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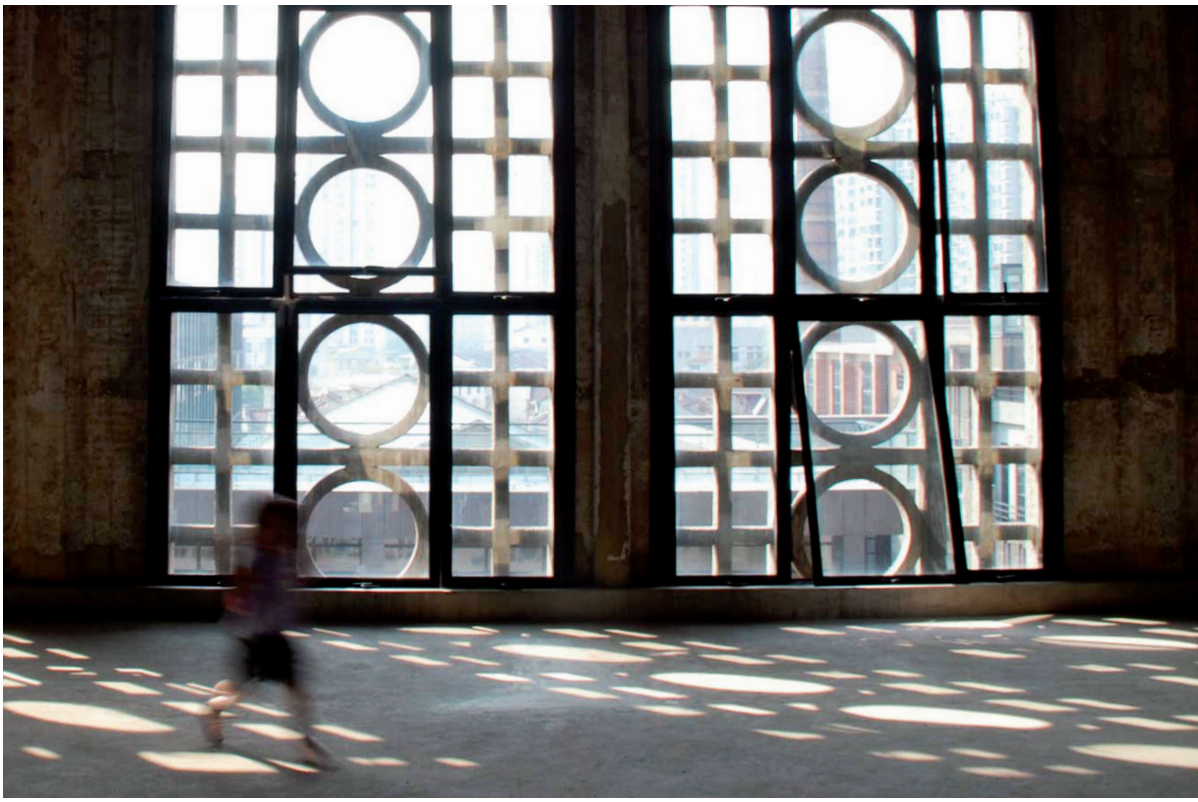


China's consumer markets
A closing window of opportunity

If you sell to consumers, you understand the problem. While those catering to the wealthiest sliver of transnational consumers have continued to prosper to varying extents, most consumer markets around the world have remained in the doldrums since the onset of the global financial crisis.

That is, except for those in China.

In fact, in many cases, Chinese shoppers traveling overseas have provided a needed boost to those same high-end retailers in the rest of the world who have fared better than most. Meanwhile, those Chinese who cannot travel abroad easily have been stepping up their purchases at home, causing a rapid expansion of retailers targeting China's growing middle class.

Rising affluence and greater sophistication among the Chinese public are factors in this transformation. Although they have not yet developed lifelong attachments to brands, many Chinese are increasingly brand-aware. Many of the world's top brands have a presence and high visibility in cities like Shanghai, but not yet in most other Chinese cities; so there are still opportunities for new brands to enter.

The message is clear: **if yours is a consumer business, you have few places to grow. Your growth market could be in China.** However, to profit from the tail-end of the double-digit growth curve, companies with the ambition to enter China should do so now. Within five to ten years, the current rate of growth will have subsided, compounding the difficulty of market entry.

Companies planning to enter China will need to ensure that they have the resources to enter and are competitive enough to do so effectively. Not all companies can meet these challenges. Companies that are able should look at the market, understand the opportunity, determine their place in the market, devise an entry strategy, and follow through.

Reliable public information in China is scarce and the market continues to be notoriously opaque to outsiders. Therefore, effective China market entry depends on due diligence up front. For a glimpse at the kind of insight yielded by a market due diligence effort, Deloitte China presents the following summary of findings from the third in its series of Chinese consumer studies.

Consumer study 2012

Within the past ten years, the Chinese apparel market has evolved from a focus on athletic sportswear brands to a fashion-oriented market.

Until the late 1990s, consumers thought of top brands only in terms of "famous names" (名牌). Back then, foreign brands were signals of luxury and social status, but nothing more specific—not even quality. Branded goods sold in China were not greatly differentiated, and few social occasions in China required more fashionable clothing. Branded apparel that found its way into consumer wardrobes was disproportionately characterized by athletic sportswear.

At that time, with few modern shopping malls and e-commerce practically unheard of, department stores represented the definitive shopping experience. There was also widespread counterfeiting of branded goods, and the counterfeit goods markets found in major cities remained until the mid-2000s.

Since the early 2000s, however, more sophisticated consumers have been looking to express identity and status through fashion. To these consumers, brand is more than just a famous name, and should resonate personally on an emotional level. A broader range of entertainment options and social occasions, along with growing consumer affluence, are driving Chinese consumers to expand and diversify their wardrobes. Consumers are also seeking more unique and personalized shopping experiences, increasing e-commerce and multi-channel sales.

