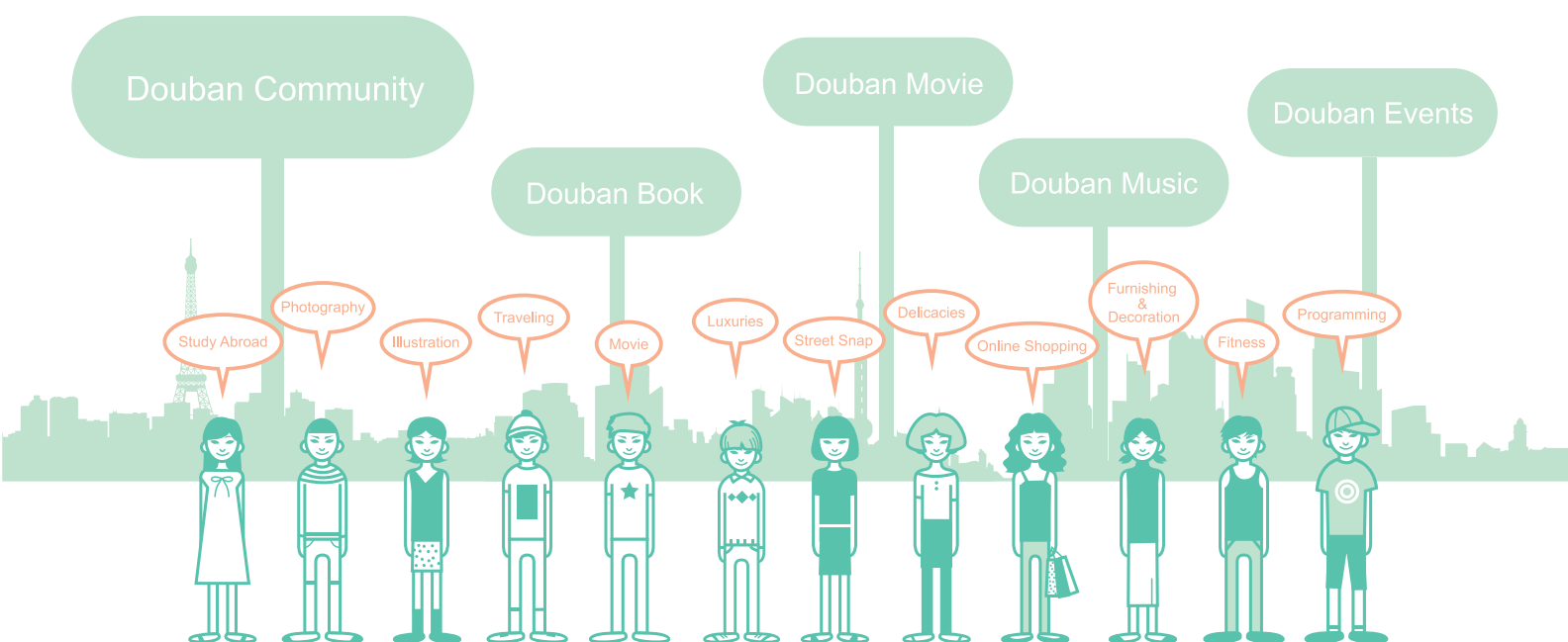


Nesta...

CROSSING THE RIVER BY FEELING FOR STONES: A NEW APPROACH TO EXPORTING CREATIVE CONTENT TO CHINA?

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A VERY BRITISH PARADOX

We have all heard the statistics. About how China is forecast to overtake the US to be the largest economy in the world by 2027.¹ How China already has 277 million mobile web users, of which 45 per cent use their handsets to access music and 21 per cent video games.² How more than 300 million Chinese are studying English.³ How Chinese e-commerce is predicted to triple by 2015, when sales could hit \$420 billion – 20 per cent higher than the projection for the US market.⁴ And how, at 67,300, China sends more students to UK universities than any other country in the world.⁵ These dizzying numbers should mean there is a particularly large market for the UK's creative industries, right?

