SPECIAL INTERVIEW
AJAY BANGA
CEO of MasterCard

CHINESE SPORTS
The Online Battle for Sports in CHINA

CHINESE FOOD
Direct from Farm to Glass

Emerging Markets Insight

BY MIRAE ASSET FINANCIAL GROUP
Q1 2016

INDIAN ADVERTISING

MADMEN INVADE INDIA

Huge growth opportunities in advertising and communication in India have made international ad giants make an even bigger push than before

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Building on principles

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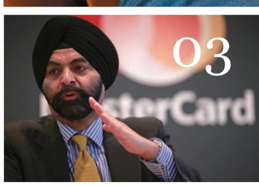

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Emerging Markets Insight is a quarterly, on-line publication of Mirae Asset Financial Group. Our editorial mission is to provide timely and actionable information about economics, finance, and business opportunity to key stakeholders in emerging market investing, particularly financial professionals, strategists and academics.

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Special Interview

AJAY BANGA

President and CEO of MasterCard

SYNDICATION/EXAME

CHANGING TO SURVIVE

Ajay Banga, president and CEO of MasterCard, tells us how he plans to modernize a business model that has been in force for half a century with the launch of digital products.

By Cristiane Mano

Since becoming the global head of MasterCard six years ago, Ajay Banga, from India, took on the mission to transform the company into a technological leader and innovator. This means going beyond plastic cards and instead releasing new electronic payment methods. It's about leaving behind the business model that worked for over half a century, ever since the company was established in the United States. To give the company a new look, he increased the number of young people among his 10,000 employees and hired people with no experience in the finance department. Fresh from their innovation labs, the company has released products such as a wristband that authenticates payments via a person's heartbeat. None of this has made any difference in revenue yet, which was reported at $9.4 billion in 2014 — 14 percent higher than the previous year. Banga says he chose not to be merely a spectator of a revolution that may completely change the industry. And there are signs that the market welcomes Banga's efforts: in the last six years, MasterCard's market value has appreciated fivefold — reaching $110 billion — at a faster pace than its competitor and market leader, Visa. During a trip to Brazil, Banga talked to *EXAME* about the changes at MasterCard.

You said that MasterCard has become a technology company. What does that mean?

We have always been an infrastructure and technology company. We never issued cards, we are the mediators between banks, retailers, and consumers. Within the last few years, however, even for our workforce, we had to make it clear that the nature of our business would increasingly depend on technology. We will never be a technology company in the sense of being a digital world giant. But we must increasingly pursue innovative technologies.

How will you achieve this transition?

We took several measures. One of them was creating MasterCard Labs, a laboratory network that started in Dublin, Ireland. The city where we would have our first research center was not chosen randomly. Dublin has people from many places that speak different languages and are able to connect to the needs of several markets. Plus, it has great schools. Today, we also have research groups in Singapore and the United States. We have also started investing in startups.

If we kept only looking inward, we would lose a lot of what's going on around. At the same time, we look for odd clients, such as washing machine manufacturers. We had never talked to this type of company before. And recently, with Whirlpool, we have developed an app linked to a washing machine that can be used to remotely reserve one at a laundry room, in addition to enabling actions such as remotely controlling it and paying for the service. This is something that would have never crossed our minds some years ago.

Other Companies like PayPal have started this revolution in payment methods. Does MasterCard wish to become their competitor?

I don't see them as competitors; they are our partners. They expand MasterCard acceptance in new electronic ways. My only true competitor is cash. Today, 85 percent of purchase transactions in the world are still carried out with paper money while, for instance, 55 percent of PayPal's transactions are based on credit cards. If they grow, I grow. In parallel, I'm creating my own ways of expanding the use of electronic payments.

My only true competitor is cash. Today, 85 percent of purchase transactions are still carried out with paper money.

How did you manage to make people within the company to start looking for other expansion possibilities?

We changed the demands for new employees. We search more for people from technology companies and other sectors. If our goal is to change the company, we should have employees with different experiences. Six years ago, people with a background in the finance sector represented 60 percent of our workforce; now, they are not more than 40 percent.

Within the same period, the number of employees younger than 30 jumped from nine percent to 37 percent. It was a conscious effort because we know that's where the innovation will come from.

There are so many ideas arising all the time that it has become overwhelming to pay attention to all of them. But this is a good problem. Not having any ideas would be much worse.

Your career is the opposite of all this — before joining MasterCard, in 2009, you worked at Citigroup for 13 years. To what extent does this help or hurt?

The most important task for the CEO is to define, or redefine, the company culture. In this sense it is a good starting point to know it well, its strengths and weaknesses.

How do you change the culture? First of all, by making sure everyone understands where we want to go. That's why we needed a simple vision, which I started repeating thousands of times.

I don't get tired because if the leader gets tired, people become afraid and run away from that. You have to encourage people. Changing is not easy. Had it been easy, someone else would have made it in that new way.

And if the message does not reach everyone, nothing happens. When I visit the subsidiaries and spend two days there, will I change the life of anyone? No. During the other 363 days of the year, everyone will carry out their work without me being around.

You are known for approaching employees of different hierarchical levels to talk. Why?

I can't imagine myself sitting behind a desk in meetings all day long. I would kill myself. And this is not the right way to inspire people. This year, I've already spent 150 days outside my office at the headquarters in New York. I talked to clients from different countries. This the only way for me to have ideas and to know what people want from us. I talk to employees from all countries. I watch PowerPoint presentations, but I hate them.

Once, during a meeting, when I saw the presentation had hundreds of pages, I left the room, saying: "I'll be back in five minutes. Please choose five slides." After that, we spent two-and-a-half hours talking about them. It is not the number of slides that matters but how much you bring your mind into the discussion.

What are the results so far?

We have brought one or two things into the market every year. In Canada, a local bank, TD Bank, has adopted a wristband that can identify its user by one's heartbeat — which is unique to everyone. We have also tested another technology in sports venues around the world, such as Yankee Stadium in New York: an app that enables ordering and paying for food without having to leave your seat.

Can these technologies gain global scale?

I don't know. We'll find out. These discoveries are so new that, for now, they are only available in a single country or a region. We believe some will be huge and some have been created to remain local. And some will die.

The rule is: If the idea fails, kill it. If it works, give it scale. Not being afraid of failure has become part of our culture.

Are there short-term goals for these ideas to become a relevant part of the company's business?

I want the company to continue producing innovation. If I had a more specific goal, what would it be? For these ideas to be profitable in three years? This is not the right goal. We want to chase good ideas and make them happen.

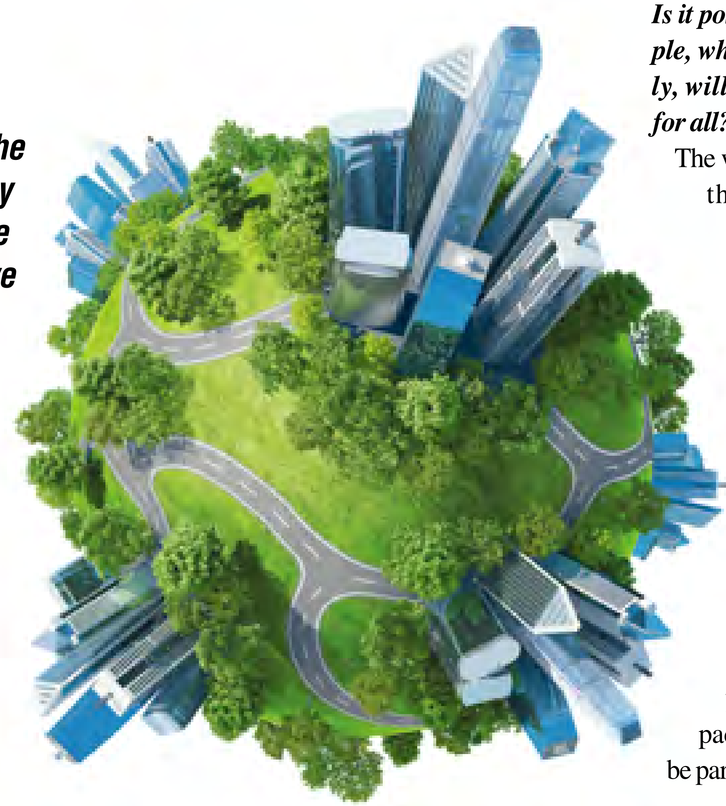
Is it possible to predict when young people, who adopt new technologies quickly, will change this industry once and for all?

The world is already rapidly converging the physical and digital worlds. People see the products at physical stores and buy them online. They buy them online but exchange them at physical stores. This is happening very fast.

However, I believe the complete revolution that could extinguish plastic cards will take longer than people think.

Some people believe everything will change within three years. Nothing changes in three years. We could wait and see the pace of these facts but we decided to be part of this story.

How do you change the culture? First of all, by making sure everyone understands where we want to go.



MODERN FARMING: DIRECT FROM FARM TO GLASS

After several years of small-scale production, Modern Farming — a secondary brand of Mengniu — decided to supply directly to consumers.

By Cui Ling

SYNDICATION / CHINA ENTREPRENEUR

In 2012, Deng Jiuqiang, who had just resigned from his CEO position at the diary company Modern Farming, appeared on a talk show on Ningxia Satellite TV. During the interview he said, "Modern Farming wants to start advertising, but they have no idea what to say in the advertisements." His statement caused quite a bit of confusion among the audience because Modern Farming, which was the first company in China to use large-scale ranching, was strictly a business-to-business (B2B) company since its inception: they were a secondary brand of (and major raw milk supplier to) Mengniu, the largest dairy company in China.

Deng himself had spent his entire life working in the field of farming and ranching. This left people wondering why they felt the need to advertise to consumers.

It marked a new beginning for Modern Farming, and over the past two years they've been steadily gaining public exposure. Gao Lina, the current CEO of Modern Farming, acknowledges that the company had not been well known to the general public before they became listed on the Hong Kong Stock Exchange in 2010, but she also notes, "There was no need to promote our brand because we only dealt with corporate clients at the time, and just making sure that large companies knew of our milk quality was enough."

A new direction

Recently, however, Modern Farming decided to take a step further and expand into the finished-product market where there is heated competition.

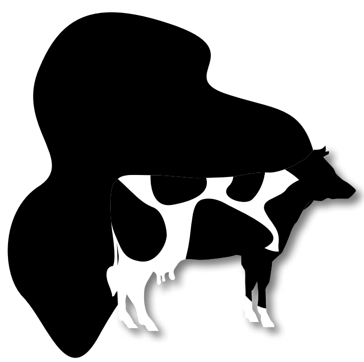
Offering only a single type of shelf-stable milk, Modern Farming has seen its total sales more than double year after year since its official product launch in 2012: $7 million in 2012, $49 million in 2013, and $128 million in 2014.

In the first half of 2015 alone, they achieved $120 million in sales and project that they will surpass $230 million by the end of 2015.

However, it won't be easy for Modern Farming to sustain their dramatic growth.

"The steep growth observed over the past two years was owed to the low base level. Surpassing the CNY two billion mark will be a challenge, and exponential growth will be difficult in the future," says Gao.

It isn't easy for a raw material producer to survive the competition in the finished-product market, and there have been many cases of failure. The shelf-stable milk market has long been dominated by Mengniu and Yili, while the refrigerated-milk market in Beijing and Shanghai has been dominated by Sanyuan and Guangming, respectively. Modern Farming had secured a strong foothold in the raw-milk market, so why did it decide to risk venturing into the finished-product market? And how was it planning to survive amid the large companies that were already dominating the market?



Modern Farming has seen its total sales more than double year after year since its official product launch in 2012.

Zuo Weilin, president of Modern Farming Huabei Distributorship, joined the company in 2010 after working for other dairy companies such as Mengniu and Yili. He recalls that when Modern Farming began its dairy production in 2010, the company initially positioned itself as a raw-milk supplier and had not produced any finished products under its proprietary brand. However, after a tour of the ranches and tasting of various types of milk, he realized that raw milk tasted much better than any shelf-stable milk products available in the market. This was why they began selling pasteurized milk in Huhehaote of Inner Mongolia and some parts of Beijing, albeit in small quantities. Zuo, who has been in the industry for over 20 years, paid a visit to Deng, the then-CEO of Modern Farming, and proposed the commencement of large-scale production. At the time, Modern Farming was a major supplier to Mengniu, to which it supplied more than 90 percent of its raw milk. For the first three years of being in business they never considered producing their own products. In China, there wasn't a single dairy company that focused solely on raw milk, which was not the case in overseas countries. However, out of reluctance to compete directly against Mengniu, Modern Farming decided to act with caution and begin with small-scale production.