> The post-1980s generation enjoys a lifestyle of abundance, and emphasizes expression of their individuality, especially in choosing apparel. They do not want to be wearing the same clothes as others; rather, they seek diverse apparel offerings that best accentuate their personal style.
>
> **— China head of a multi-national company (MNC) retail group**

While such consumers were previously common only in the wealthy provinces of China's eastern seaboard, they can now be found in cities across the country.

Geographic markets

There is more than one way to geographically segment China's domestic markets. China's distinct political and economic culture suggests beginning with China's cities, categorizing them and their local consumers by China's four-tier system. The first-tier cities include Beijing, Shanghai, Guangzhou, and Shenzhen. According to the China National Bureau of Statistics (NBS), the combined resident populations of these cities amount to more than 35 million people, with an average annual salary of more than RMB 60,000 annually.

The second tier comprises the remaining provincial capitals and other large cities. At more than RMB 40,000 per year, average annual salary in these cities are somewhat lesser than in the first-tier cities; but their combined populations are greater by a factor of three, at more than 115 million people according to NBS data.

The combined population of the remaining lower-tier cities is even greater. Although incomes in both the third-tier cities and the fourth-tier county-level cities are smaller than those of the first- and second-tier cities, the enormous populations residing in these towns include affluent segments who are attracted to foreign brands.

Methodology

For the third time in four years, Deloitte China has conducted a survey of the retail apparel industry in China. The team selected six cities among the four city tiers: Shanghai in the first tier; Chengdu and Hefei in the second; Luoyang and Shaoguan in the third; and Xinmin in the fourth. We surveyed a sample of about 1,600 consumers through telephone interviews, supplemented by thirty in-depth interviews with consumers and another ten with retail and apparel executives. Our survey focused on consumers in the lower-middle to upper-middle income strata, whose annual spending on apparel averaged RMB 7,337 per person.

Chinese shoppers: Value-for money is key, but we've got an eye for brands

Deloitte's respondents were found to spend an average of 58% of their apparel budget on garments, 26% on footwear, and 16% on clothing accessories. The least of these figures belies the fact that China's bag and accessories industry has been growing at a rate of 33% per year.

Chinese consumers are becoming more and more sophisticated, and their emphasis on value for money is also rising. Gone is the day when apparel companies can make outsized returns just from selling seemingly contemporary concepts. It all goes back to basic of business, good quality at an affordable price.

— **Strategy director of a Chinese high-end women's apparel brand**

Respondents report shopping for apparel an average of 3.4 times in a month and actually bringing home purchased goods 2.4 times monthly. The shop-to-purchase conversion rate was found to be 6% higher for people who annually spent more than RMB 10,000 on apparel. Across the cities surveyed, this rate ranged around 70%, and was highest in Shanghai at 77%.

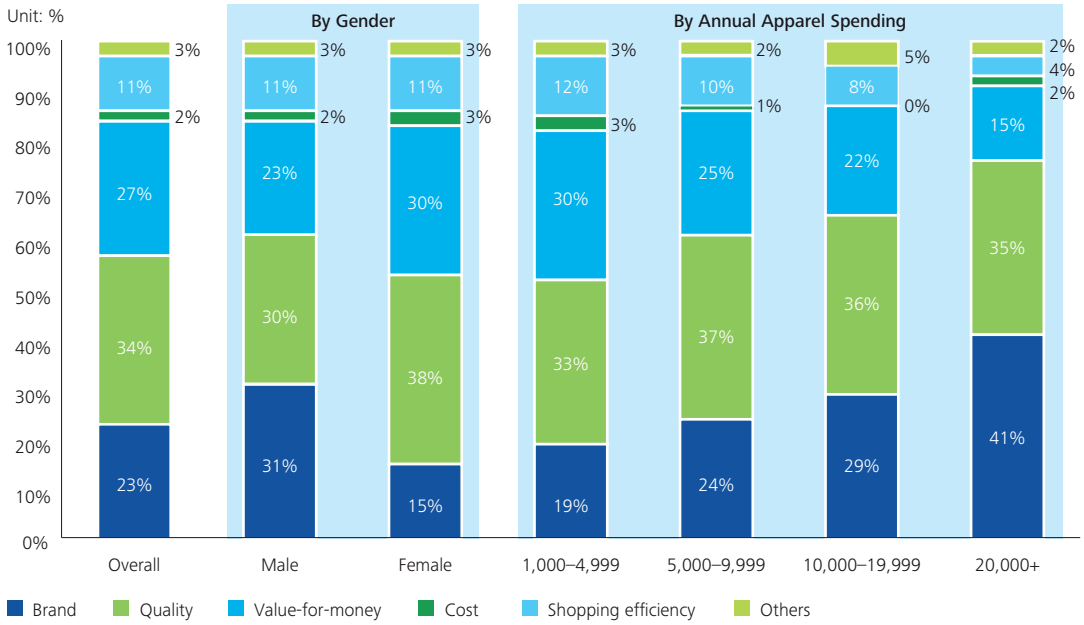
Most of China's consumers are destination-driven, first making decisions on where to shop, followed by what to buy after browsing through the brands available. As discussed in earlier consumer apparel studies in this series, Deloitte found that women and younger shoppers on average purchase more pairs of shoes than other consumer segments. Approximately 50% of respondents buy fewer than six pairs of shoes per year. Those who purchase more than 10 pairs annually account for 25% of this year's surveyed samples.

The shoes that China's apparel consumers are buying are more expensive, in part because of inflation, but also due to rising household affluence. Men and older consumers tend to spend more per purchase. In this respect, geography was a factor; notable disparities were found between purchases of premium shoes in different tiers of cities. In the more affluent first-tier city of Shanghai, respondents paid a third more for their most expensive shoes than did shoppers in Xinmin (at RMB 676).

