INSIGHT.

The Journal of the American Chamber of Commerce in Shanghai - Insight March/April 2019

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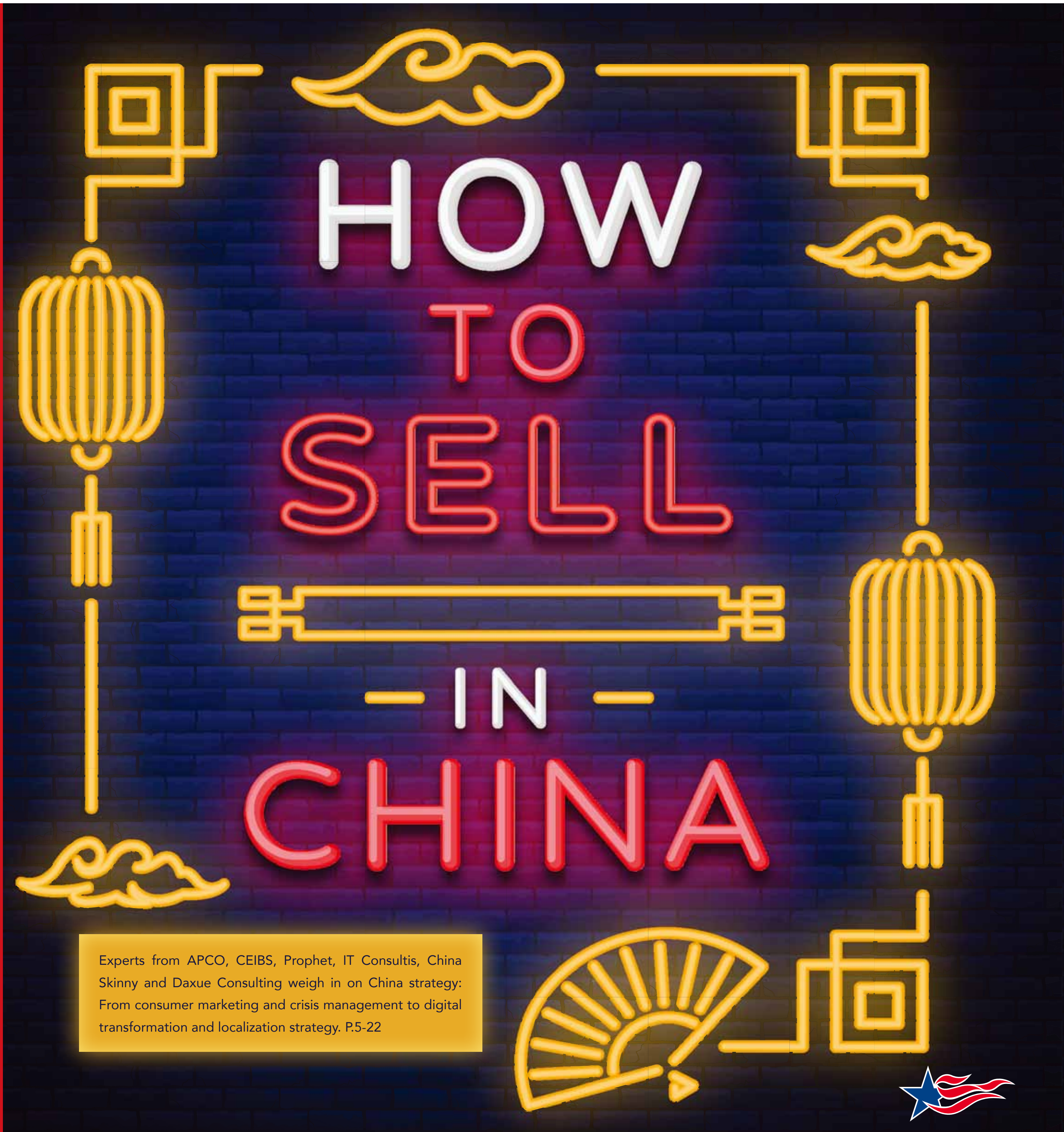

Experts from APCO, CEIBS, Prophet, IT Consultis, China Skinny and Daxue Consulting weigh in on China strategy: From consumer marketing and crisis management to digital transformation and localization strategy. P.5-22

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AMCHAM SHANGHAI

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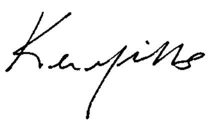

KER GIBBS

President of The American Chamber of Commerce in Shanghai

U.S.-China relations stand at a critical juncture. The Chinese press is full of accusations and skepticism about America's true intentions. In Washington, the one thing Democrats and Republicans seem to agree on is they are angry and frustrated with China. Accusations of hostage taking have been leveled on both sides. For the first time in decades people are using the term "Cold War" and talking about the U.S. and China as if we are enemies instead of nations with a mutually beneficial trade relationship. Most troubling of all, the term "de-coupling" has entered our vocabulary.

Could the situation get any worse? Yes, but I don't believe it will. The two sides are finally talking about the right issues in the right way. Instead of harping on the trade deficit and manufacturing jobs, the bulk of which will never return to America, we are talking about structural changes and the role American companies will play in China's continued development.

As for AmCham, we are in good shape. Thanks to our large size and diverse composition we retain a strong voice in the discussion. Chamber operations continue to run well and smoothly. Strong leadership from the Board in recent years and the tenacity of my predecessor have put the Chamber in a good position, financially and operationally. So where do we go from here, and what can members expect during my tenure?

For one, we need to be prepared no matter which way trade negotiations end up. The situation may appear grim but it's entirely possible that negotiations will produce a good outcome. We can't be caught flat-footed as the relationship evolves for better or worse. If China agrees and truly adjusts its approach to intellectual property and opens markets in strategic industries, then our Chamber could see an influx of members. We are already adding programs to address blockchain and fintech. It's unlikely we will see internet media businesses like Facebook and Twitter coming to China, but not impossible to have cloud computing and other new businesses join our community.

We need to aggressively pursue new business segments beyond our traditional strengths and the large multinationals. Membership from our traditional sources has been flat or shrinking, for all the reasons that we know well – maturity of the market and localization of executives. But it's also true that thousands of new businesses are formed in China every day, many of them foreign-invested. High growth businesses in technology operate in different ways from the MNCs, which have formed the core of our Chamber. We may need to adjust in ways that are unfamiliar, but I'm confident the Chamber is up to the challenge.

Operationally, members can expect the Chamber to evolve in several ways. First, I'd like to nudge us in the direction toward being more member-driven. With a large membership and enormous number of programs, Chamber staff naturally play a strong role. Still, I want us to be in more of a supporting and guiding role, with members taking more of the spotlight. I'll be discussing this with Committee leaders in the coming weeks.

Second, I plan to guide the Chamber in a way that fosters our sense of community. Each of us has chosen to live and work in China, and the Chamber is fundamentally a network for mutual support. We will continue our core mission as a business network, but as long as that's happening we may as well have fun along the way! In addition to our traditional events informing members about new customs clearance procedures and tax laws, you can expect to see programs on the calendar that are just for fun. Members can explore and appreciate the great city of Shanghai in the pleasure of each other's company.

While this isn't the easiest of times to take over the Chamber, it could be a time of great opportunity for U.S. businesses. Many of you have offered words of encouragement and excellent ideas for improving our Chamber, for which I thank you. We are a self-governing, self-financed and independent organization. Our community will be whatever we want it to be. Despite the difficulties, with your support and active participation AmCham will continue to thrive and play a constructive role in U.S.-China relations. We have a chance to make a difference. The world's eyes are on China; political leaders are listening. AmCham Shanghai is an important part of the conversation.

Crisis Management in the New Era of China

Jiayi Lu is an associate director at APCO Worldwide. She has extensive experience in public affairs, providing advisory services to clients on matters related to government relations, crisis management, business strategy and market entry. Before joining APCO, Lu worked in the government affairs department at eBay Inc, where she was actively involved in advocacy programs that aim to shape e-commerce policies in China.

The emergence of geo-commercial crises in China

Last November, Dolce & Gabbana (D&G) released a series of promotional videos titled "Eating with Chopsticks" for a major fashion show in Shanghai. While intended as a playful look at cultural differences, Chinese netizens viewed the video campaign as a mockery of their culture. The controversy escalated after a fashion blogger posted screenshots of a private chat with one of the company's founders, Stefano Gabbana, on Instagram, in which she confronted him about the videos. Gabbana responded by equating China with a series of excrement emojis and typing "China Ignorant Dirty Smelling Mafia."

Chinese celebrities pulled out of the show and ended partnerships with the brand, and D&G was forced to cancel the event just hours before it was due to begin. As the backlash grew, some of China's biggest online retailers, including Alibaba and JD.com, suspended sales of D&G products, and an active boycott remains in place today.

This incident demonstrates China's ability to set its own conditions of engagement with the biggest brands of the West. Most importantly, what D&G faced was a potent new "geo-commercial" crisis that occurs when companies become entangled in national political agendas. In D&G's case, the crisis was triggered by an upsurge of nationalism related to the "China Dream" ideals of President Xi.

▲ Sparked a national boycott

China is not alone in dreaming of national rejuvenation. Nationalism is on the rise globally. Over the last few years, the popularity of ideas such as "Brexit" and "America First" have signaled that many people and countries are increasingly thinking and looking inwards rather than globally. The dislocation of wealth and people around the world produced by globalization has caused growing distrust in multilateralism and a resurgence of populism. The trend coincides with new strategic competition between the West, led by the U.S., and the rest, arguably led by China. With both sides using nationalism to strengthen domestic political control, businesses face serious risks, and many have already fallen victim to related geo-commercial crises.

Against this backdrop, foreign multinationals need new guidelines to manage crises in China's new era. This article explores various strategies businesses can adopt to navigate geo-political and geo-economical complexities. It provides real-life case studies of foreign multinationals that have recently experienced such crises in China. The first step is for businesses to understand what a geo-commercial crisis in China looks like.

Three key characteristics of geo-commercial crises in China

The emergence of geo-commercial crises in China is the result of a heightened notion of Chinese nationalism that is centered on territorial integrity and absolute sovereignty. Over the past few years, it has become apparent that the Chinese government is less tolerant of multinational companies whose activities do not reflect its political agenda, particularly regarding territorial integrity and sovereignty. For example, last March the government ordered foreign airlines operating in China to "correct" their descriptions of Hong Kong, Taiwan and Macau on their websites to reflect the "One China" principle.

Some companies that came under attack due to this heightened notion of Chinese nationalism were innocent. Beijing's more aggressive foreign policy approach has produced a rigid patriotism that is effectively disseminated by Chi-

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nese media. This campaign has been particularly successful in influencing Chinese netizens, who are now the "frontline soldiers" inspecting every move foreign multinationals make that is related to China, from website content to product labels. An example is the Taiwanese bakery 85°C, which faced a Chinese consumer boycott after a branch in the U.S. presented a gift to the Taiwan leader Tsai Ing-wen when she visited the store. This boycott caused the share price of 85°C's parent company to drop 7.5%. While the gesture may have been innocent, against the backdrop of the increasingly troubled Beijing-Taiwan relationship, the company was caught in the crosshairs of a political struggle.

When a crisis is initiated and driven by the Chinese government, it can hinder the company's ability to survive in the market. A landmark case of this scenario is the severe backlash faced by South Korean retail giant Lotte following the deployment of the U.S. THAAD missile system in 2016, which ended in its exit from the China market. Beijing saw THAAD as a serious threat to China's national security, as in addition to its stated purpose of deterring North Korea's nuclear weapons, the detection system could also monitor China's military activities. Thus, when Lotte agreed to provide a golf course in South Korea for THAAD's construction, Beijing took immediate action. Multiple government agencies went after Lotte, fining the company over its advertising practices and closing over four-fifths of its Chinese supermarkets for alleged safety violations. Following this, Chinese consumers also boycotted the company. As a result of this geopolitical standoff, the company reportedly suffered successive quarterly losses of US$46 million.

Suggestions for companies

There are a number of universal and golden rules for crisis management – be transparent, respond quickly, put people first, be consistent in messaging, etc. This section focuses on suggestions that are uniquely important for companies that find themselves caught in geo-commercial crises in China.

Apologize and demonstrate responsibility. Sometimes, companies caught in geo-commercial crises are innocent. Under such circumstances, many may question the justification of an apology, with the underlying logic that they should not apologize if they have done nothing wrong. But a track record of cases has proven that a sincere apology, in which a company assumes responsibility, is usually effective at toning down negative public discourse.

Sincerity is key. D&G "apologized" several times during the crisis. The brand first said that its Instagram account was hacked when the photos of Gabbana's private chat were leaked. Then, they retracted the apology video featuring Dolce and Gabbana, removing it from Instagram. These insincere "apologies" caused further backlash from Chinese netizens.

Do not pick a side publicly when entangled in a geopolitical standoff. Most companies follow this rule when operations are smooth. However, companies involved in a geo-commercial crisis tend to be eager to get themselves out of trouble and in turn are tempted to compromise by choosing a side. But assuming a political stance publicly always exposes businesses to greater risks. This is what damaged Lotte's business in China. Another example is Apple. The company has been supportive of China and opposed Trump's tariffs amid the ongoing U.S. – China trade war. This has caused reputational backlash in the U.S.

Think outside of the box when seeking solutions. Demonstrating responsibility does not mean giving in to every critical demand. Businesses should also look for alternative solutions to create a "win-win" situation. For example, some airlines have used city and airport codes on the website instead of region and country names to comply with the Chinese government's request and to avoid a backlash from markets outside of China.

If the crisis is not initiated by the Chinese government, local governments may be the only "ally" that businesses can leverage. It is very difficult to mobilize media or key opinion leaders to advocate for a company during a crisis. However, the mentality of local government officials tends to be different from those at the top – they prioritize socio-economic stability and seek to avoid public chaos. Thus, companies in the midst of a crisis should consider actively engaging with local government agencies to seek advice and cooperation. Transparency is essential so that they do not end up on the "other side."