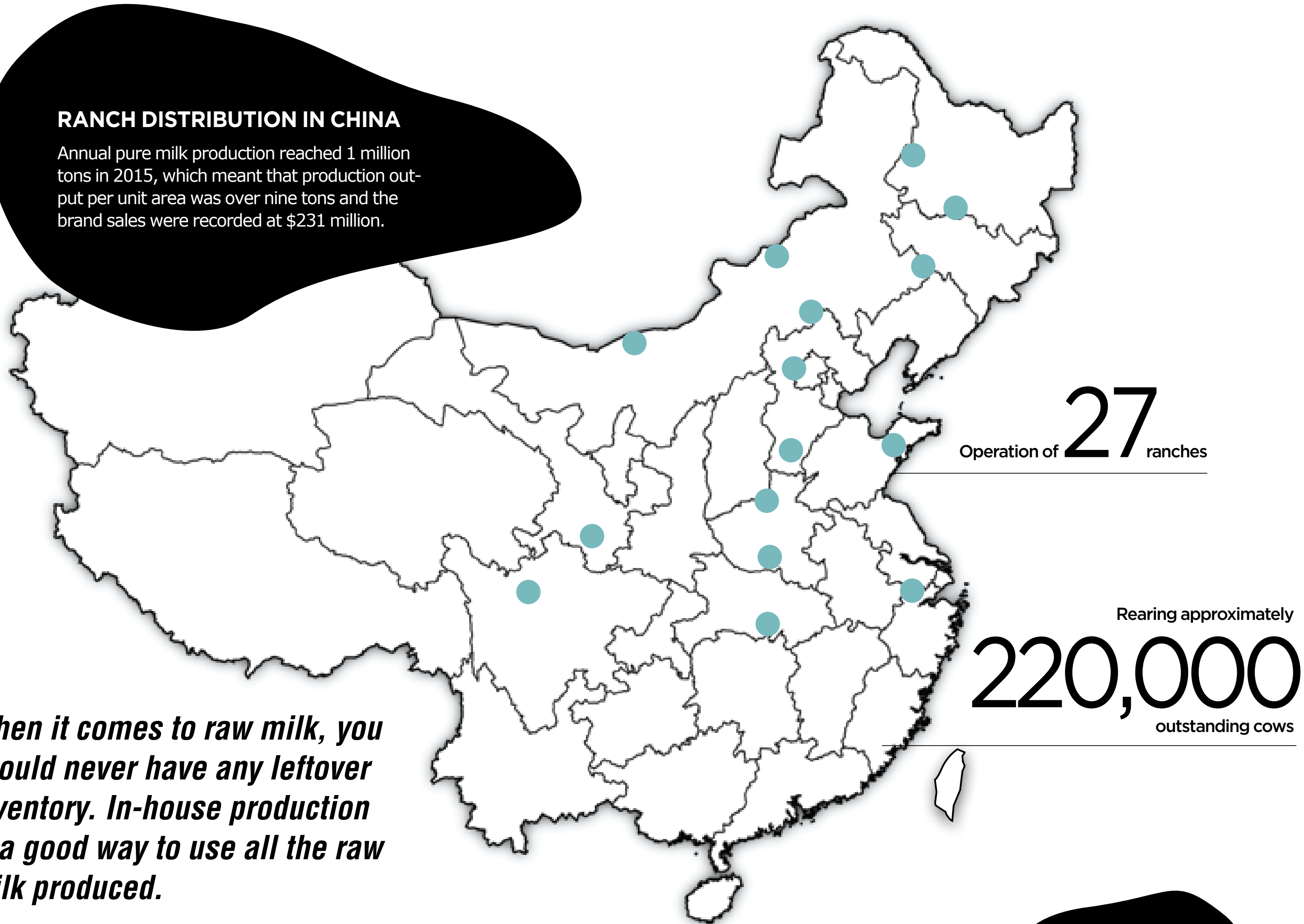
Their initial objective of entering the finished-product market was to become a secondary brand to Mengniu. After the 2008 melanin milk scandal, the industry realized that severe damage to brand image and reputation could occur in the blink of an eye. So Modern Farming insulated itself by offering itself as a secondary brand to Mengniu before beginning its production in full swing.

Gu Jiasheng, assistant manager of the Chinese Dairy Industry Commission, was not at all surprised by Modern Farming's entry into the finished-product market. These days, dairy farmers distribute unsold milk through "Naiba," referring to shops that specialize in sale of dairy products in China. Modern Farming, in essence, was producing its products in the form of a large-scale Naiba.

The recent expansion of Modern Farming into the finished-product market was a calculated business strategy. Chen Yu, a veteran dairy industry analyst, notes that the

RANCH DISTRIBUTION IN CHINA

Annual pure milk production reached 1 million tons in 2015, which meant that production output per unit area was over nine tons and the brand sales were recorded at $231 million.



When it comes to raw milk, you should never have any leftover inventory. In-house production is a good way to use all the raw milk produced.

merger of ingredient procurement, production, and processing businesses was a foreseeable global trend, and it was natural for Modern Farming, displaying superiority in the ingredient and production businesses, to enter the processing industry. He also predicts that Modern Farming will generate larger profits once it becomes equipped with the processing system. Modern Farming agrees: Gao projects that the profit margin will reach 14 to 15 percent.

This endeavor was actually a solution to a crisis the company was facing at the time. The amount of raw milk supplied to its biggest client, Mengniu, had been declining over the years from 98.5 percent at its peak to as low as 76 percent. While some might not have found this alarming, as Modern Farming also supplied to other major companies including New Hope Group and Nestlé, the company would eventually need to seek diversification measures especially because the global market price of raw milk had steadily been dropping in recent years. Chen explains the advantages of in-house production, saying, "When it comes to raw milk, you should never have any leftover inventory. In-house production is a good way to use all the raw milk produced. Most importantly, product quality can be controlled and assured, and this can help negotiate higher prices for B2B transactions."

Another important matter was that Modern Farming had formed an excessively intricate relationship with Mengniu. The survival of the company was questionable under its characteristic business conditions such as volatile raw milk prices and its dependence on a single buyer. Also, its ranches had grown to a massive size, and Mengniu would inevitably be unable to acquire all the raw milk produced by Modern Farming.

By producing and selling products under its own brand, Modern Farming would be able to manage such risks.

Based on this notion, Modern Farming began producing finished products in 2012, and its revenue improved steadily. However, some still questioned whether a farming and ranching company such as Modern Farming would be able to establish itself in the consumer market.

Tong Xianyong, CEO of Shanghai Business Young Consultants, points out that large companies were enticing consumers through eye-catching strategies in the dairy market, but Modern Farming, which had only engaged in B2B activities, lacked experience in this area.

Getting the word out

In the beginning, Modern Farming did not invest any money in advertising. Deng Jiuqiang contemplated advertising strategies, but it seemed that the most captivating images and texts had already been used by other companies.

So Modern Farming opted for a simple, straightforward marketing strategy: "post-tasting purchases." Employees were dispatched to marts, where they offered free tastings of the product, and based on a customer satisfaction survey they consulted the marts on product distribution.

In July 2012, Modern Farming designated Beijing and Shanghai as trial zones, and supplied 100,000 milk units to each city for the free tastings. Zuo Weilin recalls, "The product received a favorable response. The satisfaction rate was 80 percent, and many respondents said that it tasted like the milk they had in childhood."

This strategy proved profitable. Compared to advertising, which could potentially cost tens of millions of dollars, it cost only tens of thousands of dollars to produce the 100,000 milk units, which was fairly low for marketing expenses. Tong says that the non-advertising marketing method was an appropriate strategy for Modern Farming because high advertising costs would have been too burdensome for a dairy company and it would have been impossible to compete against large companies based on advertising.

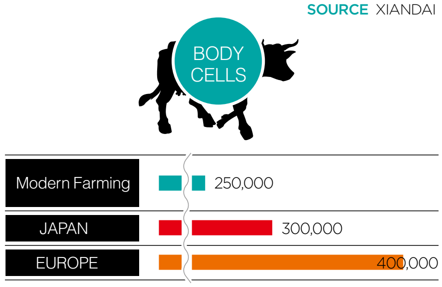
Promotions are key to selling products. In 2013, Deng and Gao personally held promotional events at marts, and this gave Zuo the confidence that he could hold a promotional event with success. The employees were told that they could not leave the stores until they each sold an entire box that had been assigned to them. Zuo had previously been a sales manager for the Huabei region, supervising 30 percent of the distributors in Beijing.

Modern Farming is quite confident about its milk quality. They began using the title "two-hour milk" because they pasteurize their milk products within two hours, which ensures preservation of over 75 percent of the milk's active proteins. At the Saibei Ranch, there is a glass-walled hallway where visitors can take a look at the raw milk production and processing. On one side, there are two sets of milking machines, with cows walking on a rotating platform. The milking is completed in just 8 to 10 minutes. Raw milk is fed into an automated processing site on the other side of the corridor through a sealed feeding pipe. A quality test is mechanically performed on the milk while it's being transported and processed. The entire process takes less than two hours.

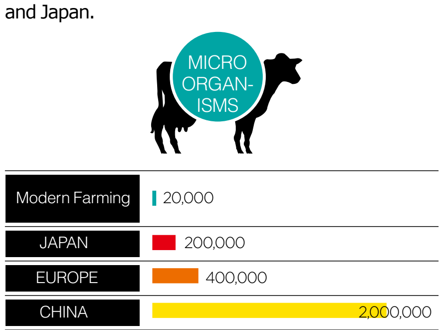
Using the Saibei Ranch as an example, Gao presented a roadmap, showing that the transport process takes less than two hours between the milking and packaging lines and four hours between Saibei and Beijing, and that it takes a total of less than 12 hours to get to consumers. The fact that fresh milk is delivered from the production site to the table in just 12 hours has helped Modern Farming gain customer trust with regard to product freshness and safety.

COMPARED TO THE REFERENCE LEVEL

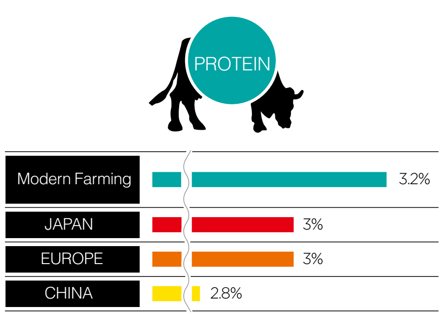
SOURCE XIANDAI



The body cell index test has not yet been tested in China, while the test has already started in the EU and Japan. Modern Farming's demand is lower than 250,000 but is higher than the base levels of the EU and Japan.



The required value of bacteria should not exceed 20,000. But the internal control index, requested in person, should not exceed 10,000.



Top-grade cows at Modern Farms are reared in a clean, comfortable environment and through accurate scientific management. The cow pen is arranged accurately to the centimeter.

Staying the course

However, the entry into the consumer market was not entirely smooth. It has been reported that Sun Yiping, CEO of Mengniu, jokingly said to Gao, "Do you really want to fight against Mengniu?" It was a question that left the CEO of Modern Farming befuddled. Mengniu had been their biggest buyer and major shareholder, but it was now their competitor.

According to those in the industry, Modern Farming attempted to sell its products to Mengniu in 2012. This was an opportunity for Mengniu, which had a premium dairy brand that wouldn't be in its direct competition, to make advances in the ingredient and finished-product industries, together with Modern Farming. They made an alliance offer, under the condition that Mengniu would have 51 percent of the shares and Modern Farming 49 percent. For this particular project, consent was obtained from the executives of the China National Cereals, Oils and Foodstuffs

Corporation Group (COFCO), a shareholder of Mengniu. However, the alliance project was unsuccessful.

Gao recalls, "I didn't feel guilty about competing against Mengniu. It was too late for them by the time they wanted to purchase our products." Song Liang, a dairy industry analyst, notes that when Mengniu declined the alliance offer, it lost a golden opportunity to preemptively position itself in the pasteurized-milk market. Modern Farming laid the foundation for its pasteurized-milk business by beginning production under its own brand. Its word-of-mouth marketing practices also helped create a loyal customer base. Another important note is that pasteurized milk became the new trend in the dairy industry, and the market was not yet dominated by large companies such as Mengniu and Yili.

Thus, it is only a matter of time for Modern Farming, with in-house raw milk production, processing technology, and nationwide ranches, to succeed in the market once the news of its high product quality spreads through word of mouth.

Gao plans to take action by launching the sales of pasteurized milk in Beijing.

Unlike Mengniu, which has adopted a retailer distribution system, Modern Farming implements the direct distribution model. They do not commission sellers or distribute through retailers. Song argues that poor control over the final consumer market means slow distribution.

On the other hand, Tong Xianyong suggests that the only way Modern Farming can survive under the present circumstances is to raise consumer satisfaction rates with small items, and Zuo Weilin believes that this is in line with the all-in-one ingredient acquisition, production, and processing system of Modern Farming. Based on his experience at Yili, he asserts that a vast sale system may be disadvantageous in terms of the profit margins, but the horizontal sale system of Modern Farming will help accelerate the speed of sales. Song explains that Yili and Mengniu began reforming their sales systems with the advancement of the Internet, and warns that an inappropriate sales system will increase losses for these large companies. In contrast, Modern Farming, which has no outdated systems to reform, can build its sales structure from the bottom up, which will help create a solid and sturdy foundation, even though it may take some time.

