands, larger brands are moving quickly to put their imprint on local markets. Nike is a great example of this.

In 2019, Nike launched a brand concept called “Beijing 99” - focused on making a strong impact on the capital.

While it focused in on concepts, culture and iconography that is very specific to Beijing, the template is one that could very well be implemented into other important regions - wherever Nike feels it might need to fan the flames of consumer engagement next.



BEIJING 99

Nike has a strong template for local/regional marketing

THE BEST 99 IN BEIJING

One of the core aims of Nike's "Beijing 99" brand concept was to deeply engage with local culture and audiences. Building on iconic imagery from Beijing and on the local propensity to talk a bit of 'smack,' Nike invited basketball players to submit videos and ultimately to enter a four-week tournament, to rank the 99 best players in the city. Players ranked 1-99 each received a jersey with an animal from myth/legend - as trophies for their rank.

As a concept, there is so much depth that can be pulled from it in terms of UGC and engagement. Nike have created a 'universe' not unlike the ones that great video game developers do - which is useful when building traction with its core demographic of youth. Look for Nike to extend this template to other cities in 2020 and/or mash it up with video games and eSports.



Beijing's best basketball players participated in a four week tournament to get ranked as one of the top 99 in the city. Jerseys ranked 1-99 as 'trophies' were awarded to the best of Beijing.



5

PRIVATE TRAFFIC VS PUBLIC GROWTH



Many brands are concentrating more effort on 'private domain traffic' - using better CRM systems and social selling tactics - to squeeze more from the bottom-of-funnel.

Interest in private traffic will continue into 2020, as brands continue to build out the processes and systems for social CRM. Attention will focus on the use of Mini-Programs to retrieve customer data, the effective segmentation of audiences, and on organizing messaging and sales around specific groups (directly and through KOCs - "Key Opinion Consumers").

As part of this effort, brands will also look to improve customer service and support.



5

PRIVATE VS PUBLIC TRAFFIC

During 2019, many brands started to concentrate more effort on cultivating private communities and on exploring the concept of 'private domain traffic.' The term 'Private Domain Traffic' refers to groups who are already connected to the brand, as; followers of a social account, belonging to a common forum or who have registered into a brand's Loyalty/CRM program. "Private Domain Traffic" can broadly be defined as anyone who would sit inside the brand's CRM view/system.

Brands who are looking to tap into 'private domain traffic' are building private social communities with select groups of engaged, loyal customers and bringing them into private (invitation-only) groups, forums, on social platforms such as WeChat and Weibo. Alternatively, where other contact details are provided, brands are simply sending these groups, private offers (as direct messages on Tmall, SMS etc). The thinking being that by concentrating more attention on these select, private groups, a brand can; (1)develop greater engagement and affinity, and (2)that they can activate more repeat purchases.

While China has been steps ahead in many areas of marketing (mobile, O2O, payments), CRM and the related data/analytics is an area where most brands are playing catch up. After years of rapid, expansive growth by brands in China, this trend towards CRM represents a shift in tactics toward more intensive, ground-level marketing tactics. It also mirrors the increased interest globally on connecting first-person data with more targeted marketing and messaging.



The concept of private traffic often involves the use of KOCs (Key Opinion Consumers). These influential consumers are conscripted by brands to sell and advocate on behalf of products. They help to ‘seed’ products into communities and groups they are part of - *namely on WeChat* - and then encourage group purchases.

WeChat will continue to launch new features and functions to support these activities, such as its “Good Product Circle.”

Ultimately, activities centered around private domain traffic need to be put into perspective. As bottom-of-funnel activities, they should occupy a modest amount of attention. Unless that brand has a very full funnel, these activities will quickly reach their limits.

WECHAT'S "GOOD PRODUCT CIRCLE"

Embedded social (user-to-user) selling system

MORE BRANDS PER CATEGORY

"Good Product Circle" is designed to allow users to see what friends and contacts are buying. It includes sections focused on; the products friends recommend, what people are buying, and private sharing groups. The Mini-Program also allows users to manage a shopping list across their browsing journey.

Released in 2019, the "Good Product Circle" functions have still not been put to full use by brands but given the success of Pinduoduo (which it is modeled on), the WeChat function should continue to grow in 2020.

For brands who are well organized with social CRM systems in place, this could represent a good tactic to support social selling. And, together with similar functions on Tmall/Taobao, Red, and Pinduoduo, "Good Product Circle" can be used as place to identify KOCs for cooperation.



Brand Search, w/reviews & group purchase



Community topics, (eg. Lipstick Circle)



Product reviews by users

5

KOC'S ARE THE NEW MICRO-INFLUENCERS

KOCs (Key Opinion Consumers) are individuals who belong to an interest group or community such as those on WeChat, Weibo, Tmall, Zhihu, where interests, products and brands are being discussed. The goal in working with KOCs is to identify people within these groups who are already (authentically) talking about your products - and then, look to incentivize and support them further - to more vigorously advocate for your brand. By selecting individuals who are already advocates for your brand within small communities, the additional aim, is to have them stimulate user-get-user sales.

These types of micro-influencers (power-buyers) have always existed online, in China. Group buying and user-get-user incentive schemes have long been an important part of generating sales for brands. And, over the past couple of years, Pinduoduo has made a dramatic impact on the expectations for user-get-user, social selling.

What makes this current variant of social selling interesting with KOCs is how directly and deeply brands are getting involved in the practice. Numerous factors are conspiring to elevate this practice. First and foremost, there is a growing need to prioritize short-term sales results, over more extensive branding strategies. Second, there is the observation that with platforms like Pinduoduo social selling is powerful. Third, are the frustrations that working with larger KOLs do not generate real sales impact. Fourth, is that success brands have had with mini-programs for producing sales results. And, fifth are the improved customer targeting, CRM and data systems - particularly on WeChat - that brands have gained proficiency with.

5 PRIVATE TRAFFIC & CRM

There are several important factors in play along with the rising use of private domain traffic, first-person data practices and CRM tactics:

1. Brands are looking to gain more direct control over customer data and wrest back some power from the large platforms (WeChat, Tmall etc) who have had a near monopoly on customer data/insights. The quest for more control over customer data by brands can also be evidenced by the increased number of mini-programs across a wider array of networks/platforms. In 2017-18, mini-programs were almost exclusively a WeChat effort but in 2019 a larger number of platforms - including Alipay, Baidu, Douyin - offered up similar programs. In 2020, look for brands (1)setup more Mini-Programs, across more channels, and (2)connect these numerous Mini-Programs into a singular view, pulling from all channels into a consolidated 'data lake.'
2. There is increasing pressure on brands to sell and so, they are focusing more intensively on the bottom-of-the-funnel and on purchases/repurchases from the most engaged customers. Brand loyalty in China has been notoriously low over the past couple of decades but as CAC rises, brands need to increase the LTV they see from customers and so are turning to these tactics to get more per customer
3. Trust and numerous risk factors are posing challenges for brands. These risk factors re-enforce the interest toward turning more private in approach. For global brands which might fear miscommunications or public gaffs, private, more controlled communications would seem to represent a safer path.
4. This move towards 'Private Domain Traffic' also comes at a time where KOLs/Influencers in the public domain are becoming less effective and less trusted by audiences. Corresponding, private domain strategies are also coupled with more ground-level influencer tactics - by using KOCs (Key Opinion Consumers) who are the high-influence consumers per traffic segment

Customer care has become a priority issue for brands in China.

Customers of high-involvement categories - such as, beauty, travel, fashion, auto, insurance - require high-quality knowledge and information. This is especially true as consumers become more cautious about new purchases in a tight market.

Personalized messages on WeChat, video product demos from knowledgeable sales staff, as well as 1-to-1 consultations are becoming mission-critical activities. All of these activities must be backed up with robust CRM systems and audience segmentation capabilities.



5

CHAT & CUSTOMER SERVICE TO GROW

While customer engagement in China has been an after-thought, the shift underway to more ‘private’ social is a signal that this is changing.

Moving through 2020 and beyond, brands in China will further prioritize quality customer relationships and shift more resources into the areas where customer engagements happen - at the storefront, through chat (on social) and through supporting content. Larger brands with larger market share are well advised to invest further into these areas, as means to consolidate and defend market share leadership.

Despite being many years ahead on mobile social, brands in China, until now, have not embraced chat, bots and other forms of customer engagement, in a meaningful way. In the US, mobile social has been mostly been viewed as an opportunity to extend and improve customer engagement. Social in China has been mostly about “push” and building reach and awareness. Brands’ approach to retail has put speed of expansion above all else.

It’s become clear that quality of engagement, product/brand knowledge and education are increasingly important. Repeated research shows that customer are looking for more detailed support with products and brands, at all touch points - online and offline.

SERVICE & PRODUCT KNOWLEDGE

Brands are also built on the front-lines with strong service and customer support

PRODUCT/BRAND KNOWLEDGE KEY

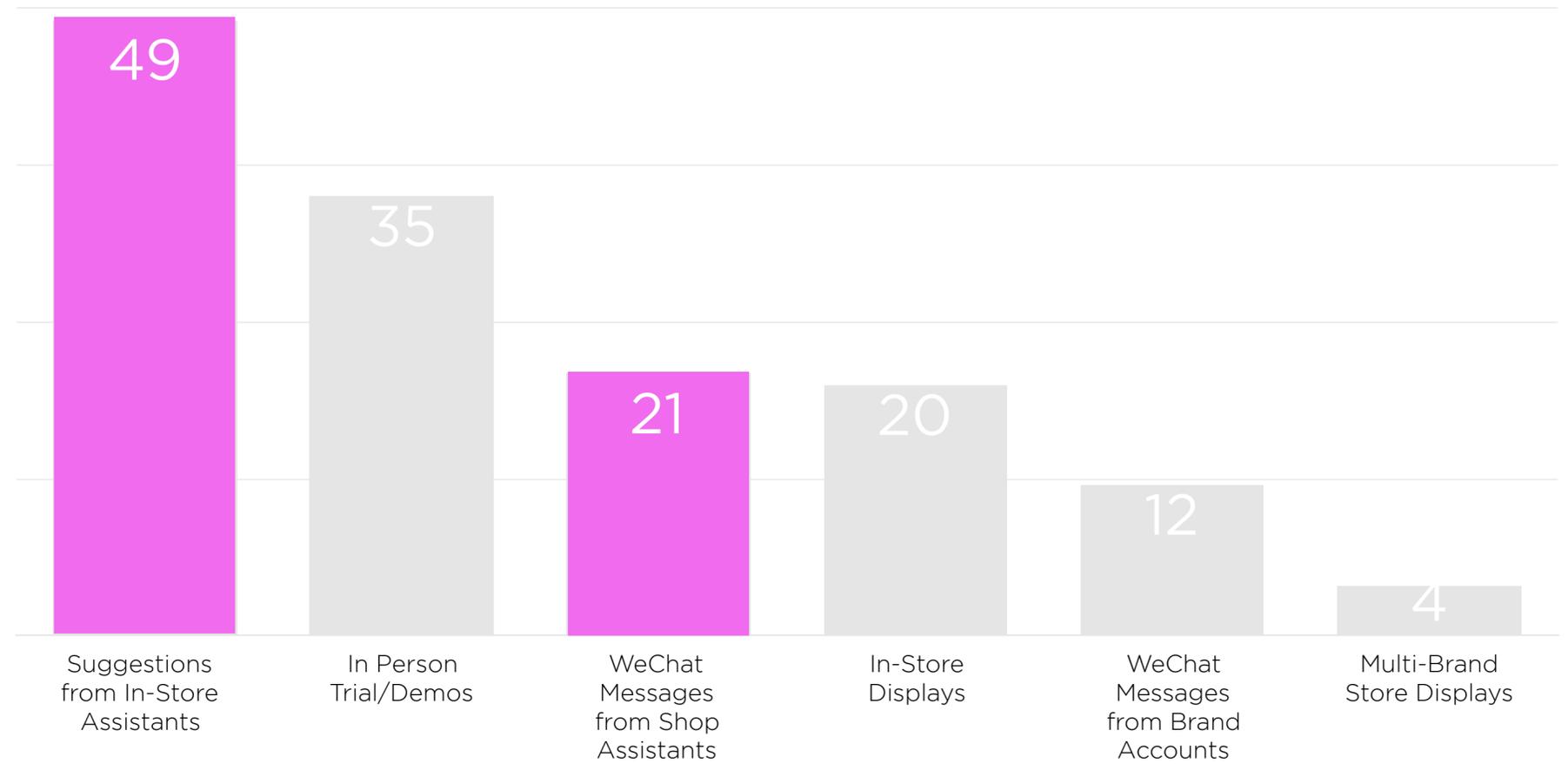
Brands should consider implementing more 'customer-first' strategies, with well-trained, knowledgeable staff at key points of purchase. In addition to selling and supporting direct customer needs, these knowledgeable representatives could also create product videos, images and handle direct chat with important customer groups as part of a higher-value social CRM solution.

This high-touch, high-quality approach can then be supplemented with the addition of automation/AI and chat (bots) to create a more scalable social CRM program.

One of the side benefits of this sort of solution would be in having more content and discussions with customers, more directly controlled by the brand - rather than outsourcing these important interactions to influencers/KOLs.

WHAT ARE THE TOP OFFLINE CHANNELS INFLUENCING YOUR PURCHASE?

(As ranked by respondents)



VIDEO - SUPPORT - SALES MERGING

Knowledgeable, credible consultants are key

PROVIDING SOLUTIONS TO CUSTOMERS

While shopping malls are empty in the middle of the day across China, top consultants are busy creating video product demonstrations and (via livestream) answering questions about product applications and about solving beauty, fashion and other challenges. These consultants are often joined by influencers and KOLs in the shop at the same time. It is not uncommon to have more people live-streaming from a shop, than customers buying.

This phenomenon raises the importance of hiring and training smart, knowledgeable, helpful ...and yes, charismatic staff. Having a training program to enable in-store staff to create these videos, share solutions and answer questions is far better than outsourcing the role of consultant to a paid influencer. Doing this well by a brand demonstrates authority, confidence and trust. It's also an activity that can/should be scaled across a multitude of platforms; social, chat, ecommerce points.



Beauty brands in China (such as Omei, featured here), are using their own team's advisors to scale solutions on video.

AUDIENCE SEGMENTATION & SERVICE

Mini-Programs should be a focal point for brands, to improve service, CRM

CUSTOMIZATION, ADVICE THROUGH WECHAT

The segmenting and messaging capabilities of Mini-Programs hold strong potential for brands who are; (1) looking to improve customer service capabilities, (2) add value about products and solution-sets for customers, (3) segment customers. All of the data from Mini-Programs should flow back to company CRM systems to enable omni-channel customer views.

This example from Maybelline shows how brands are creating advisory and consultation capabilities through Mini-Programs AND, importantly, how these solutions can provide filtered solutions to audience segments, based on interests (eg. lips vs eyes vs blush).

While a large part of this customization can be automated through AI/Bots, at anytime, the engagement can be passed over to a knowledgeable consultant.



Landing Page for Mini-Program



Maybelline segments audiences by need/interests



Automated, segmented messaging

AUDIENCE SEGMENTATION STRATEGIES

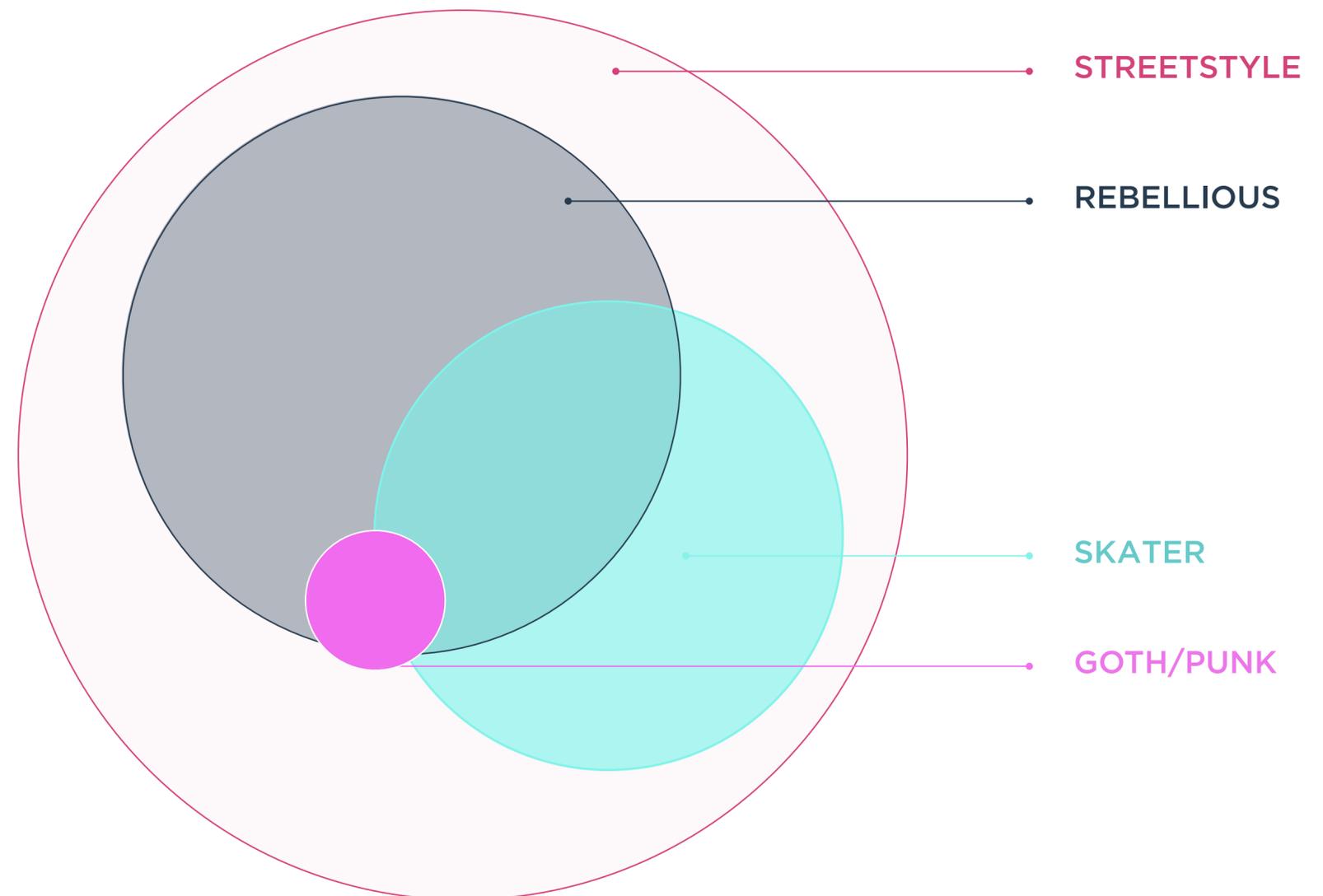
Creating alignment from KOLs, community groups, KOCs ...thru to customers

GETTING SMARTER ABOUT AUDIENCES

Brands are starting to spend more time on selecting KOLs, based on more detailed interest/style groupings (on Chinese social media these groupings are called "Quancengs"). These groups can be mapped out, to show how they fit together, how large each group is ...and the nuances of each group, per social channel.

Brands need to take this detailed process and apply it to the audiences within their CRM (and to followers on social). The alignment from KOL - to content - social - customer/audience, reduces friction and signals to audiences that they are in a place they belong, at each point.

For brands still struggling in China to create distinctiveness, this analysis is also a very useful way of sizing specific audience groups and perhaps, making a commitment to 'own' a group/sub-culture.



5

MINI-PROGRAMS AND SUPER APPS

Mini-Programs have grown beyond WeChat. In the past couple of years Alipay, Baidu and Douyin have all brought Mini-Programs online - attempting to replicate the success that WeChat has had.

At the same time, there is a growing frustration with these “Super Apps” (WeChat, Alipay, Douyin, Baidu) as costs rise and data access has been limited. Brands paying rents (in the form of ad dollars) have historically not had much (if any) access to the relationship with the end customer. It’s been a treadmill for brands.

Mini-Programs built on these platforms allow brands to connect interaction and customer data through to CRM systems. Brands who are frustrated with data being controlled by platforms are setting up Mini-Programs across all the “Super Apps” (Alipay, Baidu, Douyin) and linking the data collected from these Mini-Programs, to back-end data lakes. These data lakes which draw on all these customer touch-points, can then be used to aggregate more comprehensive customer views.

With this situation as a backdrop, more brands have been re-imagining their digital architectures in China - and Mini-Programs might become key building blocks.

Brands that are facing ever increasing CPM’s and CAC, can improve Lifetime Value (LTV) metrics using this approach. Capturing customer data across channels is a first important step toward tracking and improving LTV metrics.

MINI-PROGRAMS ACROSS ALL APPS

Brands are syndicating Mini-Programs across WeChat, Alipay and Douyin

AN ARRAY OF MINI-PROGRAMS

Alipay, Douyin and Baidu have followed WeChat's lead by launching Mini-Programs embedded inside of their so-called "Super Apps."

With this, there is an opportunity for brands to take a single Mini-Program and syndicate it (replicate it) across numerous platforms. Given the simplicity of these apps, replicating (the code) is relatively efficient. In doing so, brands can have an array of Mini-Apps (all following similar look, feel and structure) across customer touch-points. Each of these apps can then, in turn, be connected to a back-end 'data lake' (CRM system).

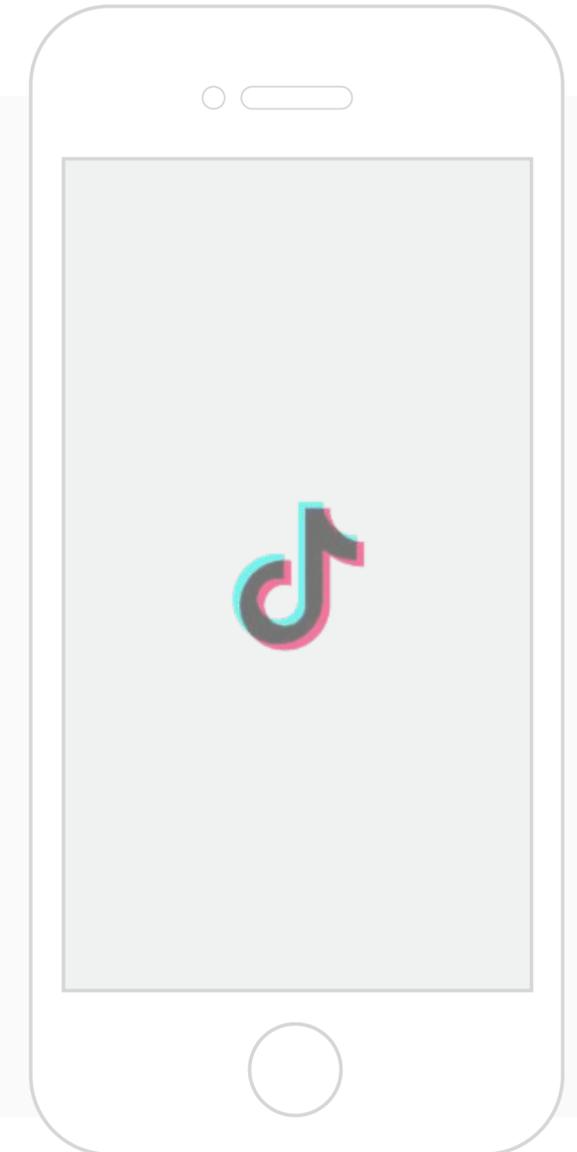
The power of ecommerce and social platforms in China has previously made Websites near meaningless. So, it is ironic to find brands building 'Sites' in China at this point.



