In-store Digital Media in China – The next billion-dollar opportunity?

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Following the monumental success of Focus Media, an operator of place-based digital media installations in corporate office buildings in major Chinese cities, digital signage is being installed in almost every retail format in China. With a highly regulated media industry, advertisers in China are motivated to use the new point of purchase networks . This study looks at the existing operators in the retail media sector, and the opportunities and challenges stakeholders face when considering a Chinese deployment.

1. THE INCUMBENTS: FOCUS MEDIA AND CGEN

The two major companies operating in the retail digital media space in China to date are Focus Media (NASDAQ: FCMN) and CGen, both based in Shanghai. Although there are a number of local network operators – and it is widely expected that these will increase in number – Focus and CGen are the only national players. The two companies operate entirely different models in their approaches to the use of in-store digital media. Below are the key stats for each network operator:

	FOCUS MEDIA	CGEN
SCALE	Focus has partnered with between 20 and 30 large Chinese hypermarket chains in different local markets, it has digital media installations in around 3,000 stores mainly in the Shanghai eastern region	CGen has partnered with 26 retailers (including Carrefour, Lotus, Emart and Wumart) in 55 cities; it has digital media installations in around 800 stores mainly in the Shanghai eastern region
IN-STORE PRESENCE	Each store is installed with 40 to 50 LCD and plasma screens located about 2m from the floor. Audio is played to accompany the video content. Content is run on a DVD and flashcard-based platform – requiring manual delivery of updated content to retail locations.	Thirty to forty 30-inch screens per store, mounted on ceilings, and at eye-level. Audio is played to accompany the video content. Updated content files are delivered electronically.

CONTENT STRATEGY	100 percent back-to-back ads. Focus sees the principal objective of the In-Store Network as reminding consumers of ads they have seen on TV. Consequently, the commercials shown in-store are often shortened (5-10 second) versions of regular 30-second TV spots. Content is more focused on pushing specific products than promoting brands	20-minute content loop plays for 14 hours every day, and generally consists of a 75:25 split of advertising and store information. See below for more details.

Focus is trying to export its corporate-building model into the retail world. This approach involves signing a three-to-five-year exclusive contract with each retailer thorough which Focus makes fixed-rate payments to rent in-store space for its displays. Focus then sells the advertising inventory, keeping 100 percent of the revenue.

While this model has met with great success in Focus's corporate office building network with advertisers who want to reach a white-collar demographic, it is likely to be less successful in a retail environment (see 'Challenges' below). Daniel Wu, Focus's CFO, says that, despite keeping the same business model for its retail network, Focus has modified its in-store content to be "more focused on the consumer at the point of sale". This includes making ads applicable to wider demographic group, and promoting specific products rather than brands (as it does on the commercial buildings network).

CGen positions its model as a "second generation" approach, and more of a full-service offering to retailers and brands. CGen's CEO Y.S. Chan says that his company has put a lot of focus on tailoring the content to "add value to the retailer's business".

This entails working with brands and in-store marketing agencies to ensure that content on the network is relevant to viewers. CGen is also planning a "fully-integrated approach" to retail media to incorporate both traditional point-of-sale marketing, and newer forms such as SMS, interactive kiosks and coupon recognition.

2. Challenges

Regulation

Strict government regulation means that in-store digital-signage networks in China cannot compete with their US or European counterparts in terms of content diversity and sophistication. According to Jeff Luo, CEO of PF digital, a Chinese digital-signage technology company, transmission of live content such as sports scores and weather information requires a license from the ministry of communications, which gives regulatory preference to its own advertisers and affiliate companies. The broadcast of news is entirely prohibited. Luo, who is familiar with senior executives at Focus Media, says that Focus did trial a 100-unit in-store network using a GPRS platform to bring news headlines in "short message" format to the screens, but even this text-only service had to be discontinued due to intervention from government departments. These restrictions limit the "added value" element seen in many Western narrowcast networks.

Adverse Business Climate

According to Quinn Taw, chief strategy officer for WPP's GroupM in China, doing business with the retail industry in China is like dealing with the Soprano Family. Taw says that local power-plays in provincial cities will make it difficult to sell advertising, and that – unlike the case of Focus's commercial building network – retail budgets in China are not controlled by promotional people.

