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*Formerly Booz & Company*

# *Maximizing marketing ROI in China*

## An approach to profitable campaigns

pwc

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# *Executive summary*

**For many multinational** consumer packaged goods providers and retailers in China, the concept of marketing return on investment (ROI) has yet to be truly adopted — to their detriment. Although these companies hope to increase sales among the vast and expanding Chinese consumer base, their marketing campaigns, by and large, are disconnected from measuring profits and lack a clear picture of which marketing efforts drive increased sales and at what cost. Much of the inability to calculate marketing ROI in China can be pegged to a lack of sufficient data about past and present consumer activity, the seasonal effect on sales, the value of prior promotions, brand awareness, and changing consumer preferences, among many other factors. Without these metrics, it is virtually impossible to determine which marketing dollars actually produce an ROI and which are spent unproductively. Frustrated by the lack of real marketing ROI data and in the dark about how to earmark their marketing budgets, multinationals all too often simply bring to China the advertising, promotion, display, and discounting techniques developed elsewhere in the world. Not surprisingly, this approach lacks impact because the cultural and business differences between Western countries and Asia are too great.

Overcoming this marketing ROI handicap could mean the difference between surging profitability in China and spinning wheels with little in return. In our view, a carefully calibrated marketing ROI strategy in China could yield returns of 1 to 2 percent of sales or 10 to 20 percent of total dollars spent. Simply put, collecting the right data and developing a rigorous strategy for calculating marketing ROI for every promotional campaign are absolute essentials for doing business and succeeding in the dynamic Chinese economy.

## *Key highlights*

- Most consumer packaged goods providers and retailers are in the dark about which marketing efforts drive increased sales in China and at what cost.

- To improve marketing strategies, multinationals in China must carefully collect data about past and present consumer activity, seasonal effects on sales, the value of prior promotions, brand awareness, and changing consumer preferences.

- With the right data, companies in China can develop marketing campaigns more intelligently and calculate marketing ROI more precisely — and enjoy returns of 1 to 2 percent of sales or 10 to 20 percent of total dollars spent.

# *Did we spend the money wisely?*

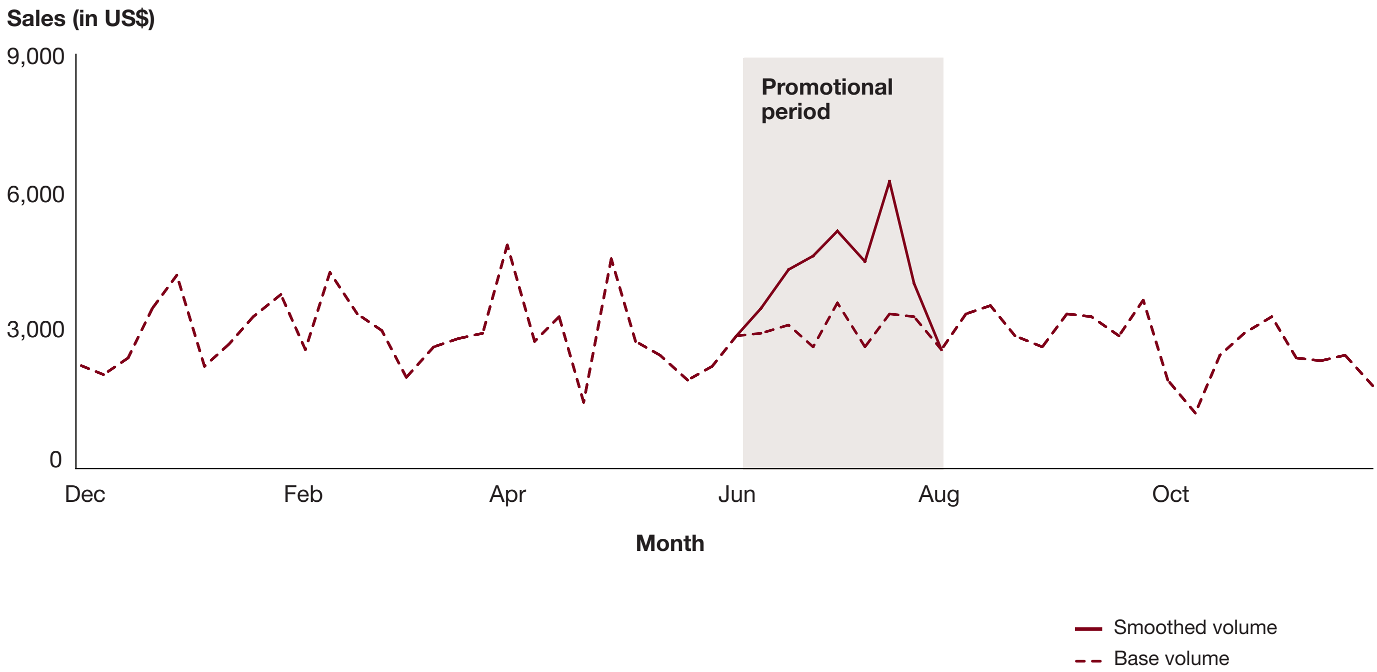
Recently, a global apparel manufacturer pulled out all the stops to tie the marketing of its products to an upcoming table tennis tournament. An array of shirts, shoes, and shorts were specially made for the event. New table tennis–related logos were created. Exercise sessions at various sites were offered to teach table tennis skills, and the manufacturer's most popular products were featured in fresh, eye-catching ads in print media, on billboards, at bus stops, and on building wraps. The goal was to drive consumers into the manufacturer's dozens of stores in urban and rural areas in China and to entice the press to cover this marketing blitz.

