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Is Marketing Research in a Crisis?



Switzerland Ready for China



China's Consumption Recovers

Is Marketing Research In A Crisis - Or Is History Just Repeating Itself?

By Clive Armstrong¹

Recently-published figures reveal that the total market research turnover of the top-200 US 'for profit' market research agencies fell in real terms in 2008 for the first time in more than 20 years. But the fall was (only!) 2.2%, a figure which I suspect many senior executives in 'real economy' industries such as automobiles, retail, home-building and improvement, watch making, aviation, hotels and tourism, etc. would gladly sign off for tomorrow! So is market research in crisis?

What is a crisis?

Next time that you find yourself with a group of people of different ages and professions, try asking each one of them to recall what was their worst crisis (in their professional rather than personal careers!). You will almost definitely get as many different answers as there are people in the group. One person said he had never known a crisis in his profession. He was a gynaecologist!

The same goes for market research companies. Ask a sample of N market research companies if they are 'in crisis', and you will most probably get N different answers, depending on each company's client base and the strength of their client 'relationships', the sectors and geographical region they work in, their degree of repeat business, and of course their underlying financial situation (was their business sufficiently profitable before the present 'crisis'?).

So-called 'crises' for market research agencies are usually caused by one or other (hopefully not both!) of the following circumstances. Either an agency's main clients are in difficulty and stop buying research, or the agency provides poor data quality, lack of service, and non-actionable results (usually due to personnel problems), and its clients change to another research supplier. Let's take a look at both these possibilities in today's economic climate.

Are global research users in crisis?

The current buzz phrase for many corporate marketing executives is "Get more value for less (budget)". This certainly applies within the sectors mentioned at the beginning of this article.

But leading companies (not necessarily all) in sectors as diverse as pharma/health care, razor blades, dental care, cigarettes, food and non-alcoholic beverages (and even some of the alcoholic brands), fast-food chains (hamburgers, sandwich-bars to name two), mobile communications, bicycles, low-cost airlines, and on-line retailing are definitely not in a crisis situation. Nor are governmental policymaking and public service departments (transport, education, state-owned media), political parties and large NGOs, all of whom have become significant users of market research.

In times of economic crisis, market research continues but the methodology may change. Budgets for syndicated and panel studies, as well as qualitative research, are more resilient to budget cuts than ad hoc quantitative research. The role of qualitative research remains very important. Most clients recognise the value of quantitative, but given the crisis this is temporarily being cut back.

Are market research agencies in crisis?

Having spent the past 40 years in the market research industry, and survived a number of 'crises' during that time, the basic question is "What's different this time round?" Is there a real crisis in the market research industry, or are we just facing another "difficult and challenging period"? Market research companies come and go - but historically they keep on coming! The annual ESOMAR members' directory gets thicker each year. This is due to the relatively low barriers to entering our industry (start-up investment and personnel training), coupled with the now-common acceptance that almost nothing is done in the private or public sectors these days without an independent "survey" (or "audit"). An ex-colleague once remarked that about three-quarters of the market research companies currently listed as ESOMAR members did not exist 10 years previously. He then went on to set up his own research company!

The main differences which strike one when looking at today's market research industry compared to that of the 1970s and 1980s, are:

- the domination of the public-quoted research 'conglomerates', which have been built up mostly by financially-driven acquisitions than organic growth: the top-10 research companies in the US accounted for over 80% of total market research turnover in 2008
- the importance of international research: the top-50 research companies in the US generated just over half their total revenues in 2008 from outside the US
- the growth of small, 'boutique' research agencies, specialising in certain types of market research (sectorial, methodological, etc.), many of whom had a healthy growth in turnover in 2008 incidentally
- the amount of marketing information available, due primarily to IT and the Internet
- the growth in consumer protection legislation and the 'blurring' of the boundary between market research and direct marketing methods (tele-marketing, CRM, etc.)

Overall, market research is still a very competitive, and increasingly global, industry, which most users agree has supplied good value-for-money, and also creative products and services for clients over a long period of time.