As previously reported by Deloitte in *Winning the Wallet of Today's Chinese Consumers* (June 2010), quality and value-for-money continue to be Chinese consumers' top considerations when purchasing. However, as consumers spend more, their primary purchasing factor shifts from value-for-money to brand. At higher levels of annual purchasing, men and women alike view brand as the most important factor, although men were found likely to view brand as an important factor at any spending level.

Deloitte's findings show that most Chinese apparel consumers regard quality (77%), design (76%), and fabric (71%) as the primary factors shaping their perceptions of value. The consideration of salespersons' services was a distant fourth, selected by 60% of respondents.

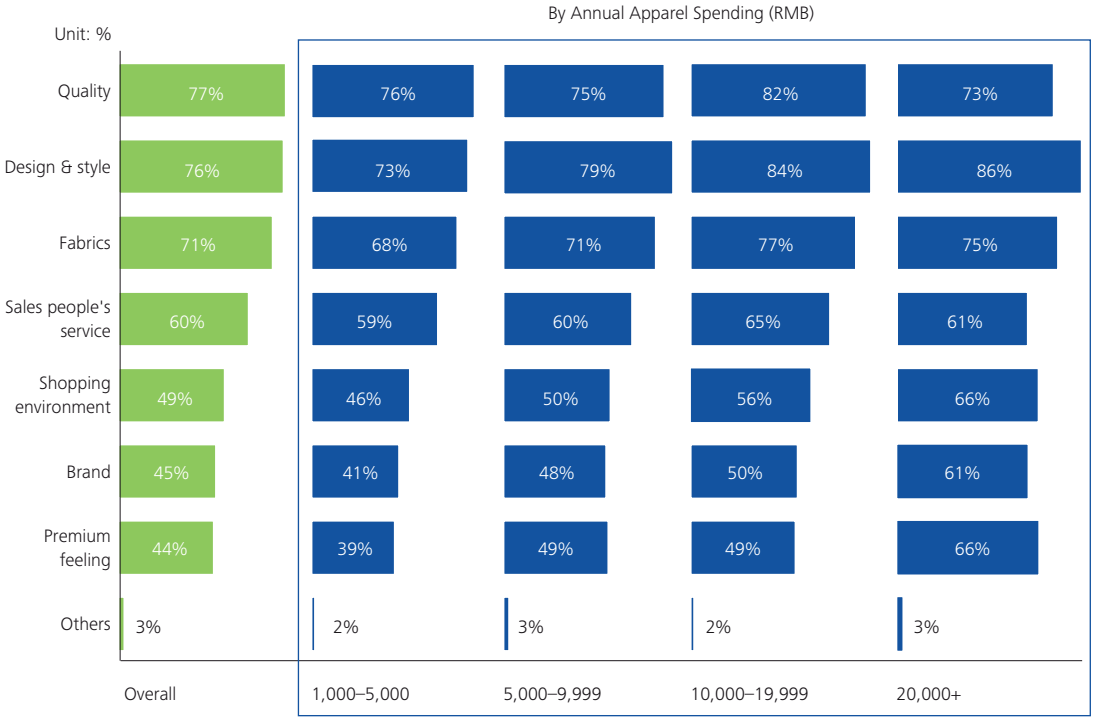
Exhibit 1. What are the top factors that drive a purchase?
(Survey 2012, *n*=1,600)



Sources: CATI, Deloitte analysis and interviews

> For some classic products, we use better-quality materials and additional design adjustments which allow us to charge £4 to £5 more. Those steps have resulted in successful upgrades of customer purchases to premium quality.
>
> **— China General Manager of a UK fashion brand**

Exhibit 2. Which factors do you value when making apparel purchases?
(Survey 2012, *n*=1,600)



Sources: CATI, Deloitte analysis and interviews

Implication No. 1: Value for money
The typical Chinese consumer has evolved, becoming more sophisticated in the current economic environment as reflected in our study. This has resulted in a much more competitive environment where brand owners need to have a clearly identifiable value proposition and be less ambiguous on brand positioning. This finding also poses as an operational challenge for brand owners to establish and maintain innovative design teams.

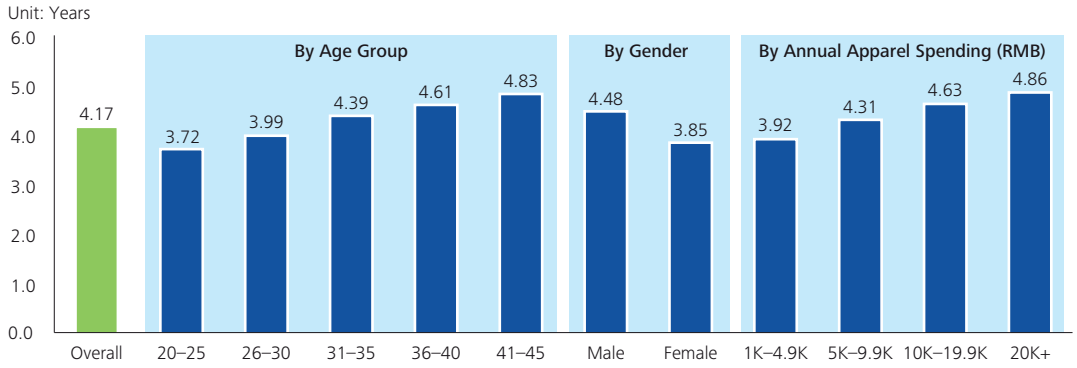
Chinese consumer preferences: Brand loyalty is taking root

If it has appeared that Chinese consumers lack brand loyalty, it is because even those brands that are most familiar in the West have typically been in China for only about a decade or less. Brand stickiness has only been recently established; yet Deloitte's survey respondents on average had been buying a single brand for as long as 4.2 years. Twelve percent of respondents have been buying their preferred brand for more than eight years. Just under a third (30%) have been buying their brand for less than two years.