The trade statistics suggest not. According to UNCTAD, in 2010 the UK's share of creative goods exports to China was just 1.4 per cent, compared with a 4.8 per cent share in world creative goods exports.⁶ UK exports of creative goods to China totalled \$140 million, lower than not only Japan (\$900 million), the US (\$800 million) and Singapore (\$520 million), but also France (\$224 million), Germany (\$325 million) and Italy (\$474 million).⁷ With the exception of Japan and Germany, the value of UK exports of creative goods grew at a slower rate than in all these countries between 2002 and 2010. These trade statistics are not without their problems – they exclude all creative services, for example – nonetheless they indicate that the UK's creative industries are punching below their weight in Chinese markets.

EXPORTING TO EMERGING MARKETS IS EASIER SAID THAN DONE

With growth stalling in the West, emerging export markets are viewed as havens of opportunity in many countries. But the trajectory of emerging markets is all too often charted by commentators in a smooth, simplistic way that seldom corresponds to historical fact. Bullishness can quickly sour as firms have their fingers burned in unfamiliar markets.

Thus, institutions for products, talent and capital are often missing, fragile or slow to mature, raising the costs of doing business. Market intelligence that facilitates decision making is scant; companies have difficulties reaching customers and suppliers in a timely manner; third-party mechanisms to verify business claims or resolve disputes are unreliable; and policy and regulatory frameworks are frequently obstructive and abused by local elites for their own benefit.⁸

A particular stumbling block in China for UK creatives is the uncertainty around local demand for their products. What many discover on arrival is a cultural scene unlike others – boisterous and difficult to navigate, at least for strangers. Needs, tastes and attitudes of consumers are all exceptionally difficult to observe – let alone drill down and analyse. Firms must work hard to get into the heads of consumers, especially those further down the socio-economic pyramid who are removed from mainstream tastes – an endeavour that gives local firms a powerful source of competitive advantage.

All the evidence, meanwhile, suggests that cultural offerings are 'sticky', embodying shared cultural values and understandings that are sometimes only intelligible within their place of

origin, restricting their appeal in global markets.⁹ Even with the advent of digital technologies that have eroded away trade costs, the local production and consumption of cultural goods is alive and kicking. Home bias in some markets like pop music has in fact increased markedly since the 1990s.¹⁰ MTV, which went global in the belief that “A-lop-bop-a-doo-bop-a-lop-bam-boom means the same in every language” learned this the hard way and now dances to a different tune.¹¹ For all the alleged power of cultural imperialism and homogenisation or the breathless rhetoric about the death of distance, geography, history and culture all still matter.

These headaches help explain why the Chinese market for creative content is usually framed in negative terms in Anglo-Saxon circles. Blinkered vision and neuralgic caution abound. Academics stress that the very idea of ‘creative’ industries in China is a contradiction in terms, given the creative compromises businesses must make to operate there. Business leaders complain that widespread social acceptance of piracy is an insurmountable barrier to Western content. Whether willingly or unwittingly, the message to UK creatives is unmistakable: don't go anywhere near this market!

But is this a sensible strategy? In the West we don't think twice about (heavily) investing in new ventures which promise big and rapidly growing customer bases but have not yet worked out a business model. Yet the UK's creative industries may by and large be ignoring the Chinese market for similar reasons. There is a danger that the UK is not investing in building the relationships with Chinese consumers now that could pay handsomely in the future, if and when the business models have been worked out.

CRAFTING A STRATEGY FOR CREATIVE EXPORTS

Differences in tastes are real, but not unbridgeable. Some content has always travelled more freely across borders than others.¹² And just as consumers have not embraced a single, global culture, equally they have not retreated to their own cultural laagers. Success depends on a delicate balancing act between the global and the local. Consider the runaway success of the *Kung Fu Panda* films in China, ones that were produced by US studio DreamWorks Animation and featured Western actors, but melded references to martial arts films with classic legends to offer an imaginative and spirited take on Chinese culture. Or consider *Ugly Wudi*, Hunan Satellite TV's adaptation of the comedy drama *Ugly Betty*. The show borrows liberally from the Ugly Duckling meets Cinderella formula of the original and has been a hit among Chinese audiences, especially female audiences who are drawn to it's brand of feel-good escapism. But the show also makes significant concessions to local norms and sensitivities, especially around issues of ethnicity and sexuality.¹³