Modern Farming plans to build three additional ranches within two years, and it will begin monitoring Yunnan, which is the next target.

Modern Farming's Saibei ranch. Visitors can see the process of milk production through glass windows.

Advantage over competitors

Modern Farming, which cannot avoid competing against Mengniu and Yili, has another advantage: it's familiar with its competitors. Zuo explains that Shandong Yinzuo, which Mengniu had given up on due to the excessively high rebates, was undertaken by Modern Farming seven months later at a considerably lower rebate rate. The all-in-one procurement, production, and processing model may have little flexibility, but it can produce benefits for the partners. According to Zuo, food safety is the most important issue in all the sale channels, and Modern Farming can meet the food safety requirements much better than the others.

Zuo says, "The contract settlement period decreased from 90 days in the beginning to 15 days, and the 20 percent rebates have been adjusted to five percent," in relation to its alliance with WUMART.

According to Zuo, Modern Farming and Telunsu (the premium brand of Mengniu) are the leading dairy companies in the Beijing market at present. The sales volume of Modern Farming in Shanghai equals to the sum of sales of Telunsu, the premium brand of Mengniu, and Jindian, the premium brand of Yili. While it cannot be compared to the total annual sales volume of Yili, recorded at $3 million, the sales volume of Modern Farming has been growing at a rapid rate, especially considering that it only offers a single type of product.

At the same time, Mengniu's share of the company has gradually been declining. Mengniu has attempted to purchase the shares of Modern Farming several times, but Gao rejected the possibility of a merger at several official events. In 2013, Mengniu invested HKD 3.2 billion (approx. KRW 475 billion) to acquire 22.4 percent and 6.48 percent of the shares from KKR and CDH Investments, respectively, and became the sole major shareholder of Modern Farming through this bypass strategy. Soon afterward, however, Modern Farming made an announcement that planned on issuing new stocks to KKR, American privately placed funds, and CDH Investments, and invested CNY 1.91 billion (approx. KRW 283.5 billion) and acquiring 82 percent of the joint venture ranches located in Shanghe and Jinan. As such, Modern Farming came to be in possession of two more ranches, with KKR and CDH gaining nine percent of the shares of Modern Farming, and the shares of Mengniu decreased from 27.92 percent to 25.41 percent.

Expected growth

At present, Modern Farming has 27 ranches and 220,000 cows in possession. Song says that investors can innately "smell money," and this was why KKR and CDH took an interest in Modern Farming. He says, "The Chinese farming and ranching industry is unable to spread its wings at the moment, but if the government puts forth policies that are advantageous for cow farming and pasteurized milk, the growth of the industry will likely surge within two to three years."

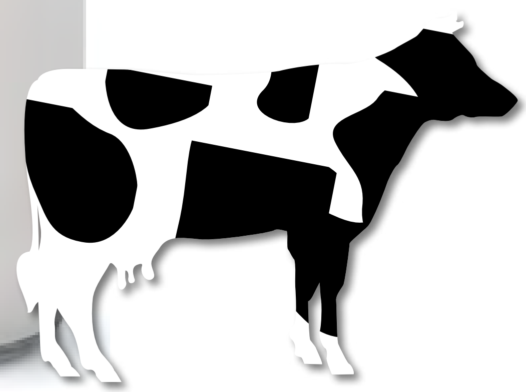
Gao explains that during the milk shortage in China in 2013, $140 million was invested into the joint construction of two large ranches, together with KKR and CDH. At the time, Modern Family had 18 percent of the shares of the markets, while the other 82 percent of the stocks were in the joint possession of KKR and CDH. The plan was to recover the shares from KKR and CDH by 2016, but this plan was postponed. Gao gives two reasons for this: positive outlook on the market along with the Australian ranch where there are 10,000 cows. Through early restoration, she had introduced advanced business management techniques, even without any large-scale farming and ranching business management. However, the actual objective of Modern Farming is to position itself as a transportation hub for the large market of Shandong, Beijing, Tianjin, and Haubei, as well as the Yangtze River Delta. Thus, the acquisition by Modern Farming is expected as a way of laying the foundation for the nationwide product distribution plan.

Of the 27 ranches in operation by Modern Farming, there are only three ranches with raw material processing facilities: Bengbu, Saibei, and Feidong. The processing and production capacity per week for the three ranches is 1,000 tons, of which 500 tons can be actually sold immediately. Gao plans to install new product processing lines, and says that it will become the standard model for Modern Farming. The large-scale ranch establishment project is still in progress.

Modern Farming plans to build three additional ranches within two years, and it will begin monitoring Yunnan, which is the next target. The largest dairy market is found in the southern regions, where consumer prices are quite high. The three northeastern provinces contain many of Modern Farming's ranches, providing a logistic advantage, but the market prices there are relatively low and the sales aren't that high. Thus, the maturity of the recent consumer market has become an important criterion for the establishment of a new ranch. Tong says, "The biggest advantage of Modern Farming, compared to Mengniu and Yili, is its merged management of brand products and productions, and Modern Farming will succeed as a brand. As a listed company, it is very different from having only ranches and having ranches and a brand."

Dairy companies, which had suffered devastating consequences due to a past event, shifted their attention to the ingredients or raw materials and attempted to form partnerships with raw milk companies. On the other hand, the direct suppliers are directly entering the consumer market to kick off new businesses.

The biggest advantage of Modern Farming is its merged management of brand products and productions. As a listed company, it is very different from having only ranches and having ranches and a brand.



Liu Xuechen says, "After Xiaomi, ours may be the project by Lei Jun with the highest individual rate of return, which is currently more than 100 times. There should be no problem for the valuation of HEcom to increase by another 10 times. That way, Lei Jun's return on investment will reach 1,000 times."

HECOM: LEI JUN'S PROJECT WITH THE HIGHEST RATE OF RETURN AFTER XIAOMI

By Chen Xi; Photographs by Deng Pan

SYNDICATION / CHINA ENTREPRENEUR

In 2009, while drinking wine and chatting cheerfully at the Beijing Yanshan Hotel, Lei Jun said to Liu Xuechen, "Enterprise-level service is the trend, but I began paying attention to it back in 2007. However, intelligent terminals were not advanced enough at the time, and the development of intelligent terminals would require at least four or five years. I think your character is not suitable to advance too aggressively; instead you should consolidate at every step to succeed." A month later, Lei Jun made an angel investment of $600,000 with Liu Xuechen.

At the time, Liu's startup team had just over 20 people, but Lei's business judgment and financial support energized Liu. Over the past six years his company, focusing on mobile marketing management, has developed the SaaS-model-based mobile marketing cloud service at a fast pace.

They have targeted many well-known enterprises, including more than 40,000 small and medium enterprises in over 40 domestic industries, such as New Hope Liuhe, Fosun Pharmaceutical, North China Pharmaceutical, Focus Media, COFCO Rice Division, and Yanjing Beer.

During this period, his company has received several rounds of investment from the Zhongguancun Administrative Committee, Hubei Provincial High Technology Industry Investment, Fosun Group, Oriental Fortune Capital, New Hope Group, CITIC Gold Stone, Haitong Kaiyuan, and MAGS Capital, among others, with its valuation reaching $600 million.

Liu says: "After Xiaomi, ours may be the project by Lei Jun with the highest individual rate of return, which is currently more than 100 times. There should be no problem for the valuation of HEcom to increase by another 10 times. That way, Lei Jun's return on investment will reach 1,000 times."

Liu says excitedly that enterprise-level applications are just hitting their stride, becoming competitive and popular, but that HEcom was already one step ahead.

In most situations, Liu behaves as a practical man.

In 2009 when he founded sosgps.cn (which he renamed HEcom in early 2015), Liu decided not to focus on platforms, but instead on applications, namely mobile sales management applications. For the B2B companies, sales are proving their biggest challenge.

Initially, HEcom focused on managing the fieldwork of salespeople; enterprises could locate and query their sales routes at any time using the mobile sales software, letting them monitor salespeople's whereabouts and keep track of their appointments.

North China Pharmaceutical has more than 3,000 medicinal sales outlets in Beijing; its salesperson terminal access rate before the use of HEcom's mobile sales software was only 60 percent, with the frequency of access well below standard.

After adopting HEcom's mobile sales management service, the access rate rose to 95 percent, and frequent access was guaranteed: 3 or 4 times a month for A-class customers; 2 or 3 times a month for B-class customers; 1 or 2 times for C-class customers; and at least once a month for D-class customers.

A blue ice market comes before a blue ocean market, so you need to break the ice to enter a blue ice market.

Mobile sales and location management are related to Liu's previous work experience at Sohu. Prior to the establishment of HEcom, he was in charge of commerce at the Sohu maps search department, participating in many projects there. During the Beijing Olympics, that department was responsible for providing security services for Beijing Organizing Committee for the Olympic Games (BOCOG) officials through mobile applications.

100 times

Lei Jun invested $600,000 six years ago. And now his return on investment is extimated to reach 100 times.

Auspicious beginnings

Earlier in his career, Liu was an independent entrepreneur in Weihai, Shandong. In 2004 he sold his factory and enrolled in the MBA degree program at the Beijing University School of Management. After graduation he was recruited by Sohu.

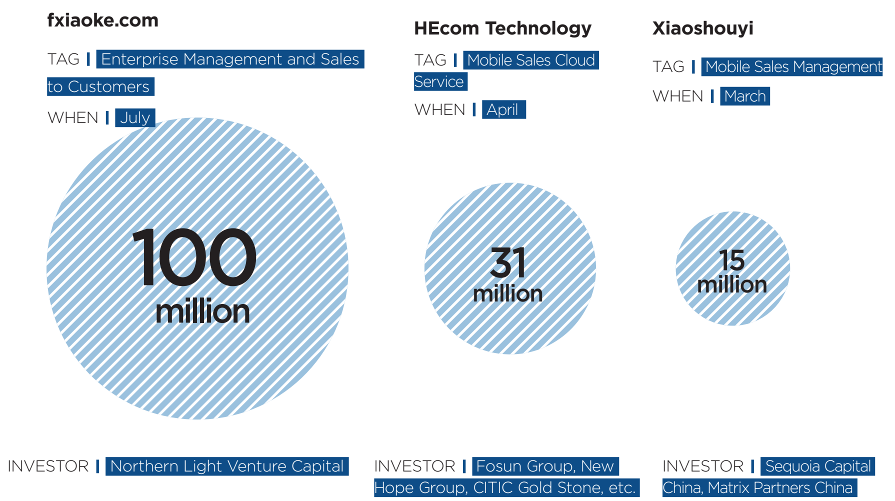
"Joining Sohu was not for anything else but the Beijing Olympic Games, because Sohu was a strategic partner of the Games," says Liu. He unexpectedly found himself headed toward the mobile Internet and away from traditional industries.

Because of their outstanding performance, Liu's project team was commended by BOCOG. Originally, their business was to be grown independently, but Sohu made a significant strategic adjustment in 2009, weakening the map search department. Liu had to establish sosgps.cn on his own.

The early core team of sosgps.cn included many of Liu's classmates from Beijing University, while the technical personnel were mainly his colleagues at Sohu. Angel investment from both Lei Jun and Li Hansheng, the former vice president of HP China, provided their initial capital. Over time, sosgps.cn gradually developed their business, by pursuing individual customers industry by industry and company by company with great initiative.

In 2013, the mobile Internet era arrived: demand for mobile sales applications skyrocketed. Liu congratulated himself on his company's entry into a "blue ice market," which he explains by saying: "When you find a market has become very mature,

FINANCING SITUATIONS ON THREE ENTERPRISE APPLICATION PLATFORMS IN 2015



Data compiled by China Entrepreneur on the basis of publicly available data

you know it was once a 'blue ocean market,' which is not that far removed from becoming a 'red ocean market.'

But a blue ice market comes before a blue ocean market, so you need to break the ice to enter a blue ice market. When spring finally comes and the flowers are in bloom, you have made a step forward."

The previous year, Liu made an important decision. In early 2012, the Board of Directors of HEcom conducted intense discussions, focusing on HEcom's mission, and whether to make a simple product or to go more deeply into the business processes of enterprises.

They waited for Liu's decision. He considered the situation again and again and decided to try business processes, namely, the mobile sales cloud service application of "red circle sales management platform" for enterprises. Fieldwork behavior management was then extended to information collection, chart display, data mining, and dynamic decision making, depending on the industry. This required thorough study of all business processes and management choke points in the pharmaceutical, building material, agricultural, and other industries.

After that, mobile management software would be used for participating in business processes, improving internal management, and communication efficiencies. Liu had a tight schedule, but his management team was full of fighting spirit.

To study every industry well is quite complex. Beginning with the fast-moving consumer goods industry (FMCG), HEcom first completed the collection of promotions, orders, and other data, and the system would automatically generate a histogram or pie chart, followed by data mining. Estimated ranking of a company in its industry and suggestions for improvement would be given in order to help enterprises make better decisions.