McDonalds has 7+ Mini-Apps in WeChat for utilities/interactions



McDonald's Mini-Program on Alipay focused on ordering/payments



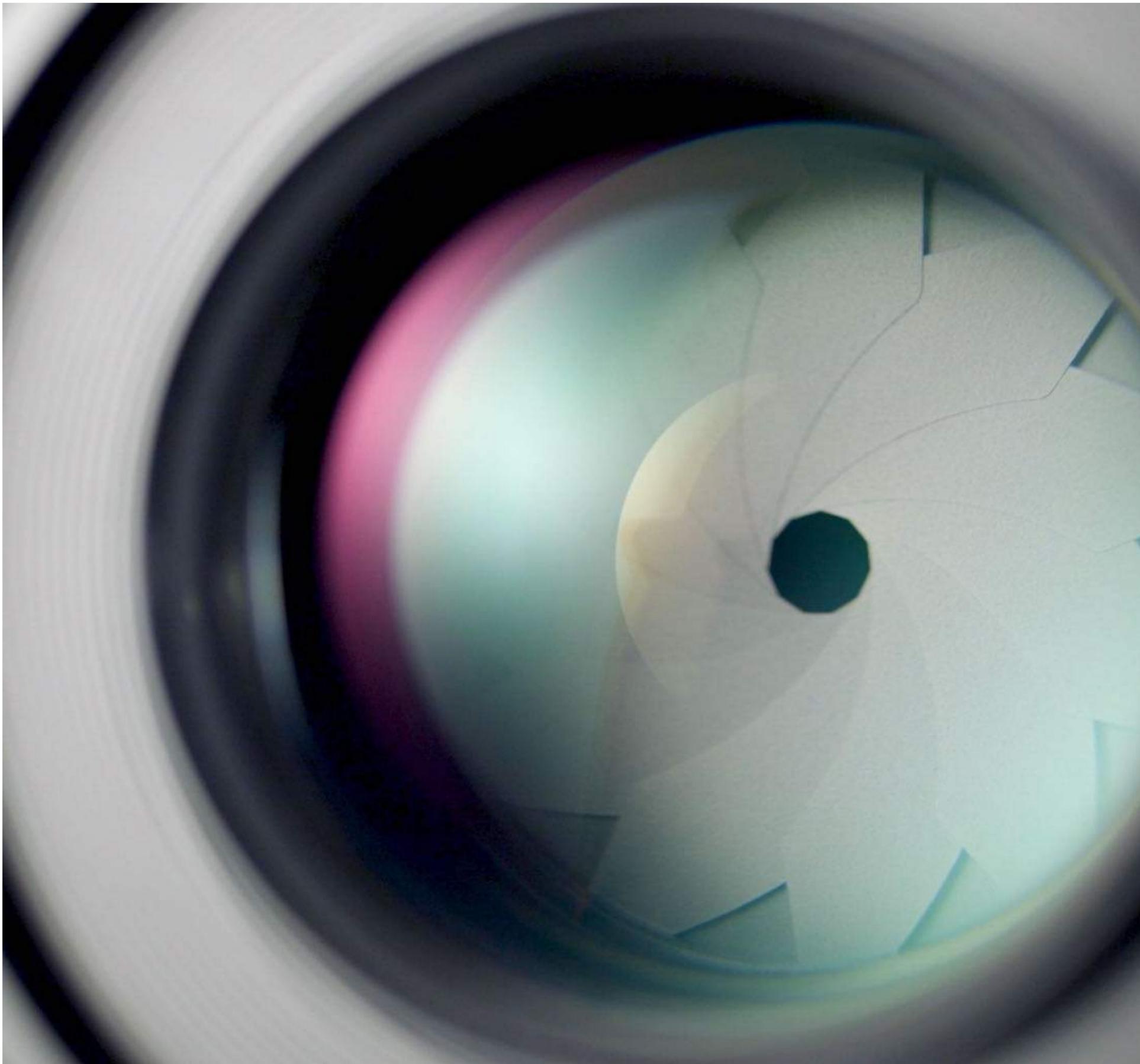
Also has a newly launch MP in Douyin which connects to the game centre.



6

SELLING VS BRAND EQUITY WITH VIDEO





Livestream selling thru KOLs was big business in 2019.

Livestream sales which typically feature well-known influencers, are built around arrangements where the brand pays the KOL an appearance fee and a generous commission on sales (25-50%). For the livestream show, which takes place on the influencers' own social media channels, there is also a 'low price' guarantee put in place, so that the influencer selling during the livecast, is the lowest price channel.

KOLs such as Austin Li, Sean Xiao and Yibo Wang are among the most prolific in generating sales, often capable of liquidating products within minutes of launching a sale on livestream.

6

LIVESTREAM SELLING CAN HURT BRANDS

Livestream sales with KOLs sounds great. Use a livestream to sell products quickly, gain attention for the brand and win some new buyers.

But, it can be a damaging exercise for long-term success of a brand. If the current model of working with KOLs on livestream sales is followed, most of the real benefit goes to the influencer themselves. It's helping to grow their audiences on their channels, and they receive most of the up-side on sales margin.

For the brand, they are basically betting on positive CAC (Cost of Acquiring a Customer) vs LTV (Lifetime Value). Brands who orchestrate live streaming sales at high cost (often at negative sales margin) are betting that the new customers who bought during the sale will become repeat customers and will have a positive LTV.

Most research about the effects of price discounting show that there are several negative effects:

- 1. 'Would-be' customers do not purchase more but instead, move their purchase forward to the present instead of waiting to a future date*
- 2. New, potential customers gained in a sale do not typically re-purchase, as they were mostly being opportunistic in taking the discount and moving on*
- 3. Discounting signals to the market a new, lower price, and resets the effective price of the product at a lower level for future purchasers*

LIVESTREAM ECOMMERCE

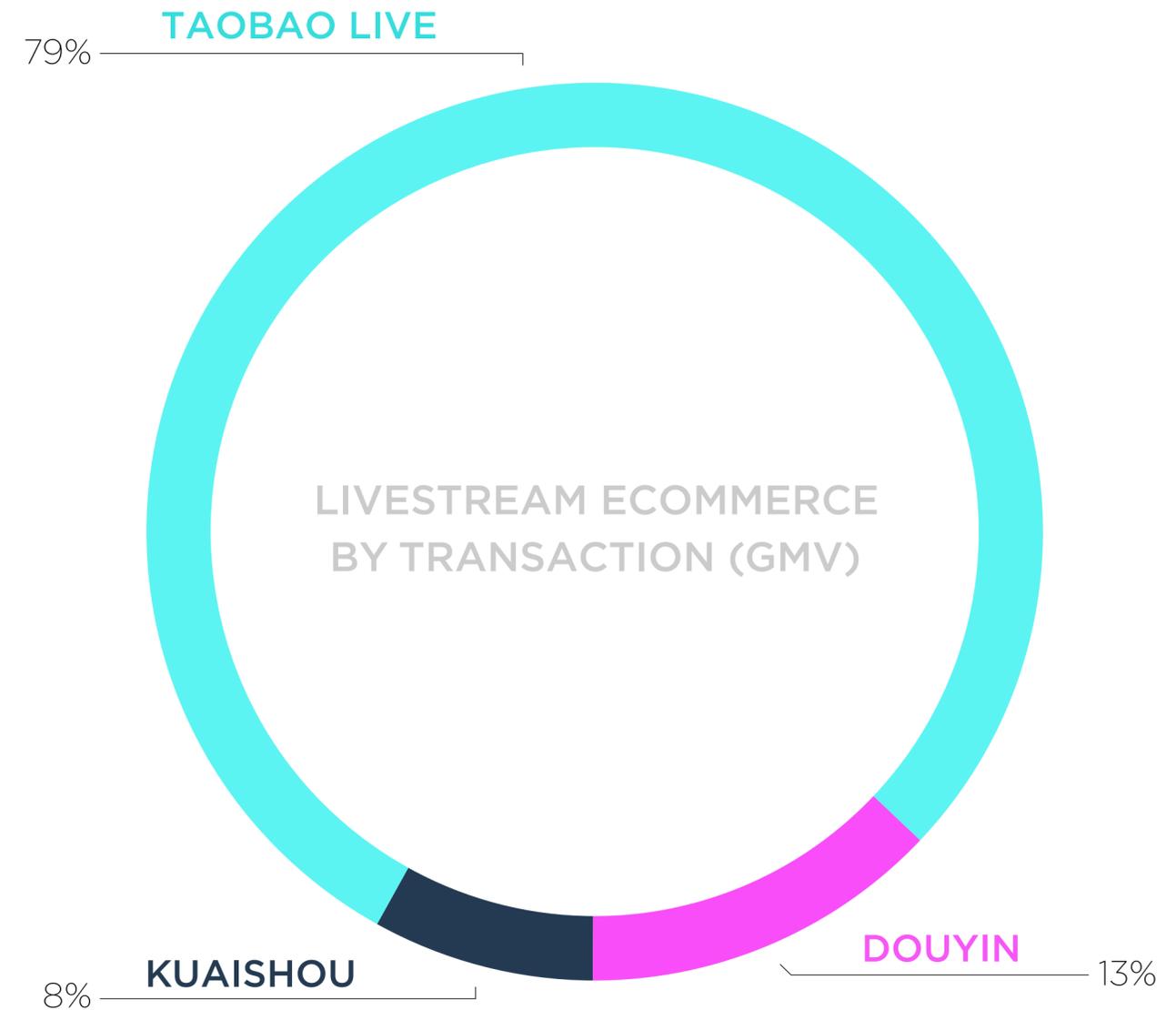
“Taobao Live” leads in terms of the value of product sold

RAPID GROWTH BUT QUALITY IN QUESTION

On the back of numerous high-profile success stories, livestream ecommerce became a major focus for marketers in 2019.

“Taobao Live” held a strong lead at the end of 2019, followed by Douyin and Kuaishou. In 2020, look for LittleRedBook (Red) to ramp up its efforts in this space. Tencent will also look to roll out similar functions across its channels - as it has done already with group buying app Jingxi.

While there are some exciting opportunities for brands in this space, so far, the practice has been heavily skewed to (1)lower tier cities (Kuaishou in particular) and (2)younger audiences (Douyin), and (3)it has a distinctly promotional feel (eg. “This item must sell now ...there are only 3 left in this color”). So, not ideal for brands looking to sell at full price.



LIVESTREAM SALES WITH KOLS

Powerful as a short-term boost to sales

KOL AUDIENCE + DISCOUNTS = SALES

There were innumerable livestream sales with KOLs in 2019. Take a KOL with a large, highly engaged audience, provide a steep discount on the product being sold ...and its not hard to see how this approach can boost sales. This is a sales tactic though, and brands using livestream for sales, need to do it inside an ecommerce environment, such as “Taobao Live.” Brand building videos on the other hand should be done into Douyin, Weibo or other, similar branding-focused channel.

Working with Austin Li on “Taobao Live,” Real Techniques sold 22,500 units (USD250K). The livestream lasted a mere 5 minutes, reaching 2.8 million of Austin’s 6.3 million followers. In those 5 minutes he demonstrated the product and posted links to purchase. The hope from the brand is that: (1)they can establish a ‘Star Product’ (爆款) (2)acquire new customers, and (3)gain repeat purchases. The increase in GMV also helps them move into the Alibaba JHS platform 聚划算 - and improve CAC.



Real Techniques’ KOL Livestream sale in 2019 provided a quick sales boost with Austin Li.

BRAND "OWNED" LIVESTREAMING

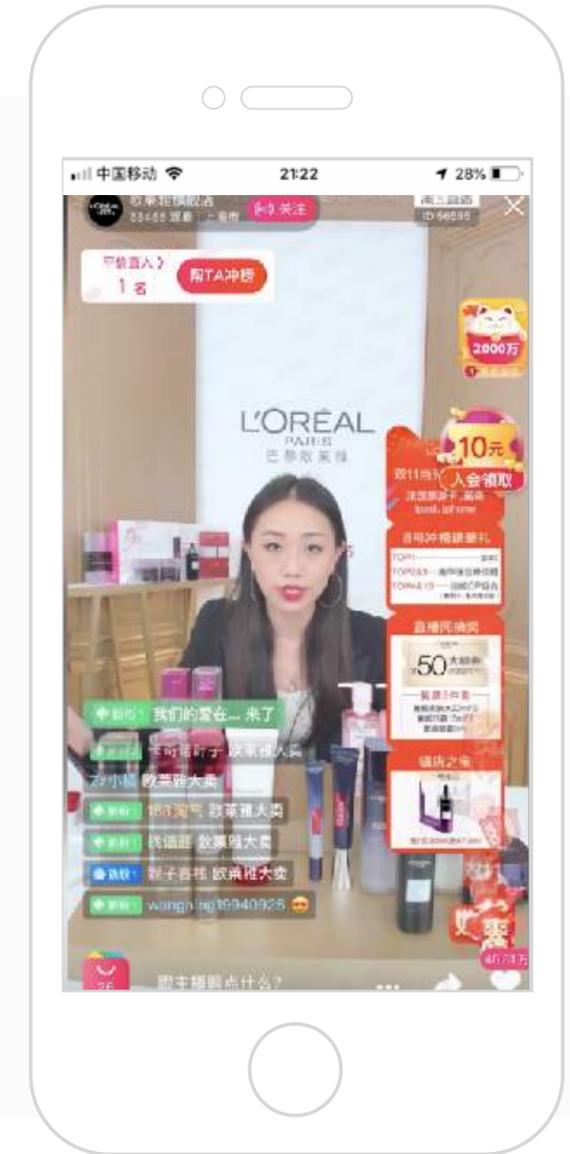
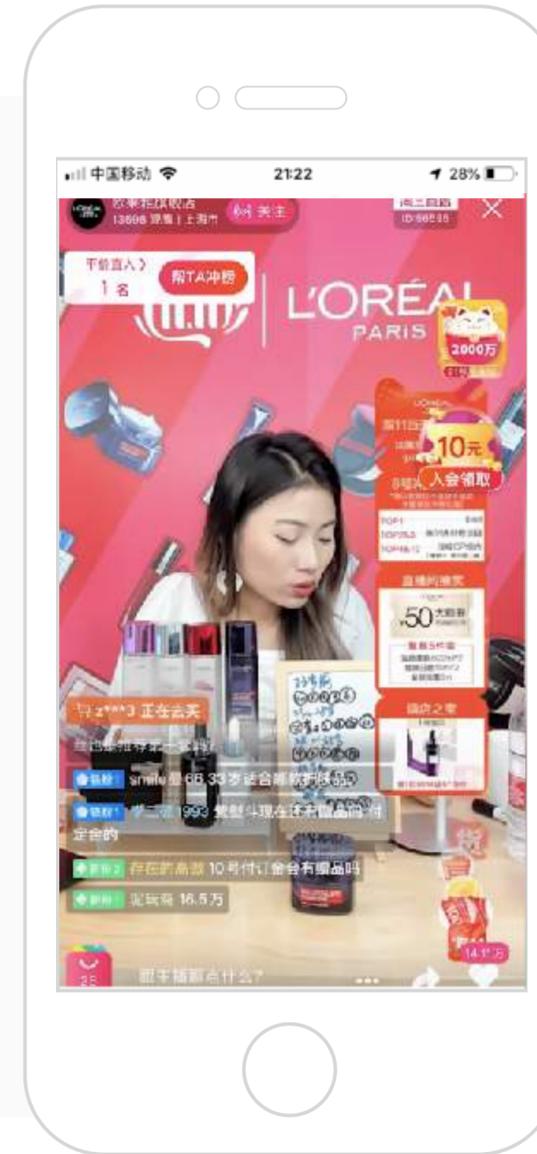
Sales consultants (advisors) from brands creating videos

MOVING AWAY FROM KOLS

L'Oreal has made a major effort to train its own beauty consultants to be camera-ready and step up as live-streamers. They still use KOLs for big events like Double 11 but the company's own team are now sharing knowledge online about products - and helping customers solve issues related to beauty.

Eileen Zong, GM of L'Oreal China explains, "we were actually the first brand to, in partnership with Alibaba, get beauty adviser KOLs livestreaming on Alibaba's platforms from our stores. We trained them to be KOLs, to sell products and help make livestreaming popular among consumers."

In the long-term, the approach used by L'Oreal in using its own team to create content is more powerful and supportive of brand equity growth. By using its own team, the brand keeps audience attention on its channels, growing its own audiences.



L'Oreal has invested into its own beauty advisors to become live-streamers.

Marketers need to refocus on how to build brand equity through video and other content.

For many brands, this means taking back control of their messaging and creating more 'owned' media. And instead of outsourcing the work of audience growth to KOLs, brands need to act like KOLs. DTC brands excel at this concept.

There are good reasons to work with KOLs and do media placements (think TVCs), but for most brands, there needs to be more focus on sustainable formats which put the brand first and help the brand retain the equity gained from costly media investments.



GROWTH
BRAND

A

TVC/Video Ad

Signal to Audiences:
"Our brand is credible, large, successful. And, if the ad is good, "we respect the quality of the brand."

B

Brand Video ("Viral Video")

Signal to Audiences:
"We fit into your world view and have a shared culture - and/or empathy. We matter and we are memorable."

LOW EQUITY
(Rent Audience)

HIGH EQUITY
(Retain Audience)

D

KOL Livestream Sale

Signal to Audiences:
"We cannot sell our products at full price and are hoping that we can leverage the trust you have in this KOL ...to sell them, at a discount."

C

Serial Video Segments by Brands

Signal to Audiences:
"Our brand is worth following - we have something to say. We are a source of influence and supporting your interests."

SALES
CONVERT

6

OWN MEDIA, BRANDED VIDEO SERIES

Brands must get past working with influencers to sell products and create branded content on their own behalf. Instead of handing over the responsibility to connect with audiences, brands should be hosting and creating their own quality content. This is an area where DTC brands have really pulled ahead of traditional marketers.

A video segment/show created and managed by the brand becomes an opportunity to connect and grow an audience. A brand can still (occasionally and/or regularly) invite influencers to join the production in order to boost attention for it and break through with new audiences. But owning and growing the concept is key, as it becomes the reason for audiences to follow you and 'buy into' your culture. By outsourcing the creation of content to influencers, the brand gives away the relationship with its customers and loses a critical opportunity to demonstrate affinity, trust, equity.

Brands must recapture the direct relationships with audiences by 'investing' first-hand, into the content of their relationships with audiences. The trick is to create something of real equity first, something the brand owns - and something that is inspiring to audiences. Based on this ownership of the core idea, brands can then build on it through hashtags, and amplify with KOLs and Ads.

And, if these 'owned concepts' are designed well, they become a tenant for all communications and service delivery ...filtering down to where staff interact with customers.

BRAND “OWNED” MEDIA FORMATS

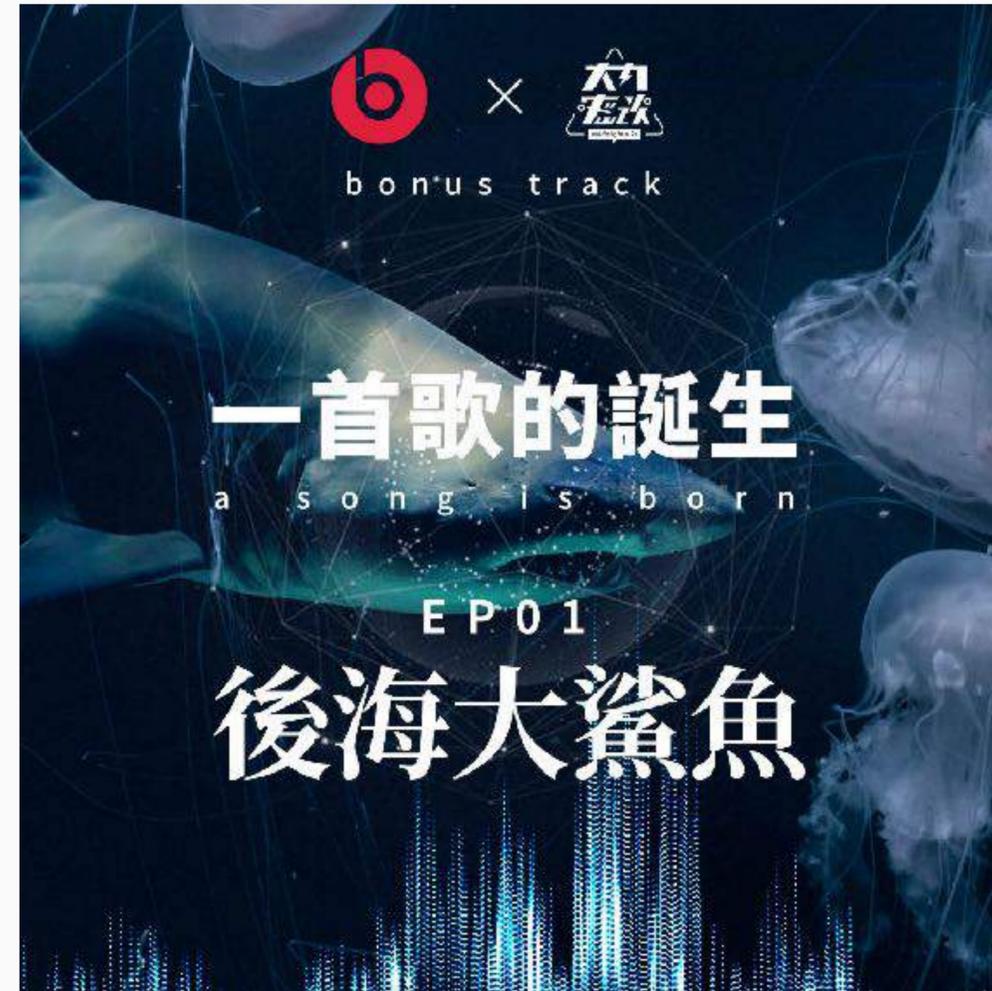
Help brands maintain a consistent connection with audiences

BEATS “BIRTH OF A SONG” PODCAST

Beats has co-produced a podcast series called “The Birth of a Song” on Netease Music Cloud. Together with music personality Tai Nei Tan, Beats explores the process of songwriting, from concept to creation.

At a time where too many brands hand over creative control (and audiences) to influencers (KOLs), this is an important example of a brand investing in its own media series - and not simply handing over the rewards to KOLs.

Beats also takes advantage of a hot format with using Podcasts and audio as a medium. Audiences for audio (podcasts) continue to grow rapidly and have very strong engagement results. And, the costs of production on audio are significantly lower than full-feature video production, making the series something that Beats can sustain long-term at a cost level which is feasible.



Cover for the Beats “Birth of a Song” podcast on Netease Music Cloud.

DR JART+ PUT THE FOCUS ON THEIR BRAND

Brands need to act more like KOLs (That's what DTCs do!)

A BRAND THAT BECAME AN INFLUENCER

Instead of relying on third-party influencers Dr. Jart+ (in 2018) took on the role of influencer itself. It launched social accounts (on Weibo, WeChat & Instagram) with four cartoonish characters. The characters (each representing a brand color) became the personae for the brand - posting about experiences, food, travel, and beauty. The three month effort collected 42 million impressions and 17,000 followers on Instagram.

In creating its own "KOLs", Dr Jart+ kept audience attention on the brand, not forfeiting it to paid influencers.

The four cartoonish characters were designed to represent brand colors, while the characters' masks were emblematic of Dr. Jart's signature facial beauty masks. The effort took aim at converting intrigue in the masked characters to trial/purchase of the beauty masks.



The campaign Instagram Account
@lovingrubber



Social reaction videos with customers un-boxing
the signature masks.



7

WECHAT REVEALING ITS LIMITS FOR REACH





With over 1.0 Billion MAU, WeChat still holds the largest number of monthly active users.

It is however loosing its grip on mobile usage in China. Some data show that MAUs have declined and time spent per user is also down by >8.0%.

At the same time, official accounts on WeChat are struggling to attract attention and retain followers. Recent data have shown that gains for brands on WeChat have been modest (at best).