In many cases, tastes boil down to simple differences in emphasis. For instance, China and the US are both embracing new digital technologies, spearheaded in varying degrees by so-called digital junkies – individuals who spend significantly more time online than other groups and are early-adopters of new technology. But whereas in the US this group is mostly male, in China, it is split evenly between females and males. Gaming is big business too. The main difference is that Chinese gamers spend most of their time on PCs whereas their US counterparts opt for consoles such as the Xbox 360, PlayStation 3 and Wii.¹⁴

This is not to downplay the challenges of emerging markets – the constraints won't go away anytime soon. Instead, it is to suggest that UK creatives are not spectators buffeted by forces beyond their control and, like anything else, they can craft strategies to plug gaps.¹⁵ They can tailor their products and services and experiment with new business models, launch joint ventures with

experienced local partners or localise their staff, and even attempt to build their own institutions from scratch. Companies of various stripes – The Walt Disney Company, Microsoft, L’Oréal, McDonalds, P&G and Monsanto amongst others – exemplify how these strategies can work not only in the creative industries but across all sectors of the economy.

Clearly, there is no silver bullet to prospering in emerging markets – and each option carries risks. Ritually invoking the importance of tapping into local networks and partnerships is all well and good; but collaboration can turn into a Faustian pact if it is not managed carefully. Thus, businesses must balance the need for trust with clear structures of accountability; they must extend partnerships beyond the usual suspects; and partnerships must be embedded within a larger strategic vision, not undertaken on a project-by-project basis.¹⁶ Above all, context is absolutely crucial. If businesses can get these basics right, there is no reason why they should be deterred or frightened by emerging markets.

DOUBAN, A PARTNER TO CROSS THE EMERGING MARKET DIVIDE

On a recent visit to Beijing, we met a group of dynamic entrepreneurs at a social network called Douban. Douban – which literally means bean or bean segment – was hatched in 2005 in one of Beijing’s many inconspicuous, utilitarian Starbucks by Bo Yang, a former IBM research scientist and a cult figure in the capital’s bustling IT scene. Initially conceived as a book review site, Douban has morphed in less than decade into a fully-fledged social network, recommendation engine and online store for creative content.¹⁷ Today, Douban boasts over 100 million registered and anonymous users, with nearly half actively using the site.¹⁸ By measures of internet traffic, the site is one of the busiest in China and the world, ranked 20th and 106th respectively.¹⁹

Douban’s users are a natural niche for the UK’s creative content companies: 92.5 per cent of Douban users are in the 18–35 age group and 70 per cent live in the major urban cities such as Beijing, Shanghai, Tianjin, Chongqing, Guangzhou, Chengdu, Wuhan, Nanjing, Xi’an, Hangzhou and Shenzhen. They are highly educated and have strong purchasing power: more than 81 per cent have a first degree or higher while nearly 43 per cent earn 4000 RMB each month and a further 6.1 per cent take home over 8000 RMB.

These numbers – impressive as they are – tell only part of the story. What makes Douban such