Post-crisis remediation is as important as appropriate management during the crisis. A crisis can offset a company's positive image and create lasting reputational damage, especially a geo-commercial crisis. Many companies fail to take measures to recover and rebuild their reputation once the crisis is over. In Chinese, crisis is written as (wēi jī), which encompasses both danger and opportunity. Post-crisis

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Not quite as popular as a boy band

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▲ Morning pick-me-up

is a unique time when the media and public may seem quiet, but are still paying close attention to the parties involved. This is an opportune moment for companies to leverage the spotlight to reshape their China stories into positive narratives.

Many geo-commercial crises can be avoided if companies are more diligent in risk identification and prevention. Even in cases that cannot be entirely avoided, proper preventative measures can prepare companies for quick responses to crises.

And risk prevention starts with internal alignment.

Minesweeping. Companies should conduct rigorous inspections of all symbols that can reflect China' sovereignty – including descriptions of the region, country and maps across all communication channels and products.

Monitoring. Be alert to public sentiment and nationalist trends.

Bridging. Geo-commercial crises can be strange to people who are unfamiliar with China. Training and briefings on culturally sensitive issues for internal stakeholders, including decision-makers and spokespersons both in China and at home, is necessary to build cross-cultural bridges and ensure that staff can respond to all surprises.

Finally, risk prevention can only be effected when there is a mechanism that allows for a quick and unified response.

Define your "corporate foreign policy." In the context of globalization, adopting a "corporate foreign policy" is increasingly necessary for multinationals. Amid new global geo-political and geo-economical complexities, it is crucial to carefully analyze a company's values, business and external environment when defining its "foreign policy." Not putting all eggs into one "market" can help avoid a backlash from the others.

Craft your messaging. Craft messages and talking points that target different stakeholders based on the "foreign policy" decided to help guide communication during a crisis.

Revise your crisis manual. Most foreign multinationals already have a crisis management manual for navigating traditional operational crises. It is time to add geo-commercial crises to the manual so that each internal function knows what to expect and how to cope if one occurs. I

How Do Chinese Consumers Spend?

Q&A with Professor Yi Xiang, CEIBS

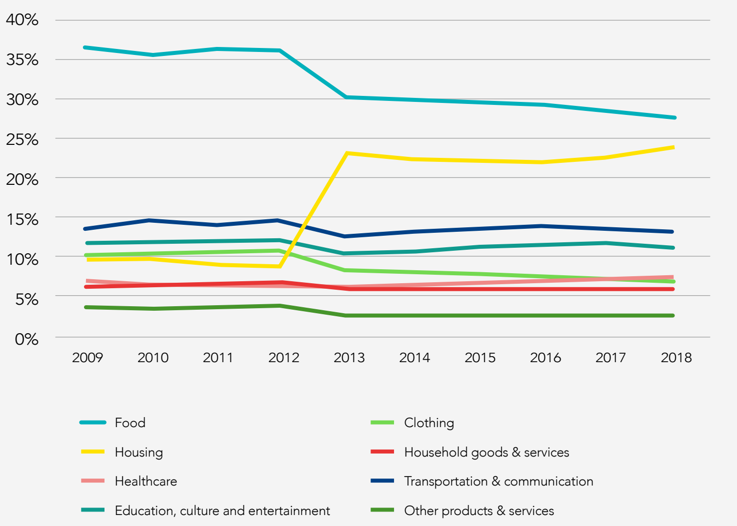
By Ruoping Chen

Yi Xiang is an associate professor of Marketing at CEIBS. Prior to joining CEIBS, he served as an assistant professor of Marketing at Hong Kong University of Science and Technology. Xiang graduated from Tsinghua University with a bachelor's degree in Materials Science & Engineering. He received his Master and Doctoral degrees in Management from INSEAD. His research focuses on media consumption and competition, advertising strategy, the marketing of information products, information efficiency of markets, and competition's impact on market evolution.

Consumer spending has historically been a positive for China's economy. But lately we've been seeing slowing growth across certain retail sectors. What do you expect for consumer goods sales in 2019 given that the economy is expected to slow down to 6%?

The economy is slowing down, but consumer spending is not. If you look at the data, the growth rate of consumer spending for city dwellers was roughly 6.8% last year. For rural areas, there was even 10% growth. That means spending is not slowing down; it's growing at quite a healthy level. Having said that, we do observe different slowdowns in different retailing areas. If you decompose the spendings into different categories, we observe with our spending for food and clothing

Chinese consumer spending breakdown, by category (urban residents)



Source: CEIC Data

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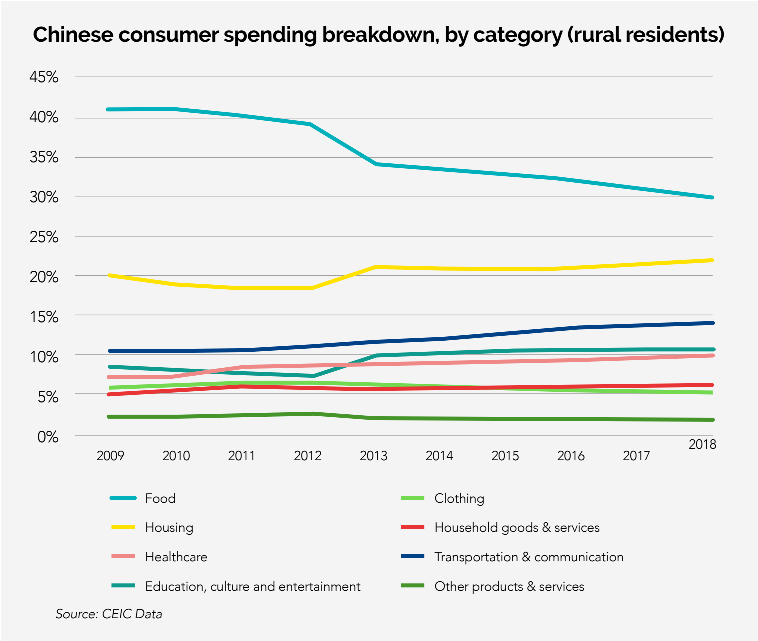

that both are decreasing — not slowing down but decreasing — in terms of percentages. But what is increasing is healthcare, and in rural areas, people are spending more on education.

My take on that data is that generally people are becoming richer, no matter if you're in the cities or in the villages. When you are rich, you tend to spend less on ordinary necessities like food and clothing. You do tend to spend more on things that will increase your life quality, like education, health and entertainment.

What are some of the key market trends or changes over the past few years that you've seen in terms of where consumers are spending, what they're spending on, how much, etc.?

When you look at the Chinese market, you don't take it as one market. On a very fundamental level, you should put it into cities and rural areas. If we take those two segments, then the people who live in the cities basically spend slightly more on healthcare and entertainment. In rural areas, they spend more on communication, family equipment, white goods, plus healthcare. And one item you should never forget is people keep spending more on housing. By spending on housing, I do not mean on mortgages but on rental.

Auto sales fell 3% last year – the first time in almost two decades. How do you account for that number?

The growth rate in the car industry has been slowing down over the years from 2014. The particular hit last year might partly come from people's willingness to spend for the future. In the past people had positive expectations for their future income. Now that expectation of salary growth has been less optimal, so they tend to be more stringent on large spending amounts. But if you look into white good sales, if you look into communications such as cellphone sales, they're not slowing down.

Can you give an example of a foreign consumer products company that has built a successful business in China and an example of a company that failed? What can we conclude about their China strategies and operations?

There have been many successful foreign firms. One of the most successful is Coca-Cola. They came to China in 1981 and have been very successful throughout the years. There are also many examples of foreign firms that failed, like Best Buy. They came to China and had nine stores in major cities, but [after six years] they had to close them.

What I want to share with you are two firms that had failed at the beginning, but they quickly adjusted their strategies and became very successful. One example is Innisfree. It's a Korean firm that specializes in skincare products. They came to China in 2004 and within two years they had to withdraw from the market. It was a huge fail. They came to China assuming any foreign skincare product should be premium, and they looked at the success of L'Oreal, at the success of other French brands, and they said we can do it [as well]. They couldn't.

In 2012, six years after their failed first try, they came back to the Chinese market with totally different positioning and branding strategies. They now position themselves as a younger brand, more natural, and targeting girls at a younger age. Because of their younger age, their disposable income is relatively limited, so the Korean brand shaped their pricing strategy towards their targeted customers and has been very successful throughout the years. This is one ex-

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Walk walk fashion, baby

ample of a company that failed and came back with a modified strategy, because they found the proper segment of consumers within Chinese consumers. They found a small segment, which in terms of proper proportions is small; when it comes to absolute numbers it's a huge market.

Another example I can give you is Uniqlo. The firm came to China in 2002. By 2005, all their stores in China were losing money. When they came to China, they believed their original positioning in Japan should work. They assumed they share a similar culture, similar norms, they should be successful. Unfortunately, their relative positioning of being a cheap clothing company in Japan does not mean cheap in China. In 2006, they dramatically modified their strategy. They positioned themselves as a clothing firm that provides high price performance ratio. So you come to the store, you pay a reasonable price, you get good quality clothes — by quality I mean the fabrics. You get average design, you get ordinary clothing, but you get good enough stuff, and that strategy has been attracting a lot of consumers, especially in the city's middle classes. They even include the super rich. I know quite a few super rich people who wear Uniqlo every day. Uniqlo has been very successful. Again, they find the proper market, proper segment and position themselves to that particular segment of Chinese consumers. So those two examples show us that one thing you must understand when you try to come to the Chinese market is you need to find a proper segment — just one segment that is big enough for you to make a good start and good money.

What are the most effective ways to target Chinese consumers today? Is it through social media? Are traditional advertising channels no longer important in this market?

If you try to sell something to consumers, you must go through several stages. The first stage is always to try to increase their awareness, to let them know. Then after that you have to keep throwing information to them to persuade them. Those two fundamental stages have to be taken into account when you try to communicate to your targeted customers. If you look into the data, if you look at how consumers spend in terms of the information sources, in terms of how they collect the information, where they spend time, they do spend more time on digital media. On average they spend six hours [on media]. Half of that is on digital media, and that's quite a lot of time. I think they spend two hours on TV. The time spent on TV has been relatively stable, gradually decreasing but not dramatically. What has been losing is the press, particularly newspapers. Newspapers are the one thing that has been hit dramatically. Magazines are okay.

So if you think about that, you probably understand that people are gradually shifting from newspapers to digital media, especially mobile media. If you are a firm trying to communicate with your customers, you probably have to adjust your strategy. Even senior people, retired ones like my mom for example, don't read newspapers anymore. They look at their cellphones. If that trend is here, I don't think any company can do anything against the trend. Having said that, this is just to increase awareness. When it comes to persuasion — providing detailed, convincing information to consumers — that's a different story. There I believe both digital media and TV and even magazines play a role. The way people process information is totally different on digital cellphones versus facing a big screen.

What can foreign companies learn from their Chinese competitors? In what ways are local companies leapfrogging ahead of their Western counterparts?

They need to know that Chinese firms learn fast, so whatever you come up with they will learn from you. Anything that makes money, they will try to learn from you. That learning and the eagerness to learn by Chinese competitors is, I think, the most formidable competitive force. And when you face such competitors — they try to learn everything from you and they're fast and they're smart — you have to take that into account in your mid-term and long-term strategies.

Let's take skincare products as an example. We see the success of L'Oreal, of French brands. If you look at the skincare industry in China, there is one company called Shanghai Jahwa. They have been producing skin care products positioned as more herbal, and that has been very successful, because traditionally, Chinese consumers believe herbal things are good and more natural for people's health. In other words, if you look into Chinese competitors, you'll know two things. One, they'll learn from you about all the modern business practices. They also know more about the Chinese culture and what they are looking for.

Another example I can give you is of a company called La Chappelle. It's a Chinese firm and I'm actually an advisor to their board. The company is a public firm listed both in Hong Kong and Shanghai. It's a competitor of H&M and Gap — slightly cheaper than them. But different from H&M, they don't open big stores. They open stores that are 200 square meters, and they have roughly 9,000 stores all over China. Their strategy is very simple: I do not compete directly with H&M, because I do not have the competitive capacity to have giant store management. But I do know in terms of labor supply, there are tons of good sales persons and store managers that can manage 200-square meter stores. They know that and they know that when it comes to shopping for clothing, women have to see real stuff. In other words, the availability of the products in front of the consumer is very important. For that reason, they have been opening stores all over China.

How is advertising content different in China versus Western countries? Do advertisements for the same product carry different messages when the audience is Chinese?

Advertising has gone through all kinds of regulations in China. Fifteen years ago, there was virtually no advertisement regulation. You would see advertisements on TV stations telling you that you can spend 150 RMB to buy a

Media consumption breakdown of Chinese consumers, aged 18 and above (2017)

Digital	3:18
Television	2:35
Radio	0:12
Print	0:07

Source: emarketer

▲ One day it will be electric

Rolex. Recently that has been changing. In our business school language, those kinds of "deceptive elements" have been decreasing dramatically in China. The regulatory agency in China has put a lot of force to regulate these kinds of illegal behaviors and practices.

In terms of content, my answer is yes and no. For the same advertisement, because of cultural differences and because of language issues, Chinese consumers may perceive them differently compared to Western consumers. One example I can give you is Lexus. It's a Japanese luxury car brand. They used to have a TV commercial that showed the car passing by a palace. In front of the palace there are two stone statues of lions, and those lion statues were bowing to the car. Basically, they tried to show that the car is so attractive and has high status. That advertisement should have been okay, but has irritated Chinese consumers, because stone lions in Chinese tradition means kin, means respect, means emperors, means Chinese. They should not bow to a Japanese car.

You wrote a paper a few years ago that studied uninformative advertising versus content-rich advertising. Why is it that most ads tend towards being uninformative?