Other apps (video and content apps) as well as WeChat's own mini-programs are moving attention away from official accounts toward new areas.

7

WECHAT STILL THE KEY SOCIAL CHANNEL

The impact and importance of WeChat “official accounts” is becoming less fixed and secure for brand marketers in China. There are numerous factors conspiring to limit the impact of WeChat:

1. Younger audiences are spending less time on WeChat
2. The rise of short video apps (Douyin) are stealing attention at peak hours
3. The cost and effectiveness of WeChat is being called into question
4. Weibo and other social platforms are less expensive platforms for building reach and awareness
5. Tmall is still the largest platform for ecommerce

At the same time, WeChat has made huge strides with its Mini-Programs, and in many ways this has become the new focal point for brands who are invested into the WeChat ecosystem.

WeChat Mini-Programs have proven to be valuable as channels for ecommerce - particularly for flash sales - providing that the brand can deliver traffic to the app. The next moves for most brands with Mini-Programs will be to create more sustainable, regular presence, with what are effectively “Websites” in WeChat. The latest round of Mini-Programs feature evergreen brand content, links to buy and other customer service/support features.

WECHAT GROWTH HAS PEAKED

Some reports show that its MAU numbers are falling

WECHAT STILL CLEAR LEADER IN MAU

Depending on the source of data, WeChat usage is either growing slightly or in decline. Data from Tencent report that WeChat's latest MAU's have grown to 1.151 Billion (Q3 2019).

TrustData pins WeChat current MAUs at 1.016 Billion (Sep 2019).



FOLLOWER GROWTH ON SOCIAL CHANNELS

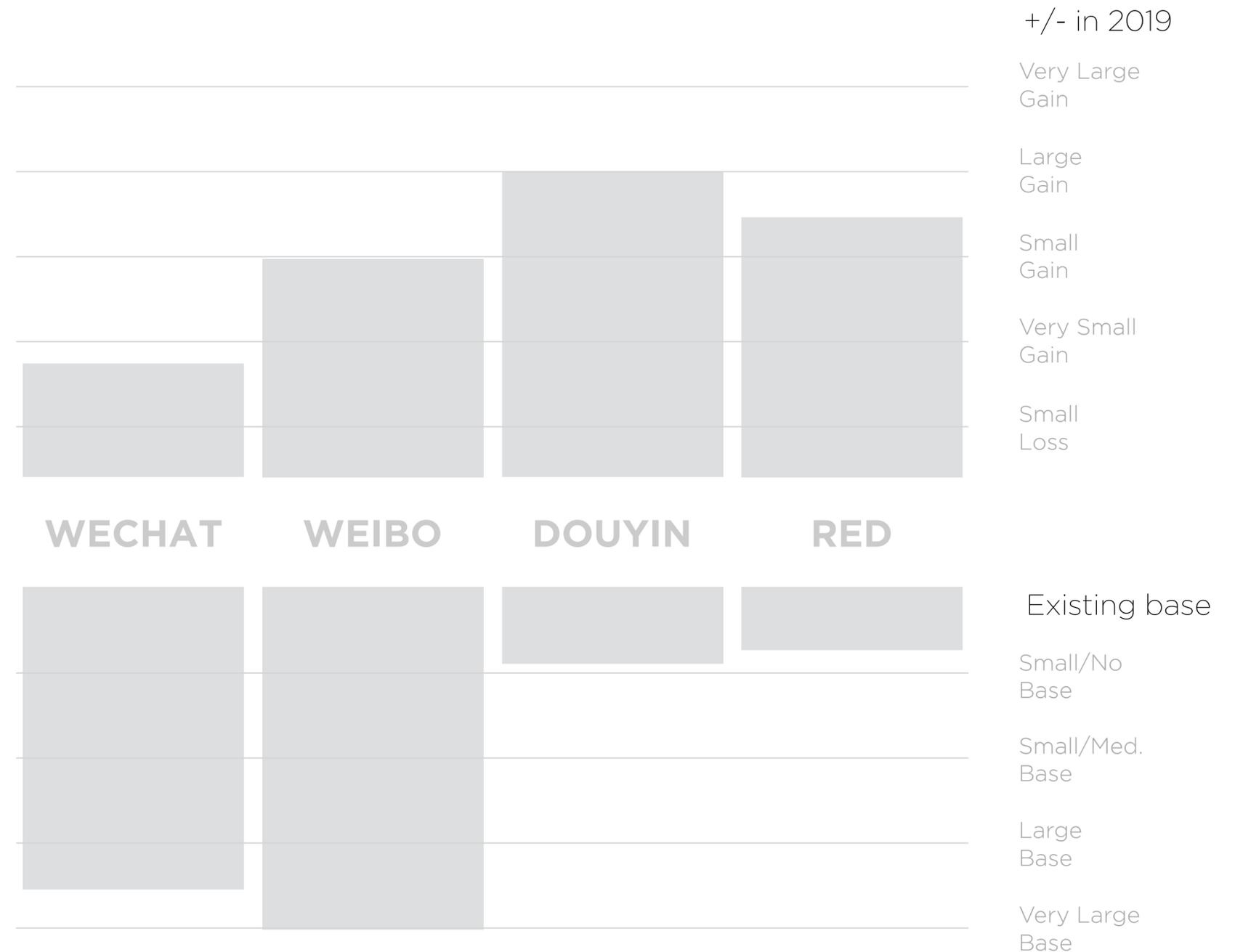
Follower gains vs existing audience base per channel (2019)

GAINS ON WEIBO, DOUYIN AND RED EASIER

While WeChat is still a net positive for brands surveyed, the gains in followers on WeChat (for official brand accounts) in 2019 were very hard and costly to achieve.

Other channels such as Douyin, Red and Weibo showed larger gains for brands but it is important to take the scale of existing follower bases into account when evaluating growth. So, while Douyin and Red had higher perceived rates of growth, this growth is also coming from a much smaller existing base of followers for the brands.

Weibo still ends up looking like the most cost efficient channel for top-of-funnel social media metrics - such as awareness, reach, fan count.

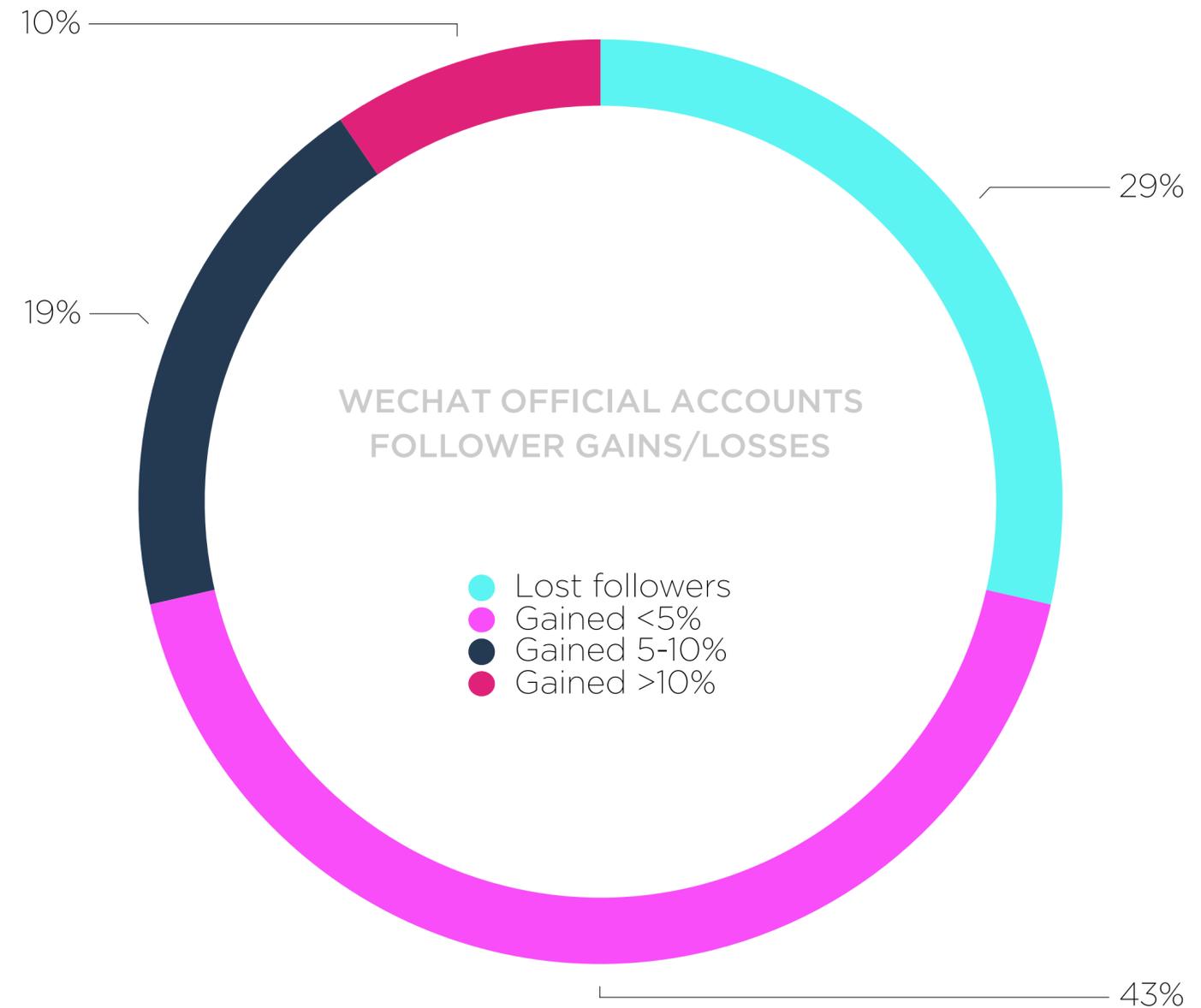


FOLLOWER GAINS/LOSSES ON WECHAT

Most brands seeing very modest success with followers on WeChat

FOLLOWER GAINS ARE HARD TO COME BY

The majority of brands surveyed had small gains in followers on WeChat, with 62% seeing gains of less than 10% in 2019. A further 29% lost followers on their WeChat account in the past year.



INVESTMENT VS REACH

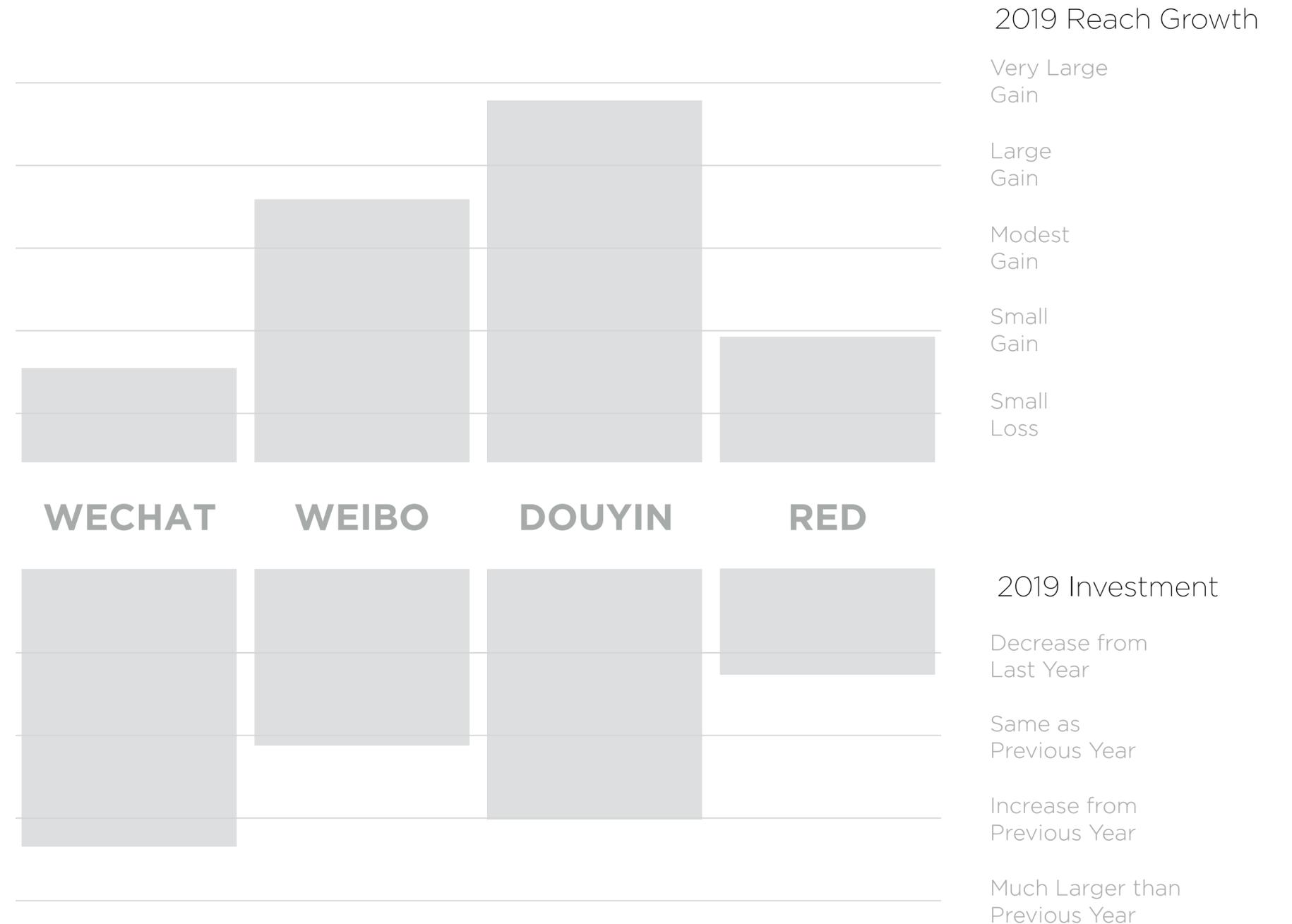
Size of investment per channel versus measured gains in reach/impressions

REACH IS CHALLENGING ON WECHAT

WeChat and Douyin saw (on average) the largest budget increases in 2019 according to brands surveyed.

Brands were also asked to report on the reach generated by these investments per channel. Douyin stood out as producing the largest effect, followed by Weibo.

Brands reported only very small gains in reach via WeChat.



BUSINESS IMPACT OF INVESTMENT

Perceived positive/negative change on business outcomes, based on investment, per channel

BUSINESS RESULTS IN WECHAT

While WeChat demonstrates only very modest gains for reach/awareness and follower growth (for official accounts), it does better at supporting business results.

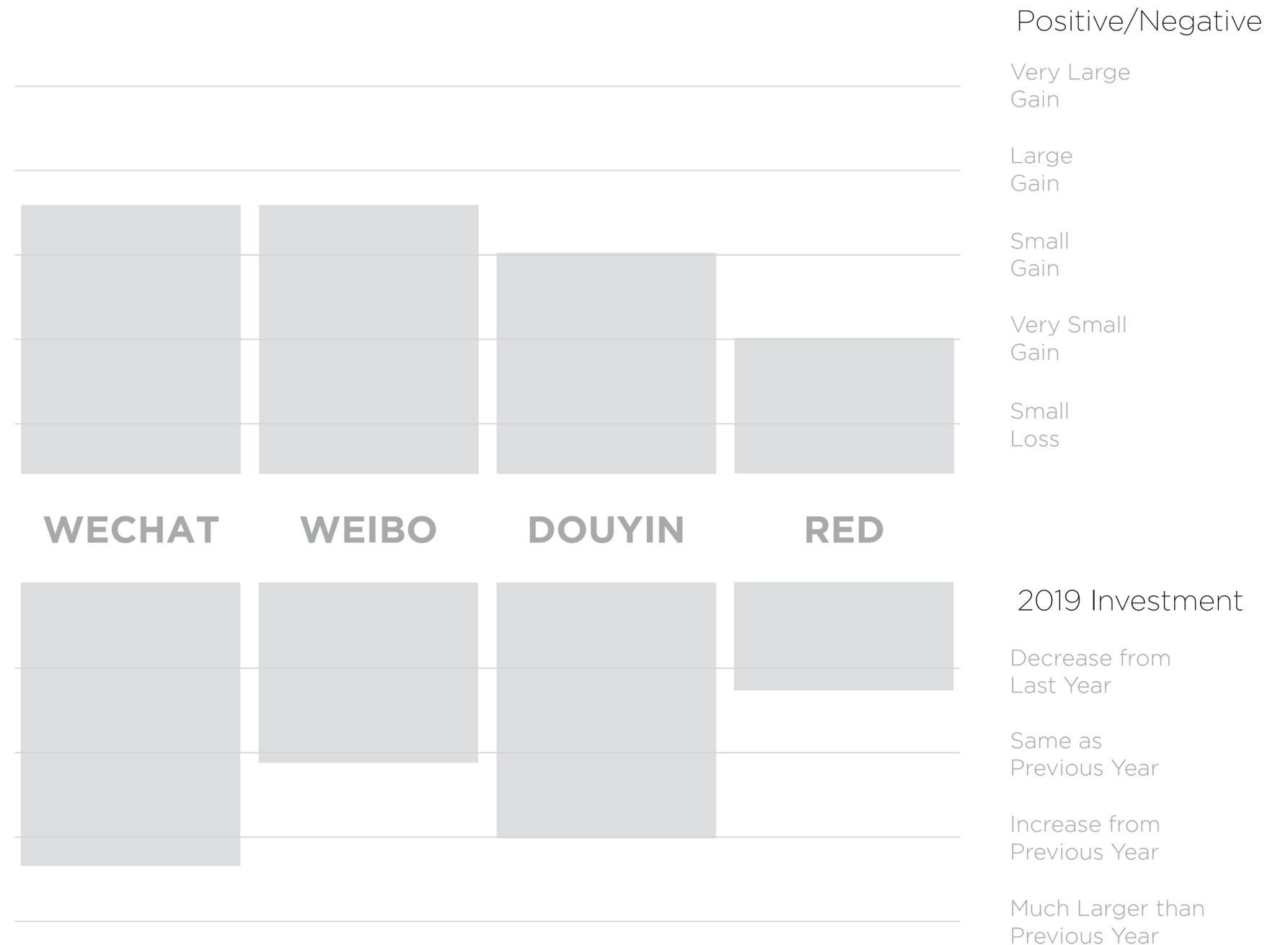
To this point, WeChat is increasingly becoming more of an ecommerce channel and less of an awareness building channel. Respondents cited the following as the most important business result/factor from each channel:

WeChat: Mini-program commerce

Weibo: Brand reach

Douyin: Brand reach

Red: Social sales



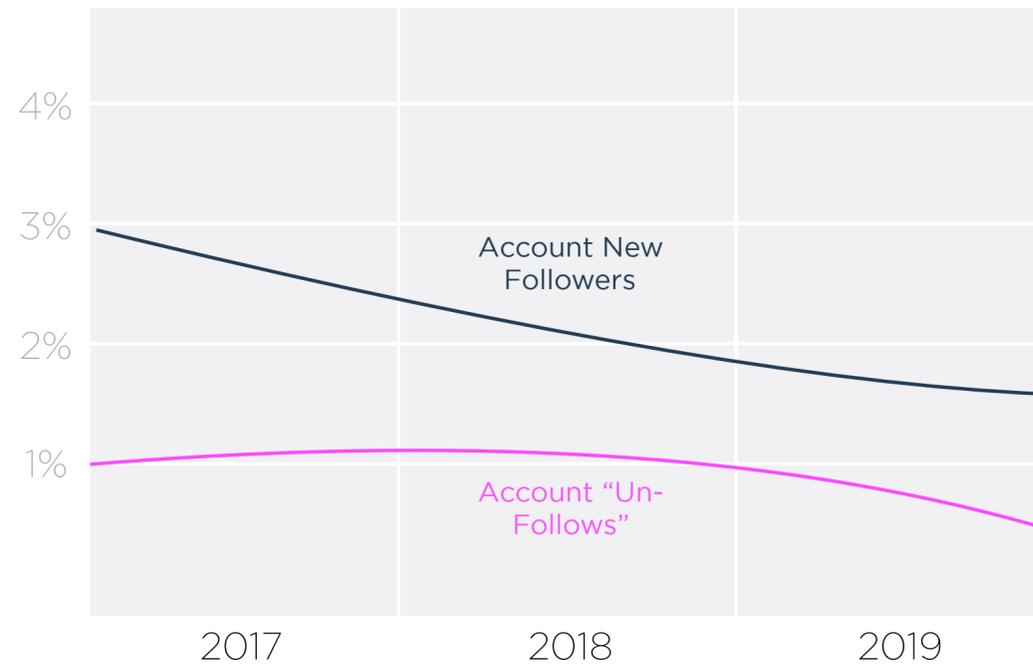
BRAND RESULTS ON WECHAT

Research from Kawo also reflects modest gains for brands on Official Accounts

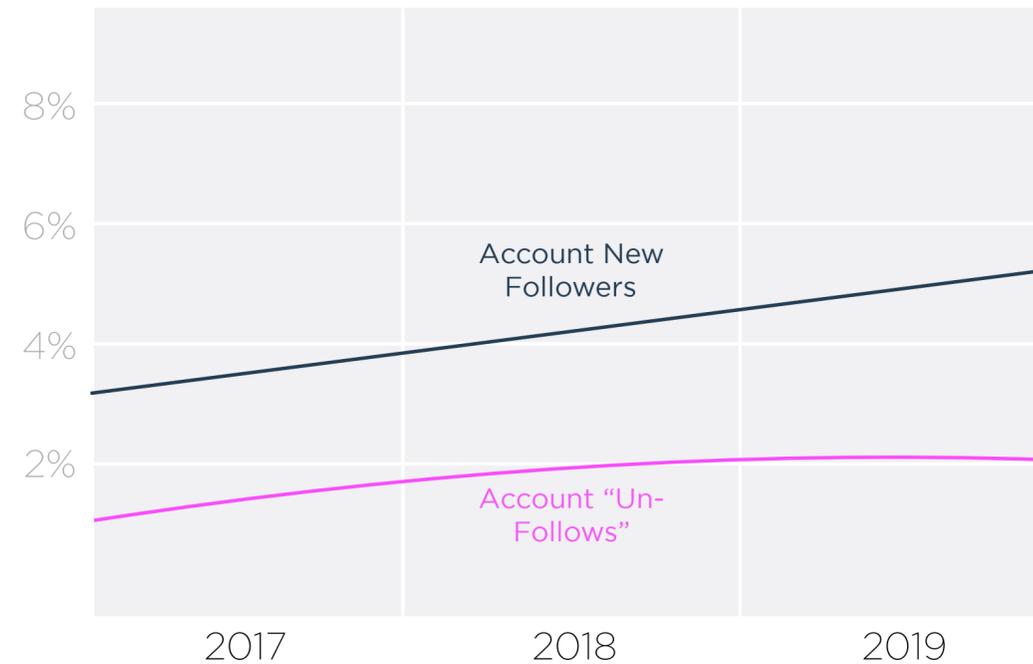
FOLLOWER GROWTH RATES ON WECHAT

READING RATES ON WECHAT

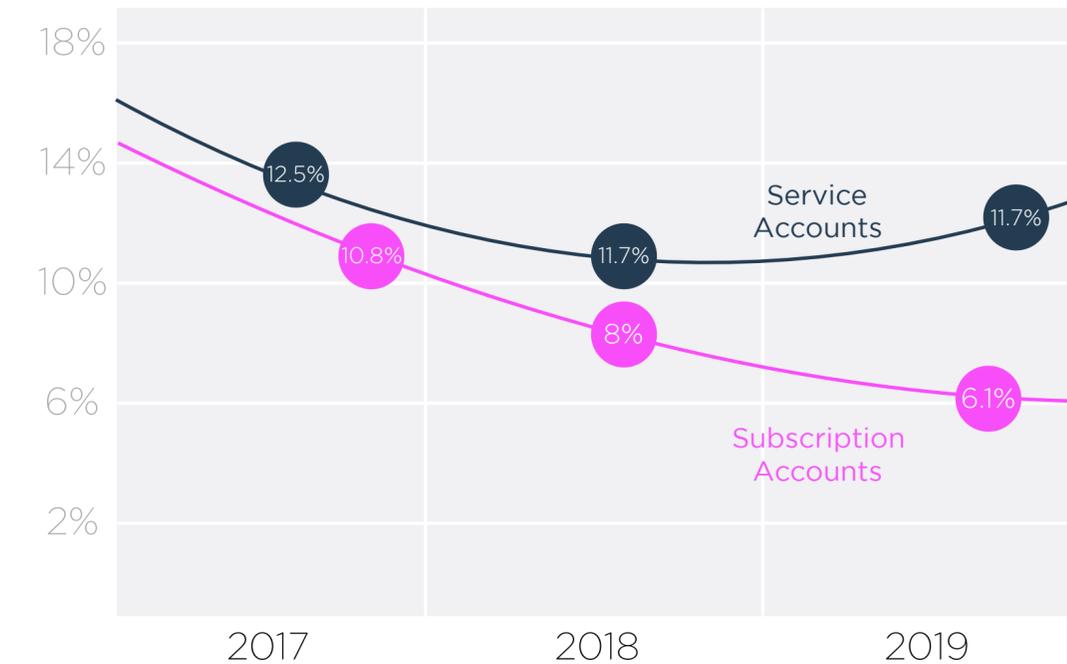
WeChat Subscription OA follower Growth



WeChat Subscription OA follower Growth



Subscription vs Service Accounts



Data from Kawo in 2019 showed that average (net) follower growth was between 1-3%. Average reading rates were between 11.7% for service accounts and 6% for subscription accounts.

