

November, 2014

Targeting Consumers and Expanding Brand for Foreign Products in China

- Introduction
- Understanding of China's Consumer Market & Targeting the Market
 - The increasing consuming culture of "Solipsism" in China's middle class population
 - Sustainability Development of Branding
- Access Channels to Chinese Market
 - Online and offline channels
 - Organizations
 - Presence in Exhibitions
 - Consumption Promotion Seasons

MEMBER OF THE CONFEDERATION OF EUROPEAN BUSINESS (BUSINESSEUROPE)

Headquarters: Meşrutiyet Cad. No: 46, Tepebaşı 34420 İstanbul – Turkey

Ankara: İnan Cad. No: 39/4, Gaziosmanpaşa 06700, Ankara – Turkey

Brussels: 13, Avenue des Gaulois, 1040 Brussels – Belgium

Washington D.C.: 1250 24th Street, N.W., Suite Nr. 300, Washington D.C. 20037 - USA

Berlin: Märkiſches Ufer, 28, Berlin 10179 Germany

Paris: 33, Rue de Galilée 75116 Paris – France

Beijing: Beijing Lufthansa Centre, Office C-319, Beijing 100025, P. R. China

tusiad.china@etuccc.com.cn

Phone: +90 (212) 249 19 29

Phone: +90 (312) 468 10 11

Phone: +32 (2) 736 40 47

Phone: +1 (202) 776 77 70

Phone: +49 (30) 288 786 300

Phone: +33 (1) 44 43 55 35

Phone: +86 (10) 6462 2066

Fax: +90 (212) 249 13 50

Fax: +90 (312) 428 86 76

Fax: +32 (2) 736 3993

Fax: +1 (202) 776 77 71

Fax: +49 (30) 288 786 399

Fax: +33 (1) 44 43 55 46

Fax: +86 (10) 6462 3206

e-mail: tusiad@tusiad.org

e-mail: ankoffice@tusiad.org

e-mail: bxloffice@tusiad.org

e-mail: usoffice@tusiad.us

e-mail: berlinoffice@tusiad.org

e-mail: parisoffice@tusiad.org

e-mail:

Introduction

China has become one of the largest competition markets in the world for selling consumer goods through the rising purchasing power of Chinese consumers. According to American consumer information company - Nielson Company, the volume of China's domestic consumption is equivalent 35% of total China's GDP, which was 3.3 trillion USD in 2013 (China's GDP was 9.3 trillion USD in 2013) with an annual growth of 15%. This growth amount will be about 4.5 trillion USD that is about as much as Mexico and Spain's GDP. Facing this large competition market and fast changing consumer habits, how to target strategic consumer market and find suitable channels to expand your brands in China are important for foreign companies selling goods in China.

Understanding of China's Consumers Market & Targeting Market

Understanding China's consumers are important for foreign companies to target their strategic market before entering into Chinese market. According to a research by Accenture Company, they observed four characteristics and trends of China's consumers market as below:

The increasing consuming culture of "Solipsism" in China's middle class population

These people are more likely to pay more money on purchasing high quality products and luxury brands that would express themselves and maintain their social status. The top three products on their purchasing list are food, clothes and electronics. Moreover, the consumption on tourism grows the fastest among sectors. The "Solipsism" consumption habit is quite similar in different regions of China.

- **Targeting the market:** Generally foreign brands can target customers in developed cities, such as Beijing, Shanghai, Guangzhou and Hangzhou, since the most of middle class population is in these cities. Also, young people in the 2nd and 3rd tier cities are especially tend to use the brands to show their social situation and personality.

For example, Nokia had been China's No.1 mobile telecommunication company during 1990s. However, through the rise of SAMSUNG and iPhone, Nokia has started to decline quickly in China since 2010. The main reasons of this failure is that they made the wrong strategy of branding in China which made Nokia missed the initial development period of Smartphone to satisfy demand of China's increasing middle class

population. The people of middle class in China are younger than in developed countries and they want to show their wealth levels by purchasing famous brands. Therefore, gradually people started to choose iPhone, SAMSUNG and other brands to instead of Nokia.