Liu says that with regard to promotions, for instance, the busiest times of year in the FMCG industry last for only 30 days, namely before and after the Dragon Boat Festival, Mid-Autumn Festival, National Day, and Spring Festival. According to Liu, sales during these 30 days account for 40 percent of total yearly sales.

Display stands, product displays, point-of-purchase (POP) displays, promoters, and pricing are all key factors for promotions, so the entire mobile sales software was designed to pay special attention to these key areas. In 2013, HEcom reconfigured the back-office system and the data collected to create structured, standardized arrangements in order to prepare for future big data applications. This work was laborious and fatiguing, requiring in-depth understanding of all the details in many industries which vary greatly.

Liu's method for better understanding an industry was visiting more customers. In six years, he secured 300 orders, representing 30 percent of the successful orders. He had in-depth communication with at least 1,000 bosses. He did not content himself with getting only 10 or even 100 orders.

Every company required a personalized approach, which proved difficult to merge with other companies' approaches. Getting more than 300 orders, however, ultimately satisfied him.

Tireless toil

At HEcom, salespeople are told that getting orders and signing contracts requires agreement from the head of a company. Last year, Liu traveled to more than 20 cities in a month and talked with each salesperson at a branch for four hours, guiding

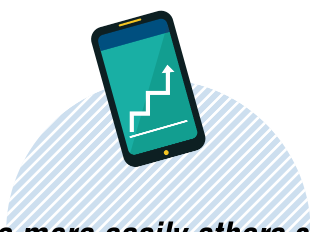
Liu Xuechen in his forties, an Aries, has extraordinary energy and stamina.

their business and helping to relieve them of their stress.

While everyone else in the trade were making only standardized products for SMEs, Liu chose to target some big companies as well. In his view, big companies need customized products, which requires a lot of time and effort, but on the other hand small enterprises' demands tend to be unclear and fragmented. He wanted to use the needs of large companies to help set each industry's benchmark.

Up to now, the business of HEcom has covered more than 40,000 SMEs and some large enterprises in over 40 industries, all of which pay to use the application.

HEcom establishes WeChat accounts for an average of 100 companies, appointing a customer service manager and a product manager for the WeChat account to collect comments from customers so that HEcom can then improve its product. Liu hopes that after early adoption of his product, HEcom can form high barriers to competition.



The more easily others can enter, the faster you will fail, just like the group purchase market that has been devastated in recent years.

"The more bitter and tired we are in the early stages, the greater the hurdle will be in the later stages, so we have to be linked more closely with these enterprises," Liu says. "Otherwise, the more easily others can enter, the faster you will fail, just like the group purchase market that has been devastated in recent years."

This man in his forties, an Aries, has extraordinary energy and stamina. He repeatedly mentions his devotion to Tang Monk: "In *Journey to the West*, Tang Monk was the only one among the four who walked step by step to the West. For 14 years, covering a distance of 108,000 li, he relied on a great dream, and continued to move forward as long as he could be rescued by his companions, regardless of whether he was threatened with being steamed or cooked by demons."

Rapid growth

However, Liu has his own bottom line. In 2013, HEcom doubled its employees from 200 to 400. The company was busy recruiting staff from the beginning of the year, but soon found that new staff were leaving the company. Recruitment could not be completed until July.

Liu discovered that his administrative limit was roughly 200 people. Later, he hired a sales director from Alibaba to serve as HEcom's national sales manager. The team quickly surged from 200 to 1,700 people, and sales jumped from \$300,000–450,000 a month to \$1.5 million at present.

As a result, HEcom has entered the fast lane. For HEcom, another major event in 2013 was that it received an A-round of investment of $4.6 million from Fosun Group. Over the next two years, Fosun participated in two additional rounds of investment. In September 2014, Oriental Fortune Capital and Fosun provided HEcom with capital of about $15 million.

In April 2015, Fosun Group, New Hope Group, CITIC Gold Stone, and Haitong Kaiyuan jointly invested nearly $30 million in HEcom. The latest D-round of financing is also nearing completion. These successive investments continued to pour fuel into the HEcom engine. After all these rounds of capital injections, Fosun has become the largest institutional investor in HEcom.

It was not easy to gain Fosun's investment. Due diligence alone had taken nearly a year. As part of the process, some investment managers disguised themselves as secret customers to test HEcom's products.

Liu first visited Wang Jun, the managing partner of Fosun Kinzon Capital. Then, Liu was led to the Taiji Hall on the 29th floor of Fosun Group to visit Guo Guangchang.

Liu held a cell phone and introduced the product features one by one to Guo Guangchang within an hour's time. Guo asked Liu: "If the e-commerce business has good performance, the survival of the traditional enterprises you serve could come into question. What will you do then? The people my wife's age already buy a lot of things through e-commerce platforms."

Liu replied: "America's e-commerce has been developing for many years, and their online sales are less than 10 percent of total sales revenue, as compared to less than seven percent in China. The sales of traditional enterprises still account for more than 90 percent of all sales. For example, if you want to drink a bottle of Coke, it is troublesome to buy it through an e-commerce platform, but more convenient to do so at a roadside shop. Many consumer scenarios are designed for immediate consumption."

Before leaving, Guo said to Liu, "The year 2013 was the first year that Fosun Group embraced the mobile Internet. But we embraced you first."

Liu says that Fosun brought a lot of money as well as substantial help to HEcom. It was also Fosun that brought HEcom and Ali Ding Talk together. Fosun maintains close contact with Ali, which now tests many of its products at Fosun. After their mutual dealings, Ali developed a new product — Ali Ding Talk, which was created as an enterprise-level light service platform. This was when Fosun first recommended HEcom to Ali.

Referring to the relationship between HEcom and Ali, Liu makes an analogy: "It is just like operating Walmart, and I am selling Coca-Cola. Ali Ding Talk is like the creation of an enterprise-level application service market; it is an App Store. What we do is to put our product on its shelf."

The strong product development capabilities and brand endorsement of Ali Ding Talk are very attractive to HEcom. Ali Ding Talk settled on HEcom's accumulated years in vertical marketing and its client base of more than 40,000 paying corporate customers. In summer 2015, the two companies entered into strategic cooperation and product cooperation agreements. HEcom became a strategic partner of Ali Ding Talk in the area of mobile marketing customer relationship management (CRM).

Both companies broke through barriers with their products, and HEcom's custom-

"America's e-commerce has been developing for many years, and their online sales are less than 10 percent of total sales revenue, as compared to less than seven percent in China."

ers will now be migrated to Ali Ding Talk. In the long term, Ali Ding Talk will bring HEcom more traffic. "It operates Walmart, selling Coca-Cola and shampoo. After entering Walmart, the people buying shampoo may also buy my Coca-Cola. Walmart has huge consumer groups," says Liu.

Liu's enterprise management mainly covers sales and marketing, finance, HR, customer service, office automation (OA), and other processes, all of which contain dozens of areas that can be managed. Each area includes hundreds of products. Sales management is only one unit of Ali Ding Talk, but it is the most rigid. As one of the earliest partners of Ali Ding Talk, HEcom has had a great impact on customer habits, because it is very difficult to switch apps after the sales data has been imported.

After increasing traffic and influence through their collaboration with Ali Ding Talk, Liu now has greater ambitions and investment plans. He believes that in the future all the data of enterprises will be placed in a public cloud so that solutions can be found using the cloud.

He wants to create a sales cloud. Currently, there are 70 million salespeople in China, and each company has its own private sales cloud. As HEcom has more and more customers and the ecosystem continues to improve, there is an opportunity to build a public cloud.

He also wants to build a rural cloud in order to combine the mobile Internet in rural areas — the urban clouds (other than the sales cloud) have basically been saturated, but there is much space left for the imagination in rural areas. HEcom and New Hope jointly invested $7.7 million to form a company in order to explore the construction of a rural cloud.

Bright future

With its market and organizational development and the progress made in financing, HEcom will soon usher in an important moment in the capital market.

According to Liu, HEcom expects to be listed on the new OTCBB before January or February 2016, and the administrative process has basically been completed. After the listing, the number of employees holding shares in the company will exceed 200, and should reach half of its total employees in the future.

This year, the SaaS enterprise service market became a hot spot for investment, and competitors continue to enhance capacity for products and additional financing. Liu is ready for this. However, he did not struggle to tap the market, instead focusing on the recruitment of executives and core talent. Liu conducts interviews every day, Monday through Friday.

To hire the desired talent, he even set up research and development centers at the headquarters of Alibaba and Huawei, in order to skim off the best talent from those two companies but let them continue work at those same locations.

The most difficult thing for Liu has been finding interdisciplinary talent who understand sales and IT.

From the start of the business to the present, the most difficult thing for Liu has been finding interdisciplinary talent who understand sales and IT. He says, "To what extent did I interview people? I asked them about sales and products. I think they need to have at least five 'knowledge genes' to make them qualified talent: the sales director gene, the consultant gene, the product gene, the mobile Internet gene, and the UI [user interface] gene. A person with all five of these genes is very rare, but he should be as close as possible to having these genes." Lately, enterprise-level application companies have continued to emerge, securing large amounts of capital infusion, making this market prosperous.

Liu says: "After too much money came into this area, many companies lagging behind may spend a lot of money or offer free service in order to remedy their backward situation. They actually do the 2B business by using the 2C method, which will likely form a giant bubble in the entire industry, and then force them over a cliff's edge. In this competitive environment, the biggest challenge to HEcom is how to control the balance of quality and quantity. It is necessary to ensure their industry-leading position as well as pursue qualitative improvement."

Lu Shan, vice president of investment of Fosun Kinzon Capital, notes with concern that in the US, SaaS service focuses on operational refinement and not simply on income or an increase in paying enterprises. SaaS service is more concerned about the cost of acquiring a single customer, about the average annual unit yield by salespeople, and about the renewal rate and renewal amounts by a company.

This concern from Lu is exactly the biggest trouble for Liu: With rising market demand and rapid market development, the capabilities of service suppliers are lagging behind, which is just asking for trouble.

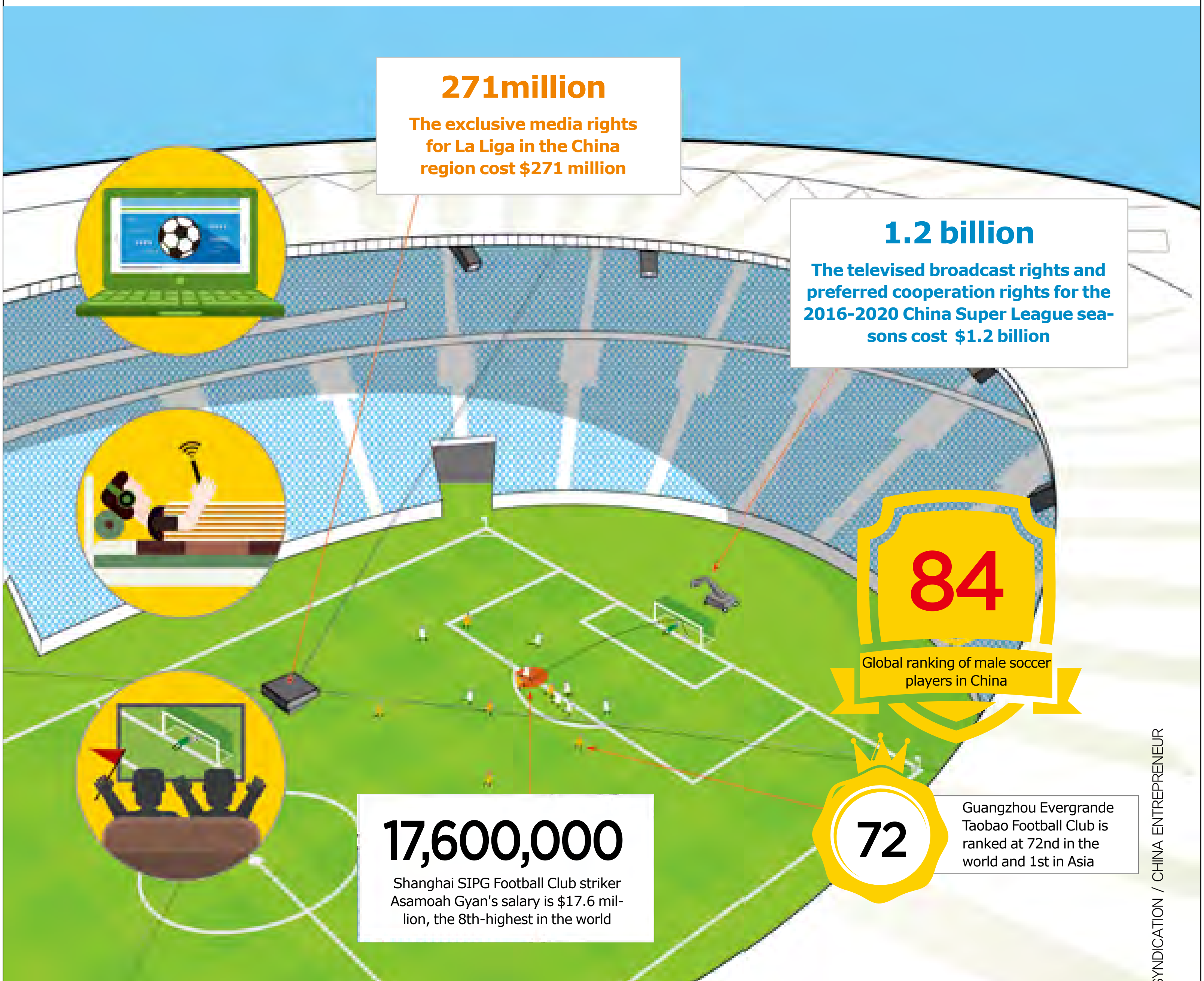
If any company's development is too slow, competitors will emerge one after another, and it will be hard to overtake these new companies.