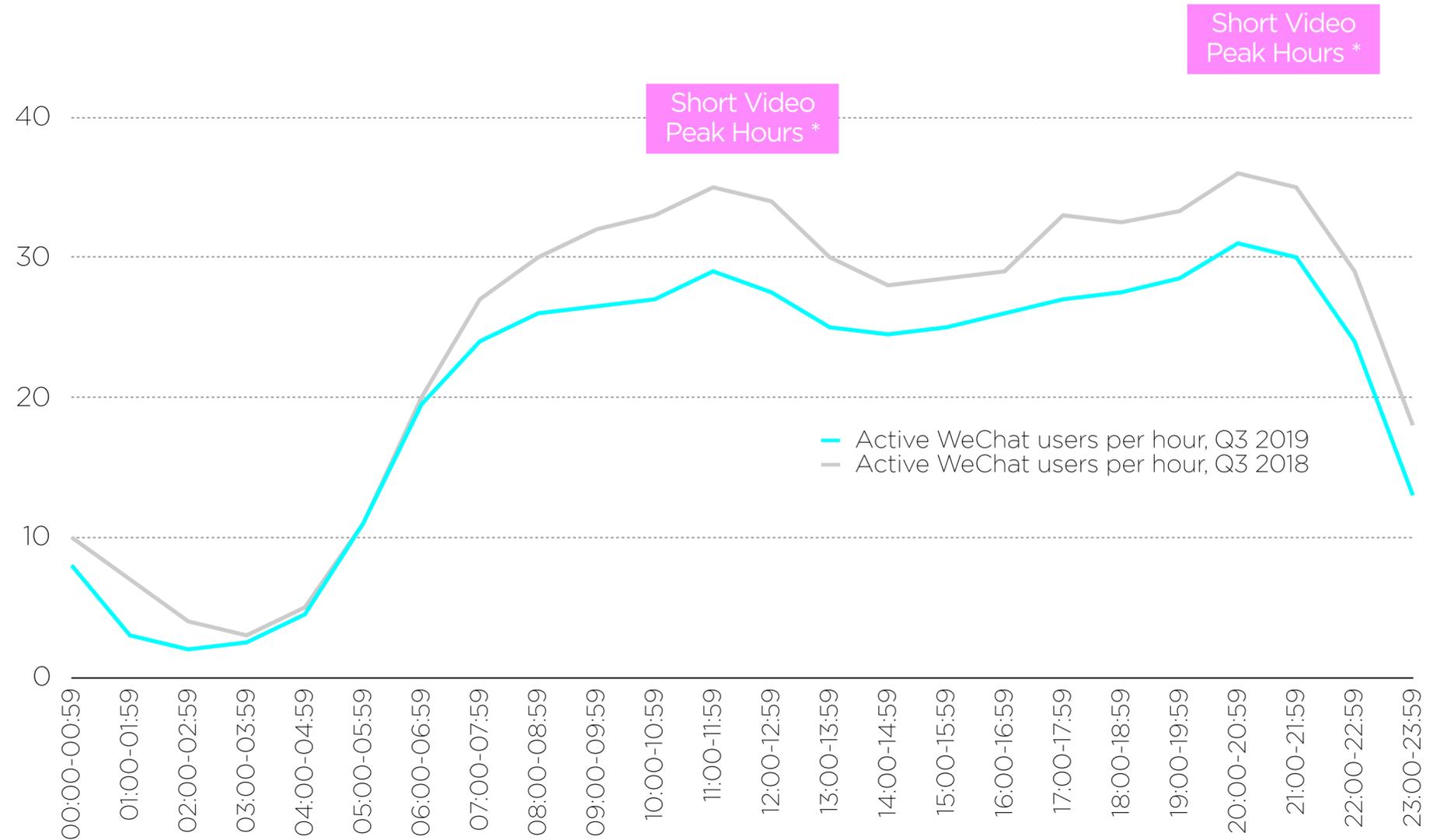
USAGE DECLINING ON WECHAT

Daily volume of use falling from 2018 to 2019

USER FATIGUE SETTING IN?

WeChat is, at its core, a messaging app, with its core user benefit being about friend-to-friend connection. It also provides utility for ecommerce (WeChat Pay) and for content and entertainment. But it is its focus as a messaging platform that attracts and retains record MAU's. The other features are important but it is messaging that really keeps its MAU's at record levels.

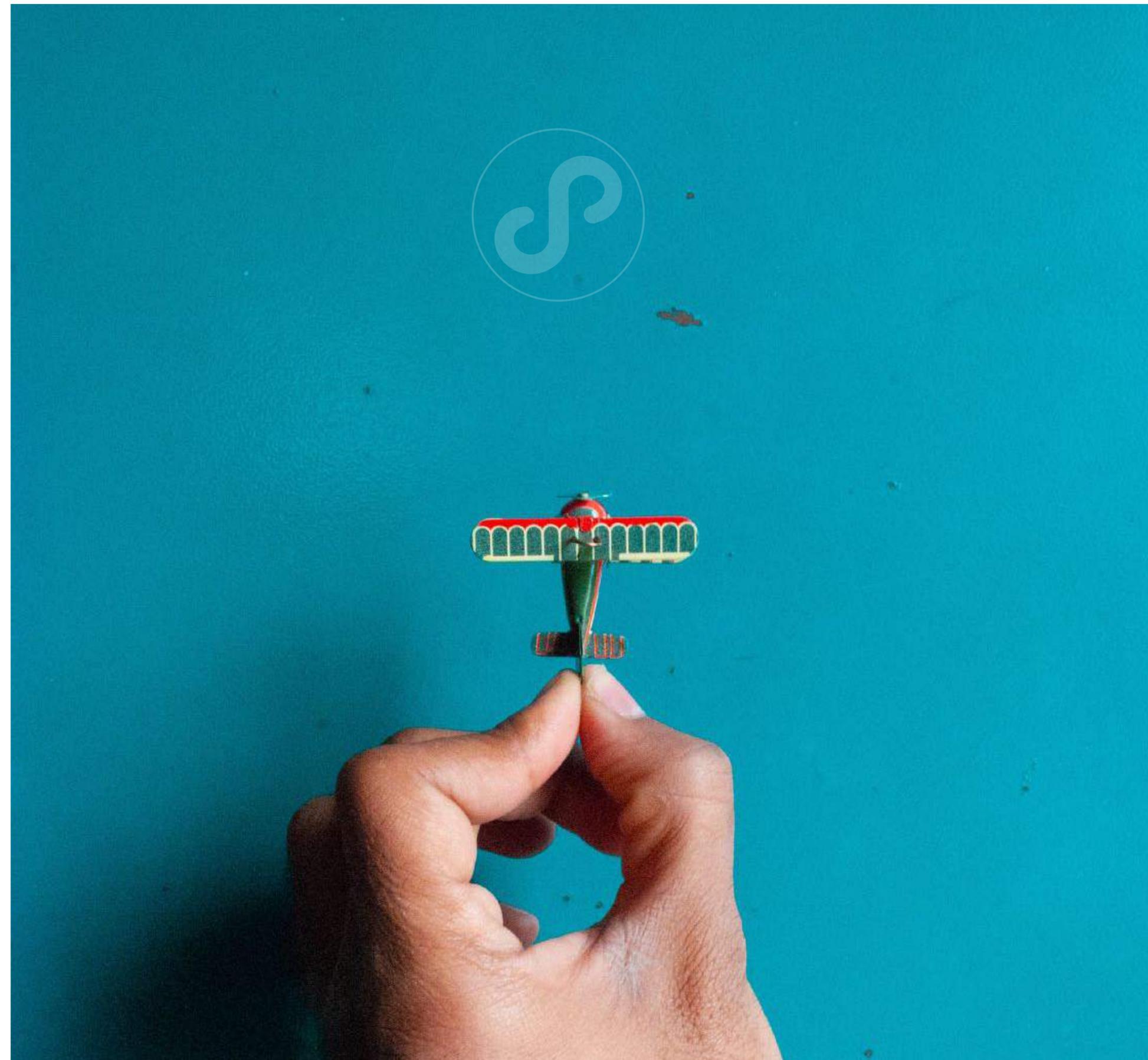
The losses that WeChat has seen during the course of daily use in 2019 were most profound during peak audience entertainment hours; lunchtime and evenings. This implies that the decrease in usage during those hours is a result of other, more entertaining apps stealing attention away from WeChat. Douyin, Kuaishou and a host of other video and entertainment apps have been edging into this space over the past few years.



The focus for brands in WeChat has shifted firmly toward Mini-Programs. As this trend continues, 'official accounts' will play a secondary role; (1) to support navigation to higher-value Mini-Programs, and (2) as communications interfaces for customer service and sales.

The focus for brands with Mini-Programs is firmly on ecommerce. WeChat Mini-Programs have 300 million daily active users, with 60 "MPs" used on average. And, in 2019, ecommerce revenue grew 160% to 800 Billion (RMB).

Mini-Programs go well beyond ecommerce though, so competition for attention is high.



WECHAT MINI-PROGRAMS USAGE

Games and services lead the way with audience time/attention

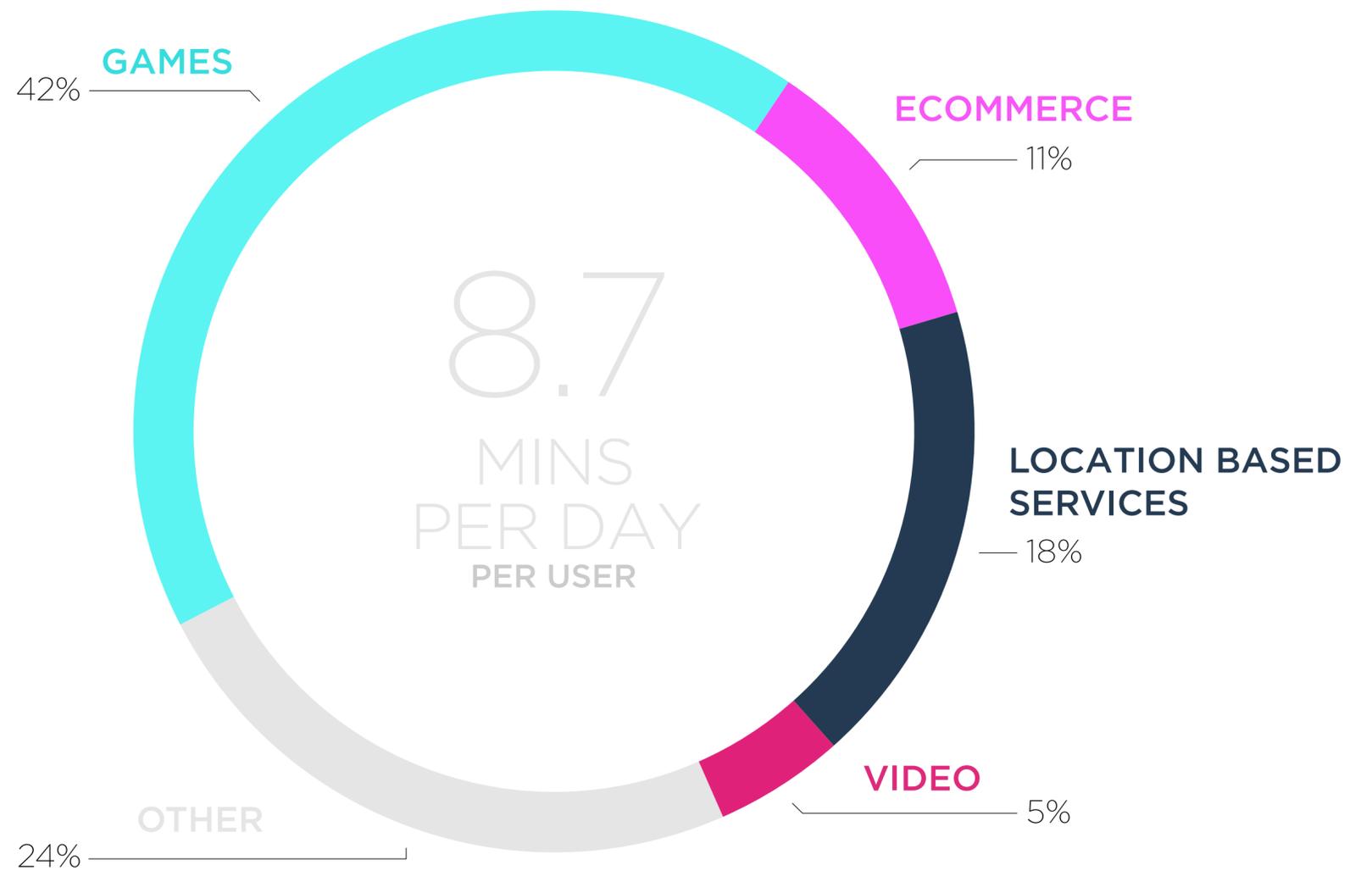
PUTTING MINI-PROGRAMS IN PERSPECTIVE

The headlines on Mini-Programs are great; large and growing ecommerce volumes, and high daily active usage. And there are a large number of brand success cases. Attention and planning are warranted for WeChat's Mini-Programs.

But, what's driving the awe inspiring numbers (DAUs, time spent, ecommerce volumes) are factors totally unrelated to brands. Games drive the highest volume of traffic, followed next by utilities, location-based services and media. And big ecommerce players (eg. Pinduoduo) drive the bulk of ecommerce GMV.

So, while there are important opportunities, brands must compete against other apps and think about how to maintain engagement, within a very busy landscape.

SHARE OF TIME/ATTENTION FOR TYPES OF MINI-PROGRAMS



MINI-PROGRAMS AS WEBSITES

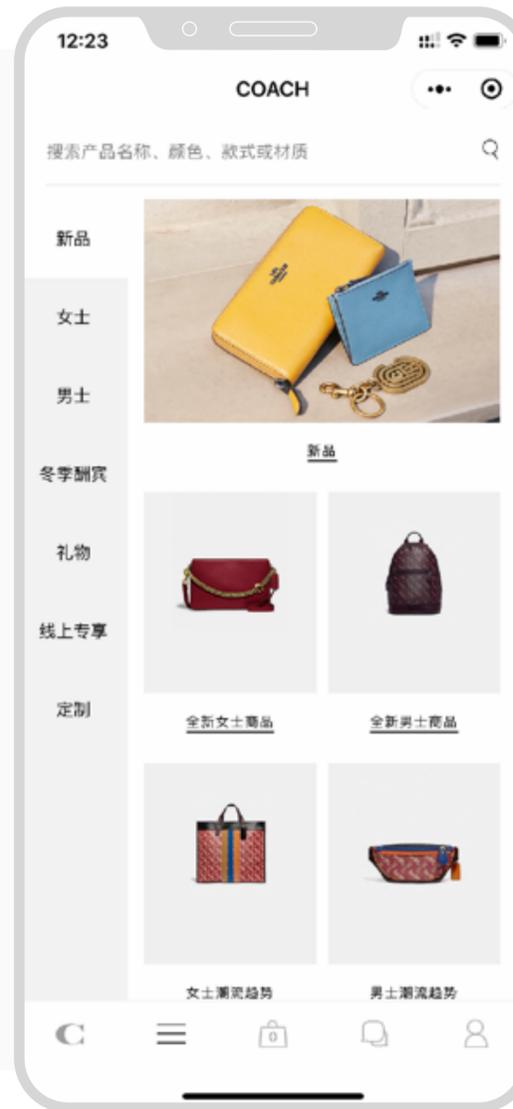
Moving past flash sales and gimmicky games

REGULAR, BRAND PRESENCE

The first round of branded Mini-Programs on WeChat were mostly designed around flash sales, gimmicky animations and games - with most efforts failing to create sustained audience engagement.

The current round of developments by brands in WeChat are effectively, fully formed Websites, mirroring the presence they would have on the WWWeb. Working inside the WeChat ecosystem, brands are creating these 'sites' as the new focal points for customer interaction. They feature ecommerce, service, content and loyalty functions.

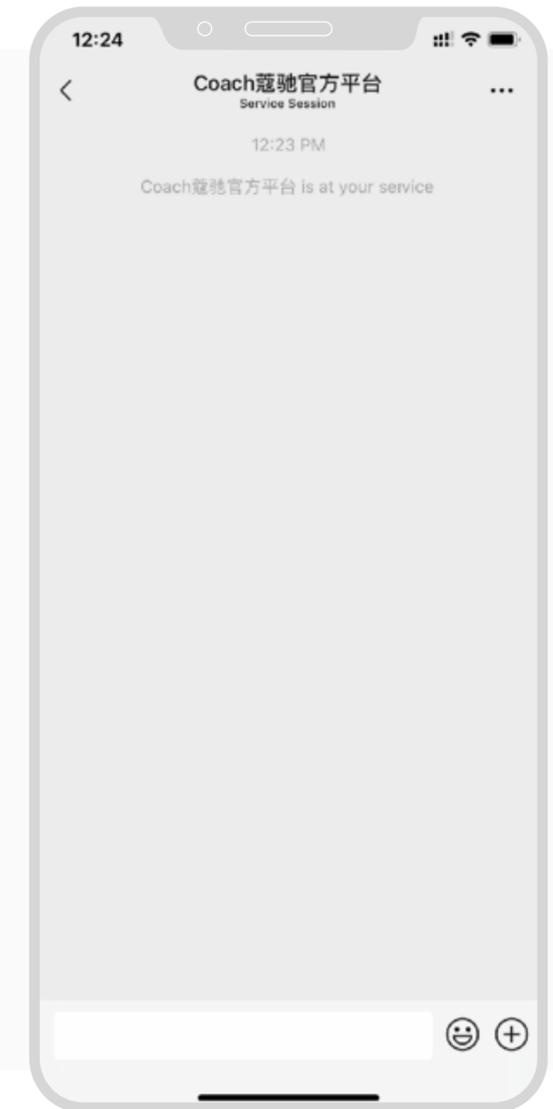
It's ironic to see brands building 'sites.' In a market dominated by platforms, Websites were never the optimal strategy. This is a good trend for brands who have built strong equity and (traffic) demand. And, brands can replicate these 'sites' across Alipay, Douyin and Baidu with relatively little effort - with each 'Site' being a new POS.



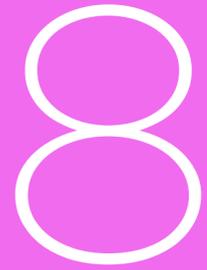
Product Information,
Ecommerce



Content, Features
and Programs

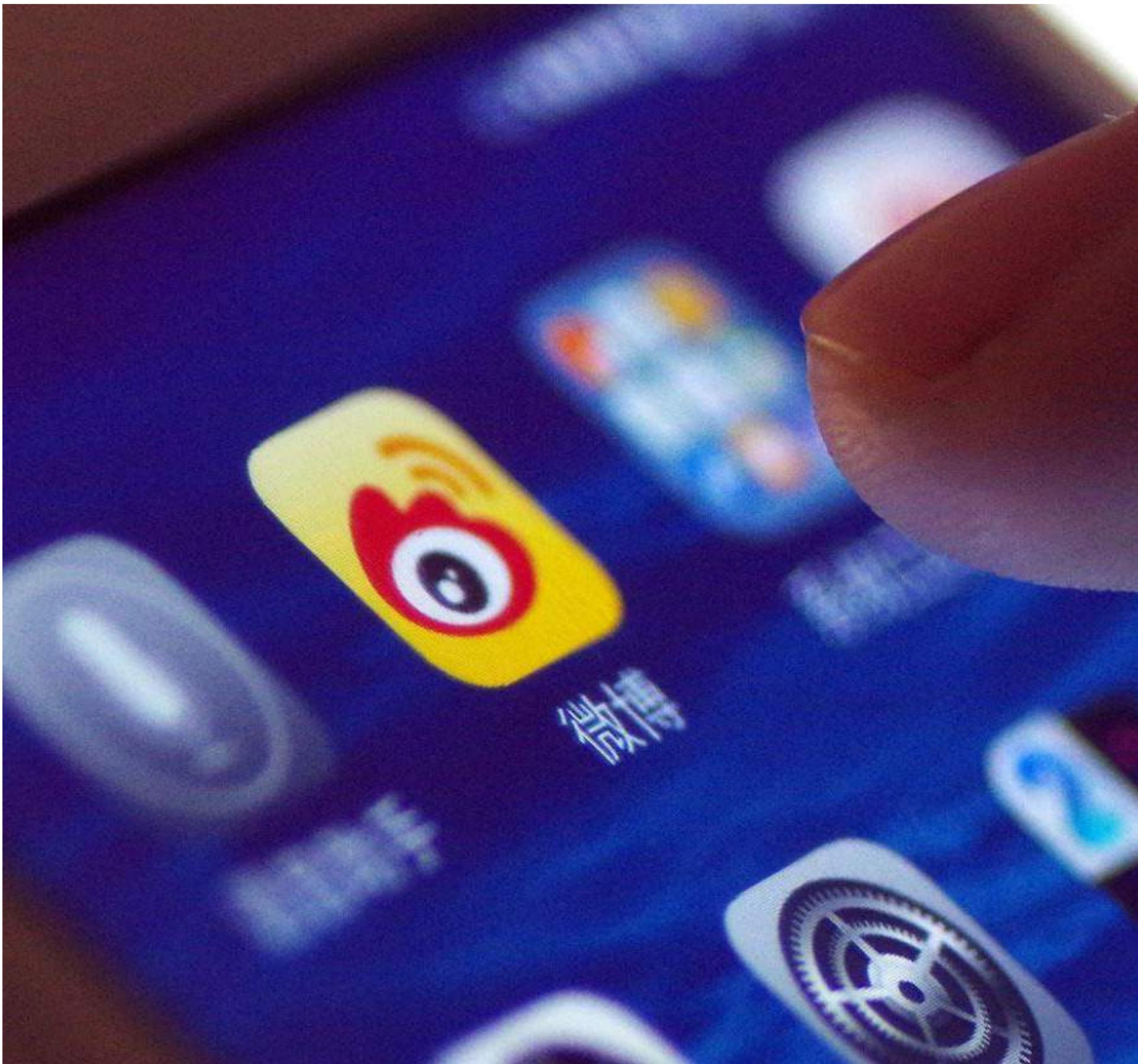


Customer Service and
Messaging



WEIBO AS WORKHORSE FOR BRANDING





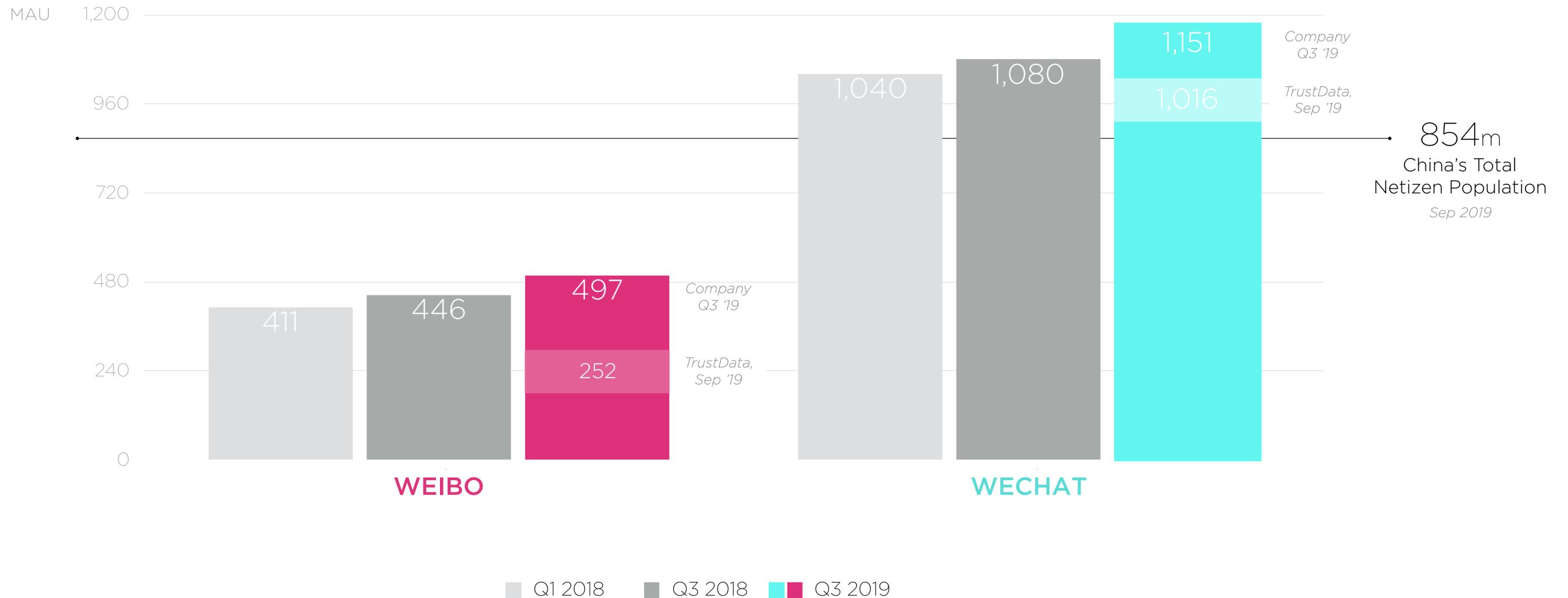
Weibo is a consistent force in China's digital/social media landscape.