The effort ran for about a month; all told, about 7 million renminbi (US$1.1 million) was earmarked for the program. It was an impressive bit of marketing, no doubt. Except for one problem: The campaign itself was much more spectacular than its results. When sales and store activity during this table tennis promotional effort was tallied — with seasonal sales volume and other non-marketing-related factors smoothed out — some revenue gains were evident, but they were far from enough to pay back the cost of the campaign (*see Exhibit 1, next page*). It was indeed possible that the money spent had been wasted; in fact, the revenue lift associated with the campaign was approximately $550,000, an ROI of negative 50 percent!

Yet, even this assessment is not entirely certain. Much of the ROI analysis of the table tennis campaign was hampered by a lack of real data involving current and past point-of-sale activities, prior promotions, and the impact of the effort on consumer awareness and brand perception, which, if positive, could ultimately generate greater revenue growth in the coming months. The inevitable conclusion that can be drawn from this incident is somewhat disconcerting: If this apparel company, a huge and successful global operation with plenty of deep technological resources, is struggling to puzzle out a marketing plan in China that would provide the greatest return, few companies can be expected to do any better. Indeed, in China currently, the marketing strategies of both multinational retailers and consumer packaged goods providers

*Exhibit 1*
## Sales rose but the ROI for the table tennis campaign was -50%

**Sales per store for the advertised products (monthly averages for consecutive 2 years)**




Source: Client data; Strategy& analysis

(CPGPs) are extremely hamstrung, relying more on intuition than on hard and fast figures.

The implications cannot be ignored by any company hoping to succeed in the Chinese market. The consumer base is exploding in the country, and to keep up with this vast new opportunity, many multinational companies are bringing in advertising, promotion, display, and discounting techniques developed elsewhere in the world. However, because the Chinese sales environment is huge, geographically and economically diverse, inchoate, and rapidly evolving, there is very little clarity about which marketing methods work under which conditions and how to build up the appropriate database to measure whether marketing expenditures are delivering to the bottom line in the near or long term.

Some rules from other parts of the world apply in China. For example, in both Latin America and China, TV is an expensive marketing channel, but it is also one of the most powerful means of reaching consumers; as a result, a TV marketing strategy in either region generally more than earns back its incremental costs. However, other marketing rules must be developed specifically for the unique behaviors and attributes of the protean Chinese consumer. Either way, companies must move quickly to develop a transparent, data-driven, analytic marketing tool kit to take advantage of the booming customer base, or else share the plaint of a marketing manager who said, “Are we underspending and leaving money on the table, or are we spending way in excess of where we will generate a return? No one really knows.”