Mainly as a result of the 'information explosion', over the past 10 years, market researchers, both in companies and in research agencies, have discovered that their clients' needs (marketing, new product development, sales, etc.) were changing. Market researchers now have the possibility of collecting, analysing, and integrating data from an increasingly wide range of sources – both primary and secondary data, from external and internal sources (not least of which are the client's own customer databases). Market researcher managers have become (at least this is what is printed on their name cards!) 'Customer Insight Managers'.

Research agencies have adapted to this by offering their clients:

- 'horizontally-oriented' products - customer satisfaction, brand recognition, loyalty and value, new product testing, marketing media measurement (traditional vs. Direct Marketing vs. on-line), employee satisfaction, mystery shopping, CRM, etc., which are often marketed as 'branded' products (especially by the larger agencies)
- 'vertically-structured' research teams – media, healthcare, retail, travel, NGOs, etc.

The question is whether, because of the global financial crisis, a deep understanding of the nature and evolution of 'Customer Insights' has suddenly become less necessary to private sector companies, and organisations in the public sector? The answer is definitely not!

So is history repeating itself?

As in all previous 'crises', the future of the market research industry will continue to be determined by the following 'fundamentals':

- the ability of the industry to adapt to new opportunity areas and needs in the traditional, 'heavy-research-user' markets (e.g. media, automobiles, food and drink retailing, FMCGs, healthcare), and to identify new markets for market research (e.g. energy conservation, environmental protection, customer service, social networks)
- the need for Customer Insight Managers (both in agencies and on the client side) to provide "more creativity and imagination for a fair price", rather than "squeeze more for less budget". There are no 'quick-fix' solutions in research, and if you decide to "pay peanuts, you will get monkeys"!
- the two most important things in market research are data quality (especially true for on-line research), and secondly, the quality of the research team working on your specific project
 - this means attracting more people with good brains into market

"Market research is still a very competitive industry"

"MR companies come and go. But historically they keep on coming"

research, people who have both the intellectual ability to analyse, interpret and present market intelligence data correctly, and who can also act as "business consultants" because they have taken the time to get to know their client's business in-depth

- and, lastly, the '4 Ls' – being recognised as a Leader in your research area, Located near to your client, speaking the client's Language and, as in all walks of life, there is always an element of Luck!

"Being more creative in a crisis" does not mean in my view that "the client decides to ask their research agency to supply them only with the research data, and they do the

analysis and write the report themselves". Nor does an experienced market researcher/"business consultant" need to be told that "a good focus group isn't necessarily one that says your client's product will be a success". Both these statements were made in respected market research industry journals published in 2009 by the Customer Insight Manager of a large corporation, and the head of a research agency. If they are a reflection of research users' and agencies' attitudes towards 21st century market research needs, then parts of our industry could well be in 'crisis' - and will remain so for quite a long time!

The most successful client-research agency relationships are long-term partnerships where the above-mentioned 'fundamentals' of successful market research are fully recognised and implemented. These partnerships do not wait for an economic crisis to decide together what insights and market intelligence are really critical to the client's business.

Clive Armstrong is Special Advisor to the President of CBC, an international marketing research company with offices in Switzerland (where CBC partners with Konso Ltd.), China, India and Japan. He is a specialist in international marketing research, and teaches marketing research and international marketing courses at various universities.

Is Marketing Research In A Crisis?