He remembered Lei Jun's warning: it is important for him to consolidate at every step. "The 2C application is a job that requires a knack, which is a wise man's game," Liu says. "The 2B application is hard work and a fool's game." Liu hopes that HEcom will change the hunter-style of sales to enterprises into farmer-style sales, providing sales management solutions, just like planting in spring and harvesting in autumn, that is, a natural process.

THE ONLINE BATTLE FOR SPORTS IN CHINA

The goal of a $775 billion sports industry ignited the imaginations of investors everywhere in China, leading to huge inflows of capital. Now with the entrance of Internet giants, the real sporting event is to see who can get the most users.

By Cui Ling and Fang Li



SYNDICATION / CHINA ENTREPRENEUR

In the year since "Opinions" was released, the sports economy has been on everyone's lips and several giants have stepped into the arena one after another.

Qatar has made life difficult for soccer fans in China. On the morning of October 9th, 2015, China lost 1-0 to Qatar in a qualifying match for the FIFA 2018 World Cup and the 2019 Asian Cup. After the match, the words of former CCTV commentator and current LeTV Sports chief content officer Liu Jianhong were probably in the hearts of many a soccer fan in China: "There's not much time left for the China team."

This is at least the third time that a small country in western Asia has blocked China's soccer hopes. It seems that after years of market reform, the sports industry is still in need of further reform.

Of course, some reform is currently underway. In October 2014, the State Council released "Several Opinions of the State Council of the People's Republic of China on Accelerating the Development of the Sports Industry and Promoting Sports Consumption," a move that many saw as tremendously promising for the country's sports industry, as it essentially lifted the industry to the level of "national strategy." "Opinions" acknowledged the sports industry as an important part of China's continued economic growth, while stating that the goal was to see the industry grow into a $775 billion industry by 2025.

A $775,000,000,000 dream

This goal of a $775 billion sports industry has sparked imaginations and received constant media attention. For comparison's sake, the size of the global sports industry in 2014 was estimated to be nearly $1 trillion, while the US sports industry's annual output was $441 billion, accounting for about three percent of its GDP. Of this $441 billion, the fitness industry (including the construction of exercise facilities, sports club activities, sports tourism, etc.) accounted for 32 percent, sporting goods accounted for 30 percent, and the stadium business (including ticket sales, sports logo rights, souvenir sales, broadcasting revenue, advertising, and sponsorships) accounted for nearly 25 percent. Meanwhile in China the 2014 sports industry made nearly $50 billion, accounting for 0.6 percent of GDP. Of this, sporting goods accounted for 80 percent of revenue.

In the year since "Opinions" was released, the sports economy has been on everyone's lips and several giants have stepped into the arena one after another. In March 2014, LeTV Sports was established. In just a year's time, it became the top platform for broadcasting sporting events. In September 2015, Alibaba Sports Group was established and China Sports Media Ltd. pledged an impressive $1.2 billion to acquire the broadcasting rights for China Super League games from 2016-2020. Commenting on this huge deal, LeTV Sports CEO Lei Zhenjian could barely contain his excitement: "I think this is really, really great. When we look back on this five or 10 years from now, this will be seen as a milestone for professional sports and the sports industry in China."

Soccer holds a special place in China's sports industry. To a certain extent, the success or failure of the country's soccer reform is an indicator of how the current round of sports reform will fare.

For this reason, October's loss to Qatar has most likely been a cold shower for many. Going from Guangzhou Evergrande's AFC Championships League win in 2013 to this year's possibility of missing out on the World Cup for the fourth time (in January 2016, China's world cup dream shattered after qualifying loss to Iran), it seems that the fundamental problem with China's soccer and even entire sports industry has yet to change.

The source of the sports industry's woes is that it has not yet been able to change the ingrained habits brought about by years of making Olympic gold medal its top priority. Now with the arrival of Internet companies, and their experience developing user bases, it will be interesting to see whether their "Internet thinking" will finally be able to grow the sports industry. These companies have already begun attacking the problem from different angles.

Intellectual property (IP) wars

"The sports industry has really gone crazy," says PPTV Sports Deputy General Manager Dong Li half-jokingly and half-serious. One of the "crazy" things that Dong is referring to is the rising price of broadcasting rights for sporting events.

With the backing of government policy, a huge amount of capital began pouring into the industry.

Its impact was huge, especially when it came to broadcasting rights, which saw prices increase 10-20 times in many cases. Similar to the entertainment industry, IP sits at the top of the sports industry pyramid, while media and communities are in the middle, and consumers and fitness centers are at the bottom. For this reason, if companies want to hold a place at the top of the pyramid they must first secure IPs, which of course in turn has led to rising prices in this area.

The prices we are seeing today would have been hard to imagine two or three years ago, as for years almost all sporting event rights were monopolized by CCTV. However, the decision of "Opinions" to "allocate resources in accordance with market principles," "encourage the participation of multiple parties," and "loosen broadcast rights" has opened the door to marketization. The inflow of large amounts of capital gave Internet companies a foot in the door and caused the sports industry's limited sporting-event resources to become a source of unimaginable growth. It has also exposed industry leader CCTV to intense competition.

In addition to the loss of its monopoly of Chinese Super League sporting events, in May 2015 CCTV lost the rights to produce and broadcast live content for the Chinese Football Association — China Sports Media now has the contract until 2018.

LeTV Sports has the most comprehensive portfolio of sporting event rights. Pictured: LeTV Sports CEO Lei Zhenjian

In August 2015, PPTV Sports announced it had sealed a five-year exclusive deal with La Liga for the league's media rights in China, to the tune of $271 million.

Dong has said that his experiences closing the La Liga deal still excite him to this day. "Suning Commerce Group Vice President Li Bin took part in the negotiations from start to finish. When the time came to make the final decision, he hopped on a plane to Barcelona for two days of negotiations during which he would neither sleep nor rest." As the negotiating price kept rising, PPTV Sports came under increasing pressure. Li worked 15 to 16 hours a day going over every detail of the contract, refiguring costs, and submitting bids based on his calculations.

Changes in the status quo have also changed CCTV's positioning and attitude. A decade ago, CCTV was irreplaceable. In 2004, ESPN Star Sports, who at the time held the broadcast rights to England's FA Premier League, approached CCTV with plans to bring league events to China through CCTV. The former was willing to provide CCTV with the broadcast rights in exchange for advertising time during matches and cash payments, yet CCTV turned them down.

For 12 years, this world-class organization's matches did not appear on any CCTV channel. This is one of the reasons that the Premier League's return to CCTV for the 2015-2016 season was seen as one of this year's five major breakthroughs in sporting event broadcasting rights.

Even though it's only been around a year now, LeTV Sports has also gone a bit

Sports media companies can only continue developing at a fast pace when they have access to the best of the world's sporting event resources.

"crazy" when it comes to fighting for broadcasting rights. Currently, LeTV Sports has the rights to 17 types of sports for a total of 121 sporting events (75 of these are exclusive, seven are shared with one other company, and 39 are non-exclusive). That's an average of 4,000 matches a year and this number is still growing.

The Wanda Group has gone even further. In August 2015, Wanda acquired the United States' World Triathlon Corporation for $850 million. Holding the license to three Ironman Triathlon events for a total of a 91 percent market share of the world's long-distance Ironman Triathlons, this was a huge step for Wanda. Actually, this wasn't the only move the group made in the sports industry this year, but in fact was its third overseas acquisition. The previous two were Wanda's acquisition of a 68.2 percent stake in Infront Sports & Media for $1.14 billion and acquiring a 20 percent stake in Atletico Madrid for $49 million. One of the world's largest sports marketing and media companies, Infront Sports & Media possesses the marketing rights to the 2018 and 2022 World Cups, exclusive marketing rights for FIFA soccer events in 26 countries and regions in Asia for the years 2015-2022, and the broadcast rights to all seven of the Winter Olympics sports federations.

The logic behind these moves is clear: sports media companies can only continue developing at a fast pace when they have access to the best of the world's sporting event resources. Looking at a past example, ESPN was able to rise to prominence so rapidly by relying on its access to high quality media rights. In the opinion of Shankai Sports CEO Feng Tao, while China's Internet companies are limited to working with foreign marketing companies, Wanda has a leg up on them since it now has direct access to the TV industry and the upper reaches of sports industry pyramid, as well as the opportunity to take part in the policy-making process when it comes to sports media in China.

Building a community

For Internet companies, broadcasting and licensing rights are the key to increasing traffic. However, each company has its own way of dealing with these rights once they have them.

When it comes to core leagues like the Premier League and La Liga, the content produced is already pretty much set in stone, and most of the remaining work involves tailoring this content to fit the needs of consumers. For instance, when PPTV Sports got the La Liga rights, it pushed for important matches to be held at ten in the morning Beijing time so fans would no longer have to get up in the early hours of the morning to watch matches.

The sports industry tends to follow the so-called "80-20 rule" — basically, 20 percent of a company's high-level or large-scale sporting events will pull in around 80 percent of traffic and attention.

For this reason, many in the industry tend to focus their money and effort on the industry's high-level events. However, the rise of the Internet has caused the long-tail model to replace the 80-20 rule and, in other industries, allowed e-commerce and its theoretically unlimited shelf space to defeat traditional retail stores. Amazon is a classic example of this.

Perhaps LeTV Sports' Lei Zhenjian says it best: "The most attractive thing about the Internet is that it allows a small number of people to find another small number of people." This is revealing in that it shows that obtaining broadcasting or licensing rights isn't LeTV Sports' actual goal. While talking to *China Entrepreneur*, Lei pointed at the LeTV Sports app on his phone: "We probably have the greatest amount of sporting event content out of any other company in the world. By utilizing this huge amount of content, we hope this app can become an entry point for users to find sports content and sporting events."

Some people have a hard time understanding why LeTV has gone to such great lengths to acquire broadcasting rights. However, the answer again most likely lies with the long-tail model. Among the long list of broadcasting rights that LeTV has acquired, long-tail content can probably be divided into two groups: The first are those sporting events belonging to a popular sport but that are not that popular themselves, such as soccer's Copa Libertadores de América tournament or US Major League Soccer matches. The second are niche sports such as cycling.

Actually, if you're a true soccer fan it's really easy to understand LeTV's logic. Chen Cong, creator of soccer app Dongqiudi, says that soccer fans need to feel like they have a relationship with a particular team (or a particular player). For example, when it comes to female soccer fans in China, one of their favorite players is the handsome Brazilian player Kaka. And where does Kaka play? In the United States. This is one of the reasons why LeTV need not worry that no one is going to watch Major League Soccer matches. Similar to how a number of small streams come together to form a mighty river, small, dedicated followings can add up to huge amounts of traffic in the end. All LeTV has to do is help these small groups of users find the matches they love and in this way the traffic from a bunch of smaller matches can end up rivaling that of the biggest sporting events.

From the moment LeTV Sports was established, they immediately put out a smartphone client in order to get fans used to watching entire matches (as opposed to simply highlights) on their phones. In just a year, this client has garnered quite a large following of dedicated users.

Without a doubt LeTV paid a pretty penny to acquire its broadcast rights. In fact, when asked about the rising prices in the current market, Lei doesn't deny that LeTV had a hand in bringing this about. Actually he seems rather proud: "The current market boom was created by LeTV Sports. To put it bluntly, last year we were newcomers to this industry. I had to change the industry's previous value chain, otherwise I wouldn't have gotten involved. The facts show that we've succeeded. Not only have we brought in more capital, we've raised the level of IP prices."

When it comes to smaller sports, Lei admits that a large amount of traffic isn't his main goal — what's most important is the type of community they end up creating.

"During the second half of the year, we will introduce two products," Lei says. "One is LeTV Golf and another is LeSki. Our intention is to allow these loyal fans of golf and skiing to find people with similar interests and establish new relationships through a relatively independent platform."

PPTV Sports' plans will focus on La Liga. Pictured: PPTV Sports VP Dong Li

Bike racing is an example of one of these smaller sports. LeTV Sports has the rights to the Grand Tours (the Tour de France, La Vuelta a España, and the Giro d'Italia), four of the Classics, and five major public races.