# *Exploding but confusing market*

To get a vivid sense of the marketing opportunities — and obstacles — faced by companies in China today, consider the stunning pace of consumption in the country. Since 1978, China's total retail sales of consumer goods increased at a compound rate of nearly 16 percent a year; in 2008, just before the global recession began, the retail sales growth rate hit 22.7 percent compared to the year before. And this sales boom is not limited to the big eastern Chinese cities. Between 2004 and 2009, the per capita consumption expenditure of rural households rose at a compound annual rate of 12.8 percent, more than a percentage point higher than the per capita consumption expenditure of urban households. In 1998, only 9 percent of rural households and 72 percent of urban homes had refrigerators; by 2008, these numbers had ballooned to 26 and 91 percent, respectively.

Moreover, all of these indexes are likely to at least maintain their pace in the coming years as more and more of China's 1.3 billion people spread over 3.7 million square miles climb the economic ladder, gain access to transportation and to retail outlets, and join the global mainstream through the Internet and other communications channels. Indeed, China's middle class — virtually nonexistent 15 years ago — could swell to around 340 million people by 2015.

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With this array of new consumers, the retail environment is shifting dramatically in China, maturing even as it is morphing. For one thing, the big retailers are expanding as quickly as they can find space. The number of stores owned by the 100 largest retailers in China grew by 10 percent last year after growing by nearly 20 percent in 2009, according to the China Chain Store and Franchise Association. Some of this growth is the result of a pickup in mergers and acquisitions. Between 2007 and 2010, more than 50 retailers were acquired by larger rivals. Separately, in 2010, Walmart added more than 40 stores — it has about 225 now — and the Chinese hypermarket Vanguard nearly tripled the number of its outlets, from 1,074 to 3,155.

Meanwhile, as room for new and more consumer items proliferates, the look, feel, and culture of the Chinese market is becoming more sophisticated. For one thing, brands have increased in importance as more Chinese consumers show increased loyalty to specific products. Indeed, until recently, store shelves had no logic; a surfeit of local and multinational goods — some small, some blockbuster — were placed chaotically and offered sporadically. That has visibly changed in most outlets now. Both the consolidation of brands and the increased use of planograms for determining how and where retail products should be displayed have brought some discipline and order to the consumer arena. In turn, this requires retailers and consumer goods companies to be more disciplined about their operations in China.

