



gems

INSIGHTS FROM EMERGING MARKETS
OCTOBER 2011

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Dear Readers,

Recent months have been turbulent and economic uncertainties, including a fear of double-dip recession, are plaguing the developed world. The United States and Europe continue to have high unemployment rates and the US Census Bureau reported that it estimates as many as 46 million Americans live below the poverty line – the highest number in the last 52 years since the Bureau has been publishing figures on the subject. In Europe, the specter of Greek debt default continues to hang like the sword of Damocles, threatening the existence of the Euro and the economy of the world.

As seen in the 2008 crisis, the concept of developing markets being insulated from this economic turmoil is a myth. The IMF has toned down its growth forecasts for both China and India for 2011 as well as 2012. The effect of falling stock markets is actually normally more pronounced in such times, and Asian stock markets have taken a much bigger hit this year than Western bourses. However, despite the slowdown in developing markets, China's foreign exchange reserves surged by \$ 30 billion in the first 6 months of this year to reach a jaw-dropping \$ 3.2 trillion – making it perhaps the only country or institution which can really attempt to rescue the Euro. In a kind of role reversal, it now seems to be the turn of the developing economies to help the developed ones. At the World Economic Forum meeting in Dalian, China, Premier Wen Jiabao declared that China is willing to help debt-laden Europe by increasing its investments.

Looking at these facts, would it seem that the traditional classification of developed and developing, or mature and emerging, markets is no longer tenable? That the markets are becoming more homogeneous, and maybe marketing needs to become more homogeneous too? However, the macro picture of the growing might of developing economies still hides the fact that a large proportion of the population in these economies lies at the base of the pyramid and can at best be referred to as lower middle class consumers. While the Chinese nation may be lending money to Greece and Italy, Chinese consumers in general still lead a much poorer lifestyle than their European counterparts. Hence while the macro distinctions blur, the micro differences at the consumer level remain significant, and we still need to continuously identify what are the specific shades and nuances of the needs of consumers in emerging markets, and what are the best techniques for understanding them.

In this issue of GEMS we present to you another set of insights from emerging markets. We hope you find these to be of value.

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marketing

Marketing to the emerging market consumer

10 things that brands must do differently to succeed in emerging markets

Success and failure in emerging markets

In our past issues we have often written that while the opportunity in the RGEs (rapid growth and emerging markets) is substantial, success can be elusive. We have also dwelt on the impact that the different demography has on the sociology and psychology of consumers and brand choices. This article shares some of our observations from working with brands in emerging Asia and Africa. It neither purports to be a comprehensive checklist, nor a brand bible on how to succeed, but merely lists some useful pointers.

1. Inform and be prepared for the information to be carefully scrutinized

With their first exposure to consumption experiences, emerging market consumers are "scrutiny shoppers". They seek, evaluate, and engage every time they make a purchase. Even the most mundane of categories are rarely purchased on autopilot. Consumers are on a constant prowl for new possibilities – better prices, new deals and promos, new brands and new benefits. Brands need to engage continuously through offering not just detailed information, but stimulation as well.

2. Educate first and then invest into emotion

Emotional appeals are strong draws in emerging markets as well. However, consumers must usually be educated on the functional relevance of the category before they can be lured in by the emotional promise of the brand. Kellogg's low frequency of use and penetration in most Asian markets is as much a result of local palates as it is of the absence of a rational reason to believe in the category benefits.



THAILAND BY SUBHASHISH DASGUPTA, TNS SINGAPORE

Marketing to the emerging market consumer

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3. Hygiene factors can also be decisive factors

Functional benefits like whiteness in laundry, correct billing by telephone companies, and germ protection in personal wash are taken for granted and usually do not represent platforms for differentiation in developed markets. In EMs, these remain critical drivers of choice – partly because hostile living and environmental conditions demand greater functional efficacy and performance; and partly because consumers for the longest time have lived in a suppliers' market with little choice, experiencing many brands that do not deliver what they claim.



4. Focus on earning trust

In developed markets, brands and companies are held accountable. Products are recalled for sub-optimal performance. Emerging markets in contrast have had to deal with sub-optimal quality, unmet promises and lack of responsiveness and accountability. The melamine milk crisis in China and the pesticide in Colas in India are vivid examples. Consumers in these markets, as a result, are wary and often skeptical about claims. Trust, therefore comes through as one of the most important drivers. Brands that have invested in building trust have become strong, dominant and almost impos-

sible to dislodge. Nokia, Colgate, Tata, Lifebuoy, Fair & Lovely in India continue to be rated as the most trusted brands year after year. This is reflected in their market performance. A clear and consistent plan to build and monitor trust pays dividends.

5. Deliver to dreams

The high economic growth rates translate to a high level of consumer confidence and optimism. While consumers in the West are more worried about preservation, their counterparts in the developing markets are focused on improvement, and dream of a better future. Brands must reflect and communicate visible aspiration. Dove's real beauty campaign in India shows accessible aspiration rather than the harsh reality of aging or damaged skin (unlike the award-winning campaign in the West). This aspirational quotient of a brand must be integrated into any measurement or interpretation done in these markets.

6. The importance of 'We'

Despite increasing individualism, these markets are still collectivistic. Family brands continue to be successful, partly because they are practical and partly because neither the homemaker nor the people she cares for object to being targeted as 'part' of a family. It also implies that disruptive, edgy brands need to tone down the message. For example, inter-generational conflicts or one-upmanship over the mother-in-law, appealing as they are universally, cannot be shown as they could appear too disrespectful and confrontational.

7. Multiple truths and realities coexist

It is often said that if something is true in these markets, the equal and opposite is almost always also true. There are many Indias and many Chinas – languages, cuisines, climates, incomes, religions. A brand that aims to be a large player needs multiple activations and adaptations of the message, packaging, product formats and pricing. Be prepared to run different creatives in different regions and city tiers.