It's a paper I co-authored with a professor at the University of Toronto. One way to say "uninformative" is that it masks information and only contains very basic information about the product, including brand, probably price and what kind of category it belongs to. If that very fundamental basic information are the only information in the ads, then we'll call it uninformative. On the other end of the spectrum, there are content-rich advertisements, where the ads tell you tons of information: where the hotel is located, how big the room is, how good the mattresses are, how clean they are, what are the nearby locations. We observe that a lot of ads only contain very basic information, both in China and in Western societies.

There's a reason for that. The reason is that every consumer is looking for fundamental things and some consumer may put more value on other added features. So a firm must do the fundamentals, which we call uninformative, and that sometimes is good enough for consumers to stop searching for other competing products, and that's why we observe many more uninformative ads.

For a company that's relatively small compared to established big brands in the market, as well as relatively new to the China market, what would you advise as the best course to market their product?

For a medium-sized and small-sized firm trying to enter into China, I think the number one thing is: do not be persuaded that the Chinese market is big. It is big, but it might be small when it comes to what you can take. You must have a precise, accurate estimate of what you can get from the market. Sometimes to be pessimistic is optimal for you.

Number two is: when you look into Chinese consumers nowadays, if you look at the pyramid of Chinese consumers' willingness to pay, I believe there are three levels. The bottom level is what we call Aspirers. Those consumers are looking for things that can increase their life quality. They don't have a TV, so any TV, as long as it shows something on the screen with color, is going to be good enough. Their number is not small; it's roughly 300 million.

The second category is called Shoppers. They are relatively middle-class. When it comes to consuming, they do comparison shopping. They have to compare the prices, the attributes, the brands, the particular features of the products. Those shoppers are very difficult to satisfy, and they are the majority of Chinese consumers nowadays.

The third category is what I call Affluent. By affluent, I do not mean their income level. I mean that they are less price sensitive to a certain product, so they just take the highest quality.

If you look into the three categories of consumers, you have to figure out where you want to go. In which segment will you be facing more competition. Is your cost structure, is your production technology suitable for that particular category or another category? The same consumers may belong to different categories for different products. For example, one consumer can be very picky in terms of shoes. A soccer player might be very picky in terms of what kind of soccer cleats he can pick. The same person may be less sensitive when it comes to shirts. He might be okay with an average shirt from Uniqlo. So for this particular consumer, with soccer boots, he's an Affluent consumer; for shirts he's a Shopper.

So as a foreign firm, when you enter into the market, you have to figure out what kind of consumers you are facing and is your firm suitable for that particular segment. I

To see our video interview with Professor Xiang, scan the QR code:

CONTENT STRATEGY

A NEW TYPE OF ADVERTISING OR A NEW "PRODUCT" CATEGORY?

By Yu Huang

Yu Huang is a partner at Prophet, specializing in growth strategy, digital marketing and experience design. He has 15 years of consulting experience and is a former senior executive of several leading consulting firms. Huang holds multiple U.S. patents. He has an MBA from MIT Sloan School of Management, an MSEE from Rensselaer Polytechnic Institute and a BS from Peking University.

Content strategy – that is the new magic phrase every marketer is talking about. But what exactly is it? Is it about using social media to tell a story? Is it about KOLs? Or is it a new type of advertising that tells stories with KOLs on digital media platforms?

IQiyi and a different type of advertisement

One of the most high-profile NASDAQ IPOs in 2018 was iQiyi, a top Internet broadcast platform in China and producer of many popular shows, such as "The Rap of China", "U Can U Bibi" and "Idol Producer." Since its inception in 2010, this video website has been at the forefront of China's content industry. It was one of the first platforms in a number of key categories – the launch of paid membership, the purchase of overseas content copyright, and production of its own shows. As a result, iQiyi now has over 76 million PC users and 158 million mobile users, and is considered as one of the most powerful digital media platforms in China, second only to WeChat.

Internet content platforms like iQiyi differ from traditional TV in one fundamental way: they reach consumers on a more individual basis. As a result, they offers brands a unique opportunity to both better understand and also influence consumers. By analyzing consumer behavior through the use of big data, brands are able to not only generate awareness, but also directly generate consumption. Take, for example, "Idol Producer," a boy group reality show which has received enormous attention since its launch on January 29, 2018. During the first hour of airing, it generated over 100 million views. In the following 78 days, the program's website was viewed over 2.8 billion times with 13 billion mentions on Weibo. Meanwhile, the participating brands reaped huge rewards as the show became increasingly popular. One of the sponsors, Nongfu Spring mineral water, increased its online sales by 500 times during the show, by bundling its product with the audience's voting rights. Another sponsor, social e-commerce app RED, successfully directed traffic to its own platform by setting up dedicated channels for the winning idols. Brands have continued to benefit from the program's impact even after it ended. Vivo, the world's sixth-largest mobile phone manufacturer, signed the show's winner Cai Xukun as its spokesman. Partnering with the most talked-about pop icons is a tactic that Vivo has been the master of for many years, and it is considered to be one of the reasons why Vivo is able to capture the hearts and minds of many young consumers.

From the example of iQiyi and its sponsors, it is clear that for many brands, "content strategy" has become a set of advertising tactics leveraging digital and new media platforms. The ecosystem is no different from that of the traditional advertising world, but the players are different. In other words, for the brands, content is merely a means to attract people's attention, the goal is to sell products.

Two types of competition: Preference vs. relevance

David Aaker, one of the early godfathers of branding theory and now vice chairman at Prophet, defines brand competition in two ways. In his book *Brand Relevance: Making Competitors Irrelevant*, he points out that brands often compete within the same category trying to prove that they are superior, even though they are offering the exact same product and services as their competitors. This is called competing on brand preference.

The brand preference model

The Brand Preference Model, Aaker says, is "the strategy to engage in incremental innovation to make the brand ever more attractive or reliable, the offering less costly, or the marketing program more effective or efficient. It is all about continuous improvement – faster, cheaper, better."

In the example above, the combination of popular shows, celebrities, online traffic and sales conversion has become a new way of doing advertising. But it still falls under what Aaker calls the Brand Preference Model. Because fundamentally, such content is aimed at making one brand preferred over another, not by offering any meaningful innovation, but by associating it with celebrities.

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▲ Marketing message in a bottle

This approach is becoming the model for traditional advertising today. Brands are competing to get association with the hottest celebrity from the hottest show. But if the differences between brands are so insignificant that the celebrity becomes the main differentiator, then something is seriously wrong. "This classic brand preference model is an increasingly difficult path to success in today's dynamic market because customers are not inclined or motivated to change brand loyalties," Aaker says.

The brand relevance model

Are there any other approaches? Of course.

Aaker states in his book: "The second route to competitive success is to change what people buy by creating new categories or subcategories that alter the ways they look at the purchase decision and user experience." For example, when Apple launched the first-ever iPhone, few people felt the need for a phone with a large touch screen and no physical keyboard. It was because Apple challenged people's preconceptions of the user experience of a mobile phone that the brand was able to establish incredibly strong relevance and loyalty. New categories can help a brand to create new connections with consumers, so that when the consumer makes a choice, only this brand is "relevant", while other brands become "irrelevant". This is called the Brand Relevance Model.

If a brand leverages content as a new product category, rather than a component of its advertising, then this brand will have the opportunity to create "relevance".

Building strong brand relevance through content strategy

In today's world with oversupply of everything, brands are no longer just selling products and services, they also need to "sell" emotions. We call "content" a separate "product" category because this is what smart brands are exploring. They are investing in developing, producing, distributing and promoting content for the same commercial benefits as they would for a physical product.

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▲ Make snacking great again!

For example, brands can create relevance through original content, or so-called professionally-generated content (PGC). Bestore, a lesser-known snack company, has achieved sales of 5.4 billion RMB (almost 800 million USD) in just 11 years. Behind its rapid growth, Bestore has demonstrated profound insight into the consumption of snack foods, which is essentially a product category that satisfies the emotional needs of consumers. People eat snacks not because they are hungry, but because they are longing for something – fighting loneliness, for example. Content becomes especially important in the visualization of that emotion. On top of sponsoring popular TV shows, Bestore has set up a team of 15 people to create various short videos and variety shows, under the brand "Walnut TV." Many of the videos focus on creating a sense of belonging and building a community that reinforces the value of snacks.

To date, Bestore has released 303 videos with a total playback count on Tencent Video of over 35 million. Its founder Yang Hongchun says, "We are a technology company first, and a media company second." Coincidentally, its competitor Three Squirrels had the same idea. "Brand implantation in film and television is just the beginning. We also want to make our own movies and TV series with Squirrel Pictures, and invest in blockbusters in the future," says Zhang Liaoyuan, founder of Three Squirrels.

The form of PGC can be varied, but the goal remains — that is, to pull at the heartstrings of consumers.

Take NetEase Cloud Music as an example. How do they manage to impress in the face of highly personalized music consumption demands? The collaboration between NetEase Cloud Music and Nongfu Spring is a classic case. From their 400 million reviews, NetEase selected 30 to print on Nongfu Spring water bottles, so that each bottle of water is given its own theme song and story. By carefully selecting specific music reviews, Nongfu was able to evoke consumers' emotions around unique life experiences, such as "first love" or "living alone in the city." Additionally, NetEase also worked with Hangzhou Metro to print 85 music reviews on the train, touching the hearts of lonely urbanites.

"It is a lie to wish you both happiness, but to wish only you happiness is real."
"When I was young, I used to lie to my parents that I had no money. Now, I tell them that I have enough money."
"May all 'good nights' be reciprocated."

Brands can also generate "relevance" through user-generated content (UGC). NetEase tells us that what truly touches people is not necessarily the celebrity, but the connection to themselves. Linking users' personal stories to the brand is also a strategy of Airbnb. To this end, Airbnb launched "Stories", where users can share their unique experiences of staying in Airbnb homes around the world: living in a Hollywood star's house in Kenya; finding the template for my future home in Taipei; climbing up to a high tree house in Chiang Mai. The experiences of users from 158 cities across 43 countries are the best articulation of Airbnb.

Final thoughts

Is content a new "product" category? Should all brands engage in the production of content and in the business of selling content?

Brian Chesky, co-founder of Airbnb, once told a story: a girl and her sister lived in a treehouse built by their parents since childhood and had limited connection to the outside world. Then they became an Airbnb "host" welcoming interesting guests from all around the world, and their lives became more colorful. The elder sister later died of cancer, and the younger sister wrote a letter to Chesky, thanking him for the experiences he had brought to them.

Chesky was greatly touched by the story and wrote: "Technologies will change our lives in ways we can't imagine, and yet people are as lonely, isolated and disconnected as ever." He believed that Airbnb's legacy is to connect people with each other. "It is a small world – one world, one people." Airbnb is a service with customers staying in physical homes. But this inspiring story happened because Airbnb and its customers share a firm belief, which is reinforced and communicated by consistent storytelling and meaningful content that creates brand relevance rather than short-term buzz. I

HOW TO DEPLOY AN OMNICHANNEL STRATEGY

By Aurélien Rigart

Aurelien Rigart is vice president and co-founder of IT Consultis. He is responsible for the development and expansion of the company, and leading the strategy, sales, marketing and HR departments. IT Consultis is a digital firm specialized in strategy, tech, design and data, empowering the most ambitious global brands through digital transformation in fast-moving Asian markets. Rigart is also a coach for startups and other entrepreneurs, a member of the board of Directors of EO (Entrepreneur Organization) and French Tech Shanghai.

Gone are the days when OmniChannel was just a buzzword: the term has moved from being a piece of marketing jargon used to impress clients or colleagues, to the centerpiece of a sound marketing strategy. We all know that opening brick and mortar stores and setting up websites is no longer enough. Today, it is all about the customer experience. The purchasing journey must be smooth and comfortable through all the touchpoints, consistently delivering high-quality content. Collecting reliable feedback is also a must to keep ahead of the competition and understand which are the right adjustments to make. Brands strive to reach potential customers on every platform they are spending time on to drive engagement and nurture sales.

While this is true all around the world, China is the place where OmniChannel integration offers some of its finest expressions. For many brands, the Chinese market is must-play, must-win. Yet competition is fierce to the extent that some players are forced to leave, and more and more brands are finding out that the only means to stand out is through creativity, innovation, and a well-orchestrated OmniChannel strategy progressively scaled up from MVP to a fully fledged solution.

This is no easy task in China. New promising, untapped channels appear every day, requiring quick action and flexibility in order to be leveraged. To provide two examples, Douyin, a social network where users can upload short videos animated through many editing options and music, amassed over 100 million users in less than one year. Little Red Book, a social network born as a platform for users who share a common passion, is reshaping the model of social commerce. And don't forget PinDuoDuo and its disruptive e-commerce strategy. The list goes on. How can a brand be sure to be always on top of its game? In a land where competition is cutthroat, where cultural missteps are just one bad comment away, where potential customers are spread across multiple channels, deploying a clear OmniChannel strategy is essential to making the difference between winning and losing.

There are a few steps to take to create a winning OmniChannel strategy. Following them will allow your brand to make the most of your digital assets and support your business goals. To illustrate these points, we provide real-life examples of outstanding OmniChannel implementation.

Create a cross-channel infrastructure

The first step towards OmniChannel success is to create a sound infrastructure to reach all channels seamlessly. As mentioned, the number of channels from brands to customers is increasing by the day. This involves the ability to interact with brands through a wide variety of access points. On the one hand, the potential benefits are evident, and on the other hand, there are obvious potential threats to a brand's growth if you miss channels of value to you. The challenge is actually even bigger since digital giants such as Tencent and Alibaba are boosting innovation at the same pace but on parallel and competing platforms. How can you be sure to successfully deploy your assets across the whole landscape? How can you be present in all the channels while still reaching ROI? There is a digital solution to address this need: it is called a headless technology and consists of connecting all the different front-end channels to one integrated back-end. The resulting structure is a horizontally integrated framework in which the multiple consumer touch-points are all coordinated in one place, delivering seamless content to the potential customer.

Narcissism-enabler?