While its MAU's are significantly lower than WeChat, it plays an important role for brands who want to build reach and awareness efficiently. Many analyses show that the costs for achieving KPIs on Weibo are many times lower than on WeChat.

Weibo also provides an efficient path to Tmall, allowing brands with official shops there to transfer over cost-efficient attention to an ecommerce opportunity.

MODEST GROWTH WITH WECHAT AND WEIBO

Data on total MAU's differ widely between sources but trends show growth slowing



WEIBO MAINTAINS IMPORTANCE FOR BRANDING

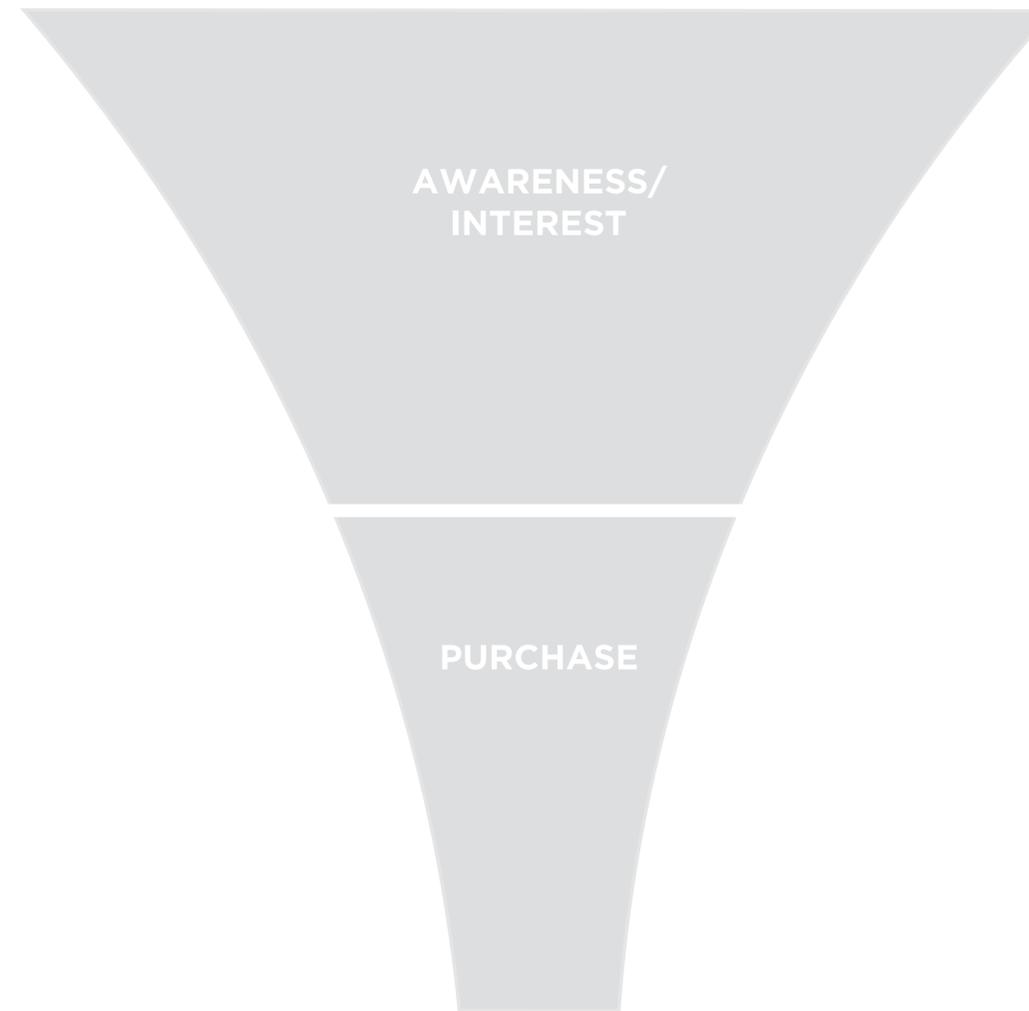
A stable source of attention and traffic for brand advertisers

WEIBO IS CONSISTENT

Other channels in China attract more fanfare as they rise and fall, but Weibo is a consistent force and acts as a reliable partner for brands who want to generate attention and early stage momentum in China. Its close link with Tmall also make it critical for top-of-funnel brand growth.

Despite being outshone by bigger (WeChat) and flashier (Douyin) players, Weibo has in fact been experiencing a bit of a renaissance with younger users in China. It's interesting to note that among GenZ, Weibo has a real following. Polls of younger audiences in China still put Weibo ahead of other, more flashy players.

Alibaba has struck a deal to link traffic from Douyin to Tmall. This should put Douyin in a similar position (at top-of-funnel) as Weibo has been. So, it will be interesting to gauge whether Weibo attention gets undercut by the Douyin-Tmall link.



WEIBO

Branding.
Cost-efficient reach/
awareness.



TMALL

Sales.
Conversion of audience
interest/intent.

COST FOR AUDIENCE IMPRESSIONS

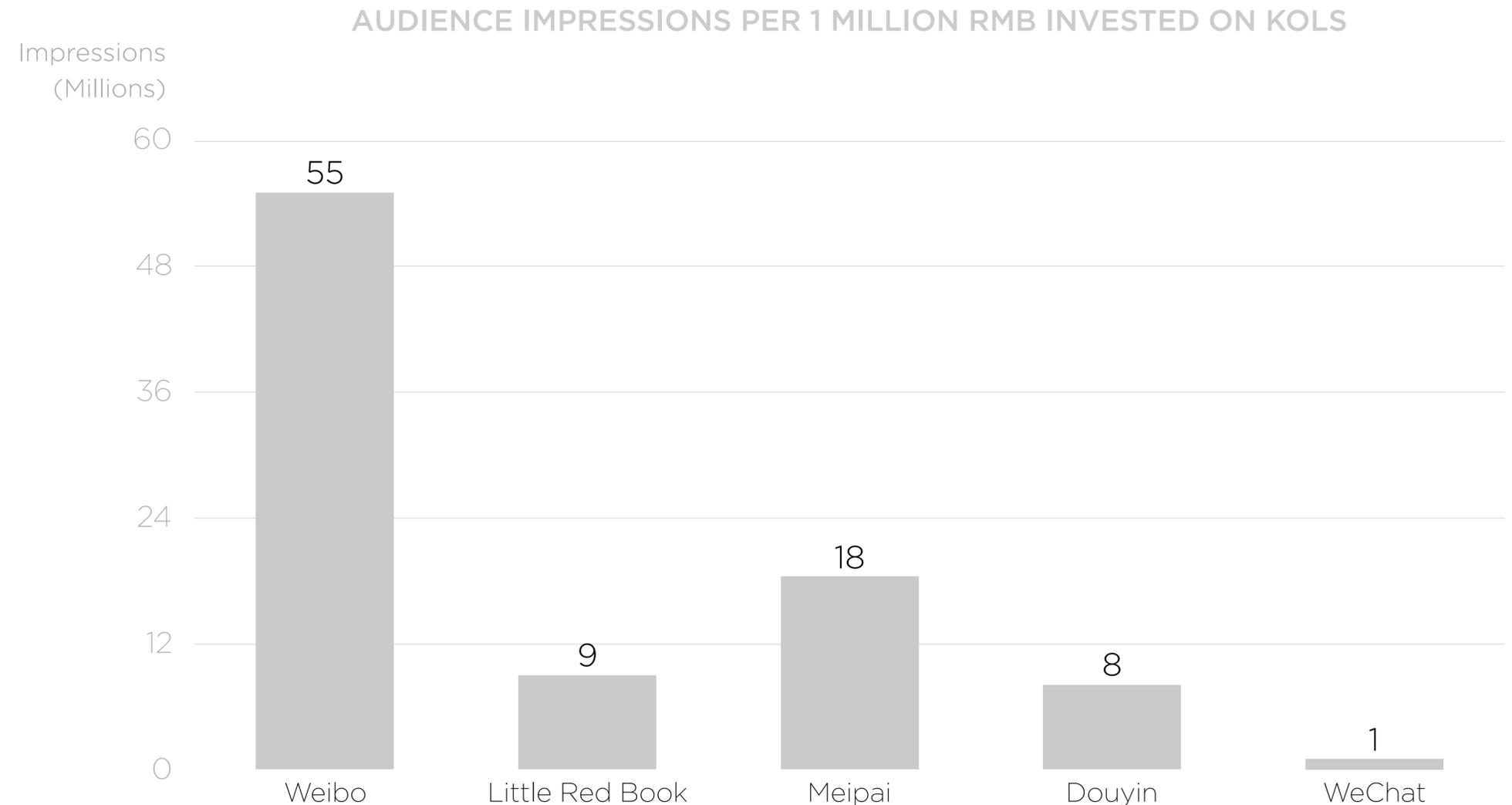
The costs to building awareness on WeChat are higher than others

WEIBO COST EFFICIENT, WECHAT COSTLY

WeChat has the largest audience base of any social media channel in China. WeChat also has enviable daily usage stats per user. Despite all this, WeChat is a costly and inefficient channel for brands who want to build awareness and connect with audiences at scale. Adjusting for any differences in how platforms count audience metrics, WeChat is still much less efficient than rival channels such as Weibo, Douyin and LittleRedBook.

The statistics from Parklu demonstrate the disparity in value when working with KOLs but similar metrics are observed when monitoring official account reach and with paid, social ads.

The above insights are profoundly important for early-growth brands who need to build cost efficient reach. For more established brands, WeChat can yield strong ROI (efficient sell thru).



WEIBO AS STARTING POINT FOR JOURNEYS

Weibo connects audiences to a multitude of other apps, verticals and interests

TOP INTERESTS/TOPICS ON WEIBO

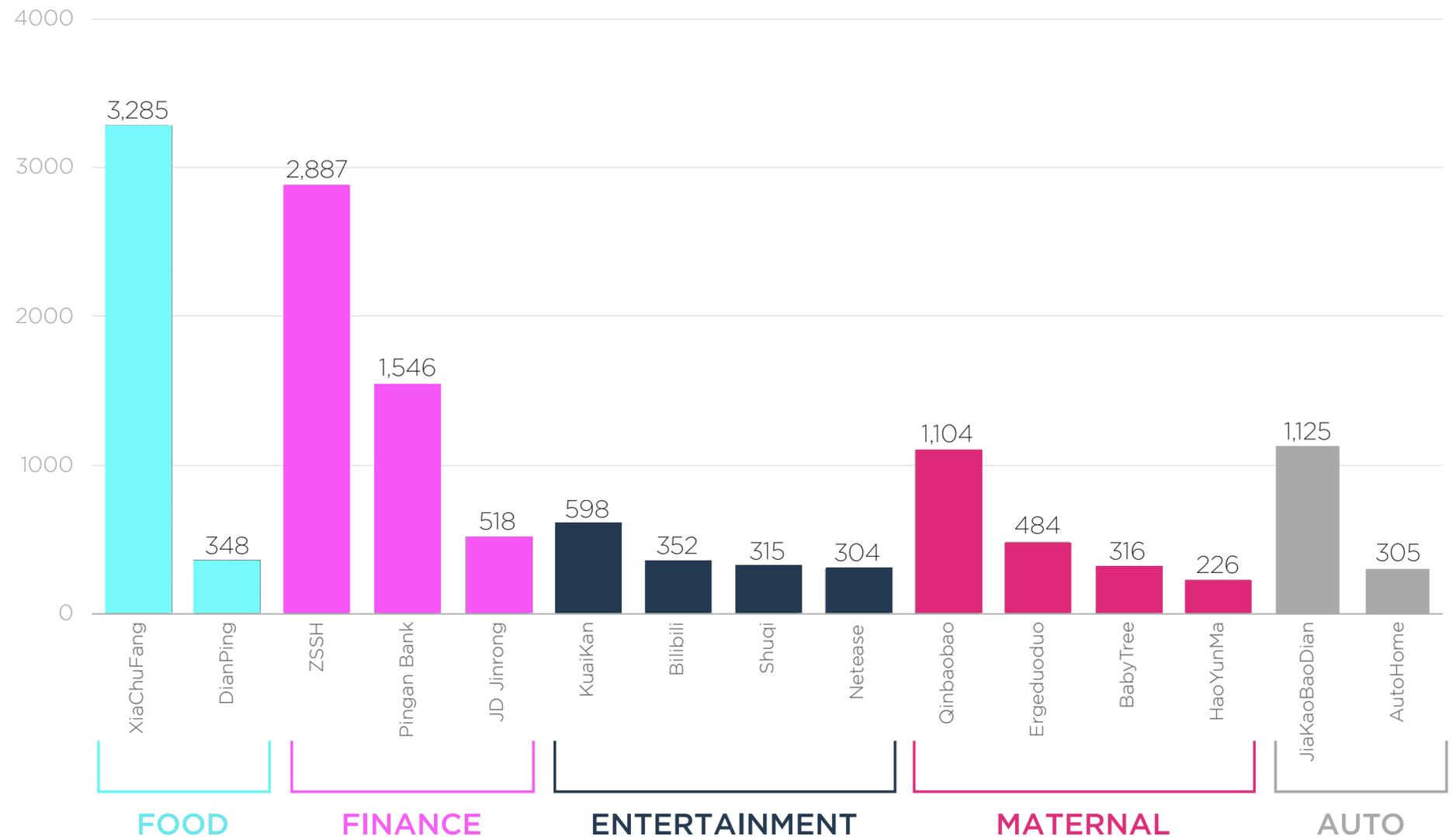
Weibo holds an important position in the media landscape as a place where conversations are initiated and where early stage discovery thrives.

Given Weibo's advantage in connecting audiences - interests - brands, it is advisable for brands to focus strongly on 'interest based' content when developing messaging strategies for Weibo.

Research from TrustData in 2019 show that Weibo is a major source of referral traffic to interest-based apps. Food, finance, entertainment, mom/baby and auto are among the top areas of interests on Weibo, as measured by links out to other, vertical focused platforms and apps.

It is also advisable for brands to look at 'interest based' strategies which combine both Weibo and interest-focused apps. Interest based apps have seen strong growth.

INTEREST GROUP LINKS FROM WEIBO (TOP DESTINATION SITES)





9

MEDIA ENVIRONMENT IN FLUX





The big four media owners (BATB) account for an overwhelming share of traffic in China. Collectively, they also lay claim to more than 80% of all digital advertising revenue. This share will continue to grow, ultimately pushing costs for brands up further.

In this context brands will need to look toward lower cost channels. They will also need to partner with other brands, to reach new audiences and build the reach necessary for brand growth.

At the same time, audiences are seeking out newer, smaller, niche channels, such as; vertical media, gaming and audio (podcasts).

9

SHIFTING MEDIA LANDSCAPE

The big channels in China still reign and control increasing audience shares. BATB (Baidu, Alibaba, Tencent, and Bytedance) account for an overwhelming share of traffic in China. This is likely to continue for sometime. There is no, next big player looming on the horizon to unseat these big four players. WeChat alone accounts for >30% of all mobile web traffic in China.

Despite the high-level of control that BATB have over audience numbers in China, there are increasing levels of 'defection' to small, more niche, vertical channels by brands looking to both reduce costs and improve the effectiveness of audience targeting.

Vertical, niche media, specifically those that serve specific audience interests and passions are poised to become more important for brands in 2020.

There are several big shifts on the horizon - quickly approaching mass adoption - which brands need to pay particular attention to:

- 1. Short video apps might have peaked already*
- 2. There is a trend toward greater simplicity and more depth (around interests)*
- 3. Audio is area of real potential as antidote to short-form, time-killing content*
- 4. Gaming and eSports will dominate with GenZ*
- 5. Newsfeeds and vertical media provide much needed depth for audiences*
- 6. Brand collaborations will continue to play a role in helping brands connect with new audiences*

FOUR KEY PLAYERS DOMINATE DIGITAL MEDIA SPEND

Alibaba Group still leads but ByteDance has eaten up a major share

BYTEDANCE BENEFITS FROM BIG SHIFTS

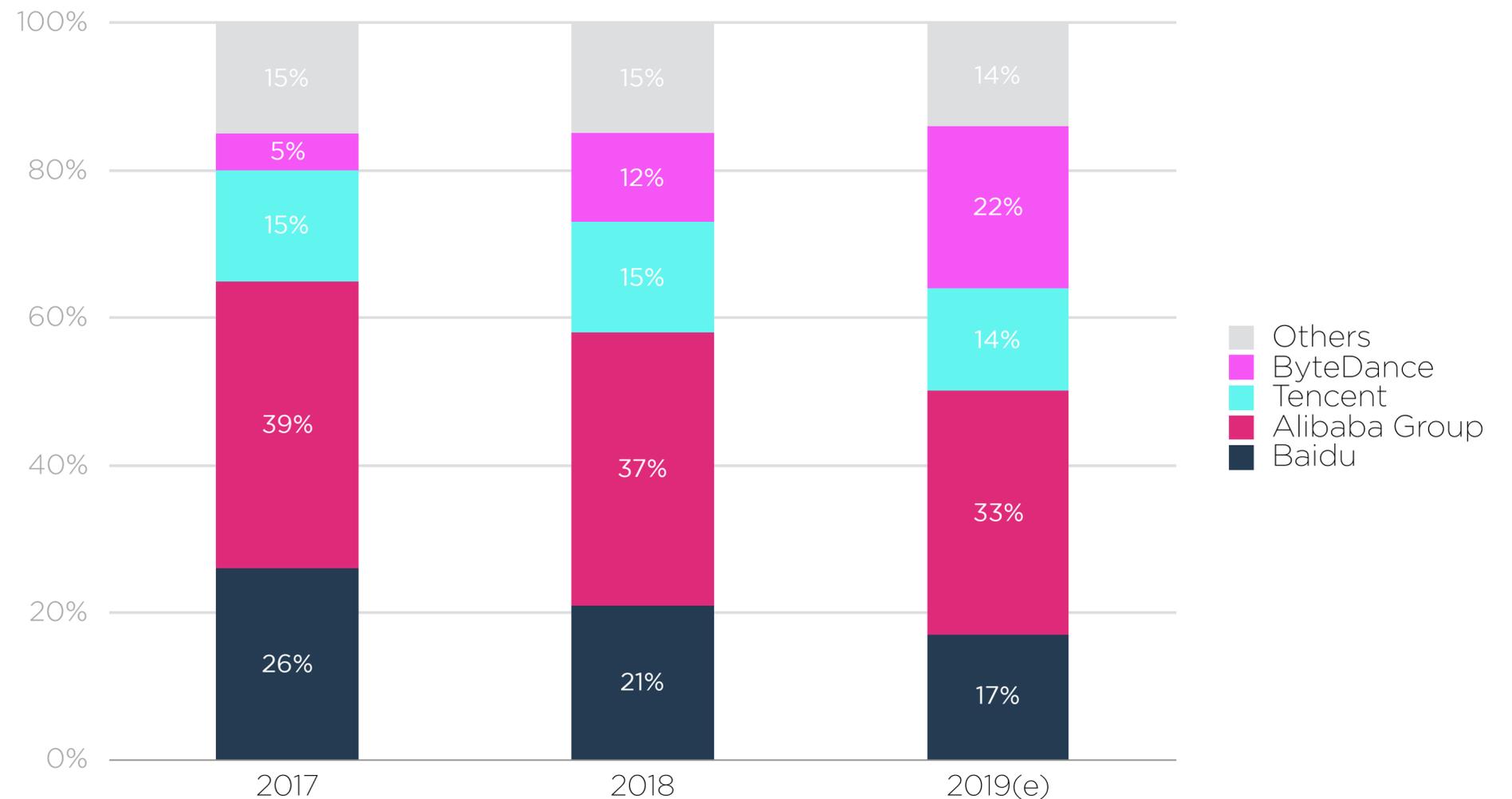
An incredible 80% of digital ad revenue went to the big four media in China - BATB.

Alibaba, with its tight control over ecommerce in China has remained a clear leader in overall share of advertising spend for China.

The growth of ByteDance has been phenomenal with its share of spend more than doubling from 2017 to 2018. And from 2018-2019 it nearly doubled again, taking its share from 5% in 2017 to 22% in 2019.

Alibaba and Tencent have set their sites on ecommerce revenues as the primary long-term goal. By contrast, ByteDance is much more focused on ad revenue and holding audience interest with entertainment, news and content.