8. Changing, yet traditional, gender roles

The woman is changing faster than anyone else. She has become more equal and is feeling more empowered. Empowerment and

individualism however do not mean that she is relinquishing her role as the nurturer, the homemaker and the keeper of values. She does not subscribe to feminism, a concept from western societies. An ardent believer in the power of her beauty and femininity, she unapologetically admits that beauty is not just a contributor to, but a critical factor for success. Crossing over or diffusion of roles is frowned upon and a good marriage is as important, if not more so, than professional achievement. Brands targeting women must address this modern face of Asian womanhood that combines empowerment and individualism with femininity and preserving traditions.

9. Celebration of national pride and identity

As emerging markets become more successful, consumer confidence also grows with them. Consumers in these markets are accepting local brands with pride, and in fact expect international brands to tune into the local culture. There is a revival of cultural pride as is evident in the receptivity of traditional ingredients in brand propositions. Many successful brands are building strong emotional bonds with the consumers by celebrating and reinforcing national pride.

10. Status and recognition are key

Upward mobility must be rewarded with social recognition. Consumers spend more on what can be seen than what is not. Home spends are more on the exteriors and on the front room than in family living spaces. Make sure that brand communication reinforces the social reward of using the brand, and in the process charge a premium.



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trust

The importance of being earnest

The role of trust in marketing to the emerging middle class

Crisis of trust

Brands have been a bit battered in the last few years, with a multitude of factors having created a crisis of trust in large corporations. From cynicism fuelled by the recessionary environment, to a growing clamour for authenticity and a growing reliance on consumer reviews on the Net in favour of messaging from paid media, there are several manifestations of consumer scepticism that brands in the west are dealing with today.

It might seem like beating a familiar drum, then, if we talk about the importance of trust to the emerging middle class consumer. But trust in emerging markets means very different things from what it does in developed markets, and understanding these differences can yield valuable rewards to marketers who get it right.

The inclement environment for trust

The socio-cultural environment in emerging markets has not really been conducive to the generation of trust. With many of these countries topping the charts with respect to public sector corruption, the man on the street lives with the implicit assumption

that dishonesty in everyday life is normal and to be expected. This feeling transfers itself onto brands as well, and is frequently reaffirmed in actual experiences of substandard quality, poor responsiveness and lack of accountability. Lack of education, poor awareness of consumer rights and an inefficient judicial system combine to create an environment where fake brands, defective products, incomplete information and poor after-sales service are commonplace.

Consumers therefore tend to be wary and sceptical of claims, and brands in emerging markets need to work hard to earn trust. Research across categories throws up 'trust' as one of the most important drivers of brand choice – one that is not just a hygiene expectation but requires conscious and continuous investment.

Trust Pyramid

If we think of the various components of trust in a hierarchy, the ability and intent to deliver what's promised are possibly the fundamental elements of trust, and dimensions like integrity and responsibility come into play after these start to be taken for granted.



Globally, trust in corporations means the belief that they are 'doing what's right' at a macro level – it implies fair practices, transparency, and the larger social and environmental interest not being subservient to business interest. While it also means product quality and delivering on basic promises, this is something that is taken for granted and is a hygiene aspect of the trust equation rather than a differentiator.

In emerging markets, however, trust is still very much about delivering on promises and guaranteeing a basic level of product and service quality. Emerging middle class consumers still evaluate brands on the bottom two dimensions, and delivering well on these still has the potential to be a true differentiator in these markets.

Key contributors to trust in emerging markets

Interestingly, unlike the west which has been experiencing a loss of confidence in big business, emerging market consumers tend to place more faith in large brands and companies. An established reputation is obviously a huge trust builder; going beyond this, large national (or multinational) brands mean 'standard', consistent quality, and are assumed to conform to better, more stringent standards than local ones. In the wake of the melamine scare in China, for example, consumers turned en masse to foreign brands of milk powder. By the same logic, factory-produced, standardized products are considered superior to artisanal, cottage industry produce. And large stores and retail chains are believed to have more reliable and transparent pricing when compared with small traditional stores where bargaining is the norm.

Size itself is simply a heuristic for multiple underlying trust-building factors, which are important to bear in mind when building brands for the emerging middle class:



The importance of being earnest

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one

Stability, solidity, something identifiable that can be held accountable if things go wrong. A 'system' or 'organization' that can impose external control on individuals is a source of reassurance in a low-trust culture. High visibility in the environment seems to be important to convey this solidity. For example, brands advertised on TV tend to be trusted more readily than those advertised on the Internet – even in a relatively more 'digital' market like China. In fact brand display at retail outlets in China is often supported by claims of "advertised on CCTV" – CCTV being the national, state-owned TV network behemoth.

two

Authority, which in a high power-distance culture is a surrogate for credibility. Credibility comes from above when power-distance is high – from someone "bigger and better" who knows more than ordinary folks do. This is widely seen in the way celebrity endorsements work in India and China. Domain expertise is not a criterion for source credibility; apart from popular celebrities, admired and respected people in the public domain work as endorsers of brands across categories – in some cases, their only credentials being that they are believed to be people of integrity. For example, a well-known senior police officer in India endorses detergent and skin care brands, while Jackie Chan endorses more than 40 brands in China.

three

Power, scale and muscle – and the ability to influence and control an uncertain environment. In a high power-distance culture, buying into size is the equivalent of aligning with the stronger side and therefore smoothening one's path. People choosing telecom service providers in India gravitate towards the network that is the largest in their city, with the assumption that they will have access to better technology; big durable and auto brands have better service networks; bigger FMCG brands are better distributed and are therefore more easily available.

four

And finally, size has an assumed 'proof of performance' built into it – the belief that it must be good if enough other people have bought into it. Cuing proof of performance either indirectly ("one million motorbikes sold") or directly (via sampling, demos, performance-focused advertising) goes a long way in creating trust.

Trust is potentially a huge differentiator for the emerging middle class and consumers in general in emerging markets, especially when it comes to durables and service brands. There are few brands that have managed to get it right, and consistent on-ground delivery continues to be a challenge across these categories. Investing in building trust by delivering at this basic level can yield rich returns.