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This architecture is becoming increasingly popular as it enables brands to manage an OmniChannel approach. For example, The Shanghai Grand Theatre revamped its e-commerce and content platform for its upcoming 20th anniversary with the clear goal of revitalizing its digital assets in terms of performance, user-friendliness and conversion rate. To do so, the organization employed a headless architecture: it uploads content to a centralized database which optimizes and disseminates it to every touchpoint, drastically cutting initial development and ongoing maintenance costs. A headless architecture allows you to address challenges without having to start from scratch. The Shanghai Grand Theatre, which advertises its shows and sells tickets on a number of front ends, can then decide to create a mobile app, a WeChat mini program, or integrate a loyalty program knowing that in each case, a new implementation requires a smaller investment and a much better user experience for its users.

For most of the international brands, localizing their ecosystem fully often means having to redevelop a prominent part of them to play by the rules of the country and ensure full connectivity and compliance.

Blurring the lines among offline retail, e-commerce and social commerce

Once you have set up an effective cross-channel framework, you need to make the purchasing journey as comfortable as possible, so that every customer can access your products or services in the most convenient way. The second step for a successful OmniChannel integration entails blurring the lines among the different channels towards an integrated shopping experience.

But let's first address the topic of where potential customers can most likely be found. In China more than anywhere, the answer is "on social platforms." E-commerce and social commerce now overlap to the point that it is hard to distinguish between the two, with e-commerce platforms providing social features, and social networks deploying e-commerce capabilities.

The unique cultural, historical and digital features of China directly shape the online behavior of its people. Chinese users have not only embraced online commerce to the point of it becoming a new lifestyle but are also extremely active on social networks. They greatly value the advice of other network members and are willing to share their opinions with their virtual communities. Key opinion leaders are looked up to as superstars and KOL marketing is thriving. Popular influencers are followed by millions of people and, for this reason, are extremely expensive to hire. Micro KOLs are also just as popular and are becoming the backbone of the whole KOL industry. Micro KOLs in China usually have many more followers than their counterparts elsewhere in the world due to the scale of China's online population. For many brands, they could represent the best solution, especially when targeting younger consumer groups, or for products which require niche expertise.

A successful example of KOL marketing integration in a business strategy is provided by Estée Lauder. This American company is among the most appreciated beauty brands in the market and stands out for its investment in a digital ecosystem and its ability to conceive a marketing strategy which effectively embraces and integrates all channels. Instead of trying to adapt its Western marketing campaigns to China, Estée Lauder developed tailored content to target Chinese millennials. One of its sub-brands, Clinique, when launching its new skincare product Dramatically Different Hydrating Jelly, was able through the help of carefully-chosen beauty influencers to see its message resonate strongly and become trendy on both Weibo and Little Red Book. Estée Lauder understood that the key to being successful is to build an integrated ecosystem. Delivering high-quality content through many channels with the help of the right KOLs can foster engagement. The brand is moving in line with market changes and, as social media grows, so does Estée Lauder and its community. From engagement to revenue is just one small step: during 2018 Single's Day Shopping Festival it was 4th in overall beauty brand sales on Tmall.

Focus on data consolidation while being aware of the boundaries of the law

Last but not least, you need to have a clear picture of what is happening on all of your channels. Brands and companies have been concerned with data collection for a long time, and even more so in the last few years. In fact, brands are finding that data flows from every channel in which they operate and it needs to be connected to their global ecosystems to leverage what has been already built. We have indeed gotten to a point where there is too much data available. Not to

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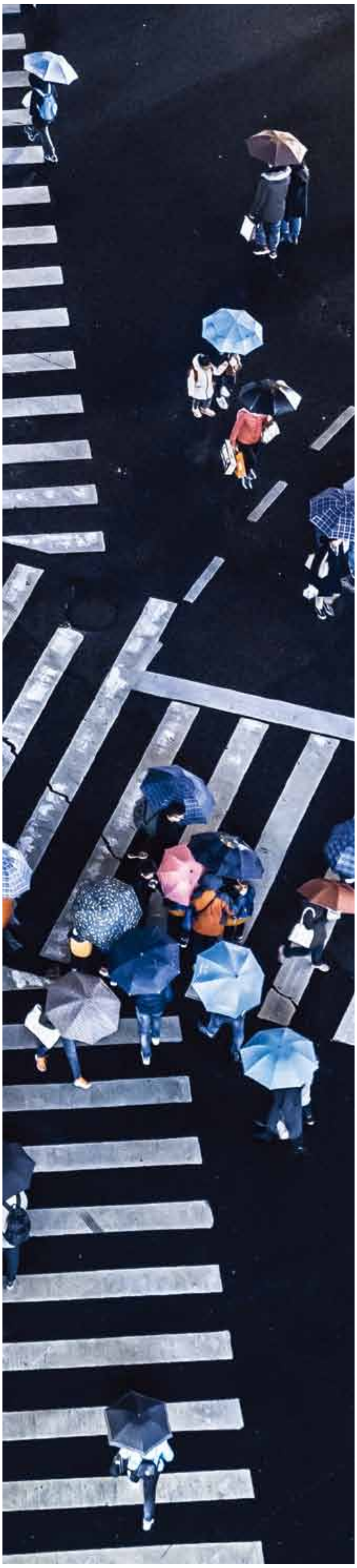
▲ #MeToo movement

mention the fact the regulations vary a great deal among countries and can even be ambiguous at times. The issue nowadays is not about obtaining data, as there are hundreds of software solutions for that purpose. The problem rather lies in how to consolidate the information contained in the flow in order to turn it into effective action without being overwhelmed by the volume and stepping outside the borders of the law.

The Chief Marketing Officer of Procter and Gamble (P&G) Mark Pritchard, in a recent interview with China Global Television Network (CGTN), acknowledged that data analysis can easily turn into a costly operation, but implementation of streamlined internal data systems can lead to a leaner and more effective approach to data consolidation and drastically cut the waste embedded in the digital world. P&G is one of the most successful international players in China. The strategy the company is following to channel the huge flow of information coming from the marketplace is that of data fusion. An internal system gathers the data coming from each market and touch point and uses it to produce a clearer view for P&G to base its marketing campaigns on.

Alibaba, through efficient data collection and management can geographically map the preferences and tastes of its customers which allows the group to adjust inventory and refurbishment in its Hema smart supermarkets according to the characteristics of the users most likely to step into a specific shop.

The benefits are not limited to the brand. With effective data integration, customers are also able to access data consistently on every channel, log in to their profiles and enjoy cross-channel loyalty rewards, resulting in a win-win situation. I



HORIZONTAL SKYSCRAPERS TO CONSUMER PRODUCTS

The Need to Truly Localize in China

By Mark Tanner

Mark Tanner is the managing director of China Skinny, a market research and strategy agency that has worked with more than 150 brands in 24 categories including IHG, IKEA, SAIC Motors, Tourism Australia, Colgate and Reckitt Benckiser. Every week, China Skinny publishes the most-read newsletter on the topic of marketing to Chinese consumers.

The city of Chongqing sprawls across one of China's most dramatic urban settings. Tall, steep banks rise abruptly from rivers bound with masterful feats of engineering, from temples to buildings to highways and rail lines clinging onto a theatrical landscape.

At its heart, rising from a historic site where the Yangtze and Jialing rivers meet, is a development that pales all around it. Raffles City Chongqing, designed by Moshe Safdie of Singapore's Marina Bay Sands fame, features a 1,000 foot "horizontal skyscraper" placed along the top of four 800-foot-high towers, and connecting with two more towers 50% higher still. When completed, the skybridge linking the buildings will be the world's highest.

China Skinny worked with IHG which plans to open a flagship hotel in the development, which will see their lobby, restaurants and entertainment options housed in the enormous "horizontal skyscraper" tube. While cities like Shanghai, Beijing and Shenzhen provide plenty of inspiration for the themes and features to be included in the landmark hotel, the group recognized that affluent residents and visitors to the city have tastes and preferences that are distinct. They wanted a proposition that was unique, locally relevant and substantiated by insights.

We were tasked with defining the best localized proposition for the development using our localization methodologies. Using numerous sources of big data and social feedback, we developed an understanding of entertainment, leisure, food and beverage preferences in Chongqing – influences both local and foreign – spanning everything from coffee consumption to the uptake of the fad for running. We could then compare consumer trends with other Chinese cities.

Qualitative research with Chongqing influencers and thought leaders, grounded in wide-ranging discussions, provided deep emotional cues and highlighted influences that cannot be gleaned from data alone. We also drew on less obvious insights that influence decision-making. An example is the impact that travel has on food and other preferences. If we look at Chongqing, there has been a notable increase in the number of direct airlinks to Thailand. Our previous studies have found that traveling to a country creates affinities with their food, lifestyle and products. With this in mind, the likelihood of shifting preferences towards Thai food was a probable outcome for the hotel group to consider in terms of their offering.

Although it will be tweaked before the opening (expected to be 2020), the hotel group's strategy for their flagship Chongqing property will need to be rooted in a deep cultural, emotional and functional understanding of the city to ensure that it connects with the target market to guarantee an excellent consumer experience and ultimately profitability.

China Skinny has since worked on many other hotel localization projects covering most of China. Each project highlights just how different consumers' preferences are from city to city and reinforces the need to understand and localize marketing strategies.

China: Everyone knows it's diverse. Most roll out a one-size-fits-all strategy

"China is like Europe with as many different states," has become a common adage for foreigners operating in China, yet in the same breath many will develop a homogenous strategy spanning the country. The sheer size and opportunity of the China market provides justification for localizing by city or region. Look at a city like Shanghai where residents have a purchasing power parity as akin to the Swiss, a GDP bigger than Thailand's and a population larger than Australia's – all countries' brands are likely to employ an element of localization.

The allure of Shanghai has seen it become one of the world's most competitive markets, and without effective marketing and products that connect to Shanghai's consumers' unique characteristics, it is difficult to stand out from competitors. But, while some folk living in Shanghai sometimes forget it, the city accounts for less than two percent of China's population, and there is plenty of diversity and subsequent opportunity beyond.

China's variances span far deeper than food tastes and weather

Anyone familiar with China will be aware of differing food preferences between regions. Disparate climates shape varied lifestyles, behavior and even the attraction of holiday destinations – even among different tier-1 cities. Brands selling skincare, for instance, would be wise to identify that consumers in the cold, dry and often-polluted winters of Beijing have different needs to consumers in the subtropical and less-polluted cities of Shenzhen and Guangzhou in the south. But the differences don't stop there.

Consumers living in Guangzhou are on average two to three inches shorter than those living in Beijing. Beijingers are also twice as likely to be overweight than the national average. Such factors can impact clothing sizes that a fashion brand should stock in the north versus the south, and it could even alter automobile size preferences, not taking into account that people in the north are much more nationalistic and likely to buy a Chinese car brand.

Features aside, to really connect with consumers, brands are increasingly attempting to do it at an emotional level. Men in Beijing exhibit much more machoistic traits than their more metrosexual counterparts in Shanghai who are known for even carrying their partner's handbag and doing the cooking and cleaning.

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▲ Macho, macho men

Even in Guangzhou and Shenzhen – two tier-1 cities which are only 30 minutes apart on the fast train – you have a completely different family structure and resulting emotional connection. Guangzhou is an established city where most unmarried millennials live with their parents, and likely see them daily. Down the tracks in Shenzhen – a village as recently as 1979 – you have a city of domestic migrants who have moved there to seek their fortune and may only see their parents once every few months, or even once a year during the Spring Festival. Family-bonding, which is deeply important in China and the theme of much marketing, will have a different meaning for someone in each of these two cities.

Understanding the functional and emotional needs in a city can also provide direction for formats and packaging, where different imagery and sizes can mean different things. China Skinny has also found that the openness to environmentally-sustainable initiatives such as packaging varies between cities.

Whilst we have only covered tier-1 cities, there is additional layer of complexity when factoring in lower-tier cities, which will account for most of China's growth in the future.

The different ways to reach consumers

When we study consumers across Chinese cities, we always research the customer journey for purchasing a product or service. Without exception, the influences, research methods and even purchase channels for the same target profile differ from one city to the next. There are TV shows and resulting celebrities that are hugely popular in the north, that southern folk don't even watch. Consumers in some cities will respond much more positively to in-store tastings than those in other cities. Apps and the social network used will also be quite different from one city to the next. Well known differences between tier 1 & 2 and lower tier cities include Tmall vs Pinduoduo (e-commerce) and Douyin vs Kuaishou (short video), and our studies have found cities like Beijing have a higher concentration of Baidu users than other big cities for certain categories. Chengdu users often have lower usage of many popular channels.

After the proposition and messaging hierarchy is defined by city, communications can be tailored to the specific location. This could be as simple as ensuring that the Pearl Tower backdrop is used just for Shanghainese consumers, right through to providing different landing pages and keywords on e-commerce and websites. Although it will take more work, ensuring communications are relevant, resonant and provided through the right channels will see much higher cut-through and conversion and a subsequent growth in ROI that is dramatically higher.

What to consider when localizing for China

For many companies, it is likely to be impractical to have a specific strategy for each different city. When China Skinny works with brands, we recommend an umbrella strategy that holds the widest appeal possible for Chinese consumers, making specific tweaks in terms of communication channels, products and target profiles by city. It ultimately comes down to understanding the differences between cities and acting upon them to maximize the effectiveness of your execution in China.

When Chongqing's horizontal skyscraper is complete, it will likely have a tailored localized charm that will appeal to residents and visitors to the region, ensuring a more profitable proposition. Whether it involves spectacular structures in the sky, automobiles or fast-moving consumer goods, there are few products and services that won't benefit from an element of city/regionally-specific localization. Go forth and tailor! I

Achieving Harmony

Localization vs. Maintaining Product and Brand Consistency

By Allison Malmsten and Sofya Bakhta

Allison Malmsten, market strategy analyst at Daxue Consulting, graduated from the University of Minnesota and has completed a capstone program at Nanjing University to speak Mandarin at a professional level. She has experience in fields such as supply chain, market strategy and public relations.