The Swiss View

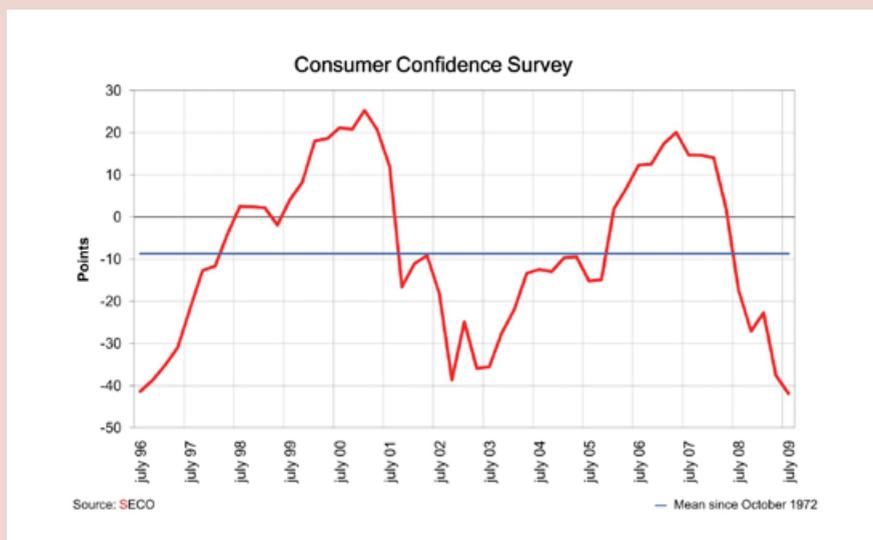
by Hans-Ruedi Hertig¹

The current crisis also highlights structural problems. This applies to marketing research in general and to the Swiss scene in particular. Cutbacks prove that researchers are not among the most trusted to remedy the economic downturn. Obviously, some marketing research fails to deliver value worth keeping when budgets get tighter. This raises the question of how valid research is.

Validity describes to which degree research is asking the right questions in view of a particular task. Reliability explains how well the chosen methodology is adequate. Representativeness defines how sampled results can be generalized.

Generally speaking, the crisis is affecting the Swiss economy hardest in areas exposed to the open market. However, many business segments in Switzerland are still protected from global competition. Furthermore, the small size of Switzerland's domestic markets fosters oligopolistic structures. Research institutes operating within these protected heavens have less to fear from any crisis in the short term.

Nevertheless, history reveals that protectionism and favouritism weaken competitive positions in global markets in the long term. Problems also arise when quality is at stake: As respondents become increasingly unwilling to participate in surveys, institutes are tempted to cut the contact and interview outlay incurred by random sampling and respondent-friendly questionnaire designs. Thus more and more respondents are lured onto survey panels by coupons and cash. But just how



Konso is in charge of the Swiss Consumer Confidence Survey produced in the CBC Call Center in Bern (Switzerland). This survey adheres to the strictest quality standards and – unlike many private and government sponsored surveys nowadays – is pure random sampled CATI, computer aided telephone survey. Konso with its unique telephone database reaches 90% of all Swiss households with a phone.

representative and reliable are results produced that way?

Cost versus quality

The effects of the crisis on Swiss marketing research are dramatic in areas exposed to competition: Consequently high-quality random sampled research is losing ground to survey panel based research, increasingly online and some – almost as a setback to the basics – postal. A good example is the once prestigious establishment survey for the electronic media panels which to some degree uses postal interviews now, shunning costly but highly representative random sampling.

Professional research - unwelcome results?

Konso parallel tests illustrate how top-quality random samples and methodologies show lower media reach for tv,

radio and print as compared to less demanding survey designs. This is unwelcome news for media producers where prices are based on reach. On the other hand, reach for the new media is – as expected – out of proportion if based on online panel surveys.

Simple item based, scaled client and staff satisfaction in more or less competitive markets typically show 80% “satisfaction”.

CBC and Konso produce segmented data revealing that high satisfaction rates are also due to lowered expectations of clients and staff actually lowering the competitiveness. CBC and Konso are convinced that honest research should

also deliver unwelcome news – but with tools such as the “learning street” in order to communicate results more efficiently and oriented towards solutions.

Switzerland's market research associa-

"We should not be surprised that market research is taken less seriously"



tion claims that 2/3 of all Swiss adults have been interviewed in 2008. However, many of these interviews are conducted within survey panels. As a result, it is not an increasing amount of Swiss respondents who are being interviewed, but an increasingly smaller group of respondents who are selling their answers many times every year. Even government surveys are now run in panels.

Survey panels and their marketing hype

Survey panels are being compiled with the argument that some 10 to 15% non-registered phone users will be included. But 80% of them will be among the registered households within two years. No proof is yet in sight that households not registered in directories behave differently from those registered. Konso identifies almost 90% of all Swiss households using its telephone database – including mobile-only users.

Online research – chances and risks

With their technology and incentive-based bias, consumer online research panels will produce significantly different lifestyle structures due to the extremely small segments of the universe that they represent. When recruited, only 5 to 10% will participate in an online survey panel, about half will click the questionnaire link in their e-mail and others will not complete the survey. It is embarrassing to the research

community when lifestyle “changes” are commented at length although the changes are basically due to the switch from clean, random-sampled telephone interviews to an online survey panel.