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digital

“Digital Friendly” LatAm

Digital Life of the Latinos

In spite of Latin America having significantly lower Internet penetration than developed regions – 38% vs. 77% in North West Europe and 77% in North America – it is estimated that the region will experience the greatest growth in the coming years. In 2011, Latin America’s Internet population (aged 15 and older) reached over 112 million, with Brazil being the largest online market with 40.5 million users, followed by Mexico and Argentina.

However it is not just the size of the digital population in LatAm which makes marketers sit up and take notice; it is the unique character of the online world here which makes it a natural and attractive medium for marketers to connect with consumers. To use a cliché – Latin Americans are known as loquacious, warm and friendly people, and rightly so. It is natural, therefore, that these characteristics of the Latinos spill over to their digital life, and we find that Latin Americans are chatty, warm and friendly – in their digital life too!

According to Digital Life, a ground-breaking research study conducted by TNS in 46 countries, Latin Americans feel that the Internet enables them to have the freedom of expression they don’t have in the offline world (44%), it improves the relationship they have with other people (44%) and allows them to express their feelings (34%). So if we take the cultural characteristics of Latin America and connect them to their perception of the Internet, it is easy to understand why Latin Americans feel like a fish in water in the digital world, and why the LatAm online scene is one of the most vibrant and interesting in the world. At the same time it would follow that implementing a digital strategy in Latin America is very different from doing it in other parts of the world, and offers its own challenges and opportunities. Cultural conditions and online behavior which give the LatAm digital world a unique character have significant implications on design of the digital strategy too.

Interestingly, while like most of the world the place where people access the Internet most frequently is at home, the importance of Internet cafés is higher than average. In Mexico Internet café access rate (20%) is higher than in any other country in the region, certainly because of its low cost (US\$1 an hour), but also perhaps owing to the natural affinity of the people for places which offer real-life social interaction and online interaction at the same time!

Latin American consumers are more open to brand interaction on the Internet than consumers in developed markets

In the offline world, an average consumer is exposed to 1,200 brand communications a day, which might lead us to think that after this bombardment, consumers might not be that willing to interact with brands in the online environment. However, here Latin America shares a common trait with many other developing markets – consumers are still open to brand conversations.

But what kind of conversations should brands have with consumers in LatAm? We give below a few guidelines and examples for developing effective brand communication in the digital world that are applied in Latin America or could be applied in this region.

8 Mandates for Brands in the Digital world

1. Ensure your digital strategy embraces mobile. The increase in penetration of smartphones has made the Internet available to consumers in a way they have never experienced before. Mobile Digital has a significant role that impacts consumers’ lives in many ways – providing them with any-time access, instant gratification and information to help them make better choices. Converse understood this and released an app to create a virtual shopping experience allowing users to try and see who fits a pair of shoes; if they fit, they can order them through their mobile or save an image of themselves wearing those shoes and put it in a gallery.



2. Make digital an integral part of your strategy. This is true whether you are a brand of ice-cream or a prospective president of a country. Dilma Rousseff is the first elected President of Brazil who, at least partly, owes her success to the digital medium. Not only did she make history by becoming the first female President of Brazil, but she is also one of the very first candidates in the country to apply an extensive new media strategy to a political campaign. Her social media strategy included Facebook, Twitter, Orkut, Flickr and YouTube, combined with a website and a blog to keep people up to date with her messages and appeals.



3. Make consumers active participants in your brand. 5 out of 10 consumers in the region visit a social network daily. Argentinians are the most social, with 6 out of 10 visiting a social network every day. Argentina, Brazil and Mexico are in the top 15 countries of Facebook and all continue to grow. For the first time in Brazilian history, the number of Facebook users in Brazil passed Google’s Orkut (according to a study released on August 2011): 30.9 million Facebook users vs. 29 million Orkut users. The typical Latin American digital consumer follows and/or is a friend of an average of 5.5 brands in social networks. Although promotions and special offers are key drivers of brand interaction in social media, it is not all about personal benefits. 4 out of each 10 Latin Americans are following and/or are fans of a brand because they like it. The initial motivation may be to look for a good deal, but ultimately brands can also build engagement and strong relationships with their consumers in a digital environment.

Unilever in the UK exploited this trend and launched a Facebook campaign called Unilever VIP, under the slogan “Help guide the future of the brands you love”, where people can give advice on what the brands need to do next, or give ideas that will inspire the company to go beyond where it is now.



4. Making the consumer’s life easier through digital. Latin Americans value convenience and expect the Internet to make their lives simpler. Follow the example of CVS pharmacy in the US, which developed an app to find the nearest CVS

location, order prescriptions and refills, and view detailed drug information. Meanwhile, Walmart’s app in the US helps you to find the products you’re looking in every Walmart store, wherever you are.



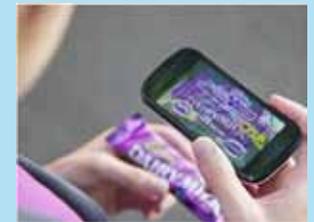
5. Talk with consumers in their own environment. Think of what consumers want in a specific situation – if they want fun, give them entertainment. Mexican app enterprise Kaxan Games developed a game for the iPad called TacoMaster. This game is currently the most downloaded app for the iPad around the world (after being released on August 4).



6. Stay close to the consumers – even when they are on the move. Given the Latin character, it is natural that they will take every opportunity to connect. Foursquare, the geo-localization platform that allows more than 1.5 billion users to check-in in a place and obtain a recommendation, tip or special offer,

has found much resonance with the Latin consumers, and brands need to carefully examine the opportunities offered by this platform.

7. Combine digital with real life. Latinos want to be able to move between the real and the digital in connecting to brands. Thinking of this Cadbury released a new augmented reality game “Spots V Stripes”. The augmented reality app allows users to take part in a digital game where they view a Cadbury chocolate bar through a smartphone camera and play with it.