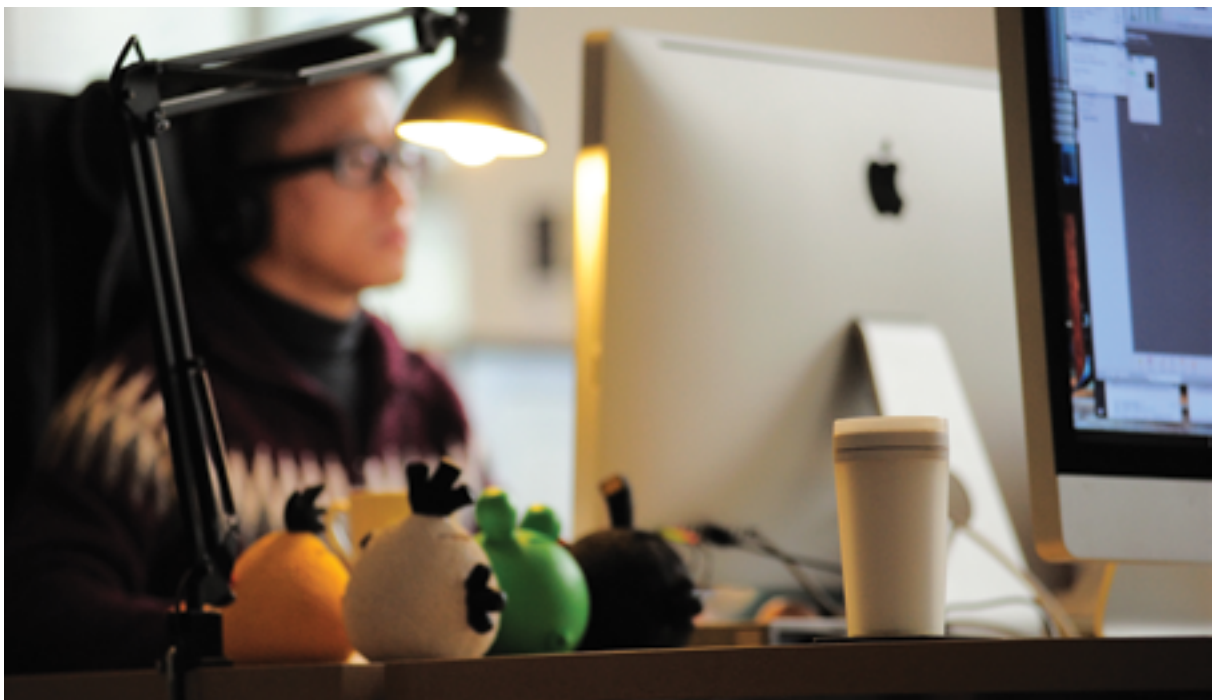
5 CROSSING THE RIVER BY FEELING FOR STONES: a new approach to exporting creative content to China?

a unique proposition is its fierce independence, reflecting a mix of technological savvy, exacting taste and youthful swagger. In a market where the temptation – and sometimes the smart money – is to think short term and over-diversify, Douban has resisted blatant attempts to cash in on its growth or chase quantity.²⁰ When, for instance, Douban piloted a new venture with the internet heavyweight Tencent, it was inundated with new users who it was feared would dilute the quality of the site and its usefulness to existing users, leading Douban to sever ties.

This commitment is more than a general direction. It is hardwired into Douban, guiding its everyday actions. For instance, a range of mechanisms – from the simple up and down vote to the byzantine – determine where comments will be displayed, so that ‘good’ ones climb to full view and ‘bad’ ones wither and perish. Meanwhile, user IDs are logged and weighted over time and algorithms constantly tweaked to safeguard rating systems. All of these serve to reassure users that investing time to generate content is a worthwhile exercise and quality will beget quality.

They, in turn, are supported by traditional ‘police patrol’ strategies – a dedicated editorial team that tracks errors, provides instant feedback and punishes violations. The Douban universe, of course, is so broad that it is virtually impossible to oversee the minutiae of users’ behaviour. To make the task easier, Douban draws on the bottom-up efforts of a committed user base to detect problems, freeing it to concentrate on those areas that warrant greatest attention. Unlike a roaming police car that may stumble on a burglary or a burning building, users are everywhere. And insofar as users are everywhere, they do not always have to flex their muscles to make a difference. The mere possibility that they may act is often a sufficient deterrent to anti-social behaviour.

Running through these design choices is the notion that each part of the system is shaped to the priorities of the rest of the system. At times, this entails hard trade-offs and saying no to a wide variety of interests and actions. A case in point: Douban places – some would say even buries – reply buttons at the end of discussion threads rather than main posts. Some complain that this



interface detracts from the site's functionality. Douban defends these burdens in terms of the benefits of forcing users to read and reflect on others' posts before they can post, reasoning that a bit of extra grit will improve the quality of discussions and interactions.

This outlook distinguishes Douban from more volume-hungry competitors like Renren, Kaixin or Weibo, the Twitter-like service offered by Sina. It can be gauged by the fact that Douban's page view per user is among the highest of all major websites in China and users spend more time on Douban than most other networks, notwithstanding its more modest reach.²¹

But success also brings new dilemmas – and Douban is not exempt from growing pains. Nowhere is this more evident than in the pressures it faces to monetise, following several rounds of venture capital funding, the latest round valued at a cool \$50 million. Douban has dabbled with a number of revenue-raising initiatives: it has partnered with a select number of brands that provide display ads and other forms of campaign and made money by directing users to Amazon China and booksellers such as Dangdang.com and 360buy.com, as well as cinema and concert booking sites, though these revenue-sharing agreements cover only part of the marketplace.