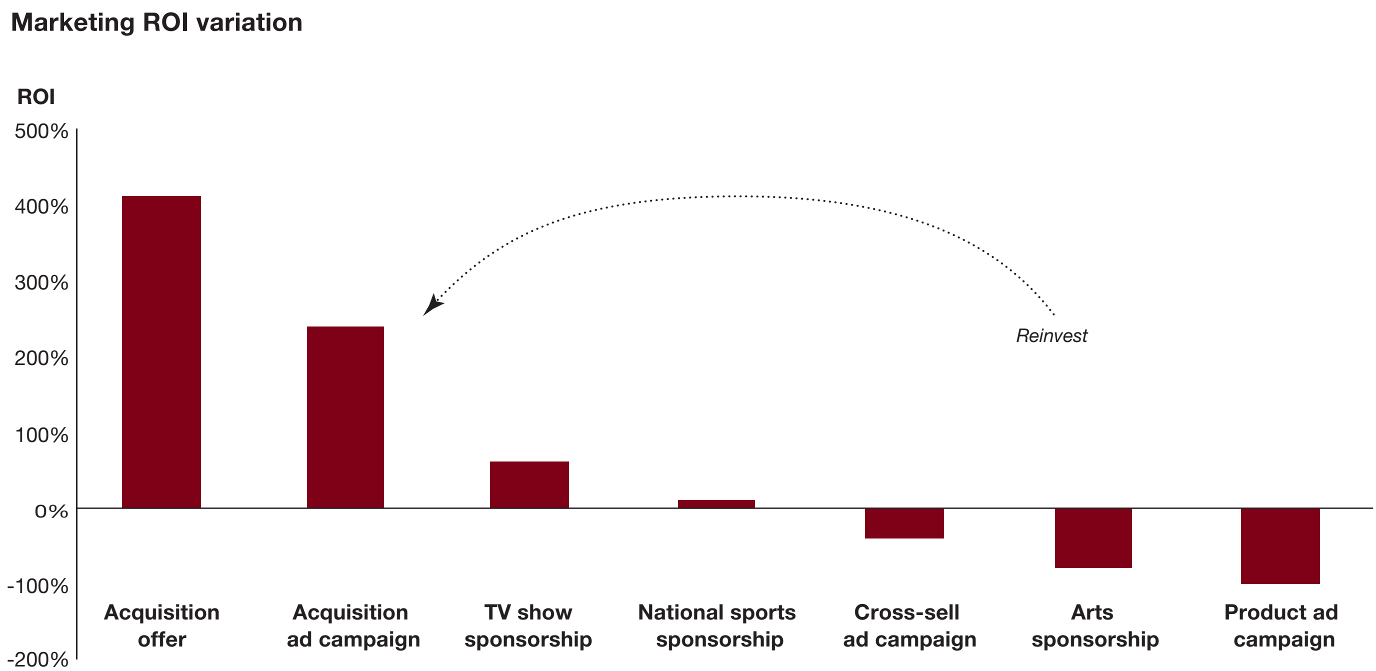
And perhaps worst yet for multinationals, the local competition, once thought too callow to be a real threat, is coming of age quickly and greatly improving its marketing skills. A good example is the 13-year-old Chinese natural sleep aid Naobaijin, which rode to a position of prominence on the wings of a unique branding campaign. When the product was launched in the late 1990s, Naobaijin used a portion of its limited marketing budget to hire a couple of grandparents, paying them $7,000 to say in TV ads that this supplement has bettered their lives by helping them sleep more restfully. The grandparents added that Naobaijin would be a wonderful present for their children to give them.

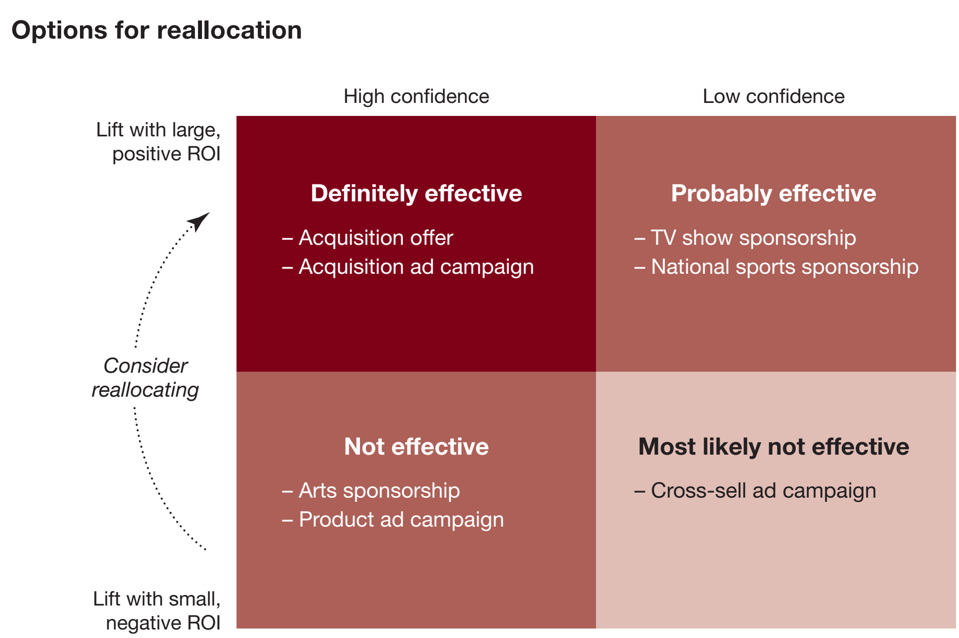
This extremely well-developed and creative campaign — targeting the huge potential of the gift market in China, where close-knit families are commonplace — was a remarkable success, resulting in $30 million in sales in the first month and breaking the monthly sales record among all nutrition products in China. Today, the notion of buying Naobaijin as a gift for not only the elderly but also young and middle-aged people is widely accepted by the Chinese.