Sofya Bakhta, market strategy analyst at Daxue Consulting, graduated from F.M. Dostoevsky State University with a bachelor's degree in Marketing and Management and has completed a Master of International Business program in Shanghai Jiao Tong University. She has experience in branding, marketing and sales.

Localize too much, and you may lose your brand's authenticity. Fail to localize enough, and the product may not be to Chinese tastes. Foreign companies walk a fine line between localizing and keeping their international image. Though this is the case in all industries, the line falls in a different place with each sector, brand, and product. So how does a foreign brand work out to what extent they need to localize? By analyzing China market entry cases, we can shed light on how brands find the balance between localization and honoring their existing brand image.

Never stop learning about Chinese consumers and the Chinese market

In 1994, Dunkin Donuts promoted their store by handing out their donuts to locals in Beijing. But the sugary American snack was not palatable for average Chinese citizens, and Dunkin pulled out of China in the late 1990s. Learning from their mistake of failing to localize the recipe, Dunkin conducted thorough taste tests, and the second China entry attempt went a bit better. Using less sugary, localized recipes like mochi rings and melon flavors, Dunkin re-entered China in 2008. It still suffered, however, from low brand awareness, inconvenient shop locations, and a theme that was simply not fun enough for Chinese consumers. It was a case of third time lucky. Dunkin re-vamped its approach in 2015 and changed the focus to creating a café feel rather than a donut shop feel, as decided by international vice president George McAllen.

Entering the market without gaining traction is no use. The goal is to have sustainable success and build consistent demand. To do that requires continuous research, or sales could move to another player

▲ Like Glastonbury, but with fewer people. Photo credit Cameron Carlson that better understands consumers. Let's take the example of Decathlon's tent sales in China. Decathlon has had remarkable success with tents, but it wasn't until investigating why tents were selling so well that they realized the need to modify their products, or risk losing market share. Chinese consumers were not buying tents for camping overnight, but rather using them for sun protection during a day at the park. The best-selling tent for Decathlon in the UK is a sturdy, waterproof, two-person tent meant for overnight camping. Yet on Tmall, the best-selling Decathlon tent is a product not even available on the UK site: a family tent with only light rain protection, but UPF 50 sun protection. It is "recommended for sun protection and short rests while in parks and suburbs" and is even "not recommended for overnight use." Had Decathlon offered the same tents in China as it does in the West, it would have missed the huge market of families wanting a tent for a casual day in the park.

When IKEA was faced with consumers sleeping on their display beds and hanging out for long periods in its stores, they first tried to fight it by having employees routinely make the rounds waking people up. In the end, IKEA embraced the local culture, and set up pop-up displays in places like airports knowing that Chinese customers would enjoy a place to relax. IKEA in China has high foot traffic but low turnover, and the brand optimistically says, "today's visitors could be tomorrow's customers." The attitude of Chinese people towards shopping is fundamentally different from that in the West – they enjoy it as a form of leisure and entertainment and therefore want to more closely interact with their shopping surroundings. Muji has followed in IKEA's steps, setting up pop-up displays, and other furniture brands displays are appearing in malls.

Whether in terms of taste adaptation, product adaption, or product promotion ideas, having a dedicated development process for products aimed at the China market is a key aspect of successful market entry. The idea is not to turn your back on your identity or brand culture, but rather break down the elements that make your product popular in the local market, and study what to leave untouched and what to adapt to Chinese culture.

Branding: Know when and how to rebrand

When you read words like "baby formula, cosmetics, fast food, coffee and airlines," brand images will come to your mind. Brands influence people on a deep psycho-emotional level and building your brand image in a new market is a balancing act between your brand identity with all its history and localization of the brand's image. Entering the Chinese market requires a presentation of your authentic brand while at the same time taking into account the peculiarities of the local market.

As Qin Guo, managing partner of the branding agency BSUR, put it: "Brand is what comes to people's mind when they think of your company, making you unique and different, and allows customers to make an emotional connection with your products. Without a brand, differentiation is left up to price; putting you in a race to the bottom." An aspirational brand image can warrant premium pricing. Starbucks is a good example with prices for its coffee in China around 20% higher than in the U.S.

Reinvent your brand, or not! Deciding between local or international identity

When deciding between local or international identity, the golden mean is always the best choice. The process of working out the details, of finding and maintaining a balance between these two elements requires drawing on rich experience, deep market knowledge and professional intuition. There is no universal recipe suitable for every brand. In the pursuit of brand localization, brands must be careful not to lose individuality, charm and recognition, otherwise nothing will remain of the brand identity. After all, based on research by Daxue Consulting across many B2C product categories, Chinese consumers highly evaluate brand history and international success.

For instance, in the wine industry there is correlation between the longevity of a brand and the perceived quality. The emphasis on status has affected red wine sales in China. Bordeaux quickly became the most popular region for wines sold in China because of its rich history dating back to its formal classification as a category in 1855. According to Euromonitor International, the biggest-selling red wines in China in 2015 by volume were Merlot and Cabernet Sauvignon, which are the two most prominent grapes varieties from Bordeaux. Many wine brands have found success in China by promoting their classic and distinguished identity. Clarets, for example, have a unique history and


▲ IKEA and Muji setting up pop-up displays. Photo credit: Daxue Consulting recognized quality, a point promoted effectively to Chinese consumers.

In the baked goods industry, there is a correlation between a brand's international success and the perceived nutritional value and quality. A growing niche of Chinese consumers go to popular Western franchises such as Costa Coffee or Starbucks to buy baked products that taste the same as those in Europe or North America. They are looking for "real" European bread with nuts and a crispy crust rather than something adapted to Chinese preferences, which tend to be softer, more sugary breads. These customers "have strong brand perception and high awareness of authenticity. They want to buy French quality at a controlled price," says François-Xavier Colas of the French group Le Duff, who owns the bakery "La Brioche Dorée" in China. The strategy of these Western bakeries is to keep the original taste of wheat and grains and to offer authentic products like pretzels, baguettes, and kornspitz. For example, Baker & Spice (from the UK) is a French-style bakery offering wheat and multigrain breads, decorated cakes and delicate desserts.

On the other side of the spectrum from bakeries and wines that do not adapt their product, are brands that work hard to echo Chinese culture. To demonstrate how to successfully embrace Chinese culture in products and promotions, we can deep dive into the lipstick segment.

To launch its "Red on Fire" lipstick series, Maybelline created a mahjong-themed lipstick set, with traditional Mahjong symbols on the tiles replaced with lipstick and the Maybelline M logo on the back. Maybelline China's "Red On Fire" collection is said to have sold out in mainland China within days of its launch.

International brands can still learn much from the success of local leaders. The Forbidden City, the former imperial palace from the Ming to the end of the Qing dynasty, is the beating heart of Beijing, and it now houses the Palace Museum. The Forbidden City has launched a number of branded goods and each of them has become a hit on social media, marking a return in the appeal of traditional Chinese culture in high-end products. The last hit was a line of lipstick, which was embraced by Chinese women to the extent that it went viral on social media. The set was targeted at middle and high-end consumers and the cost or each lipstick was set at around 200 RMB (approximately US$30.00); 50,000 lipsticks and other makeup products were sold during the first ten hours after the collection's launch, with total sales reaching over 5 million RMB.

▲ Carb-loading

Both these cases highlight the use of traditional Chinese culture, but the cosmetics brand M.A.C, on the other hand, has recently dazzled fans by instead embracing modern Chinese culture. After monitoring the social media comments of its target market of young women, M.A.C discovered that people were trying to match lipstick shades with the characters from the popular mobile game, Honor of Kings. M.A.C recognized this as an opportunity, and partnered with the game to promote the exact lipstick shades for five characters, and created product packaging that aligned with the theme of the game. The result was that searches for M.A.C spiked on Baidu, the promotion exploded on Weibo, and all five lipstick shades were sold out within 24 hours of the launch.

Brand naming process: 80% research, 20% creativity

A brand name is central to a brand's image. The challenge is to present a brand competently and professionally in China, taking into account the local cultural, historical and linguistic landscape. All international companies face the challenge of China brand naming, regardless of industry or scale.

Based on Daxue Consulting's experience with brand naming, the naming process can be broken down into four stages, namely: Preparation, Name Development, Testing and Finalization.

Preparation begins with initial research to gain a comprehensive understanding of competitors in China to understand the playing field. Next, we understand a client's brand positioning and identity, with the goal of discovering the central theme that resonates throughout the brand. Researching the market landscape and brand perception in China sets the foundation for naming research. From there, we begin name development. Through brainstorming, we generate as many keywords as possible that relate to the brand, then the keywords are arranged into possible names. We do a legal check on these names, including trademark and domain checks for mainland China and Hong Kong.

The name options that clear the legal check continue onto name testing, which is conducted through focus groups with consumers and a mini-survey of 50 market insiders in the target sector.

Five to 10 top names then go through a linguistic check in Mandarin, Cantonese, Shanghainese, etc.

This process generates three to five high potential names from which a brand can choose. Without the help of local experts, creating a brand name that both appeals to consumers and resonates with your brand image is nearly impossible. Especially for a foreign brand, every step in the naming process requires research, which is why a solid naming procedure is 80% research and 20% creativity.

In conclusion, these successful China market strategy cases vary on the extent to which brands localized to the culture, yet in each case, the product and name adaptations were rooted in research. Each industry and even brand within an industry needs its own unique formula for mixing its own characteristics and history with Chinese elements, proving that there is no singe path to success in China. I

The Importance of Sleep

By Ruoping Chen

High achievers who boast about their ability to get by on very little sleep are likely fooling themselves. Even if they are not, they should know that they may be increasing their risk of developing Alzheimer's disease. A study conducted by researchers at the National Institutes of Health (NIH) last year demonstrated that beta-amyloids, a metabolic waste found in the brain (and long linked to Alzheimer's) increases after just one night of sleep deprivation. By comparing beta-amyloid levels after one night of rested sleep with one of lost sleep (subjects were awoken every hour), researchers found a 5% increase in beta-amyloid levels in the brain. While previous studies linked acute sleep deprivation with elevated beta-amyloid levels in mice, the NIH study is one of the first to demonstrate such a link in humans.

It is unclear whether the beta-amyloid buildup is due to sleep deprivation disrupting the brain's natural "waste clearing" ability or because it produces more beta-amyloids as a result of being awake for extended periods. It may be that elevated beta-amyloid levels lead to sleep problems in the first place. Regardless, a mounting body of evidence in recent years points to the importance of adequate sleep to one's short-term and long-term physical and mental health.

Consequences of inadequate sleep

"The general recommendation is usually between 7 and 9 hours," says Dr. Michaela Baum of ParkwayHealth Medical Services China, referring to guidance published by leading specialists and organizations such as the National Sleep Foundation on the recommended hours of sleep for adults (26-64 years old).

Many benefits arise from a good night's sleep. Baum explains that a well-rested person will be able to focus more on tasks and have better concentration throughout the day. "You are more alert, you are fitter... long-term benefits are, for example, you are healthier in general. You have less memory loss and are less likely [to develop] type 2 diabetes."

According to the National Sleep Foundation, risk of type 2 diabetes increases with lack of sleep because the body produces less insulin (which regulates blood sugar) and more stress hormones such as cortisol that raise blood glucose levels.

Other conditions that may develop from lack of sleep, Dr. Baum adds, include weight gain, anxiety, depression, cardiovascular diseases and a compromised immune system. A 2013 study by the University of Colorado, for example, showed that participants who slept five hours per night over the workweek and had unlimited access to food gained an average of two pounds. The body requires more energy to stay awake for longer periods, while the extra calories consumed during that period tend to exceed the extra calories burned.

Studies have also linked sleep deprivation with changes to appetite-regulating hormones leptin and ghrelin. Subjects who on average slept less than five hours a night produced significantly less leptin (low levels of which are a signal of starvation) and more ghrelin (an appetite stimulant).

In a 2018 study published by *Nature Communications,* researchers at the University of California, Berkeley, found that sleep-deprived participants felt lonelier and less inclined to engage with others. Through brain scans, the researchers observed heightened activity in a neural circuit that activates when the brain perceives potential incoming human threats. The study also recruited volunteers to view videotapes of the test subjects (both sleep-deprived and well-rested). The volunteers consistently rated those who were sleep-deprived as being lonelier and less socially desirable.

The economic cost of insufficient sleep

Insufficient sleep is more than just an individual problem. It is becoming a public health problem in many countries. The proportion of people sleeping fewer hours in industrialized nations is rising, spurred by longer work hours, a modern 24/7 society, stresses and excessive electronics usage, among other factors.

"If you check internet data, before 2013, [urban] Chinese slept longer... now the average Chinese person sleeps six and a half hours, women a little bit longer than men," says Dr. Baum. They usually go to bed at around midnight, at the upper limit of the optimal window of opportunity, according to the National Sleep Foundation: between 8:00pm and 12:00am.

One contributing factor to the sleep problem in China is that its workplace culture increasingly values long work hours. Witness for example the unspoken "9-9-6" schedule in Chinese tech firms, where employees work from 9:00am to 9:00pm, six times a week. But employers and policymakers should consider the economic costs of a sleep-deprived workforce that operates on reduced productivity and with elevated mortality risk. A 2016 report by the RAND corporation found that the U.S. sustains economic losses of up to US$411 billion per year and an equivalent of 1.23 million working days per year due to insufficient sleep. Workplace accidents are often linked to sleep deprivation, not to mention the rise in healthcare costs associated with it.

How to get a better night's sleep

In today's high-stress corporate world, it may be hard to "find the time" to get enough sleep each night. For these individuals, Dr. Baum recommends that "when they are sleeping, they should make sure that they have a good sleep with deep sleep phases [REM sleep]."

To maximize uninterrupted sleep, light should be blocked out as much as possible and the room should be comfortably cool, as "your body temperature should go down. This helps to achieve quality deep sleep."