8. Draft a strong e-commerce strategy. 5 out of 10 digital consumers in Latin America have bought online in the last month, against the global average of 6 out of 10. This might seem a small figure, but let’s consider that although online shopping is not high in the region, browsing before making a purchase is significantly higher. For example, in Mexico 65% browse for products and services before making a purchase in the technology category (software, computers, TV, etc.).



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finance

Mobile Finance – The Great Awakening

Tracking mobile life

TNS has been running a global research programme studying consumer mobile behaviour for six years now. We and our clients have used this data to meet different marketing objectives – including trying to predict which niche mobile services were ready to break into the big time. We predicted that Instant Messaging would break through and cannibalise SMS, that mobile video was ready to take off big time and that consumers would get sick of browsers run by mobile operators and move to dedicated mobile browsers.

When we looked at mobile finance, there seemed to be zero momentum and zero interest from consumers. With hindsight, the reason for this was that we were looking in the wrong place. Finally the understanding of mobile finance actually came from the African mobile consumer – not as we expected from the consumers in developed markets. Recently, Safaricom reported that their M-Pesa service in Kenya clocked up 306 million transactions in 2010, worth Sh 727.8 billion (£4.9 bn). So let's put this into context:

- Across 10 African markets that we surveyed, 7% of consumers with a mobile had used mobile banking services. Of these, 70% were using the service on a weekly basis. Of those not using them already, 74% would like to take up these services.
- The leader out of these markets was Kenya, where 18% of consumers have been using mobile finance services.
- If we compare this to Western Europe for example, only 14% of mobile consumers have used mobile financial services, and only 48% of non-users want to take up the services.
- Of the financial services that people are using, the most popular are buying airtime for their phone, reading account details and paying bills.

So, why has Africa leapfrogged the developed world in using mobile finance?



Drivers of mobile finance

While there are enough potential drivers of mobile finance in these markets to write a book on, there are three specific dynamics that stick out:

Trust

It is no surprise that trust plays a critical role in the development and growth of many services in Africa and also other emerging markets like India. Not surprising when we consider that over half of East Africans polled paid bribes to access public services that should have been freely available, according to the 2009 East African Bribery Index.

When we asked consumers in Kenya their major reason for using mobile financial services, 27% of mobile users cited trust as the main driver. It is no coincidence that there are many companies in the developing world that deliver almost every service you can imagine to consumers – as once they gain trust, consumers will use them for almost anything. A company like Tata, for example delivers everything from mobile phone services to cars to energy. We can go even further back to when South Korea was considered an Emerging Market, to see how Hyundai, LG and Samsung were able to establish themselves as local conglomerates. Mobile operators in Africa managed to secure consumer trust through their mobile service and were in a position to leverage it for other services.



Mobile as primary device

We are used in the West to growing up using many different devices for every need we can possibly think of. Consumers in developed markets own on average 4.8 electronic devices. In the emerging world, this is just 2.1, and in India it is 1.1. For many consumers, the mobile is the first electronic device that gives them their first access to digital music, digital photography, Internet browsing and even daily news. They do not have a legacy of using different devices for different things, and the mobile becomes the sole device for all of their needs. Consumers in emerging markets are, therefore, already used to and more willing to accept the mobile as a multi-use device. Hence when the use of the device was promoted for financial transactions, there was no resistance to its acceptance.

Poor general infrastructure

In Kenya 60% of the population live more than 5 kilometres from a sealed or tarmac road, making it virtually impossible for financial institutions to service consumer financial needs with ATMs or bank branches. As such, the M-Pesa mobile money service thrives, utilising traditional trade retailers as the activation and receiving point.

Unlike the developed world, where most consumers have several, not just one, banking relationships, consumers in the developed world are often cut off from formal banking services and do not have a bank account. The mobile phone and the service in such a case gain another dimension – of serving as a bank account!

The reverse flow of innovations

Mobile finance is just one example of how the practical needs of consumers in emerging markets help foster innovations. Where previously we have seen companies trying to import Western innovations into emerging markets, the flow is starting to work the other way. Netbooks took off in a big way a couple of years ago in developed markets, but were originally an innovation designed to meet the needs of consumers in emerging markets. There has been a lot of talk over the last couple of years about the rise of BlackBerry Messenger with younger consumers in markets like the UK, but services like MXit in South Africa were the first to really deliver these services to millions of people (MXit has more than twice as many users as Facebook in South Africa). When considering finance in the developed world, we have seen the evolution from Cash to Cheques to Credit and finally to Chip; the mobile and an NFC (near field communication) Chip within the mobile is only one more small step in this evolutionary chain. In many emerging markets however, Credit and perhaps even Cheques do not exist, building a much stronger need and reason for adoption of the Chip and mobile Chip.

Placed in this context, mobile finance is just one example of the drive and optimism that is flowing through the sub-Saharan African continent.



Implications

The implications of this success story are pretty obvious if you are a company in the mobile or finance industry. The only question that remains is who will control these services going forward – for now, the mobile industry controls the consumer relationship and therefore the equity and trust of the consumer.

For consumer goods companies, the rise of mobile finance offers phenomenal opportunities to drive traction and growth in markets that can be difficult to navigate. Services will develop quickly from money transfer services to contactless payments and direct debit services. Through partnering with these services and the companies delivering them, consumer goods companies have another distribution route to the consumer. Availability of mobile finance will help to drive consumer confidence in financial services, encourage spending and help to drive the market for consumer goods in general.

What about the developed markets – will the success of mobile finance in the developing markets inspire a similar growth the developed world? We feel that mobile finance will also catch on in the developed world, but the different environment and the multiplicity of consumer choices will possibly inspire a different form of development.

This article uses data from the Mobile Life study, surveying 35,000 consumers in 43 markets. Visit www.discovermobilelife.com for more information.



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Luxury

Luxury with Chinese Characteristics

While the sinking finances of Western consumers have prompted them to temporarily halt their indulgences, Chinese consumers continued to march ahead on the gilded road of luxury and rewarded the luxury goods industry with healthy growth in the last two years.

