



## Acxiom poised for role in China's growth

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In 50 years, if scholars write the history of China's economic miracle, Little Rock-based Acxiom Corp. may have its own footnote as the pioneer that brought junk mail to the Chinese consumer.

Historians might note how, with the purchase of tiny Shanghai consumer database firm ChinaLOOP in October 2004, Acxiom entered a country where direct marketing was in its infancy. Within a few years, the company would have made it possible for Nokia to pinpoint every 19-year-old with a credit card in Beijing, or to help BMW post billboards in only the most affluent neighborhoods of Nanjing.

If successful, Acxiom, whose services include collecting, analyzing and selling consumer demographic data, would have faced the temptation to exploit China's lack of data protection law. It would have also dodged confrontation with a government eager to attract foreign investment, but still operating in relative secrecy.

Acxiom officials say the legal system will not be an issue.

The company maintains the same data protection standards in every country it enters, with certain data — including health records and information about children — off limits, said Jennifer Barrett, Acxiom's chief privacy officer.

The opening of China to the type of targeted ad campaigns Americans are bombarded with every day may not seem like a watershed moment. But with foreign companies already investing nearly \$60 billion annually in China for a chance to sell to the burgeoning consumer class, Acxiom's technology could prove vital in making sure pitches reach the right people.

Consumer buying drives the U.S. economy, the world's largest. And consumer purchases are taking on an increasingly important role in China, where the gross domestic product has doubled in the past 10 years to become the world's secondlargest, at roughly 60 percent the size of the United States'. Car sales alone rose 60 percent between February 2003 and February 2004.

ChinaLOOP in 2000 was among the first to enter the consumer database business in China. The company collects data through surveys, which it then uses to help native and multinational corporations create direct-marketing campaigns — ads that target a specific demographic. ChinaLOOP also manages clients' consumer databases, helping to maintain accurate information and avoid redundancies.

With \$2 million in annual revenue and 7 million people in its database, ChinaLOOP is the largest company of its kind in China, but is a small fraction of the size of Acxiom, which provides similar services — with a database of 20 billion customers — and has annual revenue over \$1 billion.

But it isn't ChinaLOOP's size today that matters.

Acxiom Company Leader Charles Morgan predicts ChinaLOOP will collect \$100 million in annual revenue within 10 years. Gabrielle Chou, ChinaLOOP's chief executive officer, said from Shanghai that she was flooded with inquiries about her company's services in the first few days after the acquisition announcement.

' A BIG SHARE ' "In every sector, you're starting to see direct marketing taking a big share of the market," Chou said. Chou's high hopes for her company stem from China's status as an emerging market. Because most Chinese have never been exposed to sophisticated advertising, they are more likely than Western consumers to welcome direct mailing and other forms of advertising instead of ignoring them, Chou said. "There is very little information in the general media about products and services," Chou said. "Direct marketing plays a role in informing them about what's available. The reaction is pretty good also because they haven't been solicited as much as in other parts of the world." Pitching to consumers itching to spend newly acquired disposable income is the easy part. Finding them will be the challenge, Chou said. "In the [United States], more or less everybody is a consumer. Not in China," she said. "So you can easily collect names in China, but it's difficult to collect the right names." The number of Chinese consumers is growing fast. Chou estimates that Acxiom could draw from a potential pool of 350 million people to create databases of consumers interested in basic commodities such as food or toiletries — up from 150 million when ChinaLOOP started in 2000. Up to 200 million middleclass Chinese could afford some luxury goods, such as a mobile phone or cosmetics.

CONSUMER CLASS But some believe China's new consumer class may also be vulnerable to exploitation, as the Chinese legal system has little to say about data protection. "The notion that somebody enjoys a right of privacy or intellectual property, that does not exist [in China]," said Usha Haley, author of *The Chinese Tao of Business: The Logic of Successful Business Strategy*, and several other advice books on doing business in Asia.

Consumer advocacy groups in the United States have sparked debate over what types of personal data can be collected and for what purposes data can be used. Acxiom itself has been a target of American privacy advocates, whose activism has contributed to an increase in the scope of data protection laws, Barrett said.

That sort of dialogue would never occur in China, Haley said, because most consumers have no concept of what their individual rights should be.

Chinese consumers are also accustomed to providing personal information to the government on a regular basis, again diminishing the individual concept of privacy, Haley said. For example, Chinese law requires Internet service providers to record

subscribers' Internet use as well as personal information for 60 days, which is in turn submitted to the government. "The Chinese government traditionally... operated on the fact that citizens should not know their rights, so there would be no challenge to their authority," Haley said.