Other methods to help achieve quality sleep include not drinking alcohol before bedtime, because while alcohol allows the body to fall asleep faster, it reduces REM sleep. Exercise, especially in the morning, will also help in extending deeper sleep cycles as it kickstarts one's body clock for a day of activity and nighttime rest. I

A Cautious Reform Diagnosis

By Nicholas Consonery

Nick Consonery is a director and head of China Engagements at Rhodium Group, an independent economic analysis firm.

Every quarter Rhodium Group and the Asia Society Policy Institute produce the China Dashboard, a public research project meant to inform policy and business discussions about reform in China. Our Dashboard assesses whether or not the Chinese government is implementing the set of economic reforms that it committed to in the Third Plenum of the 18th Communist Party Congress in November 2013. The Dashboard is an objective attempt to assess whether those reforms are succeeding, based not on rhetoric or commitments but on actual data.

The latest Winter 2019 edition of our China Dashboard went live in mid-February.

Latest Dashboard findings shows reforms not playing through

In this edition we find that reforms are not driving decisive change in economic data in almost all major areas where the Chinese government has committed to progress. This is a continuation of what we observed in the previous Fall 2018 edition. In eight of the ten major reform clusters we track, Beijing is either making no observable progress or conditions are backsliding – meaning that data movement contradicts reform objectives.

Here is one example: to measure whether China is opening its capital markets to foreign investment, as promised in the Third Plenum, we measure the sum of cross-border capital flows as a share of China's GDP since 2013 commitments were made. If China's capital markets were opening, we would expect that number to increase and converge with levels in advanced economies.

Instead, at 6.9% of GDP (as of the third quarter of 2018), China's cross-border flows are still well below levels seen in developed markets. And more concerning, those levels have actually fallen, from 8.25% in 2013 when the Third Plenum commitments were announced. This is an important indicator that China has not become more open to capital inflows and outflows over the past six years, despite some ostensible policy progress in that time period.

We see modest forward movement in only two areas: environmental policy and the promotion of innovation. In other areas, we find that reforms are either stuck in neutral (cross-border investment flows and financial reform) or deteriorating (state-owned enterprises, trade, competition, fiscal affairs, land, and labor).

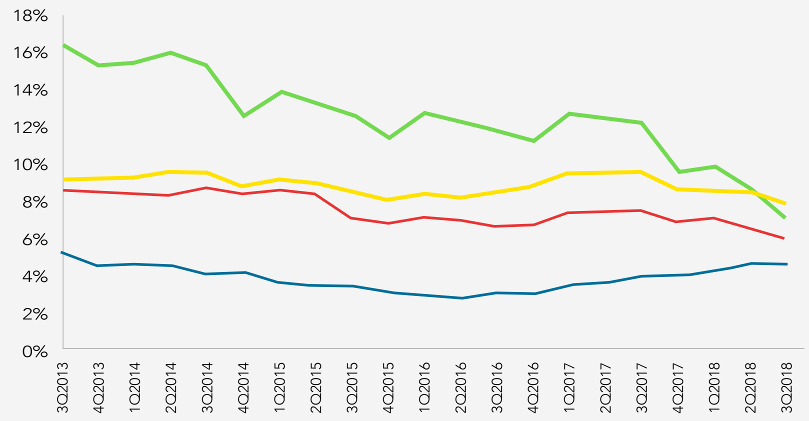
Competition policy indicators are among the most concerning.

For foreign firms in China, the economic reforms of highest importance are those that affect competition conditions within the China market, such as to policies that allow Chinese state-owned enterprises (SOEs) and even private firms to compete on an unequal footing with foreign peers, and also generate spillovers of excess production into global markets.

Our latest Dashboard shows that major benchmarks of fair competition are deteriorating, even as an overall slowdown in China's economy highlights the importance to China's growth outlook of attracting more foreign investment. These findings are consistent with recent survey work done by the American Chamber of Commerce in Shanghai, including its *2018 China Business Report* from last July, which flagged persistent levels of concern among U.S. firms about a lack of regulatory transparency and increasingly challenging competition from SOEs. Indeed our findings show that China's domestic competition policy regime exhibits substantial shortfalls in areas like transparency and equal treatment, despite several years of regulatory and bureaucratic reform in these areas.

Indicators of SOE reform are among the most concerning: SOEs are growing, not shrinking, in China's economy today. Dash-

Figure 1. Return on Assets by Ownership Type, 3Q 2013 – 3Q 2018*



Source: State-owned Assets Supervision and Administration Commission, Rhodium Group.

**HMT = Hong Kong, Macau, and Taiwan.*

Private Enterprises' Return on Assets
HMT & Foreign Enterprises' Return on Assets
Shareholding Enterprises' Return on Assets
SOEs' Return on Assets

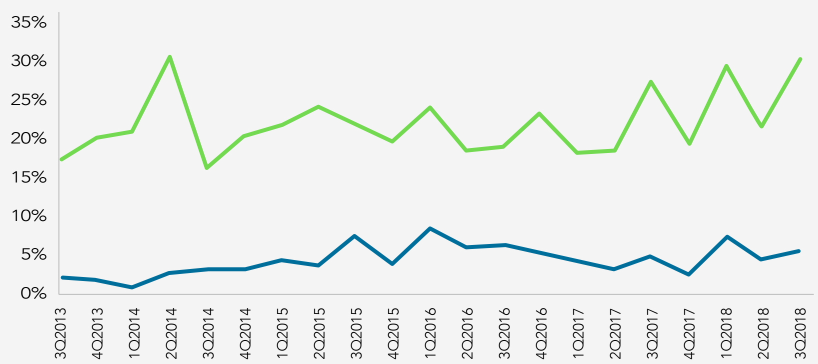
board indicators measure SOE's share of industrial assets in the economy, leverage rates, return on assets, profitability, and share of employment. Over the past year private sector firms were hurt disproportionately by government-led capacity cuts and controls on credit, while SOEs enjoyed better pricing power, maintained access to credit, and sometimes were able to acquire troubled private firms.

These trends continue: only SOEs saw increased returns on assets (Figure 1), lower leverage ratios, and improved debt service capacity in the latest Dashboard review. Meanwhile private firms' share of industrial assets fell to 13.1% in 3Q2018, down from 13.9% in the same period a year prior. This adds to global fallout over the unlevel playing field between private and foreign firms in the China market.

Our primary indicator of competition conditions is a simple count of mergers and acquisitions (M&A) reviews conducted by China's State Administration for Market Regulation (SAMR). This indicator is highly relevant today, in a context of growing uncertainty about China's M&A review process as Beijing was unwilling to approve a number of high-profile deals cleared by other global competition regulators.

Our indicator shows that foreign firms are targeted disproportionally in M&A reviews, despite bureaucratic reforms announced at that National People's Congress in March 2018 which were meant to level the playing field. SAMR reviewed 30% of eligible M&A deals involving foreign firms in the latest Dashboard review period, compared with just 6% of domestic deals (Figure 2). All supplemental data point to continued weaknesses in China's competitive environment: judicial transparency remains inadequate and SOEs maintained preferential access to capital despite their declining pricing power.

Figure 2. China's Treatment of Merger Reviews, 3Q 2013 – 3Q 2018



Source: Ministry of Commerce, Bloomberg, Rhodium Group.

Percentage of foreign-involved mergers reviewed
Percentage of domestic mergers reviewed

Nowhere to go but up?

Our Winter 2019 Dashboard edition comes just weeks before the U.S. and China face a deadline in economic negotiations, wherein the U.S. is insisting on fundamental structural reform to China's economic system in areas like industrial, innovation and competition policy. U.S. negotiators have implied that any deal will be contingent on U.S. ability to verify whether policy promises drive outcomes aligned with market principles and transparent governance. At the core of the U.S. ask is for Beijing to implement long-standing promises to reduce market access barriers for foreign industry, diminish the role of the state in driving industrial outcomes, and open financial markets to market forces and fair competition. Our Dashboard was built to gauge exactly whether these changes are happening.

A course correction is possible, and certainly the Dashboard reveals plenty of room for improvement. If Beijing implements meaningful and structural policy changes, perhaps in the context of negotiations with the U.S. or perhaps on its own accord, our Dashboard indicators would improve. In some discrete areas we already see modest progress, such as increased foreign investment inflows related to new openings offered in Chinese equity and bond markets, or a reduction in import tariffs imposed on highly-protected goods. But these changes have so far proven inadequate to move our overall reform gauge in a positive direction. I

On Data Governance

Q&A with Samm Sacks

By Doug Strub

Samm Sacks is a Cybersecurity Policy and China Digital Economy fellow at New America. She leads "Charting China's Data Governance," which publishes translation and analysis of policies related to cross border data transfer, data security and privacy, and the implications for artificial intelligence (AI). Her new study on Data & Great Power Competition assesses different data regimes emerging across Europe, Asia, and the United States in comparative context. Previously she was a senior fellow at CSIS, where she authored a widely cited report on how Chinese cybersecurity standards impact doing business in China. She received a MA from Yale University and BA from Brown University, and reads and speaks Mandarin.

Could you give an overview of China's data protection regimes?

There has been a patchwork of different laws and regulations that have touched on data protection for years. Since the Cybersecurity Law was implemented in June 2017, we've seen the government accelerate efforts to build out data governance in a more comprehensive and coordinated way, including numerous regulations and standards meant to flesh out the details. The Cybersecurity Law laid out high-level principles related to two categories of data – one which is called "important data," and the other "personal data." In addition to the Cybersecurity Law there are a number of other laws, for example, the Consumer Protection Law and the E-Commerce Law, that touch on this issue.

I think it's first important to unpack what is "important data" and "personal data." In a piece recently written by Dr. Hong Yanqing and published on the Cyberspace Administration of China's website, he said that personal data relates to having autonomy and control over one's data, but important data refers to the kind of data that would affect national security, the economy and people's livelihoods. There's no official definition yet of important data. We're expecting a regulation to come down sometime in the next year that would put some more meat on the bone around that meaning and the different requirements around it.

My colleague Graham Webster and I just launched a new project at New America called "Charting China's Data Governance." We have a timeline of major developments as well as ongoing translations and analysis as this regime continues to take shape. Beijing is likely to make this topic a priority in 2019.

How does this impact businesses and individuals working and living in China?

Even though there is still a lot of debate and discussion inside China about what these rules mean and how they will be implemented, we've already seen both foreign and Chinese businesses facing increased scrutiny over the way they handle personal data. This year four ministries announced an audit that launched in January where they're going to inspect 1000 mobile apps in services from food delivery to online payments, looking specifically at how the apps are collecting personal information. The Cybersecurity Law laid out a broad requirement that there must be consent to collect and use personal data. There's a lot of uncertainty around what exactly that means, but government regulators are already beginning to look more carefully at what businesses are doing.

They also wrapped up at the end of last year a separate audit where a number of apps were inspected and they published what they called a "black list" – they were all Chinese apps that were found to have excessively collected personal information. These included Ctrip, which is a popular travel website, and Tencent's QQ Music. This is something that companies are definitely already beginning to feel the squeeze on.

That's interesting. Has it only been Chinese companies, and they haven't found

fault with any foreign companies' apps?

I have heard that foreign companies have been visited and there's been discussion around their collection of personal information. But these particular audits, which were published in Chinese media, only focus on domestic companies. I think that is consistent with a pattern we've seen under the broader rubric of the Cybersecurity Law, which is that the majority of enforcement action so far has been focused on local companies.

The thing about standards is, unlike the Cybersecurity Law, they're not technically mandated. They're considered recommendations for industries to follow. The problem is, in practice they can be required in order to do business in China. If a company needs a certain certification or to go through an evaluation to get a license it's like a form of regulation. And then the question is, what is the process like to get the certification. So I think these standards need to be in some ways treated like laws in the way that companies are preparing for them.

You have also written that these regulations could potentially be used as a tool to retaliate against U.S. companies if trade tensions continue to escalate. Have you seen any evidence of this happening?

I haven't seen any evidence yet that standards have been used as a form of trade retaliation. It's a tool that's available to the Chinese government and regulators if they so choose. The language in standards is quite vague, as with any kind of Chinese law. To give you an example, one of the issues that's been a longstanding concern for the U.S. business community in China has been the phrase "secure and controllable," and what requirements certain kinds of products and it, and it's effective, because you get a score based on all this criteria." The problem is that when we broke down some of those standards, the language of the criteria is still highly subjective and open to interpretation. So if we get in a scenario where there's a sort of tit-for-tat between

▲ Somewhere in here you will find your pictures

services must meet to be deemed secure and controllable.

There's been pushback because there's no official definition of secure and controllable. But now there's a whole batch of standards, and these standards are meant to provide details to measure security and controllability. There's a graded metric that certain kinds of products and services undergo, where they get a score to see how secure and controllable they are. This is something the government can point to and say "this is transparent and we have a definition for

Beijing and Washington this could be a channel to put up barriers or inflict costs on businesses in China. Again, I have not seen examples yet.

Given the vagueness of the language, do you have any advice on how companies can mitigate concerns over how these laws will be implemented?

I always say "In China you cannot be in a reactive position, you have to be proactive." I think sometimes there's a tendency to wait until a certain regulation comes down and then prepare to comply with it.

We have a sense of what's in the pipeline. A lot of these standards are still in draft form, and the same with a number of the regulations – specifically regulations around data protection. So use this opportunity to get ahead and prepare to comply with them before you have to. And don't assume that just because something is a voluntary recommendation for industry that it won't be required in practice to do business in China.

The other thing is, as I mentioned, Chinese companies have been hit particularly hard from an enforcement standpoint on these issues. This is an area where I think there's a kind of counterintuitive alignment between U.S. and Chinese companies. Chinese companies who are operating abroad don't want to have restrictions on sending data across borders. This is an area where I think it's important to work with stakeholders in the Chinese system that have a shared interest in how these regulations play out.

Technology has been playing an increasingly prominent role in U.S.-China tensions, and terms like "Digital Cold War" and "Digital Iron Curtain" are appearing more frequently in the media. Is this just sensationalism, or are we really entering a Cold War-type technological standoff?

