

The **Yellow** Papers Series



# China's Journey: Factory to a Studio

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**Strategies and Implications**

**DDB<sup>o</sup>**

# China recognizes it is now time to move up the value chain and return to its inventive roots.

As you walk around any major city in China today, it is evident that the country is rapidly transforming itself to be at the cutting edge of technology and innovation. While once infamous for being the factory to the world, mass producing poorly made and regulated products, things are changing rapidly.

The nation is now too rich to continue growing at a double-digit pace by simply putting more people to work in its factories to undersell its Western, Japanese, and South Korean competition. Amazingly, for a country where wages are a tenth of those of Europe and the US, China is already

losing out to cheaper labor markets, like Vietnam. But what is more significant is that like its Asian counterparts of Taiwan, Japan and South Korea before it, China recognizes it is now time to move up the value chain and return to its inventive roots. Before the walls were raised to the outside world, this was an innovative country that was leading the world. Paper, movable type, the compass and gunpowder are all life-changing inventions we owe to China.



**Dick van Motman, President & CEO, DDB China Group**

Dick's been in China five years, building DDB Group from a small office with just a couple of clients to one of the strongest and most integrated agencies in the country. DDB China Group has grown six-fold in just five years and consists of three offices, in three cities, offering three disciplines (DDB, Tribal DDB and RAPP). In 2009 China's Ministry of Commerce hired DDB Guoan (the Group's joint venture in Beijing) to create an advertising campaign to promote the "Made in China" image. This was effectively the first time the government had ever commissioned an advertisement.



**Asit Gupta, Head of Strategic Planning, DDB China Group**

Asit is from India but has worked most of his life outside, being fortunate enough to work and live in Mumbai, Moscow, London, Beijing, Hong Kong, and now in Shanghai. Before joining DDB China in 2009, he worked for 15 years on the client side with Procter & Gamble and British American Tobacco. He is a full-on, 24/7, inveterate and passionate marketer, our in-house "strategic chatterbox."

## Factory to Lab

In 2009 China officially overtook Germany as the world's number one exporter in value terms. From originally manufacturing low-tech toys, apparel, furniture, and shoes, China now manufactures the majority of the world's mobile phones, computers and electronic goods. In June 2009, the first Chinese assembled AIRBUS took to the skies. China's manufacturing capability clearly has come a long way from the commonly held perception of thousands of unskilled workers churning out cheap, simple items.



More significant is the progress on the technological innovation front. China is fast becoming a "lab," evident by its rapid ascent in the patents world, achieving fifth place in 2009 and showing the fastest patent growth among major countries, up 30% year-on-year amidst a downturn in IP globally. Technological innovation is a stated priority from the very top and key focus industries have been identified. Global industry leaders have already emerged in some industries, such as Suntech power in solar energy and Huawei in telecom equipment. In the Clean and Green technology area, China saw US\$9 billion of venture capital inflow in 2009, indicating that in this emerging field it intends to lead the pack.

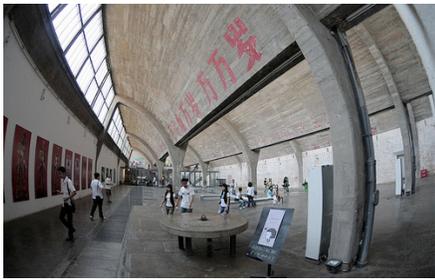
The best example of China's move up from being a factory to a lab is BYD. From an unbranded battery manufacturer it has evolved in just five years to potentially becoming the first electric car manufacturer to cater to the world's biggest economy, beating GM's Chevy Volt and acquiring the backing and support of Warren Buffet along the way. Through Berkshire Hathaway he bought 10% of BYD for US\$230 million last autumn and believes that BYD has a shot at becoming the world's largest automaker, primarily by selling electric cars. His investment in BYD returned 500% in one year.

**In 2009 China was fifth worldwide in global patents filing with the fastest patent growth among major countries.**

## Lab to Studio?

Quite often within the marketing and business community, the discussion on China's ascent inevitably veers towards: "Can China create a global consumer brand." Branding success to us is not a leading indicator; it is a lagging indicator.

Once all ingredients are in place, it will happen. What is important is to see whether there are signs of "original" thinking emanating from China. The answer is Yes !



Chinese talent within the creative sphere is now beginning to play at a global level. MAD Studio, considered China's hottest local architecture firm, founded by Yansong Ma, who graduated from Yale University and worked with hotshots like Zaha Hadid, won a global contest to design the Absolute towers in Ontario – a five-tower highrise condominium development covering 85,000 sqm, which will be completed in 2010. And these are not one-off developments. In just a few short years, Beijing's 798 Art Zone, a vast, former military factory complex turned scrappy artists' haven in the Dashanzi Art District, has become the epicenter of China's contemporary art world--and interest in Chinese art has rocketed globally. There is an eco-system being built. Shanghai and Beijing today are melting pots of various nationalities and one can see the blossoming of the creative community and an environment of exchange and interaction, which then feed off each other to create a virtuous spiral.

Perhaps the most dynamic and innovative space right now in China is digital media. Despite a penetration rate of only 25%, given its massive population base, China today has the world's largest Internet community with around 360 million users; moreover, 93% of these users access the net via Broadband, beating even the US.