ADVERTISING REVENUE SPLIT BETWEEN BATB



MEDIA IS STILL HIGHLY CONCENTRATED

China's big four, BATB have wide ranging assets

	Social (Community)	Video	Entertainment/News	Ecommerce	Payments
 <p>Baidu</p>	 <p>TIEBA</p>	 <p>HAOKAN</p>  <p>IQIYI</p>  <p>QUANMIN XIAOSHIPIN</p>	 <p>BAIDU</p>  <p>BAIDU NEWS</p>  <p>ZHIHU</p>	 <p>BITAUTO</p>  <p>NUOMI</p>  <p>WOMAI</p>	 <p>WALLET</p>
 <p>Alibaba.com</p>	 <p>WEIBO</p>  <p>DINGDING</p>	 <p>YOUKU</p>	 <p>XIAMI MUSIC</p>	 <p>TMALL</p>  <p>TAOBAO</p>  <p>SUNING</p>  <p>ELE ME</p>  <p>KOUBEI</p>  <p>HEMA</p>	 <p>ALIPAY</p>
 <p>Tencent</p>	 <p>WECHAT</p>  <p>QQ</p>	 <p>TENCENT VIDEO</p>  <p>KUAISHOU</p>  <p>QUANMIN K GE</p>  <p>WEISHI</p>	 <p>QQ MUSIC</p>  <p>KUGOU</p>  <p>KUWO</p>  <p>QQ NEWS</p>  <p>DOUYU</p>  <p>HUYA</p>	 <p>JD</p>  <p>PINDUODUO</p>  <p>MEITUAN</p>  <p>MEIRI YOUXIAN</p>	 <p>WEPAY</p>
 <p>ByteDance</p>	 <p>FEILIAO</p>  <p>DUOSHAN</p>	 <p>DOUYIN</p>  <p>HUOSHAN</p>  <p>XIGUA</p>	 <p>TOUTIAO</p>	 <p>ZHIDIAN</p>	

9

BYTEDANCE SHAKING THINGS UP

ByteDance has profoundly changed the dynamics between China's other big three media groups over the past few years. They have come into the market and squeezed into a space between Tencent and Baidu, creating enemies of both in the process. With Alibaba they still have a loose 'frenemy' arrangement.

ByteDance's rivalry with Tencent is most heated, owing to the fact that Douyin continues to eat into WeChat's share of mobile audience time. They also both have large investments into content and entertainment channels. WeChat blocks links to Douyin, and ByteDance has favored arrangements with Alibaba to link ecommerce to Tmall and Taobao - instead of permitting links to Tencent owned JD or WeChat pay. The rivalry will continue to grow, as Tencent and ByteDance have further designs on moving into each other's domains.

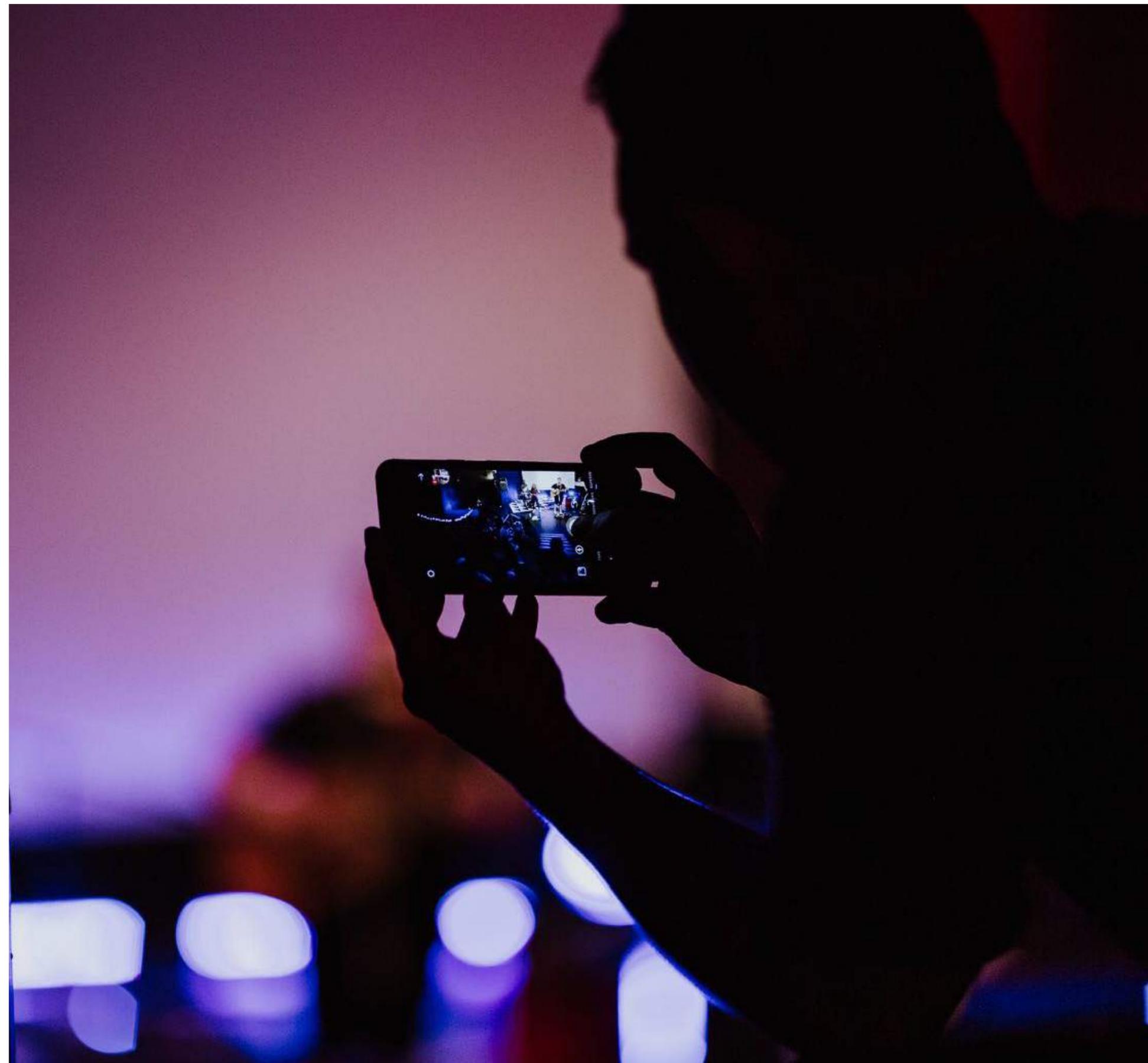
Tencent has made moves to take a larger share of the short video market, with repeated investments into Kuaishou (Douyin's primary challenger) and by relaunching its own app, Weishi. From Tencent's point of view there is also concern that ByteDance will push further into video and challenge Tencent Video - one of China's OTV leaders.

For ByteDance the goal is more about getting into the social (messaging/community) space. Over the past two years ByteDance has made several attempts at breaking into this space and in breaking the hold that Tencent has over mobile messaging, with; Duoshan, messaging functions in Douyin, and interest-based social app Feiliao. ByteDance has not been very successful with any of its attempts to break into this space. Even with Douyin, which has a massive audience, adding community functions has been difficult. Many users in Douyin are not even aware of the messaging functions. A quote from Sherry Zhang (23yrs), illustrates the challenge they face; "I only use Douyin to watch videos for fun. I didn't use it to social and don't have many friends on the app."

Short video apps (namely Douyin), together with news and content feeds are leading the shift in attention away from WeChat (and other Tencent apps). To counter this, Tencent has increased its investment into Kuaishou and has re-launched its own short video app, Weishi.

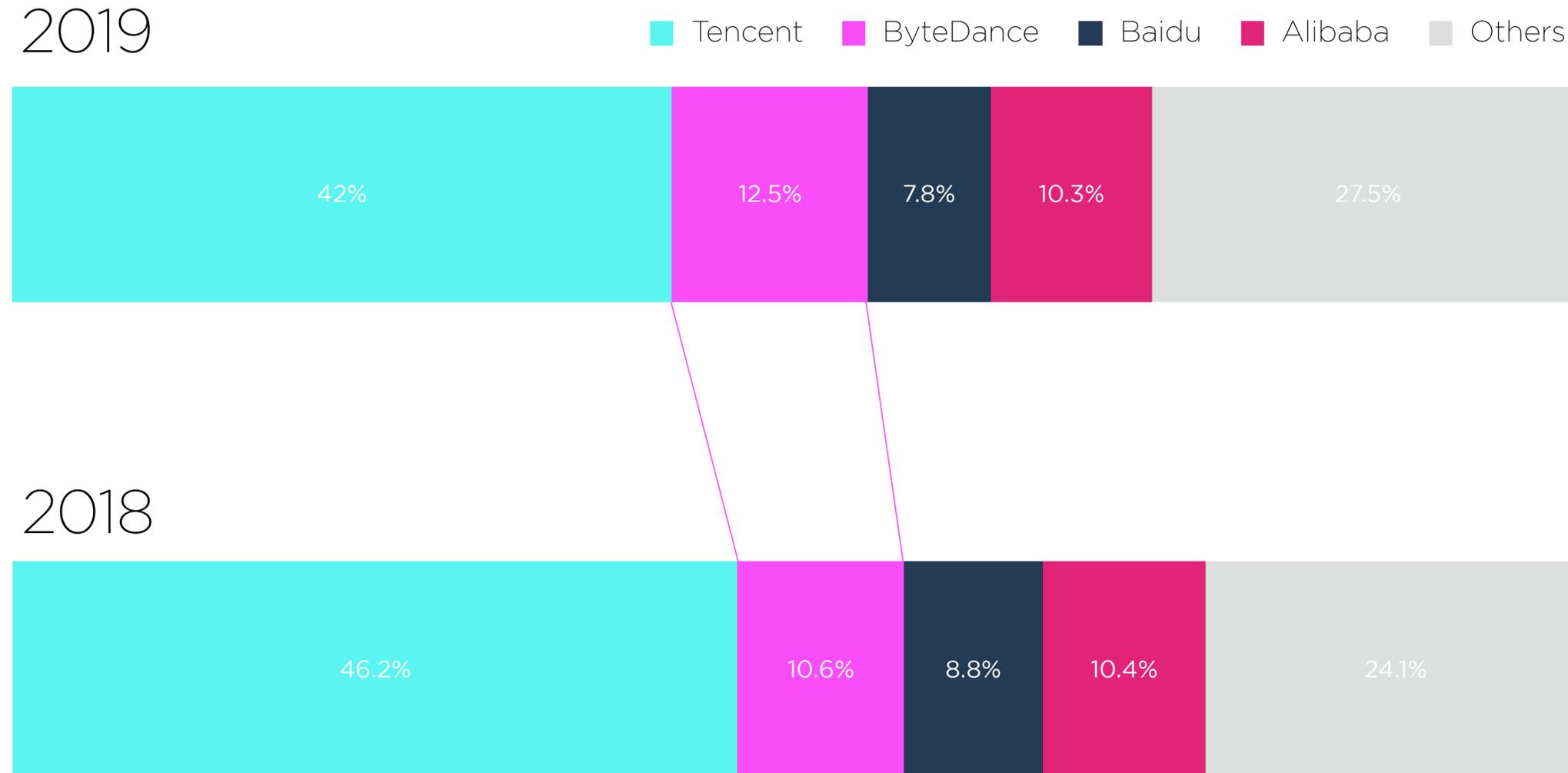
With short video (and vLogs) becoming a feature in almost all apps, it's possible that short video apps may have plateaued. Audiences also seem primed to turn their attention to the next 'shiny thing.'

Recent data from mobile data consultants TrustData, show that short video apps Douyin and Kuaishou lost users in the final months of 2019.



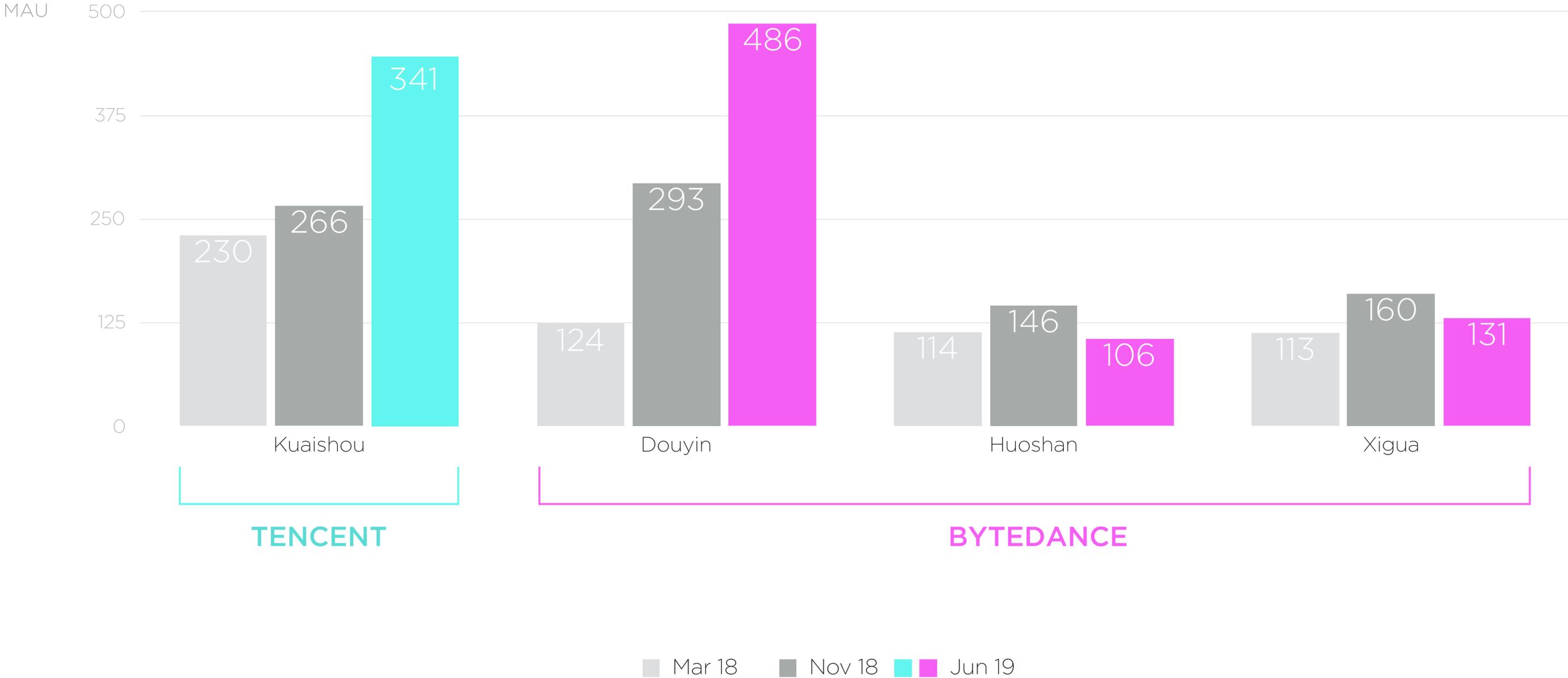
MOBILE TIME SPENT IN KEY APPS (2018-19)

Tencent (WeChat) still in leadership position. ByteDance and Other Apps gained



MONTHLY ACTIVE USERS OF TOP SHORT VIDEO APPS

ByteDance is growing to dominate the category



Source: QuestMobile

VIDEO APPS CONTINUE TO GAIN USER ATTENTION

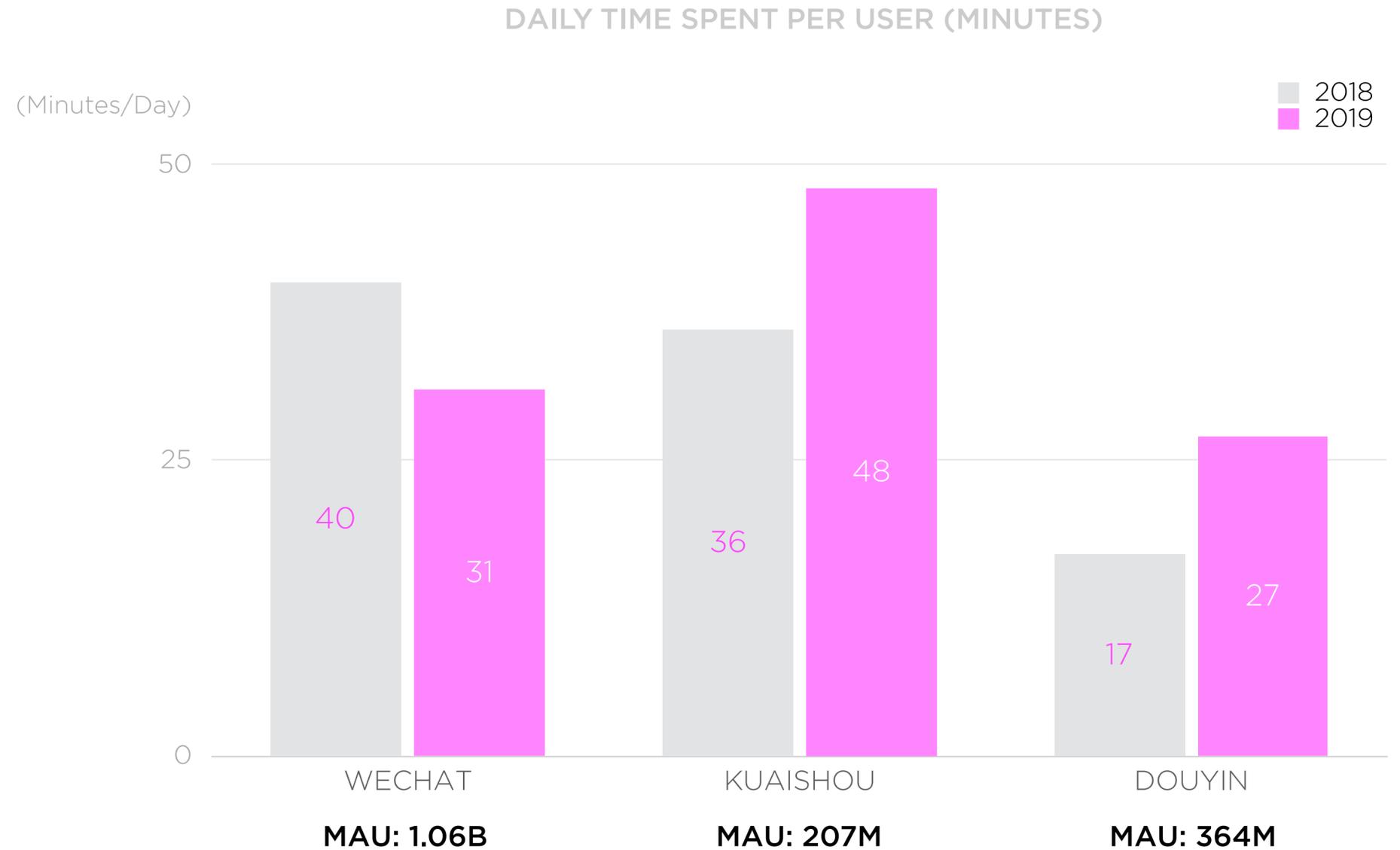
WeChat time spent per user is falling, Kuaishou and Douyin growing

TENCENT'S DEFENSIVE MOVES FOR VIDEO

When measured on a per user basis, video apps Kuaishou and Douyin appear to be eclipsing WeChat in terms of time spent. However, it is important to note that WeChat still has a much larger total user base (5x that of Kuaishou and 3x that of Douyin).

Tencent will continue to move quickly in this space to defend its position. Already in 2019, Tencent increased its investment into Kuaishou - taking further share in the Douyin rival. At the same time, Tencent has invested heavily into re-kindling its Weishi video app. And, it will add greater video functionality directly into WeChat.

It will be interesting to see how much further the short-video market continues to grow in 2020.



SHORT VIDEO GREW STRONGLY IN 2019

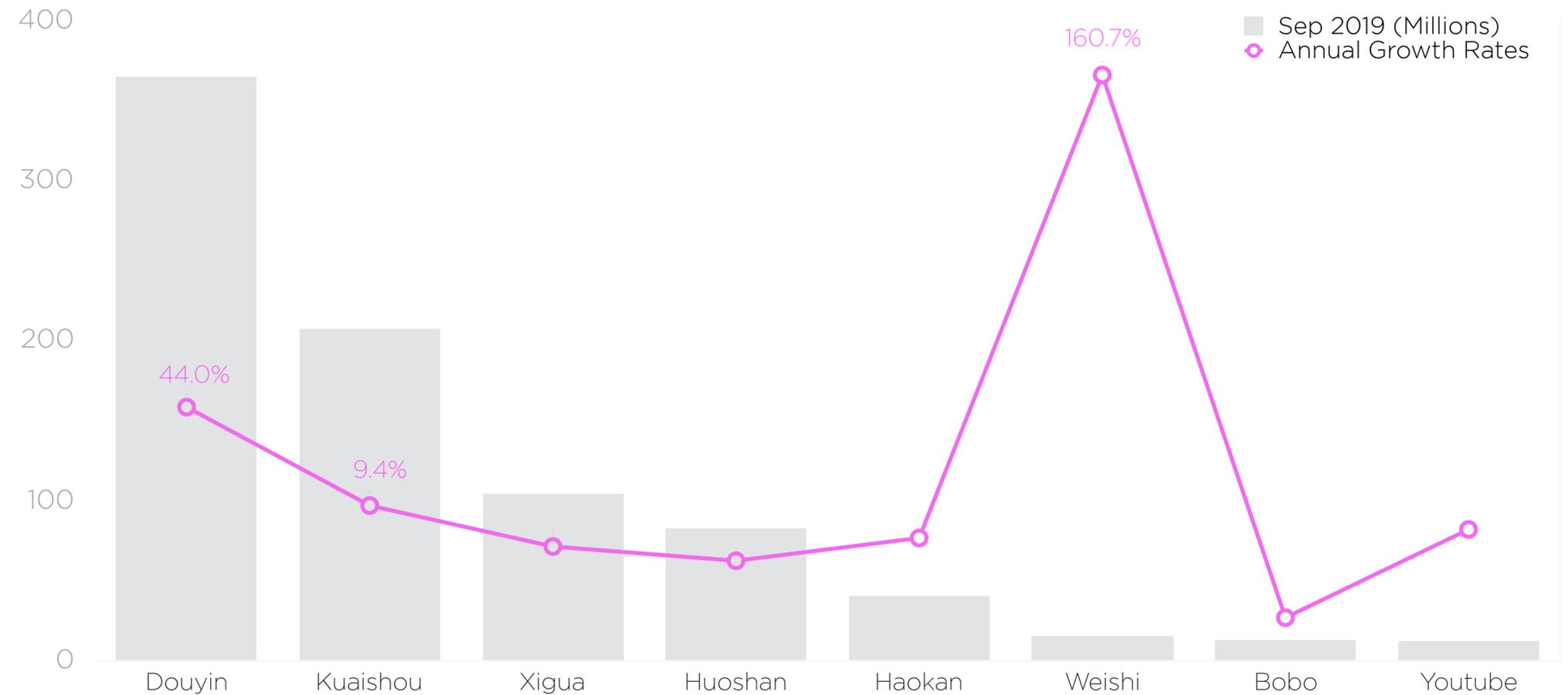
Douyin still leads the pack among short video players in China

THE SHORT AND LONG OF IT

Category leader Douyin increased its MAU total by almost 50% in 2019. Tencent backed Kuaishou and Weishi also saw strong results. Newly launched Weishi enjoyed an increase of 160%, riding on the back of traffic from Tencent's other apps.

Despite these strong results in 2019, there are signs that this category of app is at/near peak. The most recent usage results from TrustData (Sept 2019) showed that Douyin MAU were down 5.47% and Kuaishou MAU were down 13.09% and Xigua MAU were down 8.77%.

SHORT VIDEO APPS MAU & GROWTH RATES





Douyin and other short video apps captured most of the headlines from 2017-19. During the same time, content, news (Toutiao) and music apps (Kugou/QQ), have also grown swiftly - adding to the rapid growth of content/entertainment media in China.