While rapid economic growth and the swelling ranks of the rich are definitely fuelling the market, there are also clear cultural factors which make the Chinese more attracted to luxury products than some other markets. The old Chinese saying “yi jin huan xiang” 衣锦还乡 (return home in golden robes) expresses the phenomenon of using visible symbols to reflect your success. Having succeeded, it is important to make sure that your achievement is noticed and applauded. But at the same time traditional Chinese values do not suggest sticking out or drawing undue attention to oneself through conspicuous behaviour or consumption (“qiang da chu tou niao” 枪打出头鸟- the bird who sticks out his head gets shot!). Why then are Chinese consumers lapping up expensive symbols of luxury? Apart from economic and cultural factors, we feel that there are a few other elements serving as psychological fuel for the luxury market in China.

Yes, we can

In China there is near universality of ambition – almost everyone dreams of and strives for success. As compared to other societies which are more class-based (social or economic), and people blessed or cursed by the advantages and disadvantages of coming from specific backgrounds or bloodlines, the relatively flat social structure and the fact that all money is “new money” puts everyone on a relatively equal footing in their endeavour for success. In a similar vein, not many symbols of success or achievement are available to display as the absence of “background” provides little opportunity to display your success other than through the symbolism of whatever your new money can buy. Luxury goods provide easily recognisable symbols or markers of having reached certain milestones.

Absence of price anchors

Dan Ariely in his book “Predictably Irrational” talks about the concept of arbitrary coherence. We tend to assess the value of goods and services in relation to certain anchor benchmarks or comparison standards (which sometimes can be quite arbitrary and irrational). In countries like India, which are also booming economies, but where there has been a historic continuity of consumption, consumers have grown up with products and services which were low-priced but still delivered acceptable quality. In relation to these historical anchors it is more difficult for Indian consumers to accept the high prices of luxury goods. But in China where there was a long discontinuity in the consumption of quality products, many consumers have no anchor of what a good quality handbag, watch or car should cost – making it easier for them to accept the high prices of luxury goods.

Perception of luxury goods and those who buy them

In China the history of branding and availability of quality goods is rather short. Over the last 20 years, Chinese consumers have discovered that money generally buys superior quality, and hence expect expensively priced luxury goods to deliver matching value. Chinese attraction to luxury products, therefore, is also driven by an expectation of high quality. Chinese consumers look at consumers who buy luxury goods as successful people with good taste who want to enjoy life. And qualities consumers are willing to pay for are not just exclusivity and uniqueness but also simple high quality and durability.

As an implication, for luxury goods manufacturers, it is equally important to ensure and deliver product excellence and exquisite craftsmanship, as it is to project a luxurious and exclusive image.

In China, there is no inverted snobbery or “old money” looking down on the ostentatious behaviour of the “new rich”, considering them as wasting money and superficial. This

Perception of luxury buyers



feeling discourages the use of luxury products in developed markets, and in fact makes it fashionable to appear casual and use moderately priced products. This sentiment restricts the market for luxury goods in developed markets, but because of the relative homogeneity of the society (e.g. all money is new money) does not appear to make a strong dent in China.

Evolving needs and additional drivers

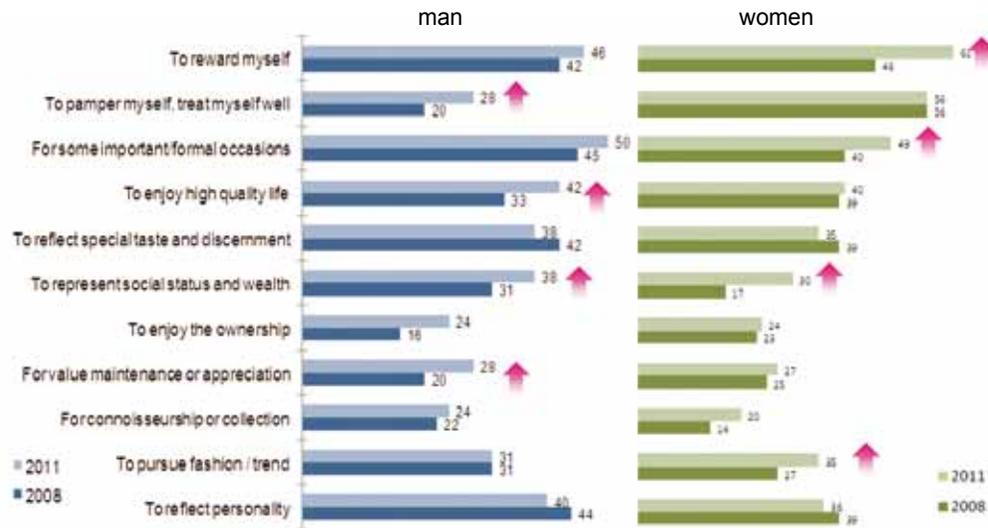
Luxury is inextricably linked with status. Indeed as mentioned earlier one of the prime motives of buying luxury is to display one’s status. When China’s luxury market first took off, status was the key driver of the market. However over time consumer needs evolved and several different segments emerged. One of the growing segments is the self-reward segment, whose growth demonstrates that the market for luxury is not just driven by expressive needs but also increasingly by gratification needs. Chinese consumers today are as willing to spend to make the right impression as they are willing to splurge to reward themselves and make themselves feel pampered.