Sustainability Development of Branding

China is the 2nd largest Brand Switching Economy. According to Accenture's survey, 2/3 of the interviewee would like to try new products in China. Obviously Chinese consumers are more adventurous. This situation provides more opportunities for new products entering into Chinese market, yet expecting companies to extend and promote products timely to satisfy the change of consumer behaviour and market development. 82% of interviewee are more concern about the credibility of brands when purchasing products. However, only about 40-50% of customers are loyal to just one brand. Over 60% of customers who switch brands were because of the bad consuming experiences.

- **Targeting the market:** foreign companies have to closely observe the production and consumer market trends, as well as extend and promote products quickly in order to cope with the rapid growth of consumption market and market competition.

As an example, Chinese snack food sector has been growing rapidly in the past few years due to the country's well doing economy and increasing level of consumption. By that time consumers' requirements on quantity and quality of snack food are also is growing. According to the statistics from China Industry Research Net, the snack food market volume was over 100 billion RMB in 2012 and the growth rate of this market will keep growing over 20% in the coming years.

Kraft Foods Inc., Nestle SA, and Mars China are three main foreign brand competitors in China's snack food market, however, by owning more kinds of products and large amount of consumers, Kraft Foods gains more market share in China's snack food market.

Oreo biscuit business is an example of how Kraft Foods could increase their sales through expanding product kinds. In 2006, a kind of sandwich biscuit – Oreo was facing a failed sales performance in China. At that time, Oreo only had one kind of flavor, and this little business with just 30 million USD was losing money and Chinese market. The main reason of this loss was that the head office had thought the Oreo biscuit sales would be booming when it was just exported to Chinese market, which was actually not the case, due to the taste of Oreo was too

sweet and the price was expensive. In order to reverse the failing situation, in 2007, Kraft Food changed their strategy and business concept from 'one effective strategy that would be suitable for every market which was just simply exporting products to the market or processing the brand extension "as minimum as they could" to "focusing on the target market and adjusting strategies to suit to the target market". Additionally, Kraft increased capital and human resources to expand its products supply and enlarge R & D capability. According to the reform, Kraft introduced several other kinds of flavor of Oreo with less sweet and fresh taste especially for Chinese people, such as ice cream Maccha, wafer sandwich biscuit and other flavors. Moreover, they shrank package and lowered price. This strategic reform was successful. In 2007, Oreo became the best-selling biscuit in China. In 2008, Kraft introduced several other flavors of Oreo quickly. Boosted by strategic reform in 2007 and 2008, the sales volume of Oreo in China doubled in those two years.

In order to further extend Oreo brand and increase market share, in 2009, the largest R & D center in Asia and Pacific regions was established in Suzhou city, Jiangsu Province. This is also the only R & D center which owns test line for developing new categories of biscuit. Currently, China is the 2nd largest market for their Oreo business with annual

growth of 30% and total sales volume of 600 million USD per year.

Access Channels to Chinese Market

Below information shows few channels that can be efficient for foreign companies entering and expanding brands in Chinese market:

Online and Offline Channels

Chinese consumers are experiencing more in digital life

Digital channels have given Chinese new tools for their self expression therefore it became more popular among Chinese customers. China has more than 618 million internet users which is about 45% of total population. There are over 300 million customers purchasing online, which makes China became the largest E-commerce market in the world. In 2013, the total sales value in the internet was over 1.85 trillion RMB, and the growth rate was 31% which is much higher than that of the 22% growth rate on traditional shopping mall. According to Accenture, in 2017, China's total online shopping volume will reach 650 billion USD. In the survey conducted by PricewaterhouseCoopers among 15,000 people from 5 countries in 2013, 71% of

Chinese people used mobile channels to purchase products versus %35 in US.

However, online dealers have concern on risks for selling in the internet, such as cybercrimes, identity theft, network virus, and intellectual property infringement. Foreign companies need to register their own copyright, domain name, trademarks and name in order to protect from infringement of intellectual property when selling in Chinese E-commerce market.