Mass-market casual and sportswear brands were often selected by respondents as the brands they have been purchasing for the longest time. Those brands that had won their buyers' loyalty had done so through product design and quality, again proving the importance of value-for-money to the Chinese consumer. The top reasons reported for continual purchases of casualwear and sportswear brands like YISHION and Anta were design and quality. Again, for buyers of more premium products, brand is perceived as adding a note of distinction beyond these more basic considerations. Buyers of foreign luxury brands such as Burberry, Chanel, Coach, and Louis Vuitton feel that brands should demonstrate one's personal taste.

> For new brands entering China, it is not enough to just follow the latest popular trend. They need to offer new and diverse options to the consumers. New brands that only assume China has an immense consumer base and come in with a narrowly-focused or over-simplified business approach will not be able to achieve any substantial success.
>
> **— China head of an MNC retailer group**

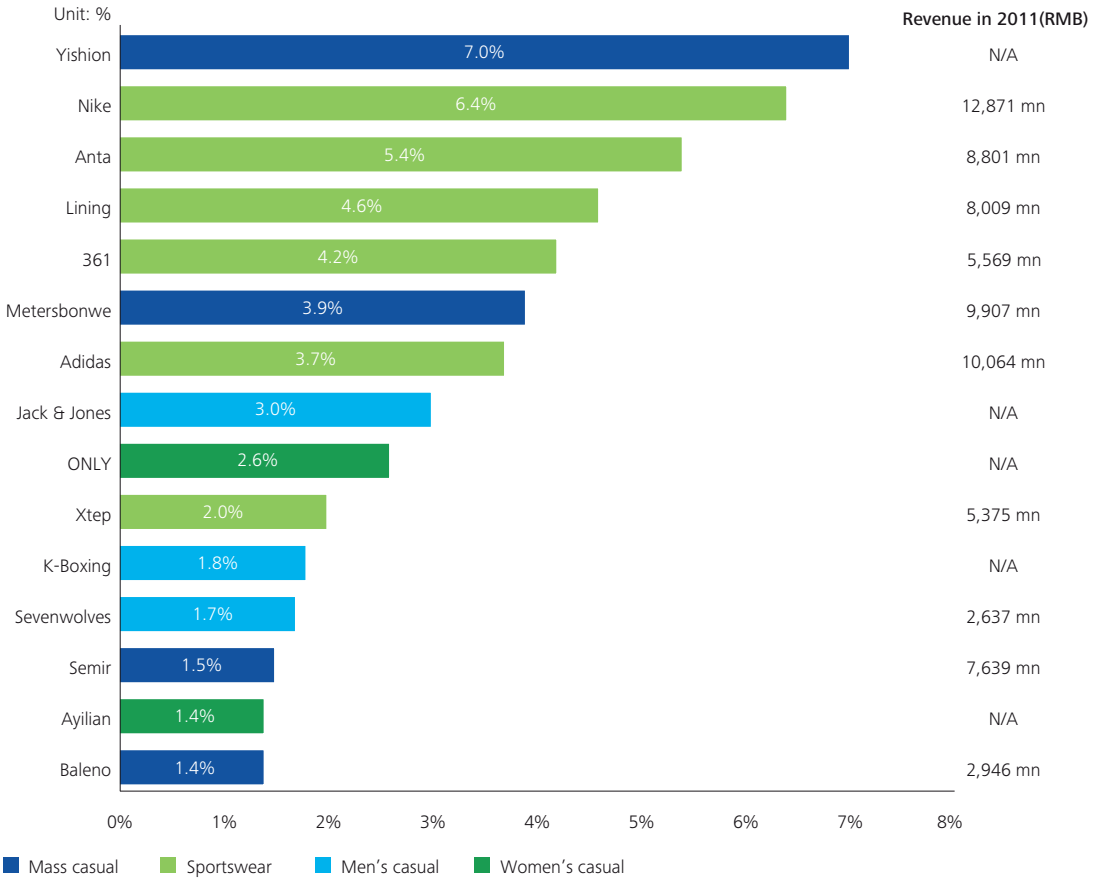
Exhibit 3. How long have you kept buying a single brand?
(Survey 2012, *n*=1,322*)



*Note: Respondents exclude those indicating no answer or a response of "I don't know."
Sources: CATI, Deloitte analysis and interviews

Chinese consumers are not only loyal over time, but also tend to spend most of their discretionary budgets for spending in any category on their preferred brands. Deloitte's survey found that for 72% of respondents, the brand receiving the most shopping money was also that which they had been buying for the longest time. These brands also have received a significant proportion of consumers' total spending on apparel—an average 45% for each of these consumers.

Exhibit 4. Which brand do you spend the most on?
(Survey 2012, *n*=1,316*)



*Note: Respondents exclude those indicating no answer or a response of "I don't know."
Sources: CATI, Deloitte analysis and interviews

Implication No. 2: Brand choices and innovation
The salient trend for China's apparel industry is the proliferation of new and diverse casual brands, even in the lower-tier cities. Chinese consumers have many different brands and styles from which to choose. Brands that already have a presence in China and others that plan to enter will need to innovate to stay relevant.

Implication No. 3: Sportswear brand dominance of lower-tier cities
Sportswear brands continue to enjoy a robust consumer base—especially in the lower-tier cities, where the apparel market is crowded with such brands. First-tier cities like Shanghai offer more mature markets and brand visibility to the conventional range of products, from sportswear to fast fashion to luxury.