The second growth segment is that of connoisseurship, where the consumers are driven by a genuine appreciation of the quality and craftsmanship of the product. Here the enjoyment comes as much from cherishing and savouring the ownership of the product as it comes from proudly displaying it. Clearly “status” is not going away and will continue to be the anchor need for a large number of consumers – particularly the relatively new consumers and those from the lower-tier cities. However, marketers need to acknowledge all the different segments and

Luxury with Chinese Characteristics

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Motivations for buying luxury goods

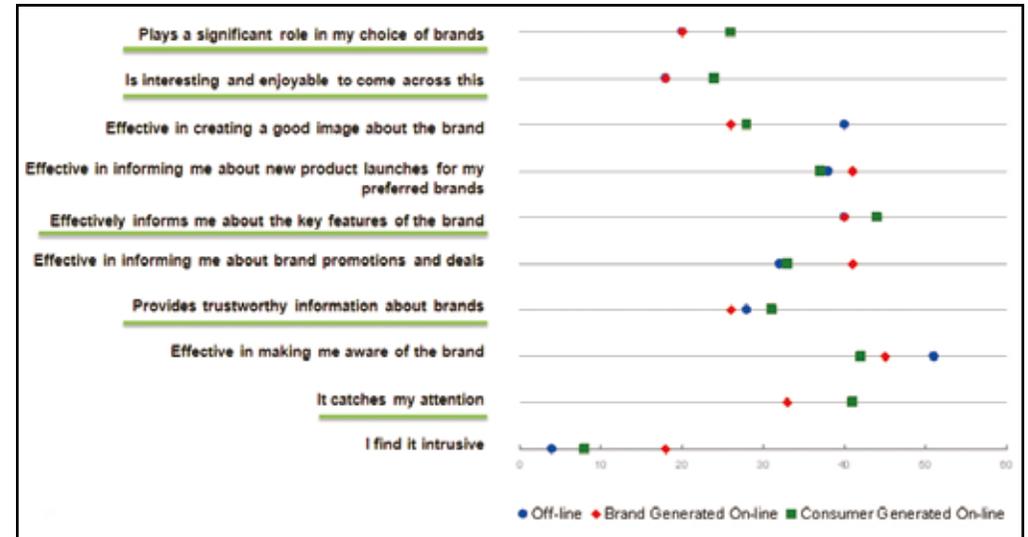


ensure that they have products as well as marketing strategies targeted at each of them. Another driver of the connoisseurship segment is likely to prove particularly relevant in China – which is the investment value of the collection. With a sluggish stock market and tightly controlled real estate market, Chinese investors are hard placed to find suitable avenues for their money. Expensive watches and wine may find an additional draw because of their investment value.

Digital catalyst

The rapid expansion of the Internet and its empowering influence is acting as another important catalyst for the luxury market in China. The Internet increases exposure to luxury brands and extends their reach to lower-tier cities, where very few retailers have distribution. The Internet as a medium is also specifically suited for providing the kind of in-depth information and detail that Chinese consumers typically look for in an expensive brand before they decide to invest in it. Our research shows that 70% of potential luxury consumers search for information about luxury brands on the Internet at least once a month. Consumer-generated information on luxury brands is particularly effective and considered most trustworthy. The phenomenal growth of social media is likely to provide another fillip to the luxury goods market in China.

The power of online consumer-generated content



Emergence of Chinese luxury

While Chinese consumers respect the heritage and the quality of Western luxury brands, with an increasing pride in and respect for their own cultural heritage there is a burgeoning Chinese luxury brands market. However it is not in all categories that the concept of Chinese luxury brands is acceptable. In categories like alcohol and jewellery there is an increasing willingness to accept local luxury brands.

These factors combined with China's rapid economic development and cultural factors provide a potent mix, resulting in a resplendent display of luxury and a great market for purveyors of these pleasures.



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consumers

Tall Tales?

Listening to and retelling the stories from emerging market consumers

Our affinity for stories can be blamed on our brains

Humans love stories. And it's not immediately clear why. But a good place to start is the brain.

Taking a loose definition, any use of narrative, and possibly characters, with the intention of engaging an audience more than would be possible without their inclusion, can be considered a story. A good story, from our perspective, is one that conveys the message intended by the storyteller in a way that is accurate enough, and not told with the sole purpose of entertainment.

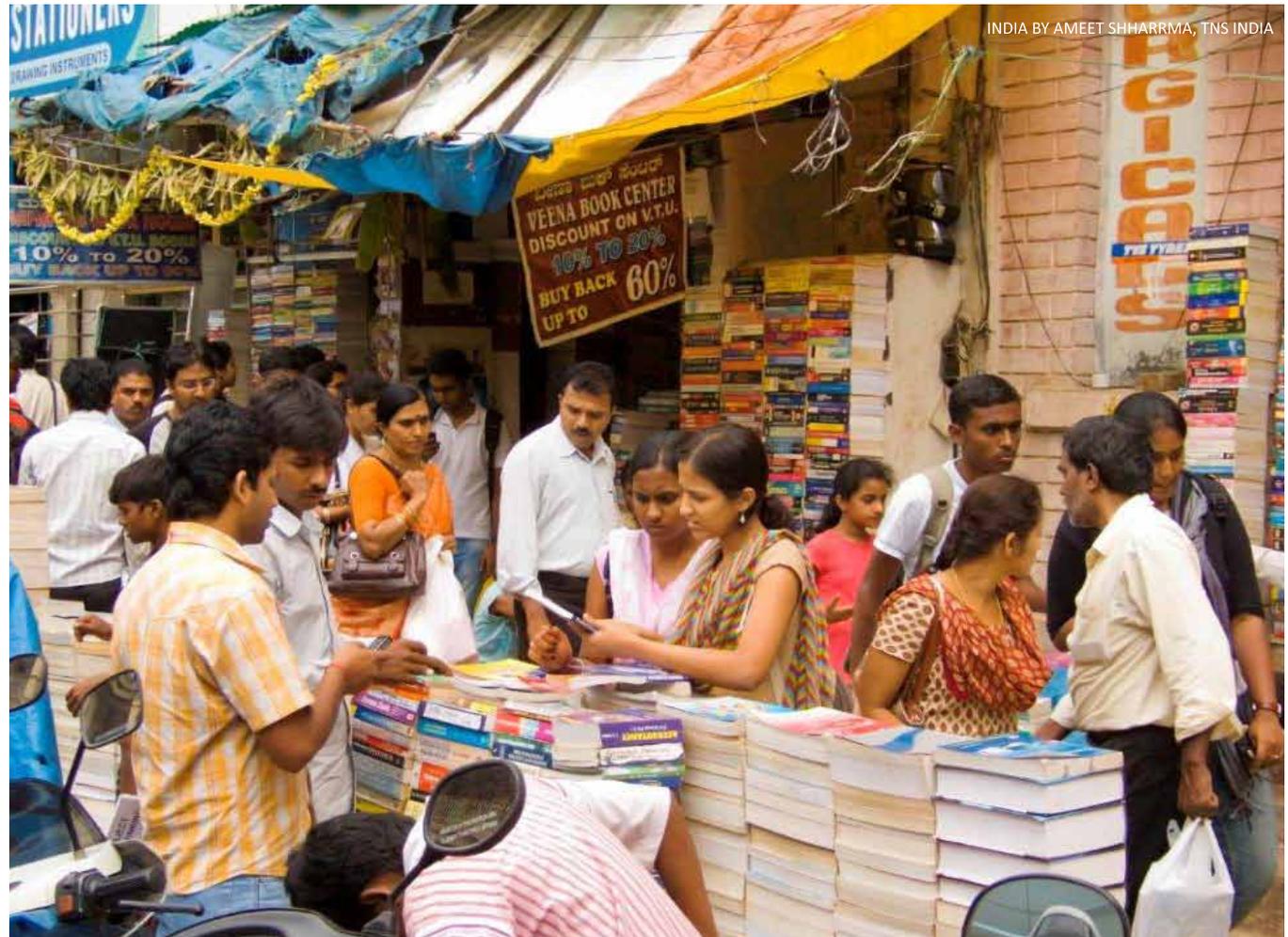
While there are many theories and many possible reasons for our predisposition towards a good yarn, only a handful will be referred to here, to give a good feel for the dynamics at play, and how they can be exploited to understand and retell the stories from emerging markets consumers.