It is still early days for these initiatives and Douban has been keen to stress that they run with the grain of users' lifestyles, providing services they require. This quest to reconcile two potentially conflicting objectives partly explains why Douban has resiled from pushing advertising too hard lest getting into bed with the wrong partner dilutes its own brand or annoys its most passionate users.

Growth is finally recasting the relationship between Douban and its users. In the past, a powerful sense of identification was fostered by the small scale of the network and the ability of users to receive and give input on a wide gamut of issues. But the assumptions behind this happy dynamic are being tested by the strain of increasing scale. Bo Yang refers to this phenomenon as the 100,000 user rule (十万用户定律), a blunt admission that more direct forms of consultation and feedback lose their coherence above a certain threshold. Adapting participatory processes to the daunting complexity of a fast-growing network without sliding into a disempowering command-and-control will thus be critical to retaining users who have been – and remain – tremendous sources of creativity.²²

A WINDOW TO CHINESE CONSUMERS

We have seen how Douban's self-imposed barriers enable higher quality interactions between users. But what do they mean in practice and how can UK creatives take advantage of them to boost their fortunes in the Chinese market?

For decades, creative businesses have had to rely on broad-brush characteristics such as age or sex to predict consumer behaviour. But these have been largely hit and miss affairs and expensive to boot. Psychographic approaches which make use of non-demographic consumer traits have improved matters, but their reliability outside brand enforcement is still questionable.²³

Today, powered by cheap, plentiful bandwidth, creatives no longer need to play these Delphic guessing games.²⁴ As in other sectors, they can *observe* how consumers actually think and behave²⁵ and make decisions accordingly – and ones that enjoy greater returns.²⁶ The Internet and the opportunities it creates for low-cost experimentation, allows creatives to understand what consumers want in real time.

Trade scholars have long understood the importance of social networks in helping businesses to overcome the obstacles to trading in unfamiliar markets.²⁷ In the digital age, online social networks can play the same role too. As well as their use in marketing campaigns, companies can use social networks to collect valuable information on consumer preferences, gather feedback on services and product features and raise brand awareness.²⁸

By providing deep and dependable insights into consumer preferences, Douban can unlock similar value. Thus, we were surprised to discover that *Lock Stock and Two Smoking Barrels* was the highest ranking British film on Douban's top 250, that Charlie Brooker's dystopian *Black Mirror* and the *IT Crowd*, the off-kilter Channel 4 comedy, had such a loyal following. Also, that the number of 'likes' for Benedict Cumberbatch, star of recent award-winning productions *Sherlock* and *Warhorse* is fast catching up on the equivalent number on Facebook. To give some flavour of the figures involved, Douban Movie already counts 1,700 British feature films on its platform, and a further 500 shorts, 900 documentaries and 560 TV series. There were over 1.2 million page views for this content in the last month alone. Over 200 reviews were written by Douban movie users, growing at roughly at 2.5 per cent per month, and almost a quarter of a million users read these reviews, growing at an average of 8.3 per cent per month.

Mini sites (小站) and mini groups (小组) play an especially important role on Douban as they permit more granular, two-way conversations. While some are little more than directories for locating subtitles for British content, others are animated by tussle, argument and the pleasure of debate. Some of these contain fascinating discussions of British films, music, TV programmes, culture and language, and others a treasure trove of insights into the hopes, fears and motivations of Chinese young people in general.²⁹

Indeed, the two are not mutually exclusive. A striking example of this is the group, Anti-Parents which has attracted over 50,000 kindred spirits to its mini group. Labelling all parents 'vermin', the group has been exchanging stories since 2008 of how members have been ignored or hurt by their parents. The group has free-wheeled over a range of related topics, including the afflictions of modern Chinese education, causing waves in a country raised on the certitudes of filial piety. Interestingly, the group was part inspired by Nick Hornby's 2005 black comedy, *A Long Way Down* and, in fact, the novel's translator, Zhang Kun, was invited to help administer the group in its early days.³⁰

Of course, Douban users do not speak for all Chinese consumers. They may share little in common with, say, inhabitants in China's third-tier cities or rural hinterlands in their preferences and buying behaviour. Even so, the trail of information Douban users leave behind is allowing creatives to learn about a market segment which, by virtue of China's raw size, is already significant, as well as prepare the ground for when the middle class, hastened by economic growth, urbanisation and pro-consumption policies, becomes a more significant force.