Digging your own grave

The reluctance of respondents to participate in research is on the increase. This is partly due to the 9 out of 10 phone calls that are not research-based, but are placed by telemarketers. In addition, with numerous infotainment surveys we should not be surprised that market research is taken less seriously. Consider surveys such as the one about chocolate Easter bunnies: “Do you start eating the bunny’s head or the tail first?”

One large institute even claims that (quote!) “in order to maximize response, it is indispensable to do interviews on Sundays.”

An imperfect market

In Switzerland the distribution of research volume is a long way away from the otherwise typical competitive SME (small and medium enterprises) market structure: 2 institutes account for over 50% of the market and 4 companies cover ca 80%. One institute alone takes a very large slice of the survey contracts placed by government institutions.

The crisis – a chance to deliver value

In Switzerland – like anywhere – research has not prevented the bubble from forming nor from bursting. Surveys are strongest when used as a feedback tool in order to reach stakeholders. No doubt, better stakeholder orientation can speed up the recovery. However researchers need to design research with a neutral view. Unfortunately even marketing research text books consider “the support of a given opinion or view” as the number one motive for commissioning marketing research (Kuss’ from the “Freie Universität Berlin”).

CBC and Konso strongly believe that the main challenge to our business community is professionalism committed not only to delivering “what you see” but also to what you do not see. After all, this has always been the basis of success for Swiss quality.

‘Hans-Ruedi Hertig is Managing Partner of Konso, Institute for Consumer and Social Analysis Ltd. Basel, Switzerland and Senior Client Manager of CBC Switzerland Marketing Research. He is active in Swiss Marketing Research since 1979 and has held senior positions in Swiss multinational machinery, IT and market research companies. He teaches strategy at the University of Bedfordshire (U.K.) and Marketing Excellence at the Marketing and Business School Zürich (Switzerland).

“9 out of 10 phone calls are not research-based but are placed by telemarketers”

“More respondents are lured onto survey panels by coupons and cash”





Meeting with: Ambassador Monika Rühl-Burzi, Head of the Bilateral Economic Relations Division in the Foreign Economic Affairs Directorate of SECO, the State Secretariat for Economic Affairs

Switzerland's SECO Offers "Ready Ear" For Foreign Entrepreneurs

By Hans-Ruedi Hertig

Mrs. Rühl can look back on a career in foreign economic affairs that brought her into contact with CBC in 2005 when visiting China as an advisor to former Federal Councillor Joseph Deiss. Mrs. Rühl discussed Sino-Swiss economic relations with Hans-Ruedi Hertig, senior client manager CBC Switzerland Marketing Research and managing partner of Konso Ltd., Institute for Consumer and Social Analysis.

The interview with Mrs. Rühl concerned two SECO mandates relating to foreign economic policy: the development of an increasingly better framework for Swiss enterprises involved in export or investments abroad as well as the promotion of Switzerland as an investment location. With regard to China, the potential for exports and Swiss investments is still enormous with continuing double-digit growth rates over the last 10 years – which is also the timeframe of CBC's presence in China.

SECO has a clear strategy with transparent milestones:

- Targeted cooperation, such as the recent Sino-Swiss memorandum relating to environment technologies and the establishment of a task force to this end

- The continuity of activities and personal relationships within "mixed commissions" as institutionalised with China for decades
- Improving and safeguarding market access for Swiss exporters and investors
- Private public partnerships such as with OSEC, the Swiss foreign trade organization

- Standardised mutual agreements regarding investment protection, double taxation and free trade

“Chinese investors appreciate the liberal Swiss labor market and the quality of the educational system”

SECO is developing strategies like these based on close contacts with private partners already located in the relevant (foreign) markets concerned, including systematic surveys as we – survey specialists – have learned with satisfaction.

Foreign economic relations are a task of the Swiss federal government – unlike Swiss location promotion, in which a mix of local, cantonal and federal institutions and private public partners are involved. Mrs Rühl, however, has offered assurances that SECO has a ready ear for foreign entrepreneurs seeking investment opportunities in Switzerland. The open and uncomplicated contact with Mrs. Rühl is living proof of this.