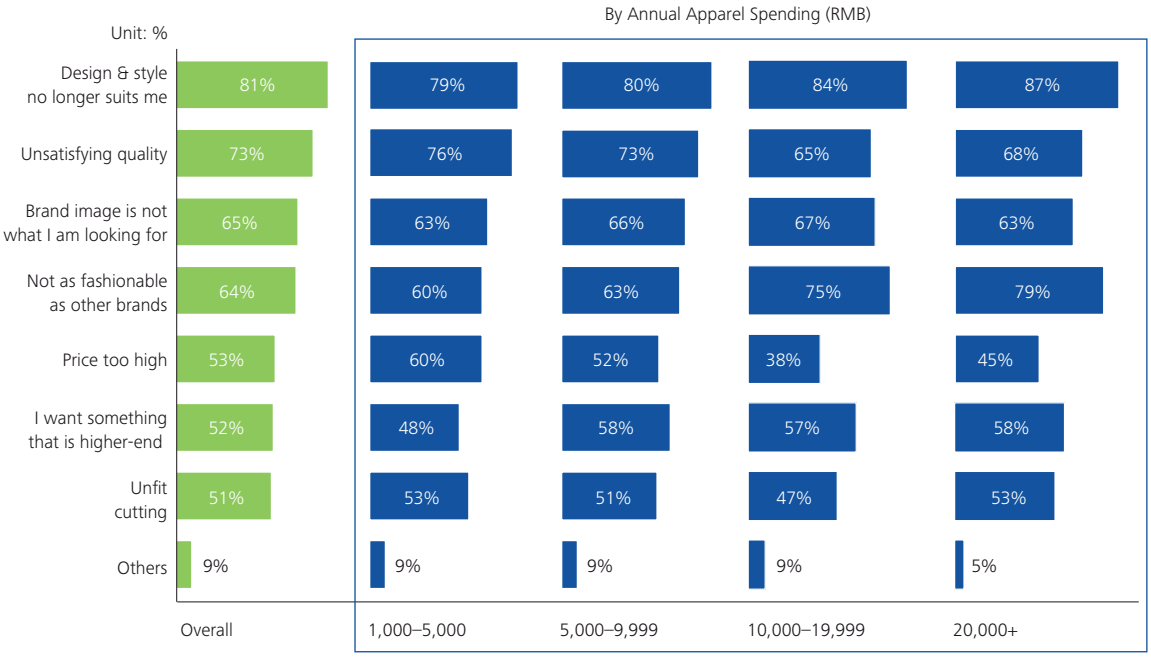
Brand abandonment

Chinese shoppers appear most likely to abandon a brand only when prompted by a change, either in their own status, or on becoming dissatisfied with the brand's quality. Four out of five (81%) report abandoning a brand whose design and style no longer suited them. Price considerations are much further down the list of concerns. Interestingly however, the number of consumers opting out of a brand whose price they considered too high was matched by those who desired "something that is higher-end;" and consumers agreeing with the latter statement outnumber the former in every income segment above RMB 5,000 per month. (See Exhibit 5.)

These trends appear resilient over time. Deloitte found that consumers had continued to spend about the same amount on their preferred brands as they had in the preceding year. Twenty-seven percent report having actually increased their spending by more than 20%, while less than one in five (19%) have reduced their spending by 25% or more.

> We are expecting lower-tier market consumers to start buying more casualwear from casualwear brands, and more functional products from sportswear brands. Many sportswear brands that do not have quality functional product offerings are expected to suffer losses.
>
> **— Sales executives of a leading MNC sportswear brand**

Exhibit 5. Top reasons for brand abandonment
(Survey 2012, *n*=716*)



*Note: Respondents who had stopped purchasing a brand within the preceding 12 months.
Sources: CATI, Deloitte analysis and interviews

Implication No. 4: Brand abandonment
Top factors inducing consumers to continue their purchase of a single brand are designs that fit and trustworthy quality. This view was confirmed when respondents were asked the top reasons for brand abandonment, which were "unsatisfying quality" or that "the design and style no longer suit" the customer. To achieve high customer loyalty, brands should focus on the fundamentals, providing a consistent consumer experience in terms of product quality and design.

The brand abandonment findings also show that shoppers with fatter apparel budgets (those with more than RMB 5,000 to spend each year) are purchasing items as Veblen goods: that is, goods whose higher prices convey value in the form of exclusivity. For these consumers, reducing the prices of goods actually reduces their perceived value. (This is also seen in Exhibit 1, with brand and quality eclipsing value-for-money at the higher spending levels.)