There is now a sense that audiences are seeking more depth and detail around the topics they have interests in. Where platforms like Douyin foster idle 'time killing', audiences are also looking for more depth.

Looking ahead to 2020, there are a couple of high potential areas for brands to monitor; (1)vertical-specific media, and (2)audio and podcast apps.

NEWS APPS PLAYING IMPORTANT ROLE

ByteDance's Toutiao still leads the way, followed by Tencent and Sina

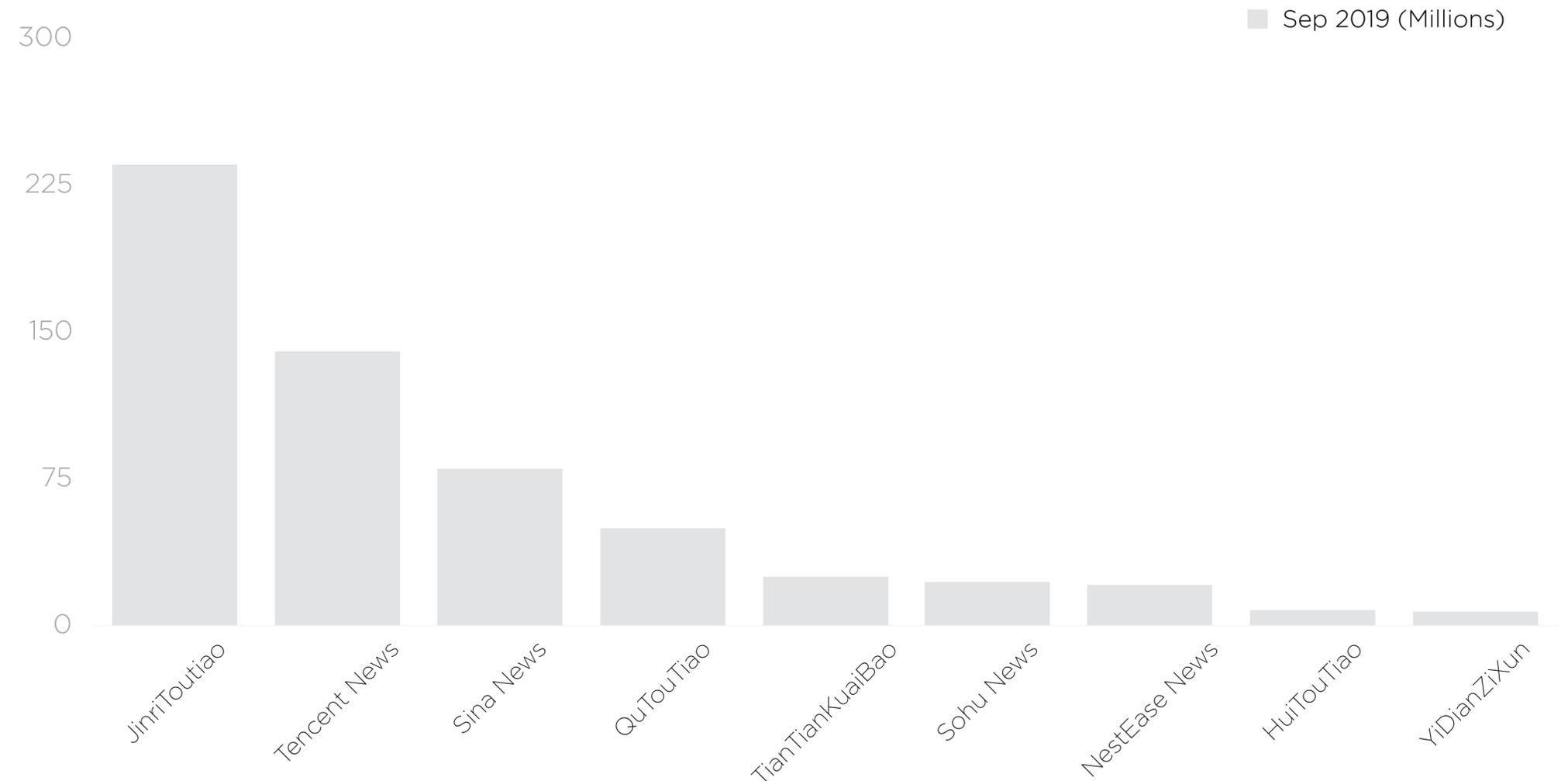
THE USER-PROFESSIONAL CONTENT LINK

There is a bit a shift taking place under-the-radar toward more professional, high-quality content and media channels.

While the rise of apps like Douyin have been mercurial, the reliance on user-generated content is a challenge. Short, scrappy videos from 'users' and KOLs play a role in time-killing. But these UGC contents don't fully satisfy users who want more depth.

There is a situation emerging where interest is being transferred from UGC platforms like Douyin to more professional content platforms, toward better quality content sources. UGC platforms have helped stimulate more consumption of professional content. Sina News enjoyed a fourfold increase in DAU's in 2019.

NEWS APPS MONTHLY ACTIVE USERS (SEP 2019)



Source: Trustdata

MUSIC STREAMING IS BIG

KuGou and QQ Music are among the largest apps in China now

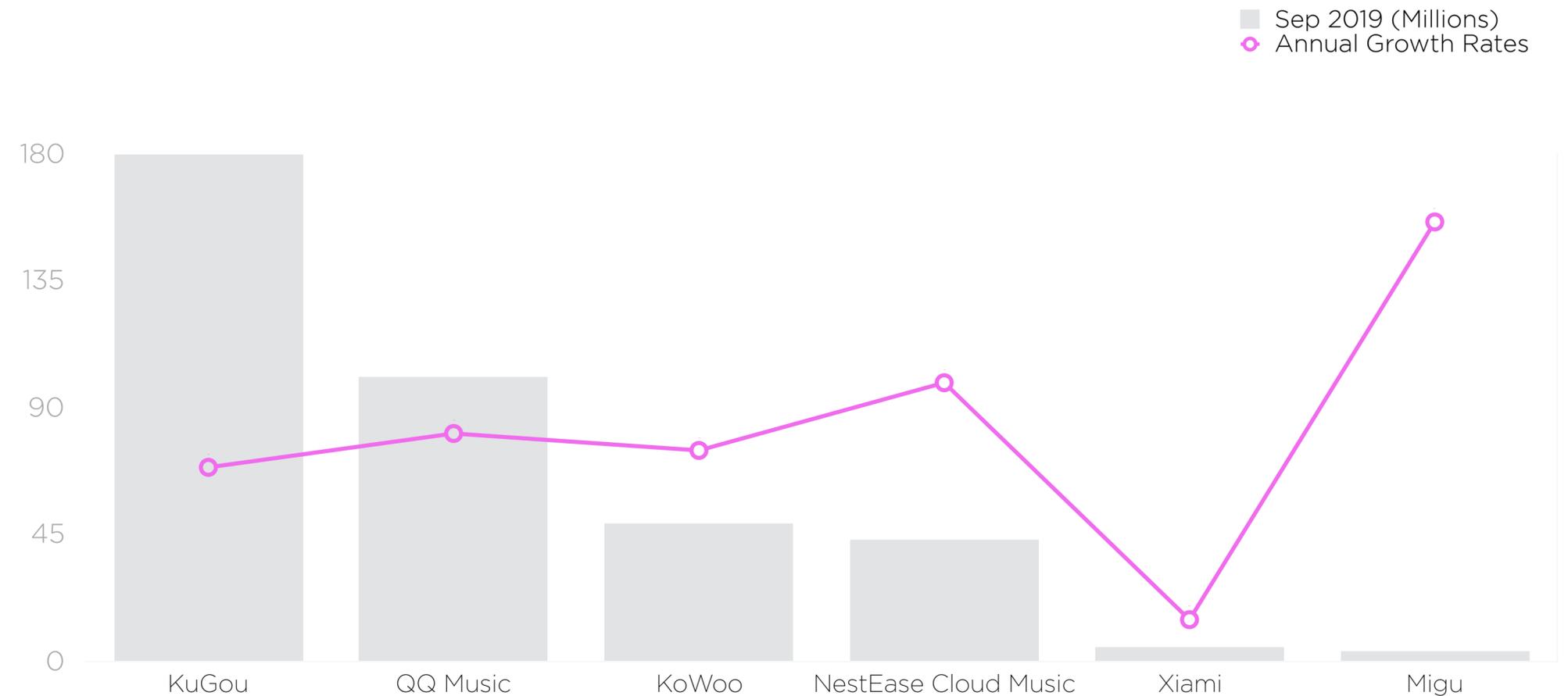
MORE GAINS FOR MUSIC STREAMING?

Music streaming apps have grown rapidly over the past few years.

Tencent controls a large share of this category with ownership of the top three players; KuGou, QQ Music and KoWoo. Tencent claims that the combined MAUs of these three players is 700 million. TrustData puts that number at about half of Tencent's claim (in range of 325 million MAU).

Music streaming apps also support a general "audio" habit, which fuels the growth of interest in podcasts and online radio.

MUSIC STREAMING APPS MAU & GROWTH RATES

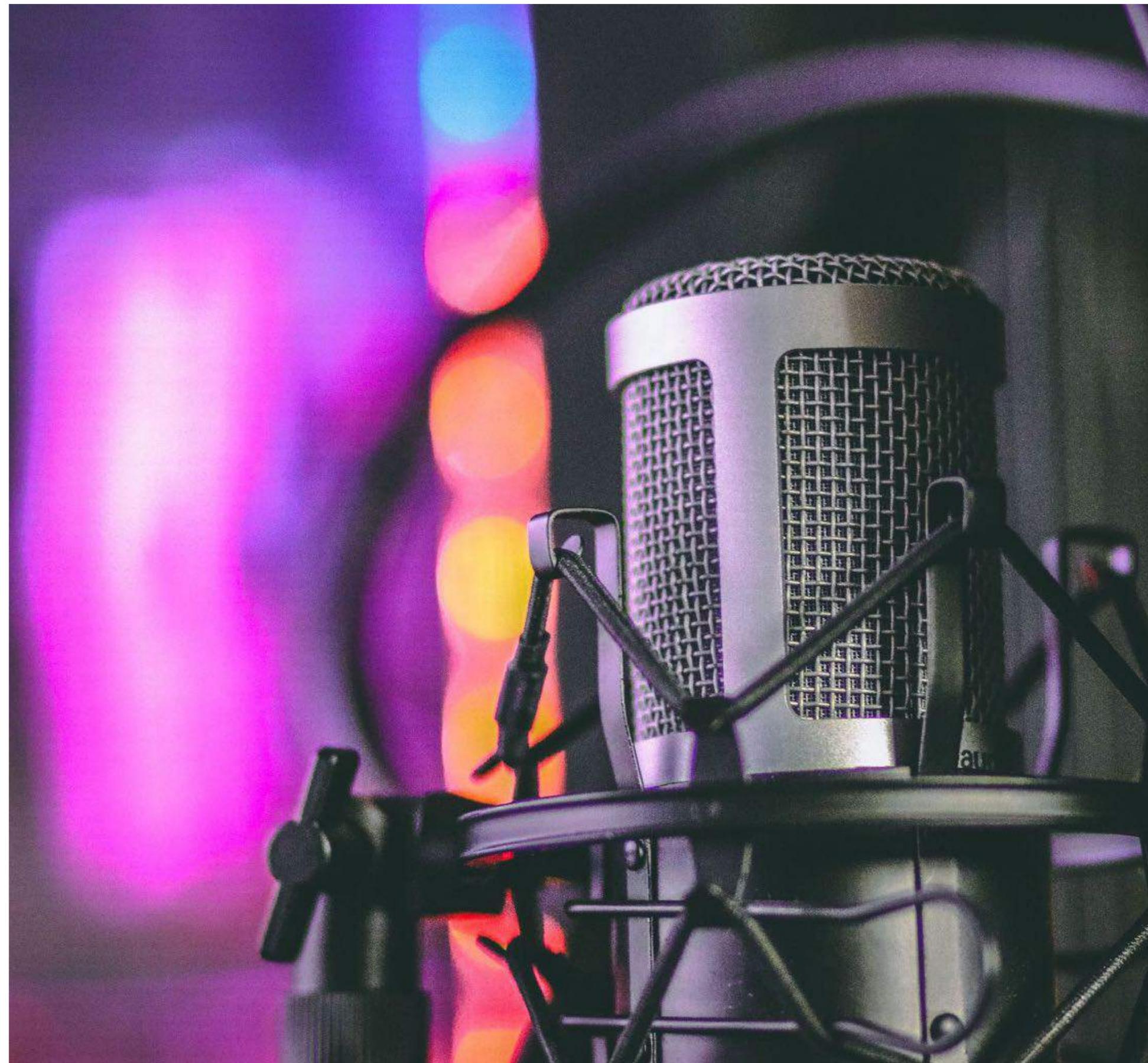


Source: Trustdata

Audio continues to prove that it has a strong place in the media mix. There are several trends that support an increase in audio-form (podcasts & narratives);

1. Audience burnout and overstimulation with video
2. The increasing effectiveness of audio-based AI (think: Alexa, Siri...)
3. People are constantly on the go and too busy for appointment viewing of video

Have you ever spent two hours each day on a busy, cramped subway commuting to-from work?



MOBILE RADIO & PODCASTS ON THE RISE

Ximalaya is the clear leader in the audio content

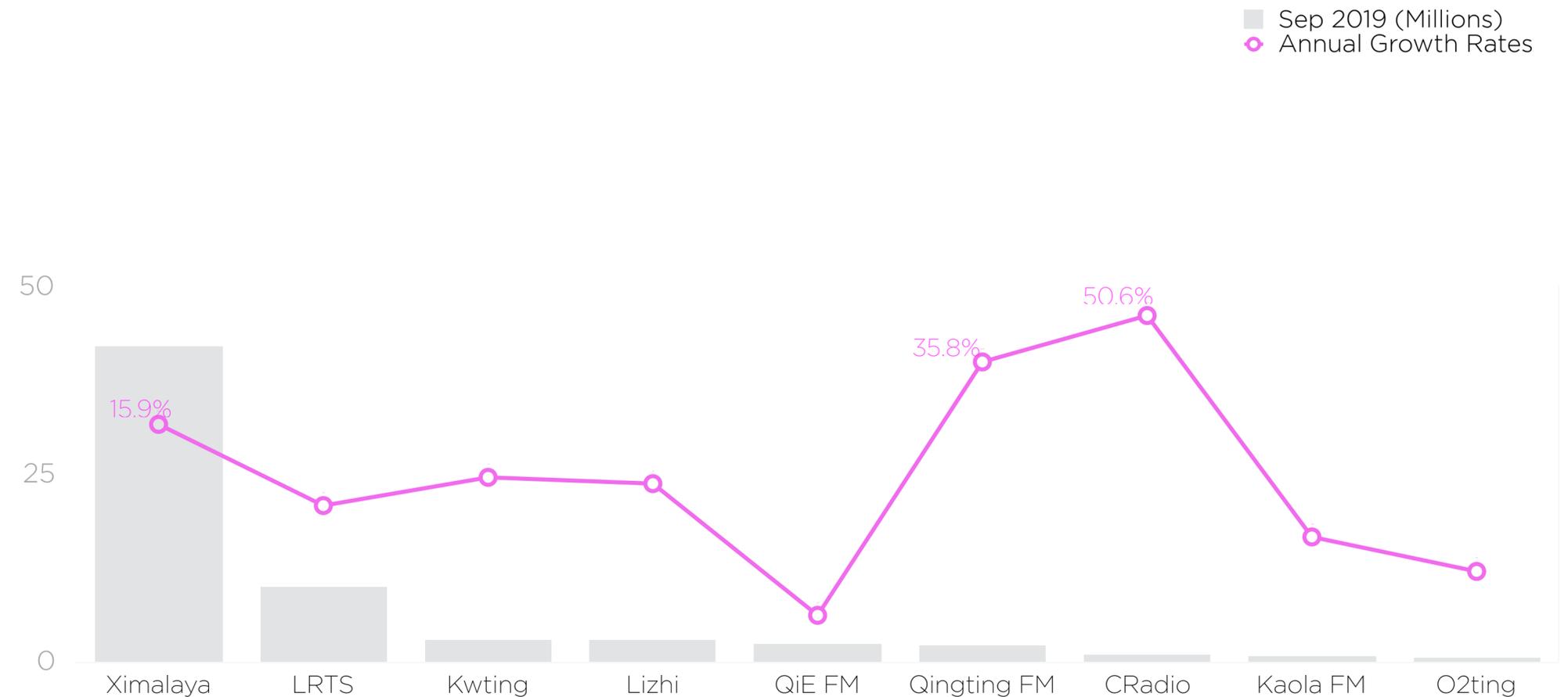
AUDIO KILLING THE VIDEO STAR?

What are called “mobile radio” apps in China, together with music streaming platforms - have seen very strong growth over the past couple of years.

Audio as a category has been experiencing strong growth and sets up to continue growing rapidly. Podcast platforms like Ximalaya benefit from two trends; (1)the growing interest in more detailed (deep) content for interest groups, and (2)a certain amount of video exhaustion among audiences.

Audio plays very well with audiences (particularly in busy cities), who do not have the time and place to either read or view video content.

DIGITAL RADIO (PODCAST) APPS MAU & GROWTH RATES



Source: Trustdata

PODCASTS TURNING UP THE VOLUME

Audio platforms are still largely untapped by brands

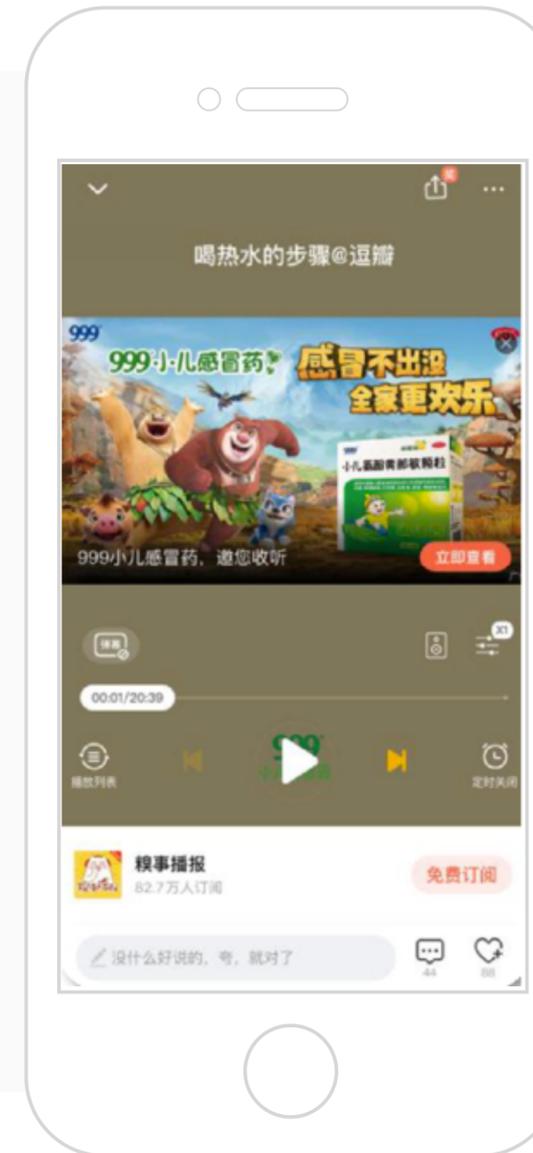
听

Ximalaya FM - 喜马拉雅 FM is the dominant force in China's audio and podcasting space. Online radio and audio, as a category, is growing strongly in China (as it is globally). And, as the leading player in China, Ximalaya stands to benefit strongly - both with audience growth and increased revenue from brands.

Ximalaya claims 135 million (MAU) monthly active users - with an average of 170 minutes per day, per user. While the total audience size is still small when compared with more mature platforms (eg. Douyin), the time spent per user is phenomenal. Audio, together with longer form video is where audiences are spending their downtime.



Paid Brand Ads



Co-Created Brand Contents



Resident KOLs

CONSISTENT, QUALITY AUDIENCE CONNECTIONS

But requires brands to think like media, content creators

CASE STUDY: SPD BANK & XIMALAYA

The Shanghai Pudong Development Bank (SPD Bank) has done interesting work inside of Ximalaya by creating a podcast about Fintech and the future of finance.

SPD Bank's podcast is produced together with one of China's leading FinTech experts and maintains an audience of over 25 million regular listeners, putting it in the top six of all tech related podcasts.

The beauty of this type of engagement for SPD Bank is that (1)it gives them consistent exposure to a large, engaged audience, (2)it lends them authority in an important topic area, and (3)relative to other brand building media, audio/podcasts are still inexpensive.



SPD Bank's Ximalaya FM "Fintech Podcast"

9

GROWING COMMUNITIES OF INTEREST

While “Super Apps” (WeChat, Alipay..) dominate and hold the largest share of MAU (monthly active users), they have become, by many accounts, too crowded, too noisy and too commercial. For these reasons, there is something of a counter-movement growing, with audiences seeking more austere, clean environments where the focus is more on content and ideas, less on ads and ecommerce.

In TrustData’s latest report on mobile app usage and user practices from 2019, one of the clear trends was toward an increase in usage (MAUs) and in time spent on channels which are either news focused (portals and content feeds) and vertical focused (aimed at satisfying specific interest groups).

In a channel such as Douyin (for example), if you had a specific interest in cars (for instance), you might be able to see a few fun, interesting and short videos there - while killing time. But for any real depth on the topic, you would want to go into a vertical channel dealing with the subject more fully.

Weibo, Douban, Zhihu and Baidu Tieba have been better at serving communities of interests, but there is still a sense of longing for more focus and depth per interest/hobby/passion.

Several new platforms built around shared interests and community attracted attention in 2019. Tencent and Bytedance jumped (further) into this space in 2019, with Tencent-backed Jike, and Bytedance’s launch of Feiliao. Sina also offered up a new platform call Oasis which was designed to fit into this set of apps trying to (1)satisfy interest-based communities, and (2)create less commercial, more simple interfaces. None of these recent launches have had profound success yet, as perhaps they are not going far enough to satisfy audience needs.

GOING AFTER WECHAT OR INTEREST GROUPS?

ByteDance is trying to jump into the social/messaging space with Feiliao



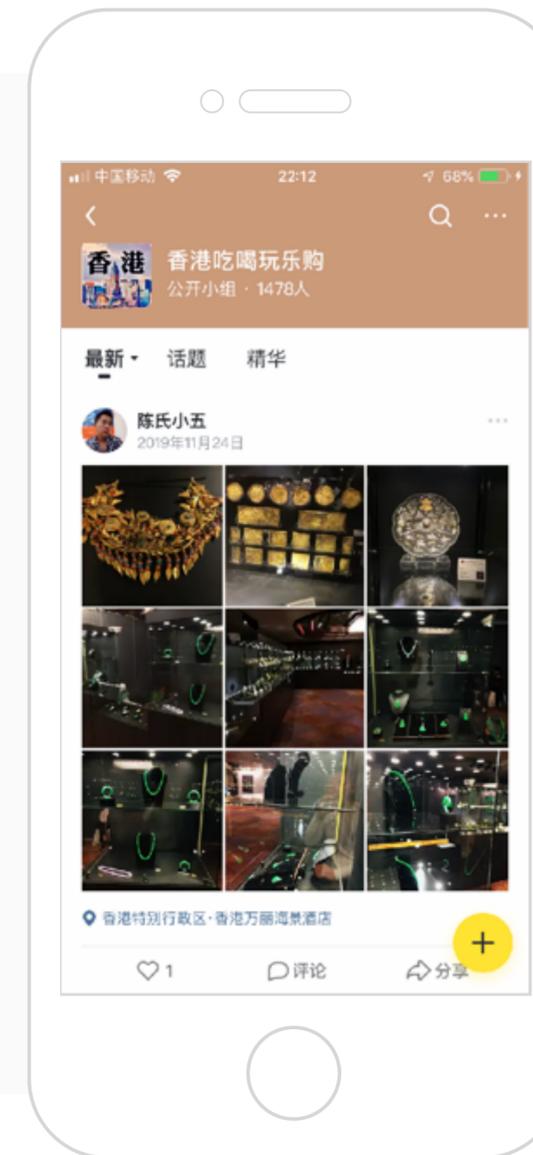
FEILIAO - Launched by ByteDance, Feiliao appears to be positioned as a WeChat competitor, with chat, voice messaging and a social “moments” function for sharing.