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Sustainability, personal drive and charm

Current Vice-President of the Federal Council Doris Leuthard, Head of the Federal Department of Economic Affairs, visited China in May 2008 and then further developed bilateral relations with China on the occasion of the visit of Chinese Prime Minister Wen Jiabao in January 2009 when the new bilateral investment protection agreement was signed. The memorandum relating



Intensifying economic relations: Chinese Commerce Minister Chen Deming shakes hands with Swiss Economy Minister Doris Leuthard at a meeting in Zurich in February 2009.

to environment technologies as signed by the Chinese commerce minister Chen Deming while visiting Switzerland in Feb. 2009 has also furthered economic ties. SECO's director, State Secretary Jean Daniel Gerber, will be visiting China in September.

Chinese enter Europe through Switzerland

CBC offers everything from office space to staff recruitment and, of course, market intelligence for foreign investors in Switzerland as well as in Asia, particularly China and India. Mrs. Rühl, in this context, has characterized Switzerland as an attractive Chinese stepping-stone for Europe. This because Swiss free trade agreements with the EU open up particular European economic potential for Chinese partners with locations in Switzerland.

Crisis Offers Opportunities In China And Switzerland

Unlike most countries Switzerland still has a positive trade balance with China, greater in total than its trade volume with Japan. Switzerland has also stayed in tune with China's present day "Go West" strategy of moving the weight of economic development away from the centers and coasts to inland markets. In China, additional government funding is now available for the improvement of the infrastructure there.

Furthermore, Switzerland is paying even closer attention to investment opportunities for sustainable and environment-related technologies as illustrated by the latest Sino-Swiss memorandum. In partnership with BAK Basel Economics, Konso has conducted a survey among Swiss producers of sustainable and environment-related technologies targeted for additional government funding.

SECO has commissioned OSEC to coordinate government-funded private enterprise projects for the expansion of foreign trade in order to relaunch export-based growth. In view of additional government funding for the promotion of Switzerland as a tourist destination CBC could offer its decades of experience with China.

China Research, Statistics And Numbers

More Wealthy In China. The fourth-largest population of the world's wealthy will live in China by the year 2015, says consulting firm McKinsey. According to the report, as of 2008, there were 1.6 million families in China with household incomes of over USD 80,000. By 2015, it is estimated that the number will jump to 4.4 million.

China Will Dominate IC Market. China's Integrated Circuit market is expected to grow to USD 100.1 billion in 2013, when it will represent 35% of the global chip market, according to a report by IC Insights.

DTV Market Expected To Grow Rapidly. By the end of 2008, China had almost 400 million TV subscribers, of which 164 million are cable TV users and more than 200 million wireless TV users, revealed a new industry report. By the end of March 2009, China had 49.86 million Digital TV users, less than one-third of cable TV subscribers. But the number of DTV users is growing rapidly; the

annual average growth rate exceeded 50% between 2005 and 2008.

Chinese Auto Components Industry Catches Up. Chinese car component manufacturers will close the technology gap on Western and Japanese companies "more quickly than is generally expected, benefiting from state subsidies for research and development," a new study by KPMG found. The auto components production in China is expected to grow to USD 350 billion by 2015, with 30% of parts being exported, the report said.

Bank Lending Drives Real Estate Prices. Chinese banks made RMB 7.37 trillion (USD 1.07 trillion) of new loans in the first six months of 2009 as the government sought to bolster economic growth. Record bank lending drove average prices for new homes 6.3% higher in summer in 36 large and medium-sized Chinese cities, a survey by the central government revealed.



Chinese Consumers Increase Spending

By Michael Zhao¹

Recently a friend of mine called me. She sounded very excited, "I just bought a long-dreamed-for Louis Vuitton handbag at Plaza 66. It is on discount now." I can almost see luxury-obsessed customers rushing in and out of Plaza 66, the elite location where LV neighbors with Hermes, Prada, Celine, Versace, Cartier, etc., and I cannot help wondering, first "what is going on?" and secondly, "is LV the same brand as the one I know?"