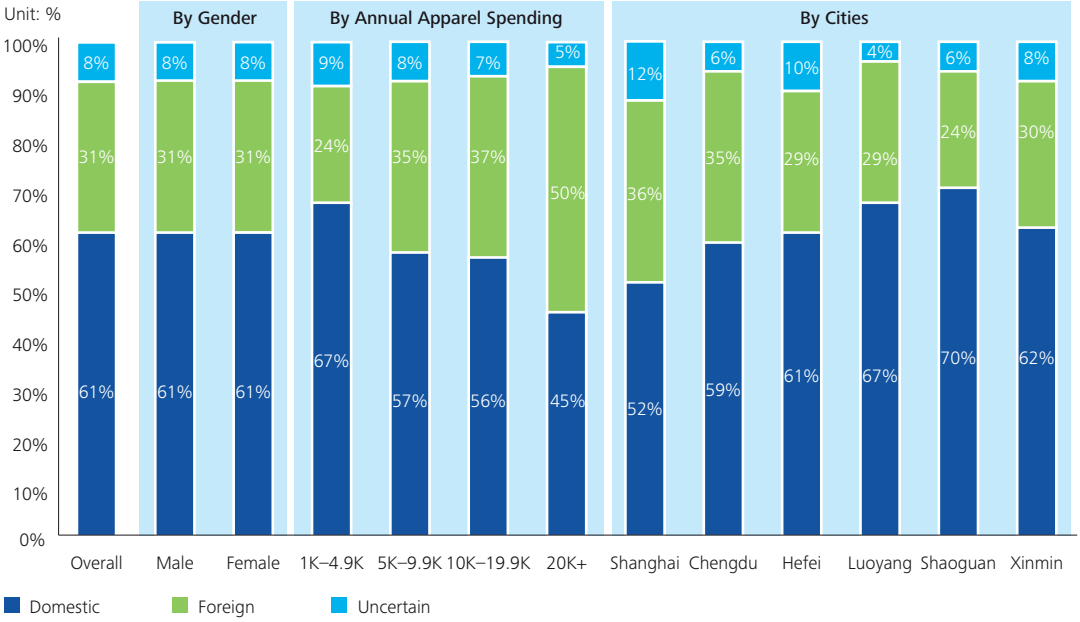
Chinese are eager to try new brands

Chinese consumers have broad brand selection in their shopping baskets. On average, Deloitte's respondents had purchased more than five apparel brands within the preceding 12 months. Sixteen percent of respondents had bought twice that many: at least ten brands within the same period. Consumers purchasing the greatest variety of brands are typically 20 to 30 years of age, with annual personal spending in excess of RMB 10,000 per year.

Respondents indicated they were not afraid of trying new brands. Of the one-half of them who reported having bought at least one new brand within the preceding year, the average shopper had purchased 2.8 such brands. Younger consumers, women, and shoppers with higher budgets appear most open to trying new brands.

> Chinese consumers have already broadened their perspectives on apparel purchasing and are now seeking more distinctive and diverse apparel to buy—such that, when certain styles of apparel become more mainstream, young consumers that are sensitive to fashion trends will abandon or avoid buying those styles to keep themselves distinguished.
>
> **— China head of an MNC retail group**

Exhibit 6. Indicate the proportions of your newly purchased brands that are foreign, domestic, and uncertain
(Survey 2012, *n*=738*)



*Note: Respondents who had purchased at least one new brand.
Sources: CATI, Deloitte analysis and interviews

While domestic brands comprise most respondents' first-time purchases of brands, consumers with higher apparel budgets appear most likely to buy foreign brands (Exhibit 6). There was no discernible difference between men and women in the preference for foreign and domestic brands. Respondents in the first-tier city of Shanghai and the second-tier city of Chengdu were more likely than those in other cities to buy foreign brands; but this finding may be influenced by the lower visibility of foreign brands in third and fourth-tier cities, as well as their availability for purchase.

Despite the strong recognition that some international brands such as Nike and Adidas have established, two-thirds of Deloitte's respondents still could not name a particular brand to which they aspired. Rather than being a negative finding, this shows that there is still room for foreign brands to enter and raise their eminence, even in the highly-contested fashion and luxury apparel space. However, depending on the market, some localization may be required. Only 12% of respondents agree that foreign brands should keep their original cutting and designs when entering China. Within that group, consumers with annual apparel spending over RMB 10,000 and those from second-tier cities comprise most respondents preferring a brand's original design and cutting.

Implication No. 5: Changing mix of fashion in lower-tier markets
Although sportswear brands may be expected to dominate in lower-tier cities for some time to come, their current customers are likely to soon be demanding more functional products and less casualwear and everyday clothing. They will also be confronted with new challenges, such as managing structural shifts in the current inventory mix.

E-commerce certainly is one of the biggest growth opportunities and it ties in well with the evolution of consumer behavior—"seeking convenience and low costs." It is also a cost-efficient way to roll out new products and concepts, especially through an interactive platform.

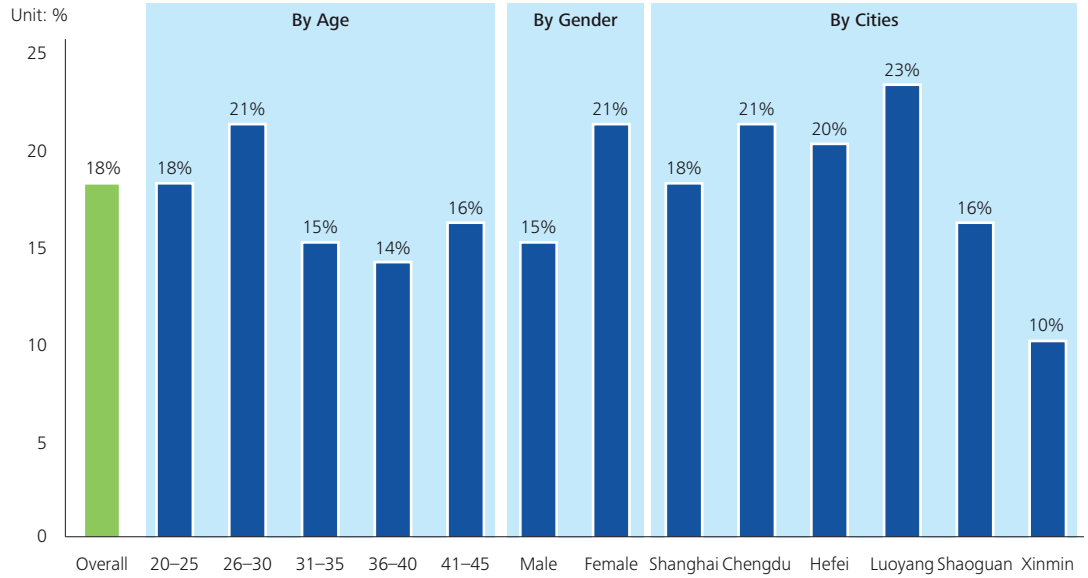
— **Sales executives of a leading MNC sportswear brand**

Other key opportunities for international brands

Warranty and return policies are one of the benefits of foreign brands that Chinese consumers hold in high regard. Deloitte found that most shoppers view being able to return a product as influential in their selection of a brand. This factor is especially important to online shoppers. Online purchasing has been widely accepted by Chinese consumers as a reliable and frequently-used channel for purchasing goods, including apparel. One respondent in Chengdu reported, "Low price and convenience are the most important reasons for shopping online. It saves me much time and money."