What I'm seeing is there's sort of a perfect storm brewing both in Washington and Beijing, which increases the risks of the so-called "Digital Iron Curtain." But I think those terms are problematic. In Washington you have a whole of government effort, which is aimed at what we call technology decoupling between the U.S. and China. It's not just focused on Huawei, though that gets a lot of media headlines. Last fall you had a Department of Justice initiative where they basically said "we are giving a green light to the law enforcement community to pursue any case of a Chinese company or individual involved in criminal economic activity." You have an expanded and beefed up Committee on Foreign Investment in the United States (CFIUS) review process, where Chinese investment here is going to undergo much more scrutiny than it has in the past.

At the same time you have a new export control regime. There's a category in it for emerging and foundational technol-

ogies, which is still being discussed. It's not clear yet what that's going to mean in practice, but it will require greater attention to make sure that any kind of export involving these broad categories from AI to semiconductors has the appropriate license and review process. Then you have the U.S. government going out to partners and allies around the world saying "Don't use Huawei in your 5G networks because there's a national security threat." And just a general pressure from Washington for companies to unwind supply chains that involve China. My sense is that unwinding those supply chains is extremely difficult to do in practice. These are highly integrated systems from the perspective of research, development and manufacturing, but there is pressure to do it. So that's kind of the view from Washington. I think there's been a sea change that's happened, where China is now seen as an existential threat and technology is at the center of that.

Meanwhile, in Beijing you have the administration of Xi Jinping doubling down on reducing reliance on foreign suppliers in what are deemed "core technologies." Again, there's no official definition of "core technologies" – that's something that changes and could be very political. But it could include things like certain kinds of semiconductors, operating systems, or hardware involved with AI – the list goes on. We've published on this topic on New America, so I point you to our DigiChina website for more discussion on what exactly "core technologies" is.

Then you also have the potential new market access barriers related to this vast cybersecurity legal and regulatory system. So I think it's a perfect storm between Washington and Beijing. The problem is, decoupling comes with enormous costs. Unlike a Cold War scenario, we have a high level of integration right now. And I think there's a misconception that innovation just flows one way – that China steals IP and technology from Western companies and therefore we need to pull out and put up barriers. But the reality today for a lot of U.S. companies in cutting edge fields is that being in the China market is not just because of its scale, but because of the kind of innovation that's going on in areas like AI, it's also a net gain. And it's important to have that kind of joint research and development going on. Otherwise we could be falling behind as well. So I think this whole tech Cold War concept is dangerous, because it implies that we're going to cut off from a highly integrated system where there are benefits. The question is how do we weigh that against the real national security and market access challenges that this administration is taking on.

How can the U.S. prevent escalation of these technological and cyber tensions between the two countries while still protecting its national interests?

A concept that my colleague at the Council on Foreign Relations, Lorand Laskai, and I have written about is what we call a "small yard, high fence." This wasn't our phrase – I believe this was from former secretary of defense Robert Gates – but the idea is to identify what needs to be protected and erect strong barriers to do so. Don't take a blunt instrument approach where any sort of Chinese company or individual is targeted as a security threat. One area where I think this is going to be important is the export control regime. The Commerce Department is in the process of figuring out how do we scope these broad categories of technology to figure out where we need to erect more barriers. They're taking comments from industry and I believe there's a good faith effort to find the right balance. But it's going to be very important to have that dialogue between industry and the U.S. government. Otherwise we could end up with broad categories, which is the opposite of the small yard, high fence approach. The important thing is, let's not discriminate based on national origin, let's be more targeted in our approach. I

Implications of China's E-Commerce Law

By Sara Xia

Sara Xia is an attorney at Harris Bricken. She splits her time between the United States and China advising companies on corporate and business operations and transactions, with a focus on China related cybersecurity and data privacy compliance. She also works on international commercial litigation and arbitration matters. Xia has law degrees from the University of Washington School of Law and Shanghai University of Finance and Economics.

China's new E-Commerce Law has been in effect for a few months now and in this article I discuss its expected impact on various e-commerce players.

E-commerce and e-commerce operators

The E-Commerce Law defines "electronic commerce" as business activities related to selling goods via information networks such as the Internet, as well as services that provide news, audio and video programs, as well as publications, cultural products and other content services provided via information networks. It expressly does not include financial products or financial services.

E-commerce operators include individuals, legal persons and other organizations that operate an e-commerce business. The E-Commerce Law puts e-commerce business operators into the following three categories:

1) Platform operators. These are entities that provide virtual space for online vendors, act as a go-between for transactions, or provide information to parties in transactions that enable them to carry out business activities.

2) Operators on e-commerce platforms. These are vendors that sell goods or services on e-commerce platforms.

3) E-commerce operators. These are entities that sell goods or services through self-established websites or other network services (e.g. social media sites).

The legal definition of an e-commerce operator covers most online sellers and selling activities, which means the E-Commerce Law applies to e-commerce platforms such as Taobao and JD.com, to any vendor on any of these platforms, as well as to an individual selling as *daigou* on a social media app such as WeChat.

The Law requires all e-commerce operators to register as market entities, except individuals who sell their own agricultural and agricultural byproducts or handcrafts, or who carry out occasional and small transactions. The Law further requires all e-commerce operators report and pay taxes according to applicable laws and regulations.

In addition, e-commerce operators must do all of the following:

1) Display their business license and any administrative permits, or provide a statement making clear that they are not required to register. If an e-commerce operator voluntarily discontinues its e-commerce business, it must notify the public by continuously displaying at least 30 days in advance of the date on which it will cease conducting its e-commerce business;

2) Disclose information regarding its goods or services in a comprehensive, authentic, accurate and timely manner so as to protect the consumer's right to know and right to choose;

3) Provide non-targeted options if it provides targeted search results based on the consumer's interests, habits or other personal traits;

4) Not use any tie-in sale as a default option;

5) Clearly set forth its procedure for refunding any deposits collected. This procedure cannot set unreasonable refund requirements.

Additional rules applicable to e-commerce platform operators

The E-Commerce Law specifies additional obligations and responsibilities for e-commerce platform operators.

First, e-commerce platform operators must build comprehensive systems for product and service evaluation, keep records of goods and services published and transacted on their platform, and establish fair and transparent rules for their platform services and transactions.

Second, e-commerce platform operators must verify the identity, business registration, tax registration and any other required permit or licenses of any on-platform operator. If any on-platform operator does not have proper registration, the platform operator must remind them of their noncompliance and offer them assistance in registering. If the platform operator discovers that an on-platform operator does not have administrative approval for certain goods or services, or reports that an on-platform operator to relevant government authorities if its goods or services do not comply with the requirements for personal or property security or are prohibited by law or regulation, the platform operator must report such noncompliance to relevant government authorities.

Third, the E-Commerce Law makes a platform operator jointly and severally liable for goods and services sold by its platform operators that do not comply with personal safety or property security requirements if the platform operator knew or should have known about the failure to comply. If an e-commerce platform operator fails to verify the qualifications of an on-platform vendor for selling goods or services related to consumer health the platform operator will be liable for any harm caused to consumers. This entails diligent and comprehensive investigation and verification by platform operators before allowing individual businesses to sell anything health related on their platforms.

E-commerce platform operators are also required to establish rules for intellectual property protection and to cooperate with IP owners to enhance intellectual property protection. If an e-commerce platform operator receives notice of IP infringement it must take necessary actions, such as deleting, blocking or disconnecting links and terminating transactions or services that infringe

* Notice of the Ministry of Commerce, the National Development and Reform Commission, the Ministry of Finance, the General Administration of Customs, the State Administration of Taxation, and the State Administration for Market Regulation on Improving the Supervision over Cross-border E-commerce Retail Imports, 六部门关于完善跨境电子商务零售进口监管有关工作的通知, Shang Cai Fa [2018] No.486, the "Notice."

on an IP holder's rights. If a platform operator fails to take timely action it will be jointly and severally liable for any additional damages caused by such infringement. In practice, many of the e-commerce platforms have already established rules for IP protection. For example, if you find a supplier on Alibaba using your trademark or a copyrighted photo without your authorization, you can report the infringement to Alibaba (along with proof of your IP rights) and request Alibaba take down the infringing product page or photo and it usually will. Because China's e-commerce platforms operate mainly within China, proof of IP rights in Chinese or certificates issued by Chinese authorities will usually lead to faster platform operator action.

E-commerce platform operators must also utilize technological measures to ensure the security and stability of their networks and platforms so as to safeguard electronic transactions.

Contracts, dispute resolution and other aspects of e-commerce

The E-Commerce Law also provides rules regarding formation and performance of e-commerce contracts, delivery of products and services, payments, and dispute resolution.

Impact on foreign businesses

Certain provisions in the E-Commerce Law will directly impact cross-border e-commerce activities. For example, article 26 of the E-Commerce Law requires e-commerce operators that engage in cross-border e-commerce to comply with China's import and export laws and regulations. Chapter 5 of the E-Commerce Law, Promotion of E-Commerce, provides that China shall promote cross-border e-commerce development, establish and improve the management systems of customs, taxation, entry-exit inspection, payments and other systems relating to cross-border e-commerce, and support cross-border e-commerce platforms in warehousing, logistics, customs declaration and inspection services. Accordingly, several national level government agencies have issued their own rules, circulars and other administrative rules for cross-border e-commerce businesses.

For example, six government agencies have issued a notice regulating cross-border e-commerce retail imports. This Notice defines "cross-border e-commerce company" as a company formed outside China that sells to consumers in China from overseas. According to this definition, all foreign businesses that sell goods to Chinese consumers at a retail level can be considered cross-border e-commerce companies.

This Notice also requires cross-border e-commerce companies register with China customs through a company registered in China and report real-time transaction data of retail imports. It is not entirely clear how these requirements will be enforced. Theoretically, all cross-border e-commerce companies must register with Chinese customs and comply with all applicable requirements and China customs will block entry of any goods that violate these requirements. It will though be difficult for foreign companies, especially smaller businesses, to comply with these requirements. China customs will likely enforce these requirements by blocking noncompliant goods from entering the country or by shutting down the websites of foreign sellers that do not comply. Already, some foreign department stores that used to ship directly to China for their online sales have switched to opening shops on large Chinese e-commerce platforms (such as Tmall) through a Chinese distributor or subsidiary. Others have pulled out of the Chinese market entirely. I

Board of Governors Briefing

Highlights from the January 26, 2019 meeting

CHAIR'S REPORT

The Chair nominated Eddy Chan and Christine Lam to continue serving as vice chairs. He thanked Helen Hu for her service as treasurer and nominated Han Lin to replace her in that role.

With regard to the Finance Committee, the chair said that the treasurer is normally the chair of that committee. The other members will be the Board chair and Helen Hu.

The chair explained that the Ethics Committee must consist of non-BOG members. The current chair is Tom Ward, and since he was elected to the Board he must be replaced. The chair nominated Helen Yang to join the committee. The president pointed out that the Ethics committee selects its own chair, once the Board has appointed the members.

The chair suggested no changes to the Compensation Committee. Eddy Chan will continue as chair, with the Board chair and David Basmajian as members. Walker Wallace was nominated to the position of Board counsel.

NANJING OFFICE

Leon Tung, YRD director, reported that the Chamber's Nanjing Center broke even after three years. Membership has doubled since 2016, likewise the number of events. In the future, the Nanjing Center will emphasize briefings over breakfast events. Following initial success, the Leadership Development Forum (LDF) is expected to grow participant numbers. The Nanjing Next Summit, themed around blockchain, was cited as an example of the further potential of the Nanjing Center.

MEMBERSHIP GROWTH INITIATIVES

Membership sales manager Eric Waugh presented the targeted growth initiatives that will be used this year to help grow the membership base. The initiatives are designed to not only grow overall membership numbers, but also help drive deeper engagement of employees within existing corporate members. Several growth initiatives were announced including a new Alumni Membership Program (AMP) and a focus on attracting many of the high growth technology startup companies in Shanghai.

MEETING ATTENDANCE

Governors: Eric Zheng, David Basmajian, Eddy Chan, Helen Hu, Nancy Leou, Simon Yang, Stephen Shafer, Tony Acciarito, Tom Ward, Han Lin, Grace Xiao

Regrets: Jonathan Heimer, Christine Lam

Attendees: Wallace Walker, Ker Gibbs

The AmCham Shanghai 2019 Board of Governors

Eric Zheng

Chairman of the Board of Governors

Board Vice Chair

Eddy Chan

FedEx Express

Board Vice Chair

Christine Lam

Citigroup

Treasurer

Helen Hu

International Paper

Tony Acciarito

Thermo Fisher Scientific

David A. Basmajian

APCO Worldwide

Han Lin

Wells Fargo

Stephen M. Shafer

3M

Tom Ward

PIM China Ltd.

Grace Xiao

UCB

Simon Yang

Aptiv

Committee Chair's Corner

With James Chou, chair of the Technology and Innovation Committee

James Chou is the CEO of Microsoft for Startups Shanghai where he leads the effort within Microsoft to scale up the business for some of the best and most innovative start-ups in China. He has more than 20 years of experiences in the TMT space in China and the U.S. Before joining Microsoft, he was a serial entrepreneur and a venture investor. He has founded or co-founded three hi-tech companies in China. Previously, he served on senior management positions at AsiaInfo and UTStarcom, two of the earliest NASDAQ-listed Chinese technology companies. Prior to that, he worked at Hewlett Packard and NEC in Silicon Valley for 7 years.

By Ruoping Chen

As new chair of the tech and innovation committee, what are your priorities for 2019?

I have been having discussions with Jessica and others and then learned more about the needs of AmCham Shanghai. The highest priorities are, one, digital transformation — using technology to help traditional businesses with their digital transformation. Second is to help connect startups with corporate innovators. For digital transformation, because it has to be crossed with different verticals, I have to work with different committees, whether it's with the financial industry for fintech or manufacturing for Industry 4.0.

You are the CEO of Microsoft for Startups Shanghai. What is the startup scene like in China today? For the past few years, it seemed to have been booming. Have we hit a plateau?