WORD OF MOUTH EFFECTS

Beyond serving as a fly on the wall, Douban exercises real sway over consumers' purchasing decisions. With the Internet's growing popularity, online reviews have become an increasingly important resource for consumers who wish to cut through the disorientating hype and gimmicks of marketers to discover product quality. Online reviews have been found to influence everything from books sales on Amazon to the accuracy of revenue-forecasting models in the film industry.³¹

This pattern is not universal: effects tend to be strongest on more experienced users of the Internet and on the purchase of niche products, presumably because less information exists on them. The credibility of social media also affects the impact of online reviews that have been shown to be vulnerable to scams, crowdhacking and other forms of manipulation.³²

Douban's influence on consumers as a trusted gatekeeper is underscored by six further features – some unique to it, some unique to the Chinese market.

First, the standing of the professional critic has never been as elevated in China as elsewhere, creating space for ordinary, bottom-up voices.

Second, popular rivals such as IMDb are blocked in China, compelling most film buffs to rely on alternative sources of information.

Third, the Internet in general is displacing traditional media as an information source for many Chinese: survey data from the China Internet Network Information Center found that 61.8 per cent of those that regularly use the Internet first learned of major news from the Internet, and 64.6 per cent went to the Internet whenever they encountered a problem.³³

Fourth, social media sites are greater fixtures in the lives of Chinese internet users than their counterparts elsewhere. For instance, consumers in China spend 46 minutes a day visiting social-media sites, compared with seven minutes in Japan and 37 minutes in the United States.³⁴

Fifth, Douban is more immune from the biases that dog other online reviews. In a world where everyone is jostling for attention, there are strong pressures for people to exaggerate their reviews – one reason why the simple 'yes or no' is often more informative than more detailed grading systems.³⁵ Another problem is that time is scarce and only consumers with a bee in their bonnet are motivated to write a review. Finally, there is acquisition bias, that is, only consumers with a favourable disposition toward a product will buy it, thus creating a bias toward more positive reviews. These biases inhere in all review systems, but they are more acute where posting a review is an afterthought rather than a core activity. And while some Douban users may court publicity, the majority take great pride in the content they post, viewing contributions as extensions of their authentic selves, not their fabricated online alter egos.

Finally and most obviously, Douban is a *de facto* community of strangers unlike most social networks which connect people who largely know each other in the 'real world'. Subject to a few caveats, it ensures that a broad church of views is represented while empowering users to speak candidly about creative content—well-known hallmarks of 'wise crowds' in other walks of life.³⁶

EASING DISTRIBUTION BOTTLENECKS

Douban could also play a more direct role in realising commercial opportunities for British businesses. When the UK hit *Street Dance* was first screened in China, around 5 per cent of the 500,000 Douban users who had read the movie reviews went on to click on the ticket purchase facility and around 2 per cent went on to make a purchase. About 1 per cent of users who read the user reviews clicked on details about the original soundtrack. There are not – yet – equivalent links between Douban Movie and Douban Book, though it is only a matter of time before these too are developed.

Part of the appeal of online platforms like Douban and alliances with vendors such as Amazon is that creatives are less beholden to fragmented and ramshackle distribution systems – commonplace in emerging markets – to sell their work. In China, large, modern retail chains account for only 10 per cent of the entire retailing sector due in part to red tape, planning restrictions and interprovincial trade barriers put in place by local governments and the muscle of traditional ‘mom and pop’ stores.