- **Targeting the market:** Foreign companies can target millions of online shoppers who have higher income, better computer knowledge and more fashion sense.

The development of Alibaba Group, which established in 1999 and started as a B2B E-commerce company, reflects the development of E-commerce in China. Company has developed from 18 people with 25 million USD financing investments from institutes at the beginning to a company have 20,400 employees around the world with 52.5 billion RMB (8.58 billion USD) income in 2013.

Taobao (C2C) established in 2003 and Tmall (B2C) established in 2008 are Alibaba's two major online shopping platforms, which realized turnover of 1.1 trillion RMB (180 billion USD) up by 40% and 441 billion RMB

(72.1 billion USD) up by 120% in 2013. For example, an online store which had entered into Taobao for selling man's clothes in 2003, in 2013, it reached an annual sales volume of 50 million RMB. "Double 11 Day" also known as singles day, Alibaba made it to be a famous shopping day amongst e-commerce companies. On 11th November 2013, there were 5.56 million people shopping online by Alipay (online payment system of Alibaba) with total payment of 35 billion RMB (5.73 billion USD) just for one day, and this year's (2014) sales reached 9.3 billion USD according to Ali Research Institute.

On the other hand, foreign businesses are also looking to access Chinese market through E-commerce platform. For example, UK Trade and Investment signed MOU with Alibaba Group in order to raise British products among Alibaba's huge user base in 2013. In August 2014, British fashion retailers Top Shop and Miss Selfridge cooperated with Shangpin.com (Chinese online shopping company) to reach Chinese customers. So far, over 20 British brands have registered flagship stores on China's major B2B platforms in order to sell brands that are not quite familiar to Chinese people.

E-commerce also can help companies to realize cross industries development. In a survey conducted by Accenture, about 87%

of leaders from Chinese Companies strive to realize cross industries development and provide advanced goods and experiences to customers. For instance, a Turkish company - Garanti Bank introduced a special mobile service to their customers, which can provide list of stores information depending on customer's location.

Most Chinese customers still choose off-line purchasing channels

Even though the e-commerce sector is growing rapidly in China, online shopping still occupies a small part of total consumption in China. Followed supermarket and shopping malls, online shopping ranked the 3rd choice amongst shoppers in 2013. Sales volume of China's online shopping only accounted 0.06% of total Chinese social retail consumption value last year. Even the proportion of online shopping sales volume to total social retail sales volume increased to 6.3% in 2013, the off-line consumption still occupied the most. The major reasons why people choose off-line shopping is due to its direct and facilitate purchasing experiences:

- **Targeting the market:** Supermarket can be an efficient way for foreign companies to do branding in off-line market. According to survey conducted by Accenture, 84% of interviewee ranked supermarkets to be their

first chooses to shop. Imported products mainly concentrates in several supermarkets, such as Wal-Mart, Carrefour, Beijing Hualian Group (BHG). According to '2013 China Chain Store Top 100' released by China Chain Store & Franchise Association, in terms of total sales volume in 2013, Wal-Mart ranked 3rd (72.2 billion RMB), Carrefour ranked 5th (46.7 billion RMB), BHG ranked 17th (14.7 billion RMB). It is really common to see supermarkets operate as general merchandise stores in big cities, which is convenience for both customers and retailers to buy and sell all kinds of products in one store.

User Experience is an advantage for real stores rather than online shopping to attract more customers by providing direct sense of the product. Through complementary between online and off-line shopping models, foreign brands can either gain more new customers who are not familiar with the products through customer experience stores or traditional stores, or satisfy customers who have less time and want discount price through online shopping. Besides traditional supermarkets and shopping malls, another store model of product experience shop is developing in China. For example, in September 2014, the famous luggage brand from Germany - RIMOWA set up customer experience center in Beijing which is seen to be an important

milestone for the company to boost sales in China. Almost at the same time, RIMOWA cooperate with Alibaba opened its first online flag store in Tmall and participated Tmall's Germany week to promote their products.