The answer is yes to my second question despite the minimal discount offered as a friendly gesture at a time of economic downturn. And well, I soon find some clue to what is happening with my friend and others at Plaza 66 from the findings of the two-wave nationwide consumer consumption behavior and confidence index study that CBC Marketing Research conducted in February and July 2009. In each wave, a total of 945 consumers, aged 16 to 49 years old from nine cities across China, were interviewed.

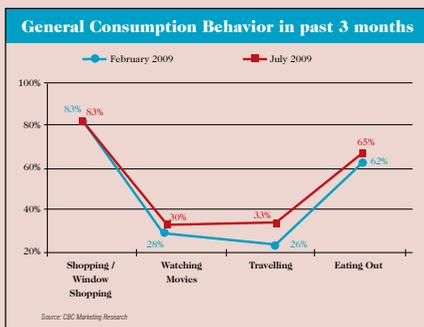
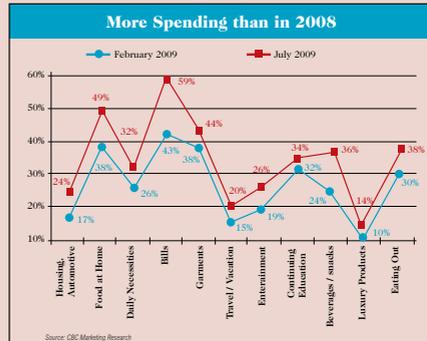
Positive attitudes and rising confidence

When the recession first hit in 2008, more people chose to hold on to their money. But now a rather positive attitude and increasing confidence has been noticed among respondents in the surveys. If it is not getting any better, but neither is it getting any worse.

In the 2nd wave, consumers are generally less concerned about the international and domestic economic situation, China's foreign affairs, food/daily necessities' prices, employment situation, etc., indicating the gradually rising consumer confidence which originates from the improving domestic environment.

In the July survey, respondents are found to have conducted more consumption activities in the past three months, especially traveling where there has been an increase of 7% compared with the previous wave.

viously detected enhanced consumer confidence.

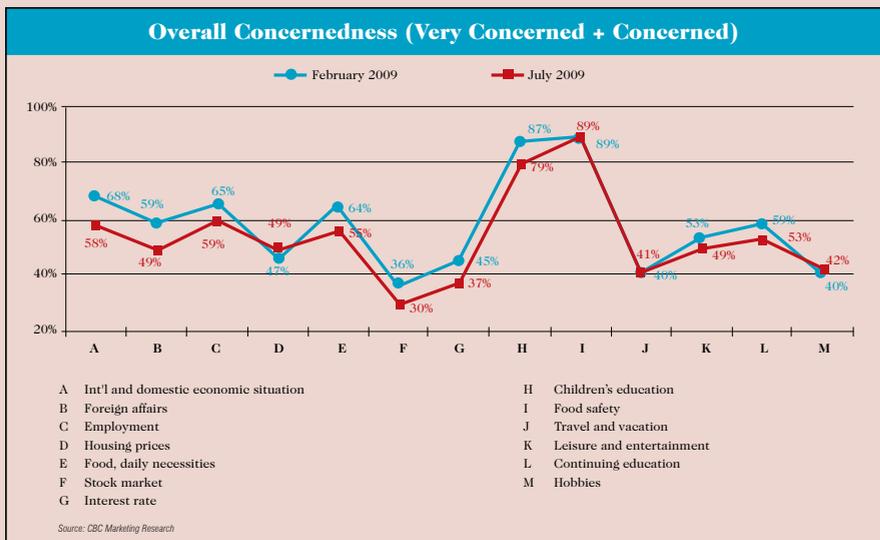
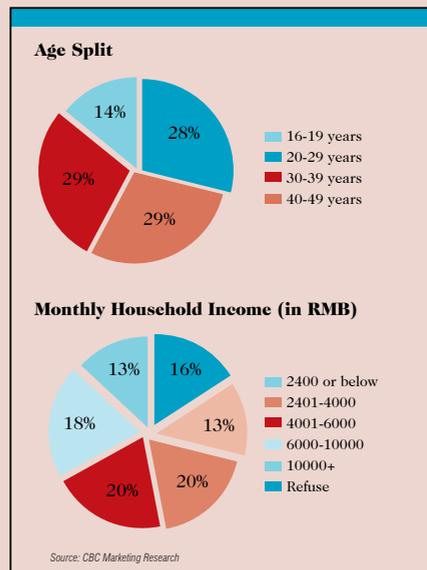