However, digital technology and the transition from atoms to bits are ushering in the possibility of a fundamentally different type of value chain. For instance, musicians are tapping into Douban’s potential as a low-cost platform to post and plug material. Even some Western artists are beginning to leverage these opportunities: Beggars Group made up of the legendary indie labels 4AD, Matador, Rough Trade and XL Recordings recently set up a Chinese affiliate 贝格 with accompanying artist pages on Douban. For some of the younger British acts in the stable – *Adele*, *The xx*, *Friendly Fires*, *Kid Harpoon* and *The Horrors*, this presence is a potential godsend reducing the need to hit the road and gig relentlessly to build a fanbase. The benefits are potentially significant. We are beginning to understand from international experience that fans are still willing to pay for content if it is delivered when and in a way they want – and several experiments on Douban in pay-what-you-want pricing shows that this holds true even in markets with seemingly entrenched levels of piracy.

A MORE ACCOMMODATING REGULATORY ENVIRONMENT

Admittedly these examples are still exceptions to the rule. In part, this reflects long-standing efforts by the Chinese government to regulate foreign content and coddle domestic producers. However, there are tentative signs that attitudes are softening, even in sectors such as film where battle lines have been drawn sharpest.

Specifically, Vice President Xi Jinping’s recent visit to the US offers reason for optimism. Chinese authorities have agreed to relax quotas on foreign blockbusters, permitting 34 films to be released each year provided that they are in 3D or Imax formats, up from the current limit of 20. Foreign filmmakers will also be granted a larger share of box office receipts: rights owners will receive 25 per cent instead of the current 13 per cent-17 per cent. With 40 foreign independent films released in China each year, independent film producers have fared slightly better under the quota regime. But they too stand to profit from the new agreement as they will be free to negotiate fixed licence fees at similar margins to those they would receive in other markets, rather than the 2 per cent or 3 per cent of earnings that operate at the moment.

Further evidence of liberalisation can be seen in the decision to allow a second, national distributor to show imported films, a move that will inject welcome competition into a sector long dominated by the China Film Group Corporation. The agreement also promises to strengthen transparency: in particular, rights owners will enjoy access to censorship decisions, ensuring that licence deals cannot be terminated willy-nilly or renegotiated by the back door without rights owners having an opportunity to discuss problem areas with censors or inserting alternative films into previously signed import agreements. Rights holders will also be informed about the content of deals struck by import companies, distributors and exhibitors, giving them a more accurate picture of box office dynamics such as screen counts and marketing spend.

Adopting a strategy that Chinese businesses in other sectors have pursued so successfully to develop their technological and managerial capabilities,³⁷ Chinese film companies are also being encouraged to agree joint ventures with leading foreign companies where Chinese companies have a majority stake.

Several such tie-ups have been announced over the last year, including one announced in February that will give DreamWorks Animation a 45 per cent stake in a Shanghai-based studio with three Chinese companies. China Film Group has announced a new co-production film fund called the China Mainstream Media National Film Capital Hollywood Group to co-finance big-budget features.

Chinese regulatory politics are in a state of flux, caught between periodic angst about opening up and the impracticality of closure. Moving to a level playing field for local and foreign content will not be immediate or painless; but developments – tentative as they are – do promise greater future commercial opportunities, provided UK creatives rise to the challenge and up their game.

CONCLUSION

In the wake of the economic crisis, emerging markets such as China have assumed a greater significant role in the global economy. But the standard narrative of emerging markets is clichéd and fundamentally incomplete. The many uncertainties of doing business there can hamper and thwart the operations of even the most sophisticated businesses.

Enterprises like Douban, however, show that creatives need not bow to fatalism or pessimistic exceptionalism – and that bigger audiences for UK content in countries like China are not out of reach. Douban may have been created for quite distinct purposes; but it has transcended its origins and given rise to uses that benefit UK creatives as well as Chinese consumers. If the UK's creative industries have been conspicuous by their absence in China, the good news is that they have room to do much better. Douban wants more UK creatives to engage with its community and share content. It is a live experiment. It is crossing the river by feeling for stones – to use the hardy Chinese expression, learning and improvising as it goes along. Douban is keen to persuade more UK creatives to engage with its community and share content. We should not just be watching, but reaching out. The benefits of action and the costs of inaction are substantial and only sure to increase.

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