

Corporate Trade in China

**An Interview with Alan Brown,
President, Active International Holdings**

EDITORS' NOTE *A principal of the company and a member of the Board of Directors and the Executive Leadership Team, Alan Brown has direct responsibility for global strategic development as well as strategic oversight of Active's domestic and international media and non-media trading products, models, and strategic partnerships. Known for his innovation and creativity, he has developed trading programs and products that have become industry standards.*



Alan Brown

What has made Active so successful?

The secret to success is tied to our core product, trading, which gives us the ability to create a lower cost basis on the products and services we offer our clients. Our various trading models are the key to the whole business and are what creates the value we share with our clients.

When our clients buy products through us, there's a spread between their benchmark price and the lower cost basis we've created through trade. We share a portion of that spread in a number of ways. One way is to buy excess assets that companies can't move at their intended value, with a trade credit for that full value. Another way the spread can be shared is by extending or broadening their marketing spend. The point is that we can customize solutions for our clients and partners through the sharing of the margins inherent in the products and services we acquire through our trading model. Ultimately, we work with our clients to determine where their need is.

Is it only the developed markets that are able to fully capitalize on this model and how much of an effort have you put into education in emerging markets?

When we first entered into China, they had never heard of a trade credit. There was no history of corporate trade for them to reference, and there was also no reason for them to trust the concept of an American company paying them for their assets with trade credits. Explaining that was the initial challenge. The way we overcame that was by partnering with media companies.

Active created a program with individual media companies where we act almost as their de facto in-house corporate trade operation. Many companies would love to pay for the advertising to promote their products to the expanding consumer class with merchandise. TV stations and outdoor companies are now being approached by

clients who want to pay in this fashion. Occasionally, they will take the merchandise if they think they can use it. However, they don't really want to and we specialize in doing just that.

We've developed partnerships with the media companies, who direct us to brands that have an asset problem. From there, we're able to offer them a way to get higher value in advertising in exchange for unsold merchandise. These companies end up with an advertising budget to promote their new brands, using their old

products as currency.

Through those relationships, we can offer a unique value proposition. The timing is good because the Chinese economy has slowed as they work to become less dependent on the international markets for their long-term economic health and have started building up their middle class.

They have passed laws elevating the minimum wage but this has raised the cost of their products, so companies are now looking to Vietnam or Thailand for those products.

China is willing to take a hit on that to continue the growth of the middle class. However, making products for their own consumers can create excess products, which can cause layoffs. They don't want layoffs because they don't want the subsequent slowdown in sales, and on the media side, this can lead to less demand and a slowdown on advertising. This creates opportunity.

Have you found it challenging to make money in China?

It is challenging. We went into China three years ago and we're now at the precipice of opening this wide up. In the process, we have made mistakes and we have learned a lot – we tried to sell our Western model and realized that would not work, so we had to understand and adapt to this unique market.

We also needed permits to conduct business in mainland China, and getting them was an arduous process. Thanks to some of our partners, we opened our operation in Shanghai's free trade zone that just came into existence within the past year. We're now an official entity that can import and export, and we can buy and sell media. The free trade zone is similar to Singapore and Hong Kong so money can move in and out more easily.

What media trends are currently taking place in China and are these consistent with other parts of the world?

It's consistent but way down on the evolution scale. They have everything we have but, because all media is owned by the government, they only change if they absolutely have to change. In the U.S., there is more of a desire for hard metrics around advertising results, which technology is helping us get closer to obtaining. That hasn't been adopted in China yet but they are beginning to understand how it would benefit them.

China opened up its market to the international community in the 1990s, so their television and advertising businesses have only been building in scale for 20 years.

Advertisers who went on TV found that the results were astonishing because there are 1.3 billion people in the country and the Chinese government supplies a TV to every household. They even have a news program that every media outlet is required to carry and there is advertising in that program.

Regardless of the pricing, people didn't care at first and they put up advertising with very little sophistication, and they haven't fully emerged from that period yet. However, Western advertisers are now seeking more accountability, but it's difficult because of the government ownership.

For someone who spent a lot of time in China, are you surprised at the innovation and advances taking place? Is the U.S. going to remain competitive with China?

China is very unique because it was segregated from the Western world for such a long time, but they're totally fascinated with Western culture. They emulate it. They love our entertainment and our brands.

The U.S. and China have clearly become interdependent. China is a force to be reckoned with. They have a lot to learn from U.S. business practices but they learn quickly.

How do you maintain an entrepreneurial spirit at your size and scale?

The product of corporate trade, backed by our continually evolving e-partnerships and trading models has so much flexibility and application for both our trading partners and our clients that we're only limited by our imagination. This appeals to the kind of people we bring in here. The sky is the limit. ●