We forget things, oversimplify, make mistakes and make things up

People forget stuff. This is a fact of life. The brain stores information in a way that makes it easier to retrieve memories that it deems important, while others may fade away almost immediately. Put simply, filters are in place which decide in real time if specific stimuli are noteworthy or not, and thus whether they should be remembered or forgotten.

More disturbing, however, is the relatively recent reconstructive view of memory, which suggests that every time a memory is recalled or brought to mind, the details of this memory are changed and reconstructed, not just reviewed. Basically, our brains tinker with our memories, editing the details, sometimes quite substantially, mostly to make them more in line with our attitudes and beliefs.

Stories, as opposed to facts and figures, do tend to be easier to remember. Given the networked way that memory operates, a story provides a framework for people to hook the details onto. This way, accessing nodes of information becomes



easier, resulting in better recall of more of these details than if no narrative or plot were used. This may also have to do with the visual nature of memory and the ability of good stories to facilitate mental images. We can think of stories as a heuristic, or shortcut way to exchange information.

“Humans and animals make inferences about their world with limited time, knowledge, and computational power” (Gigerenzer et al, 1999). In order to make the right inferences and decisions as often as possible, we use simple heuristics, or mental shortcuts, to help us avoid ‘analysis paralysis’. We live in a

Tall Tales?

Continued from previous page

complex world, though, and sometimes these simple rules are too simple. In fact, society often shuns complexity in favour of simplicity, even if better comprehension of the situation is well within their cognitive grasp. Many seem to fear statistics, and even relatively simple tasks that involve more steps than we are comfortable remembering in our working memory are deemed to be “too complicated!” This preference for simple rather than complex is at the root of our preference for anecdotes over facts. While this is not always a problem, it can steer us away from the truth at times.

Significantly, our minds are often tricked, mistaken, or just completely wrong. From phantom limbs to ghosts and other supernatural phenomena. From seeing things that are not there, to making associations that don't actually exist. Humans have an ability to create and hold ideas in our heads with strong conviction. Unfortunately, these ‘thoughts’ may have little validity outside of our minds. In short, we can't always believe what we see, think or feel.

So, on the whole, stories tend to be preferred to statistics (or facts)

Stories tend to be engaging, and often easier to remember than facts. They're often quite simple, and the storyline helps us to store them in memory, as there are associations and detail to connect it to. However, stories are often somewhat ambiguous, and can leave room for causal traps. And given the selective nature of memory together with our confirmation bias, stories can leave us with an interpretation that is somewhat inaccurate, or in some cases just wrong.

Stories have the ability to shape Marketing and Market Research

The three audiences most affected by stories in marketing and market research are respondents, customers and clients. Each of these can be affected by stories in different ways. In this article we focus on one of these audiences – respondents, particularly those in emerging markets.

Respondent answers can easily be affected by the way

questions are worded and administered. Direct questions, especially on sensitive topics, can lead to inaccurate responses. This is particularly so in emerging markets, as it is well established that consumers in these markets have lower levels of articulation and even understanding of their own motivations. This creates a strong need to rely on derived rather than stated responses. This “derivation” applies both to statistical analysis of the responses and to questioning techniques themselves. It is the latter that gives us an opportunity to use the ideas of storytelling based on projective techniques.

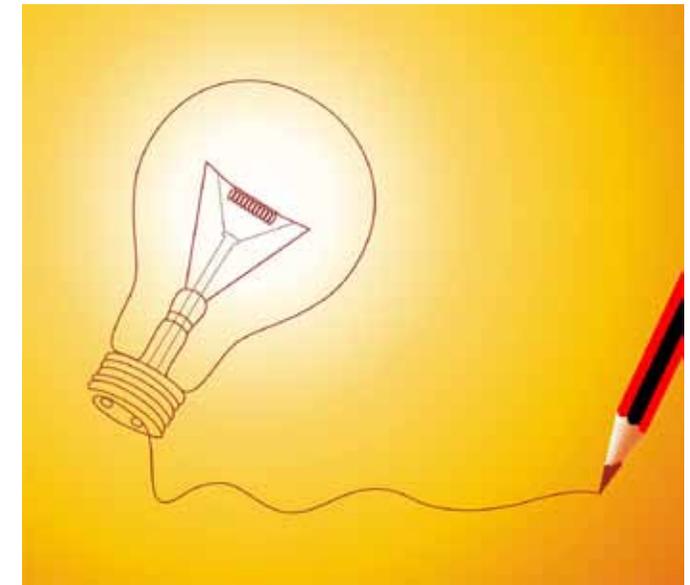
The second relevant issue is that of respondent engagement. It is a commonly held view (certainly amongst any that conduct training or teaching) that concentrating on any given topic for more than 30 minutes is a feat that is beyond most humans. How then can we expect a mother in rural India or China to answer an hour-long questionnaire, replete with alien concepts such as attribute ratings and rankings? Casting the questionnaire in the form of an interactive story, in which the respondent is asked to complete the missing parts of the story with her answers, is a significant step in the right direction to obtaining a higher level of respondent involvement, leading to better quality of responses.

