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BUSINESS

# Sir Martin aims for the bull's-eye using 'quiet diplomacy'

**By Malcolm Moore in Shanghai**


SIR Martin Sorrell is a consummate adman. He knows that his investors love a story about China and he knows exactly how to spin one.

It is now almost impossible to find any public statement from the chief executive of WPP which doesn't mention China and its tantalising opportunities.

But then, as David Ogilvy, whose agency was acquired by Sir Martin in 1989, once said: "Unless your advertising contains a big idea, it will pass like a ship in the night."

For the City, there is no bigger idea than China. Where else in the world can companies turn to for growth? Those 1.3bn customers are beginning to spend more and save less, after all.

Sir Martin, to his credit, has been spinning the story for longer than most. WPP first said in 1993 that "new markets" such as China would be one of its "three pillars" of core strategy. "China represents the bull's-eye," says Sir Martin.

And WPP is ahead of the pack, with 15pc of the overall market, $4bn (£2.6bn) of annual billings and $900m to $925m of revenues from China. "We are about three or four times bigger than anyone else here," he says.

The company's agencies, including Ogilvy and J Walter Thompson, have been in China for longer than anyone, with JWT already having an office on the mainland when it was acquired by WPP in 1987. "I do not know if being here a long time has made us successful. Certainly it helps with the size of the business," says Sir Martin.

And yet, despite the 20-odd years of slogging, China represents only a small share of WPP's overall sales. "The US is about $4bn, the UK is $2bn and France, Germany and China are roughly the same size. China as a whole is about $900m to $925m of revenue out of $14bn," says Sir Martin.

He is hoping to grow it to $1bn in future, but it is clear that the smooth progression he forecast just two years ago has not materialised.

Speaking on television during the Beijing Olympics, Sir Martin boasted: "China is underbranded and underadvertised. If the [Chinese] economy grows at 10pc, we will grow at 20pc. If it grows at 6pc or 7pc, we will grow at 12pc to 14pc. And I would dearly love to get 12pc to 14pc in the US and in Western Europe."

Actually, WPP's China business has grown by 7pc in the first quarter of the year, while the Chinese economy allegedly raced away at a rate of 11.9pc. Not bad, but perhaps WPP is not running away with the market as predicted.

"You cannot generalise based on Q1," says Sir Martin defensively. "It is up to high single digits in Q2 and it has got to work its way through the whole year. I think by the end of the year we will be up with the market in China [currently growing at around 14pc]."

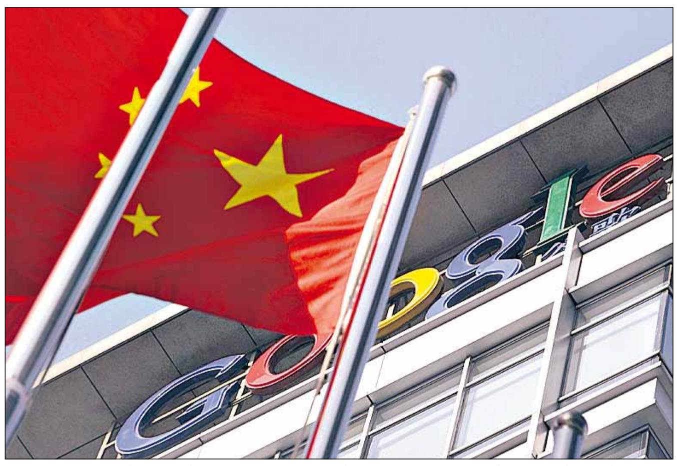
He is not the only chief executive to see optimistic forecasts for the Chinese market dashed. Jeffrey Immelt, of General Electric, predicted in 2008 that GE's sales in China could hit $10bn by 2010. This year, however, they are actually expecting $6bn.

Mr Immelt also said he felt that sometimes the Chinese did not want foreigners to make any money. Sir Martin knows better than to let his tongue slip.

"I believe in quiet diplomacy," he says. "What you do is you go to whoever you think is the appropriate authority. The Chinese have this great gift of listening and learning, which I think we have forgotten how to do in the West. They will listen, if you do it in a private environment. Whether you call it face, or a loss of face, I think quiet diplomacy, which I have seen in a number of situations, works much more effectively than blasting it out," he adds.

He cannot quite resist a stab at Google, the company he once described as a "frenemy" for going around the back of advertising agencies to court clients directly.

"The Google experience does indicate that if you have concerns about internal issues inside China you don't engage the help of [the media] to explain it around," he says. "They would have been better advised to have done it quietly," he adds. "It is a lost opportunity for Google. You exclude yourself from the second biggest media market in the world."




Flag-waver: Sir Martin Sorrell, top, believes Google lost its way in China

Sir Martin will not be deflected from the party line. Criticism is bad business for a company which offers PR services to the Chinese government, after all.

What does he think about increasing Chinese protectionism? "It is tilted the other way, too. The French have not been shy of building national champions, neither have the Germans, the Spanish or Italians. In England there's an outcry when we do not protect them and Kraft nabs Cadbury," he says.

What about the inability of Chinese brands to penetrate overseas markets? "If I was running a Chinese company, I would concentrate more on the Chinese market and getting a strong share there first." Yes, but why aren't Chinese behemoths better known in the US? "What a parochial comment! How many Americans are there in the world? The world does go beyond America," he retorts.

The world's largest economy does not seem to get such a fair shake from Sir Martin, at least when he is on Chinese soil. Despite WPP reporting bullish 7pc growth in the US in April and May, and despite Madison Avenue still generating the vast bulk of the company's fortunes, developing countries still take priority in Sir Martin's thinking.

He slips into a football analogy to illustrate his view of the world. "The Premier League is the BRICs plus next 11 [a term coined by Goldman Sachs to describe Brazil, Russia, India and China plus Bangladesh, Egypt, Indonesia, Iran, Mexico, Nigeria, Pakistan, the Philippines, South Korea, Turkey and Vietnam].

"Division One is the US. You can never write off the US. You have to continue to believe that the US will continue to build.

"Division Two is Western Europe, which I think has certain structural and social issues that have to be resolved before you are going to get more growth there."

But when Sir Martin moves away from his macro view and burrows down into detail, his optimism is tempered with a bit more realism. The riches are clearly visible, but somehow just out of reach.

Despite China having the world's largest population of internet users, at 400m, digital advertising is only around 15pc to 20pc of WPP's business in the Middle Kingdom, compared to a global average of 27pc. In terms of the overall ad spend, most money still goes to television advertising, with only 9pc going on the internet.

"It will go up to 20pc in a relatively short time," says Sir Martin. "You have 400m internet users, you have 800m mobile phone users. In terms of mobile networks, China Mobile has 550m customers, and it is growing at 8m to 10m a month. It is extraordinary."

Meanwhile, the promised revolution when millions of Chinese leapfrog on to the internet from their phones still seems a way off.

"We've been a bit disappointed by how slow this has been to date," says Sir Martin. "But it may have been the inability of mobile operators and handset makers to, you know… putting alpha males in a room together is not easy."

Again, it is the US that continues to drive the future, with 47pc of WPP's $3.6bn of digital revenues in 2009, with 35pc coming from Europe and just 11pc coming from Asia.

That does not sound quite like China is in WPP's Premier League yet.