"LeTV Sports allows bike racing fans to find the most complete cycling content from around the globe on our content platform. As it turns out, the kind of people that enjoy this content tend to be very similar to those people who love to go cycling as a hobby," Lei says.

This last part is very important to LeTV Sports' plans. Because while the number of fans of mainstream sports is very large,

"The motivation behind sports and Alibaba's other sectors is to create an emotional connection. Athletes are an important part of connecting everyone together emotionally. Additionally, our platform has numerous sports brands. Using T-mall International we can bring these brands to the international market." – Zhang Dazhong, Alibaba Sports CEO

they do not tend to be consumers. Fans of smaller niche sports, however, are quite the opposite: it's much easier to transform them from participants to consumers. This is the main reason that LeTV Sports chose cyclists as the target of its first product in the app sector.

While buying broadcasting rights helps guarantee traffic, high traffic doesn't necessarily translate to high revenue. "Cycling, however, is different. We've discovered that fans of bike racing very quickly take up cycling themselves," Lei says.

While the long-tail model has its advantages it also presents challenges, such as figuring out how to properly allocate resources. A championship match in Europe will probably bring in tens of thousands of viewers, but maybe only a thousand or so people are interested in watching the Indian Super Cup. If you have too many matches going on, finding enough announcers can end up being a problem.

According to Lei, a lack of resources is a problem for traditional content producers, but when it comes to Internet companies their main focus isn't providing content so much as getting users involved.

"In the future I will hand over the announcer's booth to fans. My hope is that users will end up joining our content production," Lei says, pointing to Wang Sicong's Panda TV, an online broadcast platform similar to Twitch, as an example.

Currently there are numerous new ways for people to broadcast themselves online,

and Lei thinks it's not too much of a stretch to imagine fans taking on the role of sports announcers themselves — something that would be unimaginable in the realm of traditional media.

Users are the core of any Internet company. According to Feng Tao, once China's per capita GDP broke the $5,000 barrier, people across China began becoming active participants in the sports industry. This is incredibly important for Internet companies, because no matter if it's PPTV or LeTV Sports, these companies aren't satisfied with just earning revenue through advertising — what they really want to do is earn an endless stream of revenue from all these new participants. "In the past, bicycles were just a mode of transportation. Now, they've become a hobby," Lei says.

As for those other companies that have spent huge amounts of money to get the rights to world-class events, they too are competing for users.

Dong Li doesn't deny that the price to obtain the La Liga rights was far from cheap. With only five years to work with, PPTV Sports' goal is to start turning a profit by year three. "We would consider this a relatively good result," Dong says.

Establishing a user base also factored into PPTV Sports' thinking when signing the five-year contract. Dong pointed to the way the current rights for the Premier League are handled to explain why PPTV was willing to take such a long-term chance with La Liga. While Supersports has the rights to the Premier League for 2013-2019, they only cooperate with partners on a yearly basis. However, annual contracts are no good for an Internet company.

"You can't hold onto users when you only have an IP for a year," Dong says.

Fighting upstream

Although the goal is to get to users, at this point in the industry's development, acquiring broadcast rights is an unavoidable part of the process. This puts the industry's newcomers in an awkward situation: every company that acquires sporting event rights has to deal with the risks the marketing cycle brings. The partner a company works with today may end up cooperating with a higher bidder three to five years down the line. For example, PPTV Sports' contract with La Liga will end in 2020, while LeTV Sports has more than 200 sporting

RARE IPs IN CHINA

China Super League
2016-2020

China Sports Media Ltd.

CBA
2012-2017

Infront Sports & Media (China)

amount on the Cup. Because it was the first time they were organizing the event, they expected to take a loss, but looking at the final commercial results, they ended up breaking even.

Public records reveal that LeTV Sports brought in several big name sponsors for the event, including brands like Samsung, EA Sports, Luyuan Electric Vehicle Co., Suning Yigou, and Adidas. According to news reports, Samsung invested more than eight figures (CNY) on the event, while other companies spent several million yuan. Altogether, revenue earned from sponsors reached approximately $4.6 million.

Another major source of revenue came from ticket sales. Since this was Real Madrid's first-ever match in Guangzhou, it set off a ticket-buying frenzy that sold out all available seats — to the tune of approximately $4.6 million.

Ticket prices and demand in Shanghai are higher than in Guangzhou, so a conservative estimate puts ticket sales for the events at more than $9 million. Money earned by sponsors added to ticket sales brings revenue into the region of $14 million. Going further and considering online advertising and licensing revenue, total revenue reaches $15 million, which matches the nine-figure (CNY) investment costs mentioned by Qiu.

In addition to bringing popular events to China, companies are attempting to organize their own events. A new policy enacted at the end of last year has only added to this impetus: except for national-level multi-sport events and a small number of special sporting events, national commercial or mass sporting events no longer need government approval.

This move has opened the door for any legal organization (including national athletic organizations) to organize or host these events and although China Super League and CBA events are not included, it has still helped pave the way for mass sporting events in China.

Now that the focus of sports in China is no longer about earning prodigious numbers of gold medals, mass sports that everyone can get involved in are becoming the new focus of the sports industry's development. As these mass sports become increasingly popular, they represent a potential major source of revenue for Internet companies.

PPTV Sports' Happy Run series of events is one attempt to develop mass sporting events. Unlike other major events that are all about selling a brand and related merchandise, the Happy Run series looks to create a quality sporting experience that combines PPTV Sports' platform, sporting events, and communities. One part marathon and one part festival combining the best elements from food and music festivals, Happy Run's focus is on creating a strong sense of participation. According to Dong, PPTV Sports has been very happy with the results of this self-owned IP so far: "This was just us testing the waters to see if we could combine our platform and sporting events, but we have seen a broad spectrum of people participating and we've managed to establish it as a brand."

The Beijing Happy Run's 4,000 available spots were grabbed up in just five days.

Dong confirms that Happy Run is already turning a profit, with most of the revenue coming from sponsors and registration fees. Instead of pocketing this money, PPTV Sports has reinvested it into broadcasting these events, adding a dozen cameras, and even making use of technology such as drones, GoPros, live-blogging, and even satellite coverage to enhance the experience of those who want to watch the event online. Organizing these events on their own has also provided valuable experience that the PPTV Sports team has used when covering larger events that they purchased the rights to, such as the Shanghai International Marathon, for which PPTV Sports has the exclusive online streaming rights.

DOMESTIC OWNERS OF TOP IPs

La Liga
2015-2020

PPTV

NBA
2015-2020

TenCent

Premier League
2013-2019

Xinying Sports

event contracts that may or may not be able to be continued in just a few years.

Alibaba Sports CEO Zhang Dazhong puts things plainly: "When it comes to IPs, it's not enough just buy them. I spent 20 years buying, buying, buying. If everyone just keeps focusing on buying IPs, then all they are doing is transforming the traditional sports industry model into one that fits an online model. The best IPs are those that you create yourself."

Speaking about the NBA, he points out that 50 years ago it was just a private organization, but now everyone treats it like a king.

Sporting event operations have been a part of the LeTV Sports ecosystem right from the beginning. It's clear the company's goal is to further establish a foothold in the industry by either bringing sporting events into China, working with other organizations to co-host these events, or organizing and hosting these events itself.

This past summer's International Champions Cup was the first event LeTV Sports had a hand in bringing to China. As one of the most influential pre-season events in international soccer, the cup has previously been successfully held in the US and Canada twice. The year 2015 marked the first time the event was extended to Asia and as one of the main organizers for the events held in China, LeTV Sports was no longer just a broadcast platform but also had the right to take part in business operations and development.

Looking back on the event, Lei says: "The International Champions Cup was a preliminary attempt for us. This was the first IP that was ours. From the perspective of a sporting event, it was extremely successful, probably the most successful sporting event in the entire Chinese market. Although we didn't produce much user generated content [UGC], we made major changes when it came to our professionally generated content [PGC]."

After becoming an event organizer, LeTV Sports brought in a large amount of users and professional organizations to be part of the event. Because it had more say as an organizer, the company was also able to make first-time use of some advanced technology, such as providing a 360-degree virtual reality live stream to provide some experiences that viewers wouldn't traditionally have had access to.

For instance, the concept of player tracking was also something new. "If users only want to watch Cristiano Ronaldo during the match, then my cameras will follow Ronaldo from start to finish," Lei says.

Qiu Zhiwei, a vice president for LeTV Sports sporting event operations, revealed that LeTV Sports spent a nine-figure (CNY)

Alibaba also plans to make IPs its core as it uses its ecosystem to create a sports economy that involves all levels of Chinese society. Pictured: Alibaba Sports CEO Zhang Dazhong

Professional football, the most sophisticated sector, is becoming increasingly commercialized, and is being impacted by the market economies of the US and UK.

In addition to Happy Run, board games and fantasy soccer are other areas into which PPTV Sports is making a trial run. Dong Li explained that some simple games that have mass appeal (such as board games) actually already have communities that have been around awhile and so are much easier to develop.

LeTV Sports has also been working to develop its own IP. According to Lei, this will mainly be divided into five areas: marathons, soccer, basketball, winter sports, and car racing. Some of these areas will focus mainly on professional events such as car racing, while others will include mass sporting events. "We will organize different events based on the markets in different regions," Lei says.

Developing an IP is a very effective strategy to expand a company's user base, but in China it also means dealing with a market environment that is not yet fully mature. With marathons, for instance, quite a bit of the cost goes to providing security, whereas in other countries security tends to be handled by working with local governments.

In Lei's opinion, even though new policy supporting the sports industry has been released, it will take a while to put into practice. "The government is encouraging private capital to get involved in sporting events, but each region of China moves at a different pace. In the long run, sporting events can make the people even healthier and so should of course receive support from local governments." In order to work more closely with local governments, LeTV Sports plans to establish a VP of government relations.

External factors aside, organizing events requires teams of experienced professionals. In August 2015, LeTV Sports and the Chongqing Daily Press Group established the Chongqing LeTV Sports Industry Development Company.

"You can't have sports without the support of people, resources, and the government," Lei says. "The Chongqing Daily Press Group has excellent professional teams and the [local] government wants to bring in sporting events to revitalize dormant resources within the system."

Sports is not a simple business. Well-known sports commentator and England soccer expert Yan Qiang says that soccer is actually a "super-commercialized" sport: "It's more complicated than your average business. Professional football, the most sophisticated sector, is becoming increasingly commercialized, and is being impacted by the market economies of the US and UK."

Giving an example, Yan Qiang explains that the Premier League has 20 teams with 35 first-string players each, plus coaches, managers, and other supporting members, which creates an ecosystem that only involves two to three thousand people — yet 30 to 40 thousand people play soccer in England.

So how are these two groups connected? According to Yan, "Football isn't just some business, it's a lifestyle aimed at staying healthy. People take part in this sport every weekend not just for the mental and physical satisfaction, it's also a way to socialize with our social groups. . . . As the biggest sport in society, a lot of support is given to those at the top of the pyramid. Business opportunities can be found in the participation of the public, and can be found in the commercialization of major sporting events, but what's even more important to keep in mind is that this sport is supported by every layer of society."

Soccer and sports in China represent far more than the success or failure of just one team. In the words of Brazilian writer Paulo Coelho: "The most important thing is football because it's the ultimate art form, uniting people and giving them cause for celebration. It reinforces team spirit without taking away a person's individuality. Society should take the beautiful game as an example: we need to live together as a group, but respect each other's differences."

Bringing different people together in harmony, this is the greatest gift the sports industry can bring society.

MADMEN INVADE INDIA

Say hello to Madison Avenue as advertising and marketing's giants march in to meet India's high-growth economy head-on.

By Noor Fathima Warsia

"To connect the world, you need to connect India." Facebook CEO Mark Zuckerberg pointed to a shift in the larger global mindset when he said this to an enthralled audience of students in New Delhi. He was, of course, talking about Free Basics, or Internet.org, Facebook's bid to bring in its next billion users, and give advertisers an even more massive playing field.

Zuckerberg and other tech majors aren't the only ones who have been heading to India. Global marketing behemoths are flocking to the country and spending more time there than ever before.

WPP's CEO, Martin Sorrell, for one, just spent over a week there. Publicis Groupe's CEO, Maurice Lévy, and Interpublic Group's chief, Michael Roth, are both gearing up for India visits in 2016 with a single-minded agenda: carve out a large piece of the Indian pie.

Gunning for growth

India's marketing industry is a modest one at $6.1 billion, according to the 2015 Pitch-Madison Advertising Outlook. That doesn't detract a bit from its sexiness however, and the bigger picture indicates that many aspects are coming together to set the stage for the rise of a high-growth sector.

Indian advertising currently is dominated by global players and is slated to grow by 10 percent. But the kingpins of the business — the holding companies — are eyeing India for more than mere conventional advertising. And they're thinking big.

Unlike some businesses, advertising relies on scale. That's the reason there's been a consolidation in the past two and half decades, concentrating all power in the hands of six major players: UK-based WPP, US-headquartered Interpublic Group (IPG), French company Publicis Groupe, US-based Omnicom, France's Havas, and Japan's Dentsu Aegis Network.