Respondent's profile

- **Geographical coverage:**
 - Tier 1 cities (Beijing, Shanghai and Guangzhou), Tier 2 cities (Shenyang, Chengdu and Changsha), and Tier 3 cities (Yantai, Shantou and Guiyang)
- **Sample size:**
 - 105 interviews in each city, equal split by gender
- **Age and income:**

Consumers are spending more

More spending is recorded in all categories in July compared with February, especially on household bills, beverages/snacks, food at home, garment and big-item purchases (housing, automotive). This is in line with the pre-



¹Michael Zhao is Industrial Study Director at CBC Marketing Research in Shanghai, and can be reached as follows: michael.zhao@cbc.sh.cn / 0086 21 5155 2000.

Core Business Of CBC

Marketing Research

CBC Marketing Research uses a variety of quantitative and qualitative methodologies ranging from traditional focus groups and in-depth interviews to CATI surveys and internet-based research.

Quantitative Research:

- Telephone interviews (CATI)
- Personal interviews (CAPI)
- Street intercept interviews
- Central location testing
- Online research
- Mystery shopping
- Car clinics

Qualitative Research:

- Focus groups
- Mini focus groups
- In-depth interviews

Other:

- Desk research
- Retail research

NEW: CBC offers movable web streaming technology in Japan and South Korea and FocusVision technology in Bern, Switzerland.

Business Consulting

CBC Business Consulting helps you to successfully setup your company and find the right partners for your expansion in China. We also provide feasibility and industry studies and offer sourcing and office-in-office services.

- Market entry strategies
- Industry studies
- Location evaluation
- Partner evaluation
- Company registrations
- Feasibility studies
- Office-in-office

Executive Search

CBC Executive Search works with a large number of companies to meet their talent and executive needs in China. We directly approach all our highly educated and experienced candidates working in different business sectors including the following.

- Automobile
- Chemicals
- Finance
- IT
- Healthcare
- Retail
- Textile

Contact The CBC Office Nearest To You:

<p>For Europe</p> <p>CBC Marketing Research & Business Consulting Marktgasse 32 3011 Bern Switzerland</p> <p>Tel: (+41) 31 560 3000 Fax: (+41) 31 312 5886 Email: cbc@cbcnow.com</p>	<p>For Japan</p> <p>CBC Creative Assist HIK Building 1F 4-10-8 Takadanobaba Shinjuku-ku Tokyo 168-0075 Japan</p> <p>Tel: (+86) 21 5155 2000 Fax: (+86) 21 5155 2099 Email: cbc@cbcnow.com</p>	<p>For India</p> <p>CBC India Pvt Ltd B-806 Sagar Tech Plaza Sakinaka Junction Andheri Kurla Road Andheri (East) 400072 Mumbai India</p> <p>Tel: (+91) 22 6770 3718 Fax: (+91) 22 6645 9842 Email: cbc@cbcnow.com</p>
<p>For Beijing</p> <p>CBC Marketing Research & Business Consulting 512 New World Taihua Office Tower 5-5 Chongwenmenwai Dajie 100062 Beijing China</p> <p>Tel: (+86) 10 6709 1622 Fax: (+86) 10 6709 1633 Email: cbc@cbcnow.com</p>	<p>For Shanghai and the United States</p> <p>CBC Marketing Research & Business Consulting CBC Building, 49a Wuyi Road 200050 Shanghai China</p> <p>Tel: (+86) 21 5155 2000 Fax: (+86) 21 5155 2099 Email: cbc@cbcnow.com</p>	<p>For Guangzhou and Hong Kong</p> <p>CBC Marketing Research & Business Consulting Room 1901, Unit 10, 19th Floor Ganglü International Center CTS Center 219 Zhongshanwu Road 510030 Guangzhou China</p> <p>Tel: (+86) 20 2227 3200 Fax: (+86) 20 2227 3201 Email: cbc@cbcnow.com</p>