Brand VIP programs have been successful in registering consumers, but appear homogenous to the VIPs. Fifty percent of respondents report being members of their favorite brands' VIP programs. Discounts and nationwide transferability of benefits are the benefits most preferred by program participants. However, most of them see no differences in benefits offered to VIPs of different brands.

Exhibit 7. What proportion of your total apparel purchasing is done online?
(Survey 2012, *n*=1566*)



Note: Number of respondents who are sure about their online purchasing percentage
Sources: CATI, Deloitte analysis and interviews

Usually, the Customer Relationship Management (CRM) systems are poorly built. Customers' shopping data are in the hands of sales reps instead of in the company database. The lack of customer data pretty much prohibits the implementation of any extensive VIP programs.

— China head of an MNC retail group

Summary of survey findings

Well-considered location decisions are a key success factor for China market entry. More Chinese cities far from the eastern seaboard now offer markets worth exploring, but these markets differ one from another, favoring some market entrants over others.

Brand is becoming a determinant of buying habits, in some cases eclipsing value-for-money. However, successful brands will reflect value, and Chinese perceptions of value are shaped by quality and design considerations. **Chinese are increasingly loyal to the brands they choose,** but that loyalty is won by attractive product design and proven quality. Moreover, the typical Chinese consumer may be highly status-conscious, and likely to shift brands in response to social cues or a change in his or her own personal status.

While they are demonstrating brand loyalty, **Chinese consumers continue to try new brands.** This is especially true of women and those young consumers who comprise the next generation of Chinese shoppers. **Brands that have already attracted consumers' attention in China do not yet dominate the market.** These findings indicate a remarkably opportunity for those foreign brands that have not yet established a presence in China.

These and other findings of Deloitte's research confirm four broader trends driving retail business in China (according to China's National Bureau of Statistics):

- **Increasing consumer affluence:** the number of middle-class and affluent consumer households continues to grow, and is expected to increase from 50 million in 2010 to 140 million in 2020. These new consumers are looking to mark their newfound affluence with upscale branded goods, including but not limited to the clothes they wear.
- **Faster growth in lower-tier cities:** by the end of this year (2012), the top eight Chinese cities will account for only 33% of affluent households, down from 70% in 2003. More brands are being sold in cities far from the cosmopolitan centers of the eastern provinces. Although the variety of styles is currently lacking (e.g., the predominance of sportswear among apparel brands in lower-tier cities), functional demands on products along with the drive of individual consumers to distinguish themselves will open the way for different types and styles of branded goods.
- **Emerging e-commerce:** China's ecommerce market is poised to overtake that of the U.S. by 2015. Chinese shoppers are already avid users of online marketplaces, and increasingly of social networks and other online means of sharing information.
- **Proportionally more consumer spending:** Chinese consumers do not spend much of their incomes; however, with rising wages, consumer spending is expected to outpace GDP growth going forward. While China's rate of growth recently has been decelerating, it continues to be one of the world's largest and fastest-growing economies. Meanwhile, total retail sales in China already exceed US$2.5 trillion, and are expected to grow by 15% annually through 2015.

Deloitte's findings also confirmed our own observations of the following key trends:

- **Pursuit of personal and brand identity through consumption**
  Young adults in China have begun to live beyond their means, shifting away from the traditional Chinese preference for saving and frugal spending. The post-1980s generation is the first born after the Cultural Revolution and its social traumas. Many have good jobs and possess a strong optimism towards life. Their taste for fashion is expected to be absorbed by the following generations as well. Chinese youth are increasingly using their purchasing power as a means of expressing their personality and sense of style. For them, brand identity is of vital importance, especially for teenagers.

- **Aspirations toward Western taste and lifestyle choices**
  Western popular culture has made an impact on young Chinese consumers, who yearn for Western lifestyles. In particular, young Chinese women are very well-versed in Western fashion and pop culture, and have begun to develop brand identities ahead of their male counterparts. Chinese brands are slowly picking up market share among the fashion-conscious, but foreign apparel makers still hold top cachet due to their superior brand-building capabilities.

- **Willingness to try new brands**
  Chinese consumers are willing to experiment and try new brands, products and services. Retail consumers in second and third-tier cities are even hungrier for new brands, as they have fewer choices. However, when Chinese consumers try new products, they are twice as likely to purchase a product introduced under a familiar brand.

Market entry: where to start

If your company makes products or sells them to consumers, you should be tantalized by your prospects in China. However, you may be hesitant due to the notable problems that some foreign businesses have faced. A number of these issues are likely to be encountered on entry into any new overseas market. Deloitte has documented these issues in the 2012 report, *Retail Globalization: Navigating the maze.* For instance, companies venturing overseas often will find that the return on their investment is delayed by supply and regulatory obstacles. Brand integrity is at greater risk than at home, requiring closer monitoring of local operations. As key talent will probably be needed onsite to train staff and set up systems, companies need to determine whether they possess the leadership, internal capabilities, and resources to keep their global enterprise moving forward profitably.

In addition, new market entrants need to balance boldness with respect for the sophistication of their local competitors. Appreciation for the competitive positioning of domestic brands is complementary with strategic localization: care must be taken in understanding local markets in detail, and making needed adjustments to branded product lines and channels. This means knowing not only what to sell, but where to sell it, how to package it, and for which customers.