Given the challenges, and now challengers, that multinational CPGPs and retailers must navigate, it is not surprising that companies are feeling marked pressure to figure out how to calculate marketing ROI quickly so they can make profitable decisions about where and how to deploy their promotional budgets most effectively. But it is precisely because the Chinese market is so dynamic — with its vast rural and urban centers sporting differences in consumer preferences and economic wherewithal and its array of new brands and purveyors of these brands — that marketers are finding it difficult to settle on the right methods and tools for collecting valuable data on consumer attitudes and purchases that could lead to more certainty about ROI from marketing programs.

And while marketers would perhaps prefer to slowly and carefully put together a long-term strategic plan for measuring marketing ROI in China, they are generally losing the battle with the business/sales side of the company, which is mostly excited about growing revenues in such a vibrant and potentially rich market, no matter what the promotional costs are. Unfortunately, that's a myopic view, taken by too many large companies. Indeed, we believe that focusing on marketing ROI tools, programs, and intelligence — even at the expense of short-term revenue — presents a huge opportunity, far greater than incremental sales this year or next: First-mover marketing ROI companies could gain a substantial advantage over laggards by reallocating marketing expenditures to the campaigns or events with the highest returns, all of which will go directly to improving the bottom line and widening market share vis-à-vis competitors that continue to shoot in the dark. Based on our experience, companies that reinvest money originally slated for the worst-performing 25 percent of marketing campaigns into marketing efforts with a real ROI can enjoy a 25 percent improvement in marketing profitability (*see Exhibit 2, next page*).

*Exhibit 2*
**ROI analysis with best options to adjust the marketing budget**




Source: Strategy&

# The biggest mistakes

Absent a clear marketing ROI plan, most multinational retailers and CPGPs in China have been forced to rely on a hodgepodge of campaigns with different media and wildly divergent approaches to varied local sales channels without a clear assessment of what works and whether a particular promotion produces a real sales lift, in the short or long term. In addition, global companies make the mistake of transferring campaigns that they use in Europe, for example, into China, only to belatedly realize that these efforts are too culturally narrow to travel well from one continent to another. And, with no certainty about marketing ROI, budgets for promotions and advertising are allocated arbitrarily, without sufficient regard for whether a specific brand or product category deserves the marketing support.

*Companies have created marketing plans without real data to support their approaches, something they wouldn't do elsewhere.*

Operating blindly and frustrated by the opaqueness of their marketing strategies, many companies have defaulted to simply throwing promotions at consumers, without regard for the effect on their brands or whether they could actually sell at full price the items that they are discounting. Between 2007 and 2010, the share of full-price sales of all retail items in China fell to 62 percent from 74 percent. The outcome has been a decrease in promotional elasticity (discounting loses its novelty and attraction when products are routinely offered at reduced prices); a decline in brand volume (the difference between a premium, high-quality product and a run-of-the-mill item is lost); and lower margins.

Moreover, this overdependence on haphazard promotions has ironically given many companies a false sense of security, which in turn has constrained them from exploring with some diligence what is actually wrong with their marketing approaches. First, and perhaps most egregiously, companies have created marketing plans without real data to support their approaches, something they certainly would not do in more developed economies. Everything — the success or failure of prior promotions; channel economics and effectiveness; the role of seasonality in customer activity; results from advertising versus in-store promotions; the impact of competitors' events; what consumers are actually buying at different locales; how purchasing behavior changes as the economics of the region shift — is accepted as an unknown.

In addition, even data that is known, such as the full cost of running a promotion, is often overlooked. Such items as the price of a celebrity spokesperson's contract and the incentives given to salespeople, as well as shopper marketing dollars for those companies that are actually trying to target specific types of consumers, are often not included in ROI calculations.