Organizations

- **International Brand Management Center**

International Brand Management Center is established by China Association of International Trade (CAIT) which is an organization directly under the Ministry of Commerce in China. International Brand Management Center especially works for global branding and local marketing. The Center has signed the Strategic Partnership Agreement on importing commodity, culture, creativity, design, technology and high-level service with main countries in Europe and America, and started international cooperation in multiple areas. They can help foreign companies to expand branding and marketing in Chinese market through their strong and various government and media relationships.

- **China Council for the Promotion of International Trade (CCPIT)**

CCPIT is the most important and the largest institution for the promotion of foreign trade in China. The CCPIT admits enterprise members in all parts of China and promotes trade through its functions of information consultation, exhibition, legal assistance, and so on. They have sub-councils in different cities and provinces around China. Foreign companies can find partners and expand their business by build relationship with them and participate to their commercial events.

- **All-China Federation of Industry and Commerce (ACFIC)**

ACFIC is a group of the masses and a chamber of commerce oriented toward the business circle and with the enterprises and personages of the non-public economy as its main entity. It is a channel for the CPC and the government to liaise with the personages of the non-public economy, and an aide of the government in administering and serving the non-public economy. They have many sector chambers and local chambers in different regions of China that owns large numbers of members in private sector. Through contact with them, foreign companies can find suitable cooperation

partners and expand business in China through their events.

- **Sichuan International Commodity Exhibition Center**

It is set up by CCPIT Sichuan Council and operated by Sichuan Provincial International Exhibition Centre. As a platform to display distinctive commodities collected from domestic and foreign organizations and companies, it can help companies to establish brand visibility in Sichuan market. Additionally, they will promote various events, such as commodity shows, theme forums, new product releases, interaction programs, media promotions, and so on to create direct communication between foreign companies and buyers from Sichuan and other areas of China. They provide series of incentive policies for foreign companies to set up their own showcases in the centre.

Presence in Exhibitions

There are many exhibitions that attract millions of Chinese dealers and customers in different locations which can be valuable for foreign companies to explore Chinese consumer market and communicate directly with Chinese buyers across China.

To maximize the use of various exhibitions and fairs in China, below are some tips that companies can consider

1. Whether the market of exhibition is the city that your business cover or will cover.
2. Whether the location will attract your target customers
3. Defining your purpose of participation for the exhibition: whether you want to attract more attention from public or you want more deals from the exhibition.

If you want to attract mass of people and Medias' attention to make large influence and advertise your company, the comprehensive exhibitions are right choice, such as - China Import and Export Fair (Canton Fair). If your company focuses on the number of deals can be signed in the exhibition, it will be better to attend the professional exhibitions, such as China International Travel Mart (CITM) in Shanghai.

4. Identify the quality of the exhibition: the exhibition is organized by the member of The Global Association of the Exhibition Industry (UFI) has high qualification of international exhibition, because the membership approval is really strict and it is approbatory in the world. There are 78 exhibition

organizers are UFI members. You can find their list and more information on www.ufi.org. Besides, the exhibition organized by state Ministries, government department or other leading industrial authorities is also a good to attend.

Through the number of exhibitors and attendants, as well as amount of deals and trade volume showed in below, we can see how much benefit participants can get from fairs in China:

- **Chinese New Year Shopping Festival (Chengdu, Sichuan Province)**

It is organized by Ministry of Commerce of China and Sichuan Provincial Government, and generally opens in January or February before Chinese Spring Festival in each year. It is an international consumer goods exhibition during the high consumption season which provides business opportunities to foreign companies to connect 12 provinces in China's western regions and 365 million populations. In 2013, the fair attracted 3700 exhibitors, 20,000 professional dealers and over 3 million consumers with 1.8 billion RMB of contract deals and 2 billion RMB of site transactions in the fair.

<http://www.scbolan.com/>

- **China Import and Export Fair (Canton Fair)**

It is hosted by Ministry of Commerce of China and Guangdong Provincial Government in April and October in each year. The Fair is a comprehensive one with the longest history, the highest level, the largest scale, the most complete exhibit variety, the broadest distribution of overseas buyers and the greatest business turnover in China. In April 2014, it attracted 188,119 buyers from all around the world with total business turnover of 31.05 billion USD.