Together, these companies control nearly 90 percent of the advertising and marketing business in India.

The remaining 10 percent is controlled by independent agencies. In India, Sam Balsara's Madison World is perhaps the only prominent independent agency, despite the presence of younger players, most of which are arguably still in a startup phase.

Many Indian independent agencies have been acquired in the past few years, including creative agencies, digital agencies, event specialists, PR firms, and healthcare companies. The latest noteworthy Indian independent to be acquired is Anil Ambani's Mudra, by Omnicom in 2011, reported at $112 million. The year 2015 may have been quieter, but with changing market dynamics the expectations from India have changed.

Charging ahead

India's high-growth economy is an obvious draw, attracting global dollars. "India is an exception to the slowdown, and this can be seen both in the health of the economy and the relative stability of the currency," says Maurice Lévy. He explains that there are various reasons for this difference. The other BRIC countries (Brazil, Russia, India, and China) are dependent on exporting commodities whose prices have declined. India is a big importer, particularly of oil. "The oil price decline has actually been good for India, bringing inflation down and enabling interest rate cuts," says Lévy.

"India has a pro-business government; it is home to a young population empowered by, and comfortable with, technology, and has a democracy that countries want to partner with."

Add to these advantages the fact that the fabric of entrepreneurship is changing in India and the rise of startups has an overall positive effect on the economy: as these young companies gear up, they need marketing to create awareness and demand. Industry surveys indicate that e-commerce companies are already the second-largest advertising spenders on mainstream media.

In addition to the initiatives within the country — including government-led Digital India — global organizations looking to grow connectivity are targeting India. This will boost young, local entrepreneurs and bring in new ad dollars.

"As more engaging ways to reach consumers come into play, advertisers will spend in newer kinds of media," says Jasmin Sohrabji, CEO of Omnicom Media Group India and Southeast Asia. "In all,

India may be under-branded right now but we are seeing all the makings of change, indicating high growth potential ahead."

On high octane

With the increasing brand awareness among Indian youth and the swelling purchasing power of the upper class in Tier II and III cities, Indian consumer spending is expected to quadruple to $4.2 trillion by 2017, according to an ASSOCHAM-Yes Bank joint study. By any international comparison, the gap between ad spending and consumer spending is too wide in India.

The best remedy, according to business leaders in India, is to bridge the gap by increasing ad spending.

Lloyd Mathias, marketing director, consumer PCs, Hewlett Packard Asia Pacific and Japan says, "HP has always viewed India as a strategic market and will continue to do so. Given that HP's offerings straddle PCs and printers, the low penetration of these products in India presents a huge opportunity to grow its business." For him, India is rapidly getting up to speed in increasing ad dollars. It's an opinion echoed by Shashi Sinha, CEO of IPG Mediabrands India, who says, "You can already see the change happening with e-commerce and auto companies showing the way. The manner in which AdEx [advertising expenditure] is increasing this festive season is an early indicator of the shape of things to come. This will have a cascading effect on all media."

> **AS MORE ENGAGING WAYS TO REACH CONSUMERS COME INTO PLAY, ADVERTISERS WILL SPEND IN NEWER KINDS OF MEDIA**
> **– JASMIN SOHRABJI**
> **CEO, Omnicom Media Group India and Southeast Asia.**

The onus of galvanizing the industry is on agencies, and some of the players are already taking key steps in that direction. "We have expanded our client outreach beyond the big cities," says C.V.L. Srinivas, CEO of GroupM South Asia, the largest media holding company in India. "We work with partners to help brands in smaller towns have access to professional media planning and buying services. We have conducted numerous road shows for SMEs to help them understand the benefits of brand building. We still have a long way to go as a market. I see the growth of digital, especially mobile, helping expand the pie as we go forward."

Digital frontier

While the ad pie overall is growing, digital advertising has the fastest growth. "There is a big deficit of where we are, and that is reflected in India's total ad spends. Total digital spends of established markets is to the tune of $16-18 billion, and in India it is at $400 million. But it is growing at about 35-40 percent," says Umang Bedi, managing director of Adobe South Asia.

An invasion of technology

While all holding companies have different strategies to forge ahead in India, practically every company is investing in content, data, and talent — and their main focus, where they have all pinned their hopes, is technology.

Michael Roth, chairman and CEO of Interpublic Group, says: "Investment in talent, supplemented by strategic acquisitions, should ensure we maintain the high level of our professional offerings. Our budget for 2016 acquisitions is in the $150-200 million range and our deal pipeline for next year is robust. We focus on high-growth disciplines,

Key Takeaways

- In a "mobile-first" market, 29 percent of Indian marketers have enabled creative teams to develop mobile-ready content accessible across devices
- India is ahead in terms of creativity as a strategic mandate
- Indian consumer spending is expected to quadruple to $4.2 trillion by 2017

"WE HAVE EXPANDED OUR CLIENT OUTREACH BEYOND THE BIG CITIES
– C.V.L. SRINIVAS CEO, GroupM South Asia

like marketing services and mobile."

Content has become an important area, especially in a technological world that's crawling with ad blocking, bot viewing, and ad fraud. So it becomes incumbent on media companies and agencies to marry commercial messaging with content, and holding companies are looking at investing in content sources to craft the best brand solutions. Globally, WPP has done so by investing in content companies, including Vice Media. WPP is the only holding company to have directly invested in content.

The other investments are more like partnerships, such as that of Havas Media Group and NewsCred. On a side note, Havas did raise a few eyebrows earlier this year when Vivendi's Vincent Bolloré acquired Canal Plus in France, raising the question of a potential conflict even though it is Vincent Bolloré's son Yannick Bolloré who is independently tasked with the Havas mandate. And while that may be an area open for debate, all these developments do indeed confirm the fierce quest for content. India has many examples where the likes of GroupM and IPG Mediabrands have aligned with sports and entertainment content, and a deeper relationship with content creators is on the horizon.

Digital to the core

For a good part of the last decade, no advertising and media conversation could happen without emphasizing the growth of digital. Today however, digital has evolved to a place where its components — social media, mobile, video, search — are seeing special attention. A large part of acquisitions in India are in these specific areas.

"The IPG is already very strong in digital but we're opportunistic and always on the hunt for great talent," says Roth. "To consistently stay at the forefront of change, we embed digital expertise throughout our portfolio. Some of our peers have approached digital through headline-grabbing acquisitions, which have often stayed in silos within holding companies. By growing digital competencies organically within each of our agencies, our integrated marketing solutions are placed at the center of a connected world."

"For us, 35 percent of revenues are already coming from digital," says Ashish Bhasin, chairman and CEO of Dentsu Aegis Network South Asia. Dentsu Aegis Network has been on a furious growth streak. In India, the company has acquired agencies in the out-of-home, search, and experiential and events marketing domains as part of its growth strategy. "To a large extent, I would disagree that 2015 was a slow acquisitions year in India," Bhasin says. "We had three under our belt. That said, it is difficult to do acquisitions at present largely due to the lack of options. We approach acquisitions when it makes strategic sense. Digital — and I would single out mobile — will lead the business for the foreseeable future."

That kind of approach is a popular one among agencies at the moment.

"We have always kept digital at the core of our offering," Sohrabji says. "Omnicom Media Group is a young entity in India, and that was probably an advantage of being born into the digital age. Our people understand digital like they understand any other media. We have only grown the offer with technology playing a crucial role, and this year all our tech-driven marketing solution platforms are poised to further grow their presence."

Calling all tech giants

"Data" has become the other critical word for transformational growth in businesses, and if there was one trend in advertising creativity that signified 2015, it was data meets creativity. It's a space that is lagging significantly behind its potential, so holding companies have gone bullish on data. "Earlier this year, we folded our existing analytics practice into a global analytics company set up by WPP — Gain Theory. We continue to invest in Xaxis and have introduced a slew of initiatives in collaboration with Kantar," says GroupM's Srinivas.

"There is going to be a convergence of mobile, social, and cloud," says Bedi. "We will see almost a third, if not half of the brand marketing budgets, being spent on

DIGITAL — AND I WOULD SINGLE OUT MOBILE — WILL LEAD THE BUSINESS FOR THE FORESEEABLE FUTURE
– ASHISH BHASIN
Chairman and CEO, Dentsu Aegis Network South Asia

THE MANNER IN WHICH ADEX IS INCREASING THIS FESTIVE SEASON IS AN EARLY INDICATOR OF THE SHAPE OF THINGS TO COME
– SHASHI SINHA
CEO, IPG Mediabrands India

digital. We already use the power of digital content marketing: 51 percent of marketers use blogs and newsletters, 92 percent use email marketing, education is at 63 percent, retail and e-commerce at 71 percent and travel at 55 percent."

Digital, data, the rise of social, mobile, and e-commerce have all been possible because of the manner in which technology, at its base form, has grown and affected media. With a population of 1.3 billion, India is a market of extreme interest to global tech giants. Internet.org — and the likes of Microsoft, Intel, and Cisco — joining in government-led Digital India are very strong steps in achieving the target of connecting the next billion people together.

Indian media companies are adding to the momentum by launching their own offerings to convert connected users into engaged audiences. Whether it is estab-

REVENUE & PEOPLE

WPP : $600 million / 15,000 people

IPG : $180 million / 3,000 people

Publicis Groupe :
$110 million / 12,000 people

Omnicom :
$100 million / 2,000 people

Dentsu Aegis Network :
$70 million / 2,000 people

Havas : $30 million / 360 people

lished players such as STAR India, Zee, Viacom18 or new companies like Arré (led by Ronnie Screwvala) and Quintillion (headed by Raghav Bahl), there are focused efforts in growing the digital consumption patterns and hence creating more reasons for people to spend time online.

Mission disruption

Holding companies are constantly on the lookout for the next big idea that might disrupt their business — and hoping that the idea comes from within rather than imposed on them by a competitor. Much like technology-enabled disruption in the services business (whether it's in the way people order food or book cabs or reserve rooms), disruption is making a dent in the advertising business as well.

Vishnu Mohan, CEO of Havas Media Group Asia Pacific, envisions a scenario in which technology splits the ad world's already broken service model into two parts: platforms and instincts. "Marketers, publishers, regulators plug into platforms independently, making most of advertising algorithmic," he says.

"Breakthrough creativity will remain the domain of creative geniuses who produce ideas that out-do platforms. That genius may be an agency or simply a world of creative geniuses floating online, waiting to respond to a brief in the air."

The agency model has already been disrupted and will continue to evolve. "We moved from media de-bundling to emergence of creative hot-shops to now newer tech platforms," says Srinivas. "Clients need partners who can help defragment the services and simplify things for them.

The more disruption there is, the more relevant we become — provided we have focused on the right areas and have the ability to help clients make sense out of all the chaos."

For now, it is largely the big global players that are finding any order in the chaos. India is perhaps one of the rare examples of a rich creative market that is low on independents. Balsara's Madison World has survived the onslaught of the large networks and holding companies, but examples such as his are very few and far between.

As advertising and marketing becomes a mature industry in India, it is creating a growth structure that has room for both Davids and Goliaths, for the old and the new, for the homegrown and the international. In today's India, the niche forms of advertising (for example, neuroscience and behavioral targeting) are coexisting with traditional TV and print. Whether it's the gap between consumer spending and ad spending; or the gap between the top holding company and the smallest independent; or the rise of content, tech, and data; there are plenty of reasons why this sector will continue to attract millions of dollars for the next few years.

TOTAL DIGITAL SPENDS OF INDIA IS GROWING AT ABOUT 35-40 Percent
– UMANG BEDI
Managing Director, Adobe South Asia

INDIA : INTERNET & SOCIAL METRICS

	2014	2015	2016	2017	2018	2019
Population(mn)	1,240	1,250	1,270	1,280	1,300	1,310
Internet Users	226.3	277.4	321.8	365.1	411.1	459
% Change	35.3	22.6	16	13.5	12.6	11.7
% of Pop.	18.3	22.2	25.4	28.5	31.7	35
Social Networking	114.2	143.7	178.4	213.6	248.8	285.5
% Change	34.6	25.9	24.1	19.7	16.4	14.8
% of Pop.	9.2	11.5	14.1	16.7	19.2	21.8
% of Int. Users	**50.5**	**51.8**	**55.4**	**58.5**	**60.5**	**62.2**

Source eMarkete

**MARTIN SORRELL
CEO, WPP**

"CLIENTS ARE LOOKING FOR INTEGRATION"

WPP's CEO, Martin Sorrell — a name to reckon with in the marketing, advertising, and communication business, and known for his sharp business acumen — has said that if all WPP markets were performing like India, he could retire. In a conversation with *Businessworld*, Sorrell says the advertising business is evolving and that around 75 percent of WPP revenues are coming from streams that "Don Draper would not recognize," implying the shift from traditional advertising to new forms. Here are some excerpts:

For a company such as WPP, the largest holding company globally, what will drive future growth?