However the relevance of storytelling in emerging markets also extends to consumers and even the marketers. Consumers in markets like China have moved from having practically no brands in their lives, to a deluge of brands and their myriad messages. Brands which can cut through the clutter and achieve better retention with their well-knit stories will clearly be the ones which will reap rewards.

Lastly marketers, who need to weave engaging stories for their wares, need to deal with a plethora of consumer and marketing information to decide on their brand proposition and the message. Frameworks and metrics can contribute to good overall delivery of the research story helping marketers in easier comprehension and assimilation of the key insights they need to employ in the market place.

To sum

People prefer stories and anecdotes to facts and statistics. This is a function of the many biases that plague our (otherwise amazing) brains. We've seen that one can be manipulated by those with the know-how, and that we should foster a healthy scepticism. On the other hand storytelling enables better engagement and better information transfer – not just between the marketer and the consumer, but also between the researcher and the consumers.



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*An adapted version of the paper presented at the SAMRA Convention 2010, which won the Atticus Award 2010 (Research in Practice).

LETTER FROM CHINA

Slow train coming

In our last letter we talked about China's sparkling new "gao tie" – the rapidly expanding high speed rail network that transports consumers across the country at lightning speed. The train covers the distance from Shanghai to Beijing in less than 5 hours. Unfortunately, the image of progress and dynamism that China created by putting up this enormous and still expanding network of bullet trains, was tarnished by an accident in which more than 30 people lost their lives when two such trains collided near Wenzhou. As a testimony to the power of everything digital in China, the accident was first reported on Sina Weibo (a popular Chinese microblog). The topic touched a raw nerve with Chinese consumers and the continued discussion on Weibo thereafter generated strident criticism of the railways for lack of transparency and possible flouting of safety standards. The authorities have taken the lashing seriously – they have withdrawn several trains for safety examination, and actually reduced the speed of many trains, including the flagship Shanghai to Beijing service, while thorough tests are conducted. The defiant mood is characteristic of the Chinese middle class consumers, who are trying to protect themselves and their families from anything ranging from substandard infant milk powder, to restaurant food prepared from recycled oil to unsafe rail travel. Clearly

marketers need to take extreme care to ensure the highest safety standards in their products and services, as Chinese consumers are in no mood to tolerate or compromise, when it involves the safety of themselves and their loved ones.

Chinese Weibo

When we compare the Chinese microblog with Twitter, we often forget that as each Chinese character is, in fact, a word, you can communicate a lot more in 130 Chinese characters as compared to 130 Latin characters. Chinese microbloggers are fully utilizing this freedom and leeway, and Weibo has become a hotbed of protest, expressions of solidarity, generosity and philanthropy and even romance. The last of these led to some unexpected consequences for a Chinese official, who mistook Weibo for a one-on-one, private communication tool and was found to be romancing his mistress and fixing a surreptitious rendezvous, in open sight of millions of bemused Weibo users!

火星文- the Mars language of the Internet

It is often said that the development of a civilization or a society is indicated by the degree of sophistication of its language. In Weibo and other parts of the Internet, Chinese netizens have developed not one, but several languages on the Internet. These, referred to as "Mars languages" (火星文) are widely used on the Internet not just by consumers, but now increasingly

also by marketers. They include "pao xiao ti" or the roaring style, which consumers often use to express their frustration with the many challenges of life – often linked to study and work. Or tao bao ti, named after the all-pervasive e-commerce platform called Taobao, where you can buy anything from freshly slaughtered chicken to a luxury automobile. Tao bao ti embodies the solicitous attitude and the language that the sellers on Taobao often adopt to win customers in the face of extraordinarily fierce competition.

高考(Gao kao), the mega-test of endurance and knowledge that the young Chinese need to go through to secure college admission, unfortunately decided to prohibit the use of 火星文 (Mars language) in the exam, earning the epithet of "ungelievable" (meaning not cool or awesome) from the 8 million students who undertake this examination in an attempt to secure a position in a good university and pave their way to a bright future. These students, who face immense pressure (yali da 压力大 as they like to say - which can also mean "my pear is big" when you change to another set of homonymous characters) will have to curb their inclination for these unorthodox modes of expression – at least for the two and half days that they toil in the examination hall.

2011-09



Comino
en Grano

Cominos
Molidos

Cilantro
Molido

Cilantro
Entero

Pimienta
Cinco Bauc

Pimienta
Rosa Grano

Pimienta
Verde Grano

Pimienta
Negra
Grano

Pimienta
Blanca Grano

PIPIENTA
NEGRA MOLIDA

PIPIENTA
BLANCA MOLIDA

Chile Molido

Pimientón
Picante

Pimientón
Ahumado

Pimientón
Dulce

Espicias Típicas
de Madras

Espicias
Raj el Hanout

Espicias Típicas
de Granada

Curry

Curcuma

Azafrán
Molido

Espicias
Garam Masala

Canela
Molido

Jengibre
Molido

Jengibre
Raiz

Clavo

Mostaza
en Grano

Ajonjolín
o Sésamo

Anís
Grano

Vainilla
Molido