<http://www.cantonfair.org.cn/en/>

- **China International Fair for Investment & Trade (CIFIT) (Xiamen, Fujian Province)**

It is sponsored by the Ministry of Commerce of China and generally opens in September of each year in Xiamen City. As the largest and the most influential investment and trade event in the world, CIFIT is themed on "introducing FDI" and "going global" with aim to focus on hot industries, hosting a huge collection of high-end exhibitions, authoritative forums and project matchmaking seminars. Countries in the fair can introduce themselves to China and globally, as well as it is the best opportunity for foreign companies to show their profile

and gain businesses and cooperation partners. In 2013, the fair attracted 44,296 visit companies and there were 15,173 overseas companies from 118 countries.

<http://www.chinafair.org.cn/english/index/index.aspx>

- **China Overseas Investment Fair (COIFAIR) (Beijing)**

It co-founded by the China Overseas Development Association (an organization directly under NDRC) and the China Development Bank, and normally opens in October and November in each year. As the premier event in the field of China outbound investment, COIFAIR organizes expos, investment seminars, project presentations and promotions and high-level meetings to gather enterprises, financial institutions, service providers, government departments, international organizations, business associations, research institutions and other entities. In 2013, the fair attracted over 2200 enterprises from 110 countries to participate and catch opportunities with Chinese companies' overseas investments.

<http://www.codafair.org/en>

- **Other Exhibitions:**

- China International Import Expo (Kunshan, Jiangsu Province), in May
<http://www.importexpo.org/English/index>

[.aspx](#)

- China-EURASIA Expo (Urumqi, Xinjiang), in June

<http://en.caeexpo.org/>

- China-South Asia Expo (Kunming, Yunnan Province), in June

<http://english.csaexpo.cn/>

- China International Industry Fair (Shanghai), in November

<http://www.ciif-expo.com/en/>

- **Selected Sector Exhibitions:**

Annual Auto Products Exhibition:

- China International Auto Products Expo, in September

<http://www.autoparts-expo.com.cn/en/>

- China (Guangzhou) International Auto Parts Expo

http://www.ciape.cn/en_html/

Annual Tourism Fairs:

- Beijing International Tourism Exhibition, in June

<http://www.bitechina.com.cn/>

- The Global Tourism Economy Forum (Macao), in October

<http://www.gte-forum.com/en/default.aspx>

World Travel Fair (Shanghai), in May

<http://www.citm.com.cn/english/index.aspx>

Annual Agriculture and Food Fairs:

- China (Qinghai) International Halal Food and Products Fair, in May

<http://www.halalfair.org/>

In 2014, Turkish High Great International Trade Company signed 100 million RMB contract with Qinghai Fuyuan Company to produce olive oil, and H&G Export-Import Co. Ltd. announced to open Turkish Shopping Mall in Xining city, Qinghai province with total investment of 60 million RMB.

- China Animal Husbandry Expo (Qingdao, Shandong Province), in May

<http://www.caaa.com.cn/2014/en/index.php>

- China (Beijing) International Food and Beverage Expo, in June

<http://www.fcechina.com/en/>

- Shanghai International Import and Export Food & Beverage Exhibition, in December

<http://www.importfoodfair.com/en/autumn/>

Consumption Promotion Seasons

There are several important “golden consumption seasons” in China during the Chinese traditional festivals that is good for

foreign brands and companies to promote and sell their products.

- Chinese Spring Festival

Date: 1st – 7th January in Chinese Lunar Calendar (in January or February every year)

According to Ministry of Commerce, during 2014 Chinese Spring Festival, the total sales value of national retail and restaurant consumption reached about 610.7 billion RMB up by 13.3% year on year.

- China's National Day

Date: 1st – 7th October

According to Ministry of Commerce, during 2014 China's National Day holiday, the total sales value of national retail and restaurant consumption reached about 975 billion RMB up by 12% year on year.

During holidays, the consumption on tourism, culture and education, entertainment and health are attractive to Chinese people. In terms of social commodities, consumption on electronic products, jewelleryes and automotive products are increasing rapidly.