At the same time, its focused strongly on interest groups. It is the stated aim of ByteDance to have it be less a place to communicate with existing contacts, and more of a place to connect with new people around interests/hobbies.

Tencent’s Jike app was designed around similar aims. Both apps appear to have mixed purposes - part WeChat clone, part interest community. And neither appear to being going far enough to satisfy the steep demands of ‘interest-focused’ users. As of this writing, Jike has suspended its operations.



Chats



Interest Groups



“Moments”

OASIS: INSTAGRAM FOR CHINA?

Or has Weibo created a social-commerce app to challenge RED

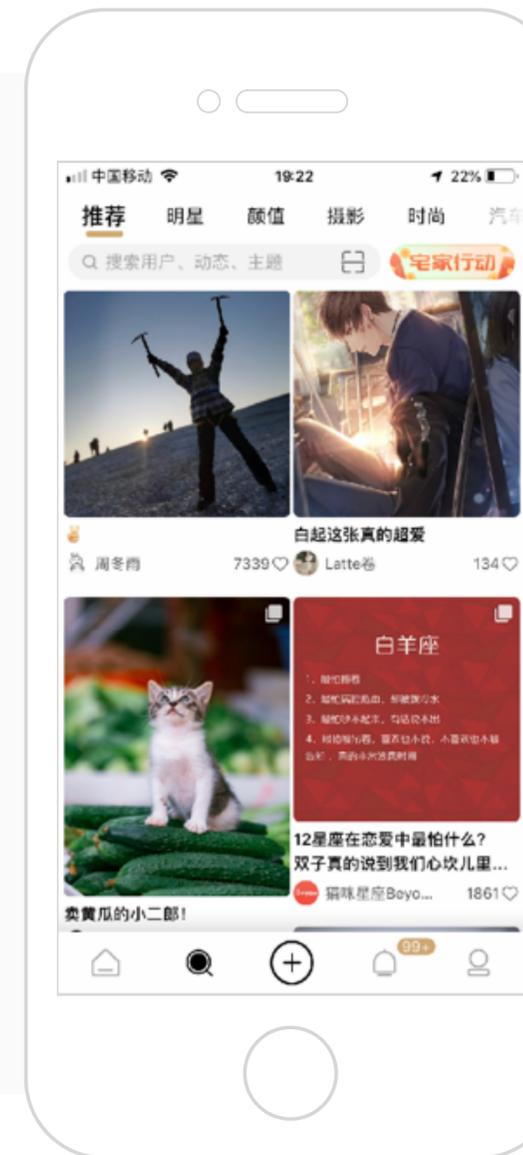


OASIS - Weibo (Sina) launched Oasis (Luzhou) in 2019. They are pitching it as an Instagram-like product focused on interests/passions, to address lifestyle and fashion communities. Again, there is lip-service to the concept of being interest-first, but the structure of the app appears to be very similar to LittleRedBook. So, speculation is that they will be quick to add ecommerce and monetize the site, if they can get a critical mass of new users.

If Weibo can keep a focus on quality content (no ecommerce) they could be in a good position with audiences. With Red going all-in as an ecommerce platform, there will be a place for Oasis. Brands would also welcome a place to do more content focused marketing - which, if managed well, would not discourage users.



Posts/Chat



Interest Groups



User Homepage

9

GAMING AND ESPORTS WIN WITH GENZ

Where previous generations in China have grown up with the internet and social media, GenZ are very much “Gaming Natives” in that many have grown up with video games and eSports as the priority forms of entertainment and engagement.

In most data about mobile audiences, gaming is among the quickest growing areas. For instance, within WeChat Mini-Programs, gaming accounts for 42% of time spent by users. And as 5G hits its stride, gaming will accelerate - both in number of users and in time spent.

Gaming and eSports should become priority areas for branding in the coming years. There is a growing list of brands who have taken innovative and daring, first steps into this space. LV and M.A.C. were among the most notable in 2019.

There are also a number of other media which are succeeding in parallel with the up-tick in gaming. Media such as BiliBili and TouchManga, who have a shared audiences and have shared ethos’ with the gaming community, had strong results in 2019.

Game streaming apps such as YY, Huya and Douyu also continue to grow alongside eSports and video gaming. Tencent is in a very enviable position with gaming, as it owns/operates such a large number of China’s top games, together with top streaming sites, Huya and Douyu.

Cold N Elegant Luna Space

MAC

×



Youth audiences in China are shifting their time and attention further to video games. 2019 saw some notable brand collaborations in this space - including two from luxury brands (LV and M.A.C.).

Instead of trying to make their own video games, brands should be looking into these sorts of collaborations, where they can tap into a hyper-engaged audience of fans and add value to the experience/environment of the game, with; product placements, virtual goods, eSports sponsorships or with co-branded (physical) products (such as M.A.C. did with Tencent's "Honor of Kings" game).

M.A.C. X HONOR OF KINGS

Sparking connections with audiences where they are passionate

BRANDS NEED TO BE SELECTIVE

It seems like a bit of a stretch to have a luxury cosmetics brand and a fantasy video game collaborate, but M.A.C. took note of the “Honor of Kings” female community and the interest they took in M.A.C. products. Mentions of M.A.C. and an authentic, pre-existing connection made the leap worthwhile.

This insight inspired a product collaboration, with M.A.C. creating a limited-edition line of five lipsticks, each connected to “Honor of Kings” characters. The lipsticks were sold out within 24 hours and the media and communications generated around the collab had a massive impact across all of M.A.C.’s channels; WeChat, QQ, Tmall among others.



*Special edition M.A.C.
Lipsticks*

*Based on “Honor of Kings”
Characters*

9

BRANDS AS MEDIA PLATFORMS

Brand collaborations hit a new peak in 2019. There were innumerable brand cross-overs and co-marketing efforts; Sprite collaborated with a noodle brand and a shower gel, Tsingtao with tea shop Lelecha, Uniqlo with KAW, Luckin Coffee with Carlsan Lipstick, M.A.C. with “Honor of Kings” and Beijing’s Forbidden City (Palace Museum) with a multitude of brands. The list goes on and on.

There are several factors to consider with brand collabs:

1. It does provide a quick boost to awareness. And, if you choose the right partner brand, this boost of awareness should come with the benefit of also gaining access to a new audience. For a brand like LV, a cooperation with Supreme seemed strange at first glance but when you consider how important it is for LV to keep brand awareness high amongst younger audiences, it makes sense.
2. As mainstream media costs and congestion continue to rise, these deals could represent a cost effective way to reach new audiences. This new reach, is what makes the deal with “Honor of Kings” so great for M.A.C.
3. Online-to-offline deals are especially valuable for both parties. Wagas (cafe) has been a favorite partner for brands because they have such a strong physical footprint (and a strong image). Luckin Coffee, Heytea and Lelecha offer partner brands a similar benefit, in terms of being great physical platforms.
4. In general, brands must be very careful to maintain the core identify of their brand (the image, icons and design of the whole experience must not move the brand backwards). Sprite did a good job in its collabs by having the branding (of packaging) carry their colors, their symbols and codes.

***And, as witty as Durex has been with its social posts, most brands should look at the Durex collaborations with Snickers, Heytea as cautionary tales*

2019 BRAND COLLABS IN CHINA

Sparking new interest for brands, accessing new audiences



OREO x Forbidden City



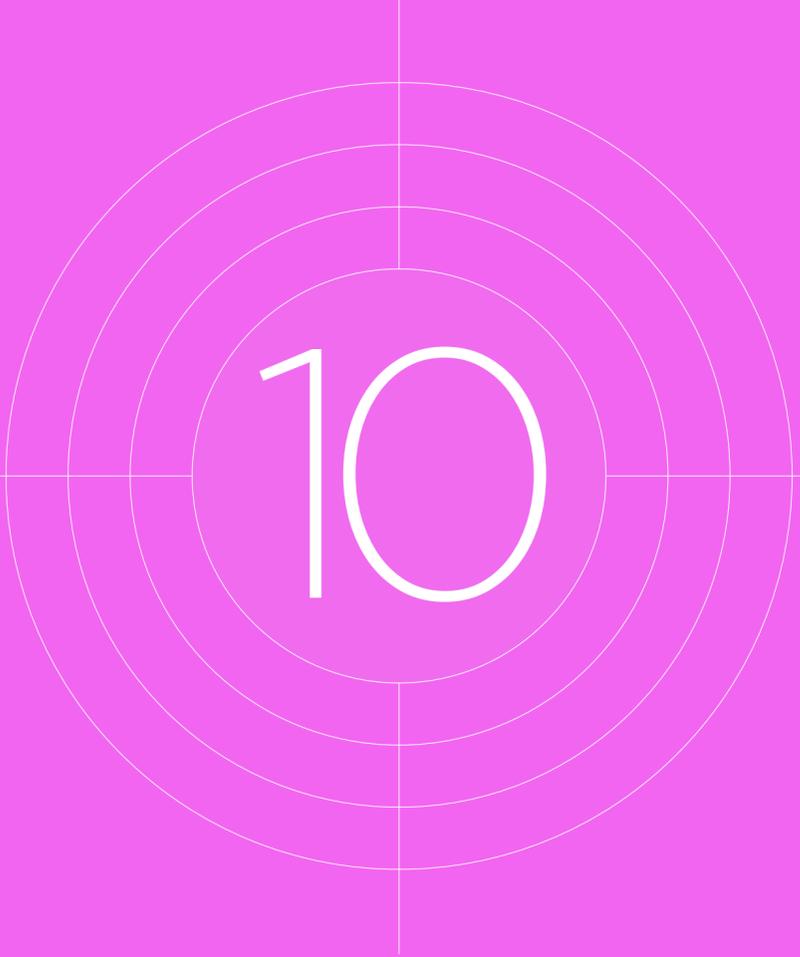
Heytea x Stanley



Sprite x Lux



Tsingtao Beer x Lelecha Cafe



10

WILL 5G HAVE ANY REAL
IMPACT FOR MARKETERS?

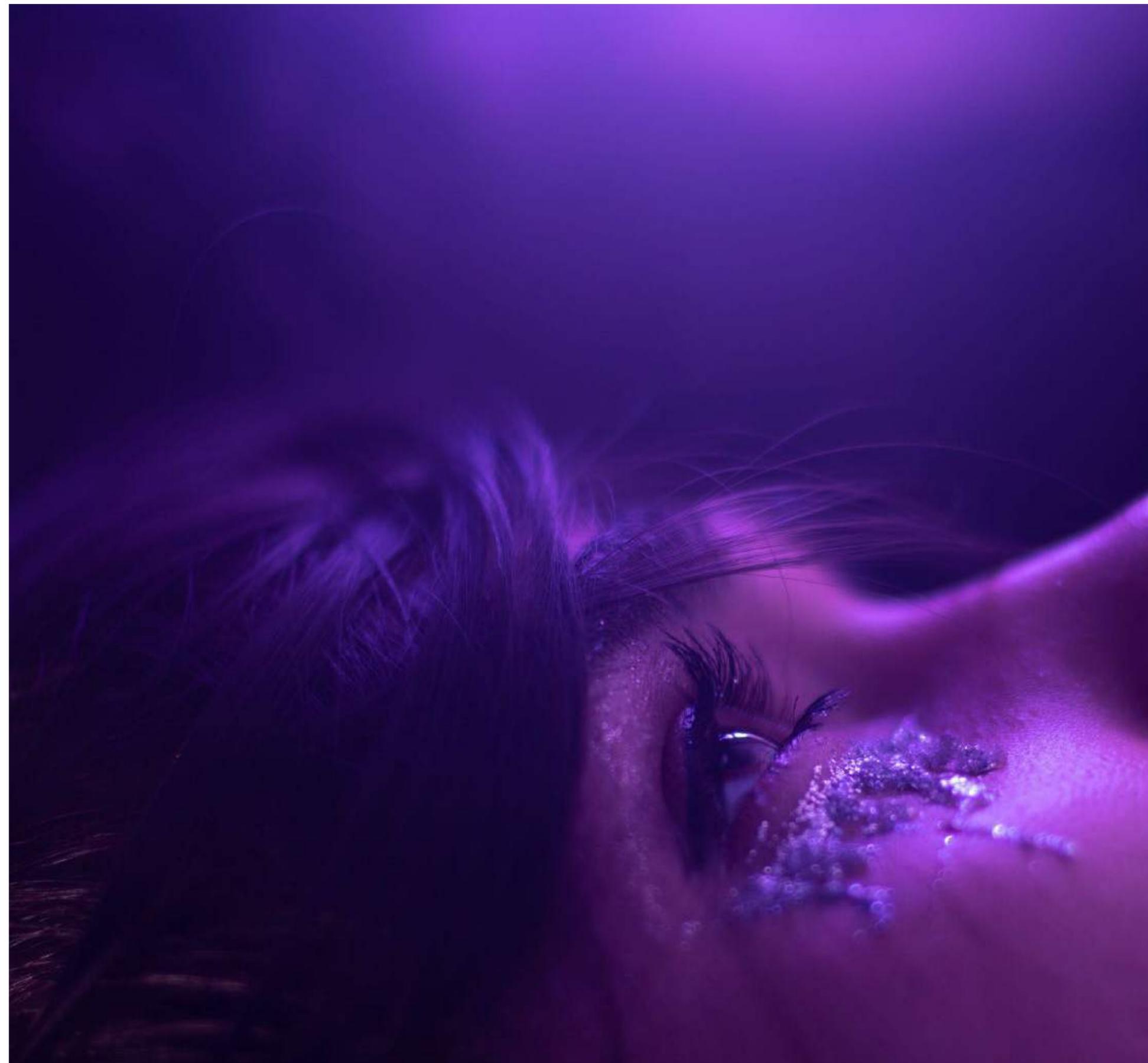


With the wide scale implementation of 5G in China looming, there is a lot of speculation about the impact that it will have on digital media channels.

It is unclear how this will affect user behavior and the fate of different media channels in China.

Gaming is the most obvious winner but many longer form video sites should also benefit from the quicker speeds with 5G.

For marketers, it might mean more effective pre-roll ads on OTV channels and more feasibility with AR and VR concepts.



10 THE IMPACT OF 5G

In one sense, you would expect 5G to be a major boost to apps such as Douyin and Kuaishou, as it should improve the fidelity and speed of streaming video via mobile. It is however, not clear that the current bandwidth standards are a major limitation for these apps which are streaming short format videos. The introduction of 5G might give them reason to increase the length of videos but with the core concept being short-format, that move may not be justified. So, the introduction of 5G for short video apps is likely to be neutral.

5G is more likely to help the following players:

- *All mobile games and game streaming apps*
- *Traditional video platforms with quality, long-form content, such as iQiyi, Youku, Tencent Video.*
- *Livestreaming sites*

It is also likely that some of the other legacy social apps, such WeChat and Weibo might be able to create new features which leverage 5G. For instance, both might re-launch existing features such as VLogs with improved functionality and support improvements with mini-programs. WeChat is also preparing to rollout improved videoconferencing features, which most certainly will benefit from 5G.

From an advertiser's point of view, very few of these developments will have immediate implications. One area to look into in the near-term, is video ads. Jason Cheng from Wavemaker suggests that 5G should have a considerable impact on branded videos (ads) on mobile. The current completion rate for watching video ads on mobile is very low when compared with desktop, so the speculation is that 5G will improve the viewing experience on mobile - and viewership stats for ads. The feasibility of many AR/VR concepts will also be improved.

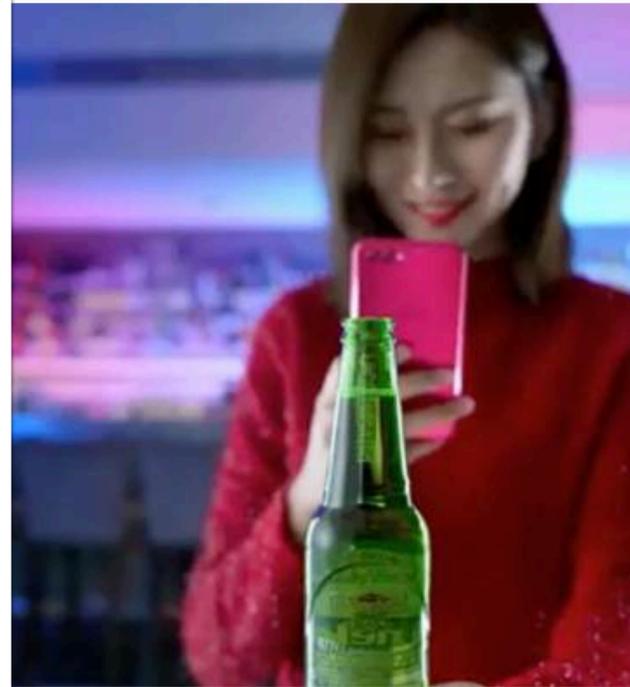
HEINEKEN WORLD TELEPORTER

Potential of AR/VR

RISE OF AR/VR

Building on its brand positioning as global beer, Heineken in 2019, ran an interesting campaign called World Teleporter, allowing audiences in China to scan a beer label (each with a different country flag) - to launch an AR experience of that country.

In addition to the bottle-label-AR experience, Heineken also setup OOH experience centers to take the concept a step further. In all, the campaign had 3.174 million participants, 700+ million impressions and 193% uplift to ecommerce sales.



Scan the country flag on the bottle

Launch an AR experience of foreign city

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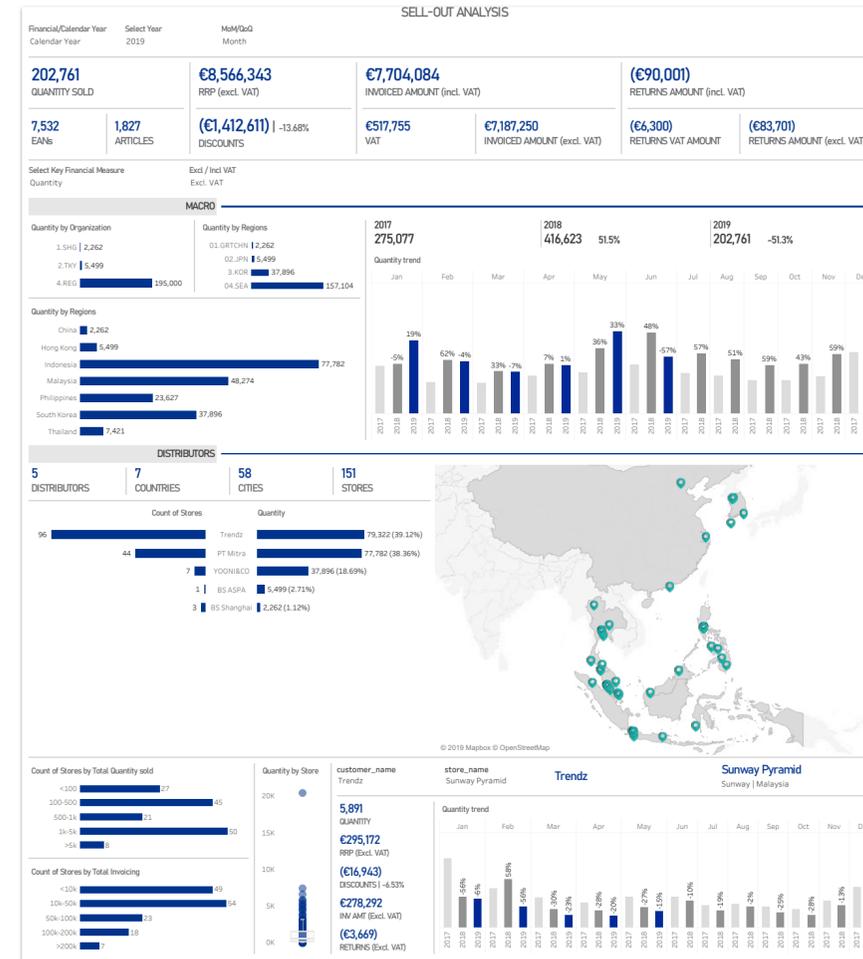
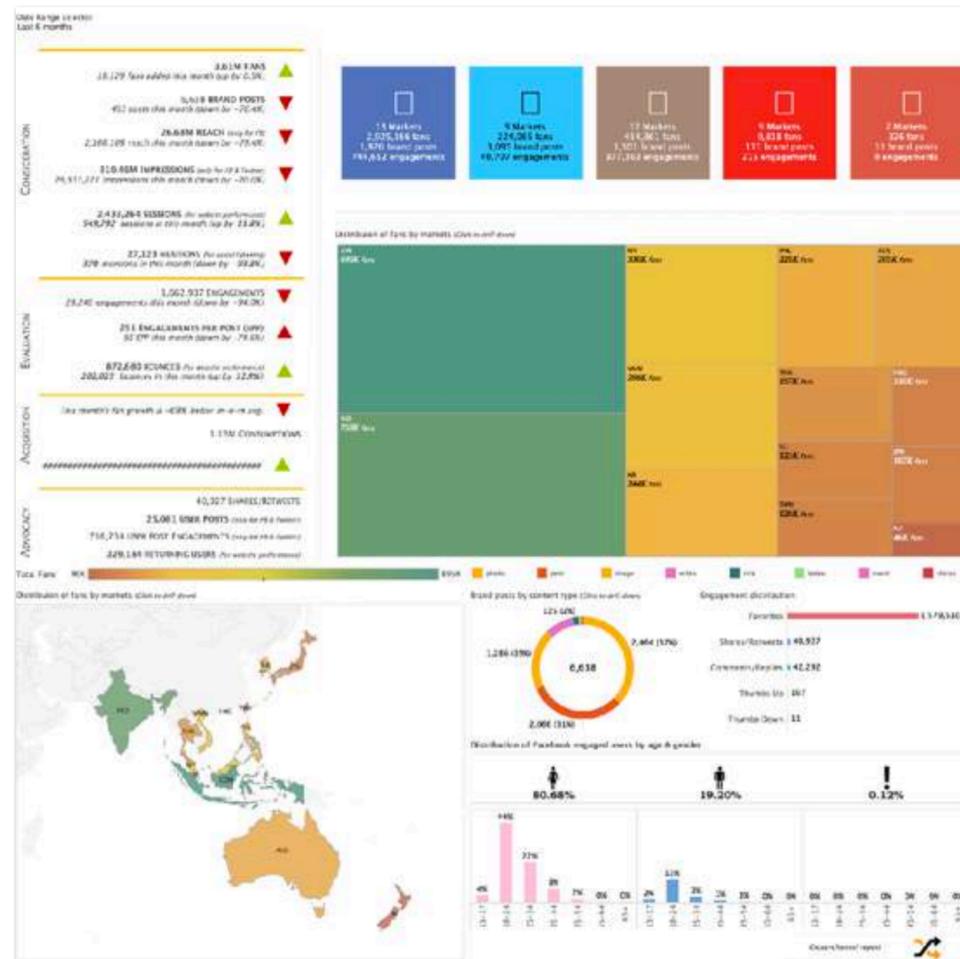
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Milo Chao, Co-Founder, Chao & Cao

Michael Norris, Research & Strategy Manager, Agency China



BUSINESS INTELLIGENCE, DATA DRIVEN BRANDING

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