To understand the massive growth and popularity of digital media in China, we need to understand the relationship of Chinese citizens with information. All major global sites with user-generated content such as Facebook, Twitter and YouTube, remain blocked in China. This censorship is extended through key word searches and subsequent blocking of specific sites. Within traditional media also, the government exercises huge control. Although there is officially only one party paper – *The People's Daily* – in reality the Chinese GAPP (General Administration of Press and Publication) provides clear daily mandates to all publications on what can and cannot be reported. This wide harmonization of information, coupled with numerous corruption scandals, have reduced trust in the authorities.

This lack of trust in official and traditional media makes the reliance on person-to-person information flow even more amplified in China and the internet has turbo-charged this person-to-person information sharing.

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# China's super-connected digital environment spewing out massive content is creating new business models.

Today, the Chinese create and share more content online than most other nations. Their online behavior is quite different from that of their peers in the West. The most popular online services are IM and BBS, which are not very common in the West. IM is so popular that besides personal conversations, a major part of work correspondence is conducted via MSN Messenger and other IM clients. You can even order food or book your flight tickets via IM.

BBS registrations have reached three billion. Eighty percent of Chinese sites are running their own BBS, and the total daily page views are over 1.6 billion with 10 million posts published every day. BBS popularity is again driven by the need for "real" information, and a reliance on peers, general citizens, to share the truth.

China's super-connected digital environment spewing out massive content generated by an intense 24/7 interaction is creating new business models.

Take Tencent Holdings, a billion-dollar company, which most people in the West have not heard of. Tencent owns QQ.com. QQ started as an IM client and is today an Internet giant. It has more IM users than MSN, more social networking users than Facebook, and it makes profits, which Facebook is still working on.

Sixty percent of QQ revenue comes from games and chatting. The bulk of this is micropayment for digital / virtual merchandise like accessories and designing your own virtual character/avatar. An additional 21 percent of revenue comes from mobile services like ringtones, and only 13 percent from online advertising. This is a very different business model from what we have seen in the West.



## Implications and Opportunities

This evolution of China from a factory-based economy to a hotbed of creativity and innovation is a massive opportunity for Western companies. Here are **five** potential ways to tap into this:

### 1 First: **LEARN FROM AND REAPPLY** China strategies to the

**world.** This means don't look at innovations found in China as unique to that market. Figure out how they can be transplanted back to more developed markets. An example is Electronic Arts, one of the world's leading game designers. The company adopted its free-to-play model in China for the global launch of its Battlefield Heroes online game. Playing the game is free, the revenue comes from optional micro-transactions for buying merchandise like avatar weapons and costumes.

### 2 Second: **CREATE** in China, for the

**world.** Look at China not just as a goods factory or even as a cyber farm handling coding and programming for western companies like Microsoft Corporation but as a place for creating ideas, concepts, designs, and art that leverages the melting pot of nationalities now found in China's largest cities. An example of this is a company called Cmune, a 3D social platform founded in Beijing two years ago by a combination of western and Asian executives including Ludovic Bodin, Shaun Lelacheur, Yong Joon Hyoung and Benjamin Joffe. A truly multicultural company, it launched Paradise Paintball, a browser-based 3D multiplayer games in November 2008. It was ranked No. 1 worldwide on Apple's Dashboard for two months and became the first 3D multi-player game on Facebook.

### 3 Third: **PARTNER** with China.

That is form strategic partnerships with emerging Chinese companies, in hopes of becoming a world leader together. A very recent example of this is Volkswagen's tie-up with the automobile and battery maker BYD Co., paving the way for BYD to supply lithium-ion battery technology for upcoming VW cars. Imagine Volkswagen designs, quality and branding powered by BYD's innovative electric battery.

### 4 The fourth, and one of the more obvious, opportunities is to **DESIGN** for **China** to tap into the domestic market's massive scale and rapid growth. Most multinationals have had a learning curve in China and have adapted products for the local markets, but it's not easy. In some categories, like sportswear, international designs are favored more than Chinese styles, both in products and advertising. In other areas, like beverages and skin care, local adaptation is critical.

### 5 The last possibility is the easiest in terms of effort and investment. It is, **PROVIDE EXPERTISE** to help China sell to the world. This involves using the considerable intellectual capital, which the West has developed already in branding, communication and design, to help Chinese companies. A handful of Chinese companies are moving down this road already, such as Lenovo Group, Haier Group, Li Ning Co., and China Mobile. These companies have invested in marketing, manufacturing, distribution and joint ventures outside the mainland as part of grand plans to build leadership positions in their industries.

In summary, as we look at this journey unfolding, the real question is not whether, when and how soon a Chinese brand can become globally popular. It's figuring out how we – both Chinese and foreign companies – deal with and benefit from China's inevitable progress from being a factory to a studio.

The picture is still being painted. We can wait and watch till the paint dries to see if it is a great picture or we can leave our own imprint on the canvas.

Find out more at [www.ddbchinagroup.com](http://www.ddbchinagroup.com)



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DDB is excited by ideas. We invite you to visit our website to share yours and keep abreast of ours. We believe that creativity is the most powerful force in business and that ideas get sharper with more minds rubbing against them.

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