# A guide for ROI marketing in China

Clearly, overcoming the huge gaps in marketing ROI programs in China is critical and for many companies could mean the difference between taking advantage of the burgeoning consumer market and leaving a lot of potential sales at the door. By our reckoning, an improved marketing ROI strategy in China could yield a return of 1 to 2 percent of sales or 10 to 20 percent of total dollars spent — a significant return that would primarily come from the elimination of unprofitable events, improvement in the profitability of successful promotions, and a smarter use of promotional budgets (*see Exhibit 3, next page*). In short, better visibility into marketing ROI allows for fact-based decisions and strategies that support improved resource allocation.

There are four steps to take in measuring the ROI of a marketing strategy in China:

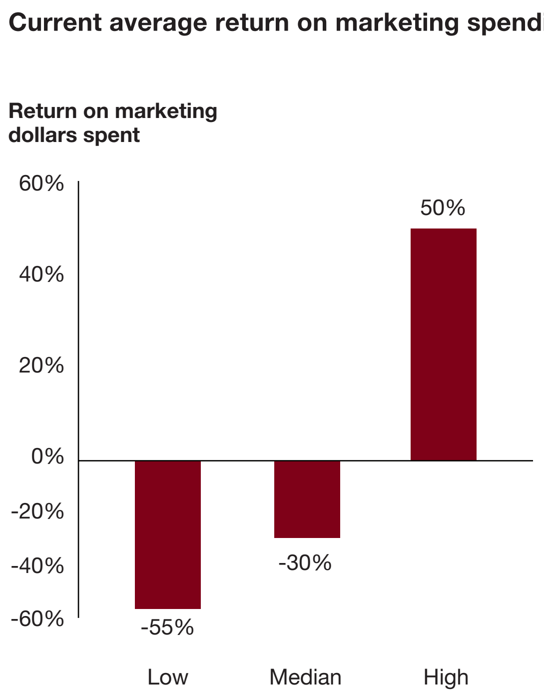
1. **Understand the marketing campaign**

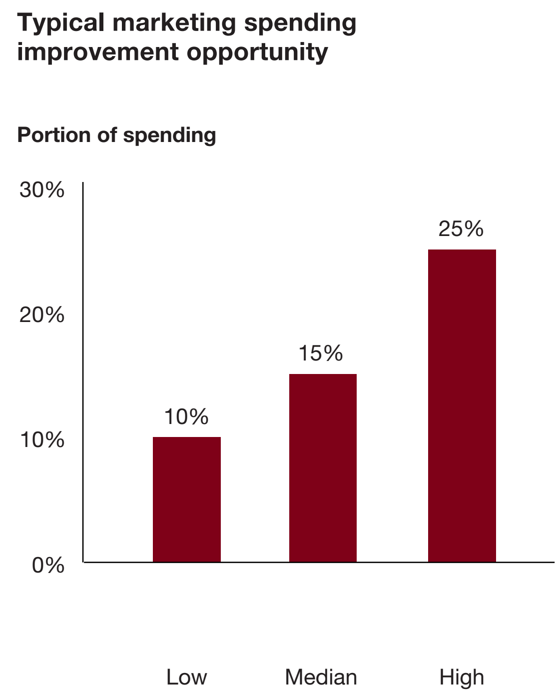
   The marketing and sales teams should jointly and succinctly describe the marketing effort, articulate the campaign's objectives, and identify the unique local variables that they believe will affect outcomes. For example, is the goal of the campaign customer acquisition, customer retention, increased share of wallet, cross-selling, market share, and/or profitability? Which customer segments are targeted? What mix of marketing channels will be used? Is the campaign intended to be repeated in different regions across China? What specific variables will be analyzed to define success — sales on the day (or week or month) of the promotion; sales for specific products or ranges of products; the number of customers in the store during a one-day, two-week, or four-week period; sales in subsequent months?