There are three key areas that help us differentiate our offer — technology, data, and content. And an added metric to that is talent. In our direct competition, we are the only company that has invested in all these. As the business is changing, integration is coming in much broader areas than it used to. Apart from the broadening of the definition of creativity to include the likes of data and healthcare, clients increasingly are asking for more integration. They don't want individual brands but the best people to handle their business. The model of the future, as we see it, will be in what we call "horizontality," which is our ability to collaborate and work together for the benefit of our clients. We already have 45 teams of varying coordination for our top clients, and my objective is to grow this.

In India, which specific businesses have done well for you this year?

We are growing significantly across the board. Some of our businesses are doing better than others, but we are firing on all cylinders, be it creativity, media investment, data investment, digital, design, brand identity, PR, or healthcare — for us, everything has grown, and hence contributed to overall growth. Our fracas on television audience measurement [TAM Media was replaced by industry body Broadcasting Audience Research Council] was perhaps the only concern but that too seems to be resolved.

Does it concern you that despite all the expectations from digital in India, it still forms a very small portion of ad spending?

When the world is growing slowly, growing the top line is critical. Given the sheer numbers India has on things such as smartphone penetration, there are bound to be certain expectations. I would guess that digital is perhaps 10–15 percent of our revenue in India. For a country of over 900 million handsets, it should be much higher. That being said, the market is catching up. The legacy media in India has a much more entrenched position, still very fragmented but doing well. The digital world is becoming complex and it is difficult to ascertain what and where the right kind of spending is.

> **THE LEGACY MEDIA IN INDIA HAS A MUCH MORE ENTRENCHED POSITION, STILL VERY FRAGMENTED BUT DOING WELL**
>
> **— MARTIN SORRELL,** CEO, WPP

You have been quoted on some of the issues with digital advertising, especially in context to ad fraud or bot advertising.

That is an issue that needs to be addressed. This is one of the reasons we invested in ComScore and RenTrack. We know from media reports that Google underestimated the amount of viewing they had from bots, which is another case in point of you cannot taste your own cooking. Unilever has spoken about the three Vs — value, validation, and viewability — and taken a big position, which we support, that the standards for viewability online should be as exacting as they are for offline.

As the CEO of a holding company, what are the biggest challenges you see ahead?

The opportunities are significant. The biggest challenge is to get clients to invest in brands when we all know that the only way you can grow in the long term and to create great value is by growing the top line. The animal spirit, as John Maynard Keynes would have said, is dull at the moment — we need to make it more expansive.

"WE SEE GROWTH OPTIONS IN DIGITAL AND SOCIAL MEDIA"

JOHN WREN, President and CEO, Omnicom

Omnicom had a good 2014, with a six percent growth rate, and in the recently released 2015 third-quarter results, the holding company maintained their good run by recording organic revenue growth of 6.1 percent. John Wren, president and CEO of Omnicom, explains that even though markets such as North America are its strongest, the Indian market is one of its top priorities. During the first quarter of 2015, Omnicom agencies turned in organic growth across Asia, which was up 6.7 percent. In a conversation with *Businessworld*, Wren divulges that India performed "very well" in the low double-digits, keeping the holding company "very optimistic" in a year that Omnicom otherwise views as a year of cautious optimism. Here are some excerpts:

Do you see yourself viewing growth markets such as India also with cautious optimism?

India is going through an industrial and consumer growth spurt and that, for businesses like ours, presents great opportunities. We are seeing positive growth from industry sectors like auto, consumer goods, banking, and financial services. Moreover, the government has taken a number of policy measures, including the public sector undertaking [PSU] disinvestment, which will hopefully have a positive impact on gross domestic product [GDP]. However, it's still early days with a relatively new government, so we remain cautious.

What are your expectations from the overall industry, and from the Omnicom businesses, in India this year?

There are strong tailwinds impacting India at the moment. We see significant growth opportunities in digital and social media, mobile, e-commerce.

There has also been a small but significant move by Indian companies to extend their global footprint, which is a positive sign for our business.

THIS YEAR, WE ARE SEEING BUSINESSES REALLY START TO INVEST IN DIGITAL COMMUNICATIONS IN INDIA

— **JOHN WREN,** President and CEO, Omnicom

What about digital, and the significance of technology in the marketing and communication businesses in India? Businesses such as yours have been gearing up for such a scenario. Are you seeing the market in India grow as expected in non-traditional forms of communication?

This year, we are seeing businesses really start to invest in digital communications in India. In fact, we're speaking to a number of companies that are making substantial investments in the "new digital" which is data and analytics. We are well poised to capitalize on this trend with our centralized data and analytics platform — Annalect — that is doing very well in India. We will continue to invest in our digital, data, and analytical capabilities, and partner with technology companies to help make those all-important consumer connections on behalf of our clients.

As a CEO of the holding company, what are some of the biggest challenges that you see, in your role, facing this industry?

I would say technology and talent. Unlike many other industries, marketing is growing and emancipating through the rise of technology. But it should not overshadow the human insight. The brands that can combine the science with the art will win. And this potential will continue to demand investment in the best talents, the knowledge and skills of our people, and the ever-changing technology platforms that can enable engagement.

GROWTH POTENTIAL

Thanks to stressful lifestyles, increasing lookism, and rising incomes, hair restoration is a booming business.

By Sonal Khetarpal

It's a minor consolation that even the rich, powerful, handsome, and famous can't prevent balding. Narendra Modi, Salman Khan, Sourav Ganguly, Ranbir Kapoor, Kapil Sharma, Sanjay Dutt, and Gautam Gambhir have all bowed their head before the surgeon's knife to bolster their locks. And it's not just about vanity or good looks. A 2013 study by Charité – Universitätsmedizin Berlin, a European university hospital, found that hair loss was an "enormous emotional burden" that could lead to low self-confidence. In extreme cases it could lead to depression or body dysmorphic disorder, in which people suffer acute anxiety about their looks.

Twenty-seven-year-old hockey star Sreejesh Raveendran, who got a hair transplant in 2014, is a typical

Brands should tell clients clearly that no one can predict the result of the surgery
– SANKET SHAH
CEO, Advanced Hair Studio India

example of how thinning hair undermines one's confidence.

"I'd hear that I look 35 years old," Raveedran says. "I would get conscious when I had to face the media. Senior player Prabhjot Singh got a hair transplant and he looked good, so I followed suit. Now I don't have to wear my hair short, and can experiment with hairstyles."

And he's not alone. Sanket Shah, CEO of Advanced Hair Studio (AHS) India, a hair replacement company, says 80 percent of his clients are 20 to 40 years old, compared to the 1980s and 1990s, when 70 percent were 40 to 60 years old.

He says, "Increase in stress, improper lifestyle, pollution, hormonal imbalance have led to . . . the onset of balding at a young age, for men and also women."

The problem is growing (no pun intended), and so is the demand to fix it. Thanks to international exposure and higher disposable incomes, people are more conscious about their appearance and willing to spend to look good.

A 2015 survey by the International Society of Hair Restoration Surgery (ISHRS) shows a 76 percent jump in the volume of hair restoration procedures worldwide from 2006 to 2014, especially in the Middle East, Central and South America, and Asia.

Shah says the number of clients increases by the day. "People come to our clinic not only to treat hair loss, but also to improve their hair's health and undergo cosmetic procedures . . . to add zing to their personality."

In India, hair restoration is a $95 million industry, according to market research firm Frost & Sullivan. The unorganized sector — mainly doctor-owned centers — accounts for 80 percent of the market. The rest is dominated by corporate chains and multi-speciality tertiary care hospitals.

Surgery and alternatives

Here's how surgery works. Hair loss generally occurs in the front and top of the head, so in the strip excision harvesting method (also called the strip method), doctors take hair from the back of the head and transplant it to the bald spots. Manoj Khanna, founder and chairman of the 21-year-old Enhance Clinics, says 67.5 percent of hair transplant surgeries worldwide are done by the strip method.

He says he used this method for cricket commentator Harsha Bhogle. The other common method is follicular unit extraction (FUE), in which individual follicles are transplanted. Ajay Bansal, CEO of Direct Hair Implants (DHI) India, says his company pitches its FUE procedure as "lunch-hour surgery," because it is stitchless and requires no overnight stay. The cost depends on the number of follicles transplanted, and ranges from $2,245 to $6,000.

But transplants aren't for everyone. Akshay Batra, Managing Director of Dr. Batra's Positive Health Clinic, says, "Factors such as age and balding pattern matter. For instance, we don't recommend hair transplant to clients who are 23 to 24 years old, as at this age the progression is fast. . . But someone who is 40 will go bald in 10 to 15 years. So we recommend surgery to only 20 percent of people who approach us."

In cases where hair transplant is not possible, there are cosmetic alternatives. Shah says, "For 80 percent of our clients, we do a combination of procedures if the bald area can't be filled with hair transplants." In one such cosmetic method the clinic prepares a skin patch with hair fused to it that matches the client's hair type, and glues it on. The client has to visit the clinic every three to five weeks to get it glued again, says Shah.

Last year, Dr. Batra's clinic launched Instant Hair, in which microfibers are attached to the scalp for natural-looking coverage as a temporary solution that lasts until the hair is washed. DHI offers a scalp micro-pigmentation process, which adds color to the scalp to give the impression of hair follicles and makes for a fuller look.

So the problem, perhaps, is that clients have unrealistic expectations and clinics don't explain procedures and outcomes well enough.

Companies such as DHI claim hair transplant success rates as high as 99.6 percent, yet customer forums are full of disgruntled clients. Shah says his company gives a "100 percent guarantee to give a head full of hair . . . using clinical and non-clinical procedures." So the problem, perhaps, is that clients have unrealistic expectations and clinics don't explain procedures and outcomes well enough.

Shah says, "What brands can do is tell clients in black and white that no one can regrow a dead follicle. . . . Moreover, no one can predict the result of hair transplant surgery. Each body reacts differently."

Sometimes clients' expectations are too high. Anurag Kedia, Director at the RichFeel chain of hair and scalp clinics, says, "Clients see celebrity endorsements or before-and-after images in advertisements, which is the norm for advertising in this industry, and set their expectations high. They feel their result will be same as that of the people in the ad, which might not be true, so they feel cheated in the end."

But brands continue to use before-and-after images of celebrities in ads. Shah says, "We have 225 brand ambassadors, such as Shane Warne, Ricky Ponting, Gautam Gambhir, and Jacques Kallis, and none of them are paid."

Anil Madan, founder of the advertising agency Aqua Design & Communication, says, "There's nothing wrong with using celebrities to promote a brand." However, he adds that companies should use only celebrities whom they have treated, and not those who are paid to endorse. "Before-and-after images is a norm in health care, because everyone wants results," he says, and points out that ads for products like Eno and Vicks do this too. But, he adds, companies should not claim customers will get their hair back in two or three months, as individual results may vary.

Despite some disgruntled clients, the hair restoration business is growing 20 to 25 percent year-over-year, according to Frost & Sullivan. DHI's Bansal says his company plans to add five branches this year, in cities such as Visakhapatnam, Ludhiana, and Indore. A quarter of RichFeel's centers are in small towns.

It's not just the big-name clinics — small clinics are cropping up everywhere, too. It's common to see newspaper classifieds advertising hair transplants for as little as $0.15 per follicle. Enhance Clinics founder and chairman Khanna, who is a past president of the Association of Hair Restoration Surgeons (AHRS) India, says he has proposed to the government that they regulate this industry.

"This is a lucrative business, with the cost per sitting ranging from $1,200 to $7,500," says Khanna. "Due to this, I have seen self-taught dentists or nurses open hair restoration centers for quick money, but the biggest loser is the patient."

We plan to add five branches this year, in cities such as Ludhiana and Indore
– AJAY BANSAL CEO, Direct Hair Implants India

And now the hair-raising part

Narendra Patwardhan, current president of AHRS India, says the Medical Council of India (MCI) permits only allopathic professionals with proper training in hair restoration to perform the surgery. However, enforcement of the law is a problem in India, he adds.

A hair transplant is not a complex procedure, but it's still surgery, and there are risks involved. Patients may suffer from scarring or swelling, or shock loss, in which the body doesn't accept the new hair.

Also, doctors need training to understand natural hair growth and hairline patterns.

"We get a lot of cases to rectify where men get women's hairlines after the transplant," says Bansal of DHI. "Other common bloopers are when the hairline is set too low, or it looks artificial, or the direction in which the hair is implanted looks unnatural."

In a botched case, the damage is sometimes irreversible. Malpractice victims can sue their doctor in consumer court or lodge a complaint with the MCI.

If found guilty, a doctor could get a warning or lose his or her license to practice, says Tejinder Bhatti of Chandigarh-based Darling Buds Hair Transplants.

Some in the industry have proposed implementing regulations similar to those of the International Society of Hair Restoration Surgery, which permit only qualified doctors to perform hair transplant surgery. However, implementation may take some time. Until then, Khanna suggests that people seeking surgical treatment thoroughly research their doctor's credibility. After all, a botched procedure is worse than baldness.