Beyond these typical market entry challenges, however, China has its own nuances that require careful investigation and preparation beforehand. China's retail market is one of the most competitive in the world. The top companies from every corner of the globe have already arrived. If you are only marginally competitive in your home market, you are not likely to succeed in China. Consumer business companies with sales already in excess of USD 100 million are most likely to succeed. Those who meet this critical threshold should additionally consider taking the following steps to reduce the risks of China market entry.

First step: Look inward

Before investing, carefully consider whether your organization has the resources and capability of developing a non-adjacent market. Can you transfer seasoned managers to China to cultivate new talent? You should expect and be prepared for challenges in building your brand image and in managing partners and staff overseas. If you have not succeeded in building a brand and reputation across different regions in your home country, China will pose an even greater challenge.

Second step: Understand the opportunity

While the markets are attractive, the operating environment in China will substantially differ from others to which you may be accustomed. You will have to learn to manage in this new environment. Cost structures and margins will be different, and these will shape the magnitude of the opportunity. For example, if your home market is the U.S., you may find that the impact of your near-term earnings in China does not exceed a 1% drop in U.S. market share which is a possibility if your management bench is stretched. You will need to decide whether the investment is worth the reallocation of resources required.

Third step: Find your place in the market

Determine which opportunities offer the best prospects for your business. Start from a broad view of the market landscape; then narrow in on the most profitable market segments before making more detailed decisions about product lines and pricing.

Fourth step: Formulate an entry strategy

A strategy that factors in the key market entry issues above begins with an objective professional assessment of the attractiveness and future prospects of your business in China. Below are some specific elements to look for and questions to ask when seeking this kind of help.

Market study and competitive environment

Market dynamics

Do you fully understand where the profit is generated in your market niche? Who are the players? Who is driving the growth? An unbiased look at the value chain for your industry in China, the market segmentation, and the relative attractiveness of market segments and sub-segments is a first step in determining whether China presents an opportunity for your company. Growth projections of the market sub-segments can show which of them offer profitability going forward.

Risk and opportunity

As you carefully review market trends, focus on the market sub-segments presenting the greatest opportunity to a new entrant brand—specifically, *yours*. You will also need to consider material risk factors and potential entry barriers (including regulatory barriers), along with key challenges that current market players and likely competitors will also face.

Competitive landscape

Who will be your company's competition? What do they offer? Where are the weaknesses in their business models that you can exploit? Knowledge of the top players in your target market, their positioning, and their attributes and operations in China may be gained using a variety of techniques and disciplines such as store scans, consumer analysis, financial analysis, and retail surveys. Ultimately, you will want to know why some players have succeeded where others have not.

In your analysis of the competition, you may wish to include case studies of the current players to more fully understand their stories: how they grew their businesses, the scope of their activities along the value chain, their current performance and trends, and what are their core competencies.

Bear in mind that the position and proposition you need in China may not precisely reflect those of your home market. Deciding whether to stake out a position in China that varies from the one at home is an important strategic decision that will be shaped by your analysis of your target segments in China.

China entry business model and marketing strategy

Business model and operational scope: Look for opportunities and chokepoints at each value chain junction, and then set your scope of operations with your own core competencies in view.

Targeting market segments: Decide which market segments you plan to address and set your desired positioning for each relative to those of your competitors.

Value proposition: Evaluate current brands favored by the Chinese, and determine what brand values your own brand must prove in order to compete.

Market approach strategy: Of the channels available in China for distributing and selling your products; some may be more appropriate than others, given your business model, product, and pricing. Find out how to access those channels. You will also need to know what resources and capital requirements may be needed to secure this access.

You may find that your current channels and modes of distribution in your company's current regions of operation are atypical in China. In that case, you will need to know whether your current framework can be adapted to fit China, or whether you will need to make more fundamental changes to your customary market approach.

Consumer study

The level of detail about consumer behavior needed for a successful market entry may require a formal consumer study. This should include at least a consumer survey, preferably augmented by interviews and focus group discussions. The questions should be customized for your products or services and your targeted market sub-segments. Findings should clearly show who customers are, where they shop, what their purchasing criteria are, and indicate any emerging trends in consumer behavior.

For branded goods, you will want to know what brands your targeted demographic buys and where, whether they are willing to try new brands or switch from an existing brand, what the current range of brand selection is, and what influence shopping experience or channels have on brand selection.

China business planning

By the time you are ready for a business plan, you should know your market, your competition, your customers, your value chain, your sales and distribution channels, and the trends shaping each of them. Now you are ready to consider how to roll out operations in China. Your business plan will likely include:

- a map of your geographic markets in China, including a ranking of cities by preferred criteria
- identification of sales and distribution channels, with a list of offerings and special considerations

for each channel (*e.g.*, contingency plans and rough allocations of resources)

- case studies of competitors' paths to geographic and channel expansion
- planned pricing regime based on target market positioning
- a detailed roll-out schedule setting milestones for achievement.

Mode of entry (greenfield, M&A, or joint-venture partnership)

At some point along your market entry path, based on the knowledge you have obtained, you will have decided whether to launch a greenfield operation, acquire an existing Chinese company, or form a new enterprise in partnership with one. Factors revealed during the preceding phases may rule out one or another of these choices. Whichever mode you select, you will need to set the financial requirements and levels of resources and investments needed for your enterprise to succeed. Your advisor should help you to clearly map out governance and control structures, and to develop a realistic investment plan.

Companies ready for joint venture (JV) partnership need someone on the ground in China in order to close the deal. The prospective JV partner will want to see this level of commitment from you; otherwise your credibility will be challenged. If you do not have the resources to commit at this point, it is better to save and wait until you are truly ready to enter the market, than to fail by half-measures.