For the last 18 years I've been living China, and have witnessed China's startup scene over that period. First of all, it used to be what we call "C2C," copy to China. You copy a successful U.S. business model into China. In the last few years, Chinese startups have mainly been doing a lot of what they call business model innovations. A lot of B2C type startups have been very successful in China and have evolved into unicorns or even IPO'd. Currently I think there is definitely a big shift in the startup scene to certain B2B and deep tech kinds of startups. Now that's extremely popular, especially in the areas of AI, blockchain, cloud, robotics.

For the B2C type of companies, there's already BAT plus other players. In the past, when startups were just simply raising money from VCs, just doing business model innovations, there was no barrier and they could just compete with each other on efficiency. I think in the coming years they may have a hard time raising money because large Chinese LPs no longer fund Chinese RMB.

How many years do you think it will take for autonomous driving to be the norm on the road?

You have different levels, so there are levels 4 and 5 of autonomous driving, and then you have levels 2 and 3 of autonomous driving. For levels 2 and 3 (partial automation and conditional automation), we have seen these already being deployed by Audi, Bosch, etc. We have also seen levels 2 and 3 autonomous driving being used in last-mile delivery, some restricted areas on the highway or maybe in a port warehousing scenario. But for levels 4 and 5, which involve automated systems that can control the vehicle at all times, including severe weather, that probably has a few more years to go before it gets commercial-wide deployment.

Where do you see the biggest growth in tech in China?

Right now AI is really a two-horse race between the U.S. and China. I think the U.S. is more advanced in certain kinds of basic research, but China's startups have an advantage in terms of data. In order to do AI you need massive data. China, with all its mobile phones and where people are not as concerned about privacy as compared to the U.S., has an advantage in getting data, which is very important for AI. The other big growth areas are Internet of Things (IoT) and 5G in the horizon. Those will drive a lot of interesting applications and use cases.

To what extent do you think the economic downturn and trade war affect the tech sector in China?

To a certain extent, the trade war has not affected the tech sector that much yet as compared to other sectors. Actually, I see this

as an opportunity for the tech sector in China, as the majority of tech companies here are still focused on the China market. Because of the trade war, the Chinese government wants to develop more deep tech in China, through government policies or funding. And you have talent in China or returnees from overseas formulating those deep tech companies. Some companies (like Huawei) will of course face headwinds if they want to export. Likewise, some U.S. tech firms who sell to China, such as the semiconductor industry, also feel some pressure if the U.S.-China trade talks don't go in a positive direction.

As for the economic downturn, I see opportunities in B2B. Because of increased labor costs, a lot of businesses right now need to do digital transformation, using technologies to increase their productivity.

What do you think will be the biggest challenges for foreign businesses in this sector moving forward? Is it domestic competition, IPR, or something else?

I think they will be facing more challenges in the China market because China wants to develop their own technologies. We've already seen in the past that there's a trend of getting rid of, for example, Oracle, (Dell) EMC, IBM and developing more IoEs "in-house." As Chinese companies get more sophisticated, you also see, for example weaker Apple earnings. They blame the China market, but in reality, China's mobile phone companies are getting very sophisticated themselves and building very high-quality products at more reasonable prices. So that's a challenge that you see in terms of competition, more than it is a political thing. Chinese companies are more agile, they move more quickly, they're getting more competitive. I have also seen the dilemma that some foreign tech firms are facing, in that, on the one hand, the China market is huge and tech firms generate a lot of revenue from China. On the other hand, they worry they may lose their IP rights.

Before joining Microsoft, you were also a serial entrepreneur. Can you impart some words of wisdom to budding entrepreneurs? What advice or lesson can you draw upon from those days?

First of all, when you want to be an entrepreneur, you have to want to do something in a huge market. For whichever vertical you want to be in, there has to be a huge market size opportunity.

Second, the team is very important. You have to build a strong team, because it's not just going to be a one-man shop. If you want to dream big, make big, you need to form a very good team. You need to have a balance, with a project manager who knows how to define the market, define a product, find business opportunities. You need to have a good CTO to build the product for you, and you need to have good operations people to help you sell or make everything happen.

The third is, you need to think about whether your company can build sustainable barriers. That means whether or not your products or services can create any differentiators. For example, you have some unique technologies — these are sustainable barriers for others to enter this market.

And fourth, is it a scalable business model? When you first start, you can find some beachhead customers through which you can test the product or services you want to offer. Then, you have to think about whether the business model is scalable and then you can scale up and/or scale out the business very quickly. I

Event Report

AMCHAM'S AUTOMOTIVE LOOK BACK/ LOOK AHEAD CONFERENCE

This conference, attended by 90 auto industry executives, provided an overview of both the industry's current status and of what is shaping up to a be a very different auto landscape from those that developed in Europe and the United States.

In his opening remarks, Bill Russo, chair of the AmCham Auto Committee and founder of consultancy Automobility, set the tone for the morning: "The U.S. and Europe are very different from China, where people move around on wheels they don't own." He deconstructed some of the data around the current auto sales decline in China, offering hints of optimism that have been absent in the mainstream press.

Liqing Shao, senior project manager of the Industry Research Division at CATARC, followed Russo's opening remarks with an overview of the EV and auto pilot market. Next, Yu Zhang, managing director of AutoForesight, an auto industry forecasting firm, gave an assessment of industry's stalled growth in 2018, as well as projections for 2019. The final presenter was Bevin Jacob, partner and co-founder of Automobility. Jacob categorized the evolution of vehicle and system architecture and spoke about several less-publicized trends that are poised to similarly reshape our understanding of automobiles.

AMCHAM HOLDS GPS BRIEFING ON PERSONAL DATA REGULATORY RISKS

On January 15, AmCham Shanghai's Government Policy Support (GPS) series hosted a briefing by Control Risks partner Ben Wootliff and associate director Carly Ramsay. They gave an overview of personal data developments, including regulations and their enforcement, and discussed key risk areas and how to manage these risks, particularly for companies that manage large amounts of personal information. Until recently, China's policy framework for personal data regulation was fragmented across a series of laws, standards, and sector-specific regulations. Now, China is in the midst of building one of the world's most comprehensive personal data regulatory regimes. Last May, the Personal Information Security Specifications came into effect, putting in place a strict set of rules that companies must abide by to manage their data. Companies need to be aware of how regulators view data, what data is targeted, and the risk environment within their organizations. All companies should conduct internal data assessments to ensure they are compliant with Chinese regulations and build risk-based Cybersecurity Law response programs. This year, the GPS program will hold nine workshops across three tracks: supply chains; U.S.-China relations; and R&D and innovation

AMCHAM SHANGHAI LAUNCHES ITS WORKPLACE WELL-BEING PROGRAM

On January 23, AmCham Shanghai hosted a workplace health seminar on how to create a healthier and happier environment for employees. More than 50 companies participated in the first event of AmCham's new Health and Well-Being Program. Anthony Chong Yuen Fatt, vice-president human resources APAC at Saint-Gobain China; Charlie Chen, chief operating officer and financial officer at Deutsche Bank; Karin Anna, director of wellness at EF Education First; and Chuan De La Hosseraye, founder of AWB health spoke to the attendees about their strategies to incorporate employee wellness into company practices and drive better employee retention, customer satisfaction, and business performance. Jack Guo, vice president of IWBI Asia, led the participants for a 10-minute wellness exercise during the break of the seminar. Participants straightened arms, clenched fists, opened shoulders and stretched their ribs to relieve the fatigue and stiffness from sitting, and felt relaxed afterwards. The Well-Being Program enables member companies to implement the most effective wellness activities around medical, nutrition, fitness, emotional wellbeing and environment. Whether you're a small or large business, we can help you create a program that will work for you and your employees.

2018 AMCHAM SHANGHAI CHINA OUTBOUND INVESTMENT FORUM

On February 20, the Shanghai Municipal Government hosted Amcham Shanghai for a roundtable discussion about Shanghai's business environment. Representatives from Shanghai's Government included Deputy Secretary General Shang Yuying, Shanghai Development and Reform Commission DDG Zhu Min, Shanghai Customs DDG Dai Yonghua, Environmental Protection Bureau DDG Su Guodong, and representatives from twelve other agencies. The three-and-a-half hour discussion delved into various issues pertinent to American business interests in Shanghai, including healthcare drug registration and procurement policies, environmental and land-use regulations, cross-border trade environment, tax issues, Shanghai FTZ policies, opening up the financial industry, and talent policies. The AmCham delegation asked 31 questions on behalf of member companies. The Shanghai Municipal Government highlighted their effort to be more responsive to American companies and encouraged American businesses to engage directly with the government. Secrtary General Shang also promised written answers to members' questions in the following weeks. This meeting provided a valuable opportunity for open discussion about how Shanghai's government can better serve the American business community. AmCham Shanghai will follow up with many of the agencies to schedule briefings, dialogues, and other engagements on behalf of our members and the broader foreign business community in Shanghai. I

Discussing the future of autos

AmCham Shanghai

AmCham Shanghai President Ker Gibbs at Member Briefing

Active Participation

Shanghai Property Market Forecast

Since 1915
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Delving into China's New Innovation


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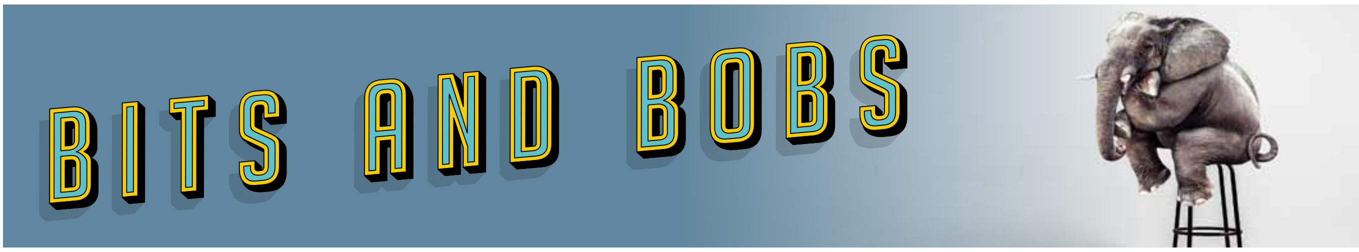
Month in Pictures


Update on China's Manufacturing Outlook


All smiles


Panel on the Future of China's Automotive Industry



The snippets below are drawn from the Weekly Briefing, the Chamber's email newsletter. In addition to business, economic, legal and trade matters, it occasionally touches on the more lighthearted, perplexing or downright crazy aspects of life in the Middle Kingdom.

A Little Red Book for the 21st Century

One of the most popular apps in China is not the one that involves inane lip synching and dance moves, nor the one likened to the Buzzfeed of China. Inconceivably, it's "Study the Great Nation," a little red app recently launched by China's Communist Party. It has been described as a multi-functional propaganda tool that dispenses education on Xi Jinping Thought and… Xi Jinping Thought, with token nuggets of Chinese history and poetry thrown in.

As the *New York Times* notes, users can catch up on the latest Xi Jinping (state-approved) news, quiz themselves on Xi's policies and pronouncements, and, when they tire of Panda Cam, watch a show called "Xi Time." Study points are awarded to the best Xi stans (you get one point for every article you read or video you watch). The app's popularity might be ascribed to "encouragement" by universities and local governments for Party members to download it. Surprised Pikachu face.

IMAGINECHINA

▲ First step to enlightenment: Xi Jinping Thought

AI too Effective for Corrupt Officials

The Chinese government has harnessed the power of AI to assist in its ongoing anticorruption campaign. But they've encountered a problem: it's too effective. The system, dubbed "Zero Trust," accesses more than 150 private central and local government databases to cross reference variables ranging from bank statements and car purchases to housing demolitions, contracts for infrastructure projects, and personal connections. It then produces sophisticated social relationship maps and behavior analyses, calculating the probability that an official is corrupt.

Zero Trust was launched several years ago in 30 lower-tier counties and cities and was curiously kept away from political power centers. Despite the pilot areas making up just 1% of China's total administrative area, the system has caught nearly 9,000 corrupt officials. In fact, it's so effective that many local governments are shutting it down. Why? According to one researcher, officials "may not feel quite comfortable with the new technology."

▲ The visible hand of corruption

Girls Just Wanna Have Fun

Once upon a time, there was a magical land in Shanghai called Perfect Space, where women of certain means were doted upon by young, buff male models in tuxedos, as they sipped champagne in luxurious elegance. Alas, Perfect Space is no more. Recently, police shuttered the upscale club after it was leaked online that one male escort had received 28 extravagant gifts from a female client for his 28th birthday. The not-so-miserly benefactions included an Audi (model unknown), a gold cup and RMB 280,000 in cash, according to the *South China Morning Post*.

A recruitment notice that allegedly was posted on the company's official Weibo account offered tempting salaries of over RMB 80,000 and at least RMB 1,000 in tips for every customer served. No illegal activity would be involved, the notice claimed, which would seem plausible had the young buck in question received a Volkswagen for services rendered. That Perfect Space went unnoticed by authorities for several years may be due to its workaday registered name: Shanghai Wangzhongde Dining Services.

▲ YOLO

Startup Launches Autonomous Taxi App

Pony.ai, one of China's leading driverless car start-ups, launched a pilot ride-hailing app that enables customers to book driverless taxis to certain preset areas and locations such as Pony.ai's offices in Nansha, Guangzhou Province. For now, only Pony.ai employees and VIPs can use the app. The program allows Pony.ai to gather the data needed to build software for autonomous vehicles. The cars are sourced from local Chinese automakers such as BYD and GAC. The company hopes to expand its fleet of vehicles from 20 to 100 cars this year and eventually scale up the program to be able to compete with Didi Chuxing, China's reigning taxi app king.

Pony.ai is one of many companies pouring money into the development of connected and autonomous vehicles. Didi Chuxing and Baidu are trying to develop their own vehicle fleets. WeRide.ai, another Guangzhou-based Chinese startup, has also tested out its driverless software with local taxi companies.

▲ Hippies required

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