"Budgets are in the hands of the regional sales people, [and] most marketing people find it very hard to take the money from them," says Taw.

Retailer Demands

As Focus Media is finding, the proposition for digital media in retail locations in China is very different from that in corporate office buildings. According to Luo, "retailers want better technology and central control; they also want control of the airtime"
In contrast to office buildings and residential locations that are happy to sell their real estate as ad space, retailers want more of a stake in the network, in terms of content decision and financial returns.
Luo says that retailers view in-store digital networks as an in-store marketing platform to serve their own merchandisers, rather than providing a third-party network operator with an advertising vehicle.

Diminishing returns

According to Luo, Focus Media makes most its revenue in three or four major (Tier 1) cities. Outside of these, and away from the wealthy eastern seaboard, wages and living standards remain relatively low. This means that any retail network looking to scale nationwide would have to take into account the significantly lower socio-economic demographics of shoppers in Tier 2 and 3 cities, and the substantially reduced ad rates that such a network could command. This would lead to diminishing returns on the cost of installation and ongoing operation of a digital network.

Cheaper alternatives

In these Tier 2 and 3 cities, labor costs remain low, meaning that it is often more cost-effective to execute marketing campaigns manually than by using digital technology.

While the manual delivery of Focus Media's flash cards has been part of the company's success to date, even this model might prove over-costly outside the top Chinese DMAs. GroupM's Taw says that: "Everyone forgets that Chinese labor is so cheap – you can have a really attractive girl giving out samples rather than installing a network of digital screens."

3. Opportunities

Increased retail market size

Despite the challenges, CGen's Chan is upbeat about the prospects for retail media in China. Chan says that the rate of expansion of the Chinese retail sector means that there will be an ever-increasing opportunity for in-store digital media operators. Chan says that "it is obvious now that the multi-national retailers are accelerating their store-expansion strategy…going out of the first tier cities and into the second and even third-tier cities." At the moment, he says, the ratio of local retailers to multinationals (such as Carrefour) is 5:2, but that this is changing in favor of the multinationals. With this consolidation, Chan sees more opportunity for retail media network operators to scale up their deployments and their attractiveness to advertisers.

"When we negotiate a contract with a retailer, we do it on a national scale – scale is something that advertisers want to buy into," he says.

Receptivity to digital media

According to PF Digital's Luo, Focus Media has done "tremendous work" in selling the concept of place-based digital media to advertisers and agencies. Because of this widespread familiarity with the medium, he says that major retailers will have a far easier time selling ads on an in-store digital network in China than they would anywhere else in the world.

Lack of alternative ad channels

One of the main reasons that advertisers have been so receptive to place-based digital media in China is the clear lack of options they have to reach consumers. The Chinese government's refusal to open up the media landscape to global conglomerates such as NewsCorp or Viacom means that there is only a very limited, state-controlled TV industry. According to Luo, content on Chinese TV is "terrible", meaning that very few people in the key target demographic groups (young, professional, affluent consumers) even watch it. To make matters even more difficult for marketers, advertising on the limited number of TV channels is very expensive, and Luo predicts that the Communist Party is not going to open up the media sector in the next four or five years.
In this context, Luo says that "narrowcasting is a fantastic area in which to invest", as it acts as a proxy for TV.

Chinese shopper mentality

As Chinese consumers become richer, hypermarkets are changing consumer spending behavior, according to CGen's Chan. He says that, while the average basket spends at Chinese convenience stores and supermarkets are still relatively low (RMB12 to 15 per visit and RMB25 to 35 per visit, respectively), spending at hypermarkets is seeing rapid growth, with an average spend of RMB60 to 100 per visit. Chan says that, on average, between 12,000 and 15,000 people come through a hypermarket each day, giving an in-store digital network a huge potential audience. Chinese consumers, says Chan, are "still very much motivated by price promotions", and it is here, that in-store digital media, with its ability to clearly translate promotional information in vivid multi-media presentations, can really be effective.

"At the end of this year, they're will be very few retailers that are not thinking about having in-store digital media," he says.

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