**SELF-REGULATION** Barrett said businesses are beginning to self-regulate to fill the legal void in China, attempting to create a respect for privacy similar to what exists in the United States or Europe. For example, Chinese and American consumers can request removal from advertisers' mailing lists. But in China that option is voluntary for businesses, whereas United States law requires it if the consumer requests it. Building trust with potential customers is the first priority in business, Barrett said. In order to effectively market to consumers, companies typically try to develop a trustworthy image through a legal system that enforces consumer rights, industrywide self-regulation and individual company policies, Barrett said. "Because we don't have a law baseline and self-regulation is in its infancy, it puts more pressure on us to make sure we're doing it right," she said. Chou said self-regulation has so far been successful, with Chinese consumers taking an active interest in what personal information might be in the hands of a corporation. Legislators in the National People's Congress have also begun conferring with business leaders and foreign officials about creating more-comprehensive data protection statutes, Chou said.

But it's the government that Acxiom and other companies looking to invest in China should be worried about, said James Feinerman, director of Asian Law and Policy Studies at the Georgetown University Law Center. "They don't want to have somebody else get better data than they have," Feinerman said. "They don't want somebody to know more... about what's going on in their own country than they do."

That mentality nearly drove Amway Corp. and Avon Products Inc. — and other companies that sell through grassroots networks of salespeople instead of stores — out of the country in 1998. The government grouped such companies with pyramid schemes and severely restricted their operations.

Only with China's entry into the World Trade Organization in 2005 will some of those restrictions be lifted.

Jerry Jones, Acxiom's business development and legal leader, said official attitudes have changed dramatically since 1998. "The environment is open to the type of business that we're capable of conducting," Jones said. "Some of the rules and regulations have changed even within the last month and a half."

Jones said Acxiom leaders were also encouraged by a September meeting of the China Direct Marketing Association, which Chou founded and still heads, where government officials spoke to the need for "responsible direct marketing activities in China and how such activities would be a great benefit to the economy."

**TECHNOLOGY PIRATING** The other problem many technology companies face when they invest in China is the high potential for theft, Feinerman said. "The intellectual property system in China is very lax. It's full of holes," he said. "It's not unknown for

things that are trade secret-protected or patented to sometimes leak." Rival companies and individuals regularly pirate and sell patented technology, said advice author Haley. Few barriers exist to prevent the government itself from doing the same thing, she said. "If the Chinese government wants it, they get it," Haley said. "I would not introduce an innovation or technology that is absolutely cutting edge, because China is the biggest violator of intellectual property in the world." Companies have little hope in cases against the government, because in China, the rule of law applies to the people, not the authorities, Feinerman said. Several employees of Chinese state-owned businesses have been caught attempting to steal trade secrets while training with American companies in the United States. American businesses have also accused China of ignoring piracy in its quest for economic growth. "The intellectual property laws are the best in the world on the books," Haley said. "They are impossible to implement."

Piracy, as well as other "hidden costs" of doing business in China, including a Byzantine legal system and "sketchy" commercial codes that can change with little warning, have caused some promising entries into China to fail, she said. "To some extent, the Chinese market is illusory," Haley said. "Most of the companies that are operating currently in China have never made a profit there."

Jones called such perceptions "outmoded." "If the rule of law is not adhered to in any country, that country has a very difficult time in attracting capital, either economic or intellectual," he said. "Capital goes where it is appreciated and protected."

Jones said that China has transformed itself into a country where it is no more risky to do business than in the developed world. Acxiom, as the first foreign data management company to set up shop on the Chinese mainland, is ahead of its competitors in recognizing that, he said. "The world is on a learning curve with respect to China," he said. "Consumers are obtaining more buying power, and like consumers in any country on earth, once they obtain more buying power, they want to be able to have better offers directed toward them." China at a glance Population: 1.3 billion GDP growth, 2003: 9.1% Mobile phones, 2003: 269 million Internet users, 2003: 79.5 million Car sales, Jan/Feb 2004: Up 60.2% from same period 2003 Foreign direct investment, 2004: \$53.8 billion, up 23% from 2003 Top exporters to China: Japan, Taiwan, South Korea, United States, Germany SOURCES: CIA World Factbook, National Bureau of Statistics (China)

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