2. **Collect the data for analysis**

   It's virtually impossible to analyze marketing ROI without historical and trend data covering consumer activities by region, stores, product lines, brands, and time of year, among other things. And though none of this data is readily available or sufficiently robust for the dynamically changing Chinese market, ignoring this step is

*Exhibit 3*
## Significant returns from improved marketing strategies




Source: Strategy& analysis

tantamount to giving up on ever getting a good handle on marketing ROI in China, ultimately an unacceptable outcome. Consequently, collect as robust a database as possible and assess what the company knows and what it still needs to find out. For example, examine sales history by seasons or macroeconomic conditions and see how they correlate with customer purchasing patterns. In addition, track key competitor activities, such as the launch of new campaigns or promotions. All of this will help determine the external factors to consider when calculating ROI. Then do the same for internal factors, such as sales force initiatives or the opening of new stores in a geographic region: How did they affect activity levels? The objective is to collect enough data to create an approach in which variations in marketing effort (or the lack of them) can predict ROI.

3. **Establish the sales baseline**

   Using the available data and the goals of the marketing effort, generate pre-campaign baseline results. These can be calculated by regression analysis, in which all of the factors that could affect sales are removed; the goal is to see how well the current marketing campaign stacks up against a "normal" day of sales without extenuating factors. Among the many potential items to peel back are seasonally influenced and holiday sales; concurrent campaigns and promotions; price discounts; product launches; distributors' promotions or inventory clearances; and sales incentives for in-store sales staff. Simply put, the goal is to eliminate from the ROI assessment all marketing activities not in the scope of the campaign you are trying to measure. View this step as more than just number crunching, however. It is an opportunity to apply business acumen and check the model for logical coherence.

4. **Calculate ROI**

   Based on the sales difference between the baseline figure and the volume generated by the marketing campaign, the ROI can be calculated. All costs — including compensation, third-party fees, in-store promotion expenses, and shopper marketing expenditures — must be carefully summed and counted against the incremental sales that the campaign produced.

   In cases where it is difficult to attribute specific sales results to a marketing campaign — such as sponsorship of a TV show or linking the company's name to a sporting event — "breakeven analysis" may be a useful alternative to ROI calculation. While not nearly as robust as a full ROI analysis, it would provide at least a measure of quantitative rigor where none exists. This method revolves around a question: What level of revenue lift would the company need to realize in order to justify expenditure on the campaign?

*The objective is to collect enough data to create an approach in which variations in marketing effort can predict ROI.*

To do a breakeven analysis, begin by quantifying the expected level of expenditure on the campaign — say, $2 million for TV ads. Next, determine what level of viewer penetration would be needed to justify this expenditure. Perhaps 10 million people watch the show routinely; a quarter of them are reached by the sponsorship, given the relative share of voice versus other advertisers; and of these 2.5 million, maybe 10 percent (or 250,000) are in the market for a widget like the one the company makes. If the product costs $200, the company would need 10,000 new sales from the potential customer pool of 250,000 to break even on this campaign. The company can then ask itself whether that level of revenue lift is realistic or achievable as a result of the campaign alone. Clearly this type of calculation does not provide the insights and the direct link to real data that a true ROI analysis offers, but it can deliver at least a modicum of guidance about whether a campaign is likely to make sense.

Taking these four steps requires close collaboration between marketing and sales departments, which is not an easy achievement in many multinationals, particularly in growing markets like China. In general, the sales group wants volume increase at almost any price, while marketing is interested in product and brand development as well as the impact of promotional campaigns on the bottom line. This gap between the two sides — and the harmful impact it can have — was clearly on display recently in a rapidly expanding market in northern China where a multinational consumer goods company decided to make a major sales push.

Rather than put together a marketing ROI plan based on available, if limited, point-of-sale data and even predictive data from other regions with similar growth patterns, the CPGP essentially threw money at the problem by allocating more than 50 percent of gross revenue for a discount-laden sales-directed promotional effort. Not surprisingly, the costs of this campaign outpaced the return and the multinational spent a lot of money without a concomitant revenue lift. If the four-step marketing ROI approach does nothing else — and much more should be expected — it should at least force a dialogue between the sales and marketing units that often fails to occur in multinationals in China, much to the detriment of the organization.

# Conclusion

Clearly, calculating marketing ROI will continue to be a truculent problem for many multinationals in China. But as the competitive environment and the absolute necessity to sell a lot of products in China heat up, ignoring the returns from marketing campaigns will no longer be viable. Simply put, it makes no difference how much sales volume improves in China if the cost of generating incremental revenue is more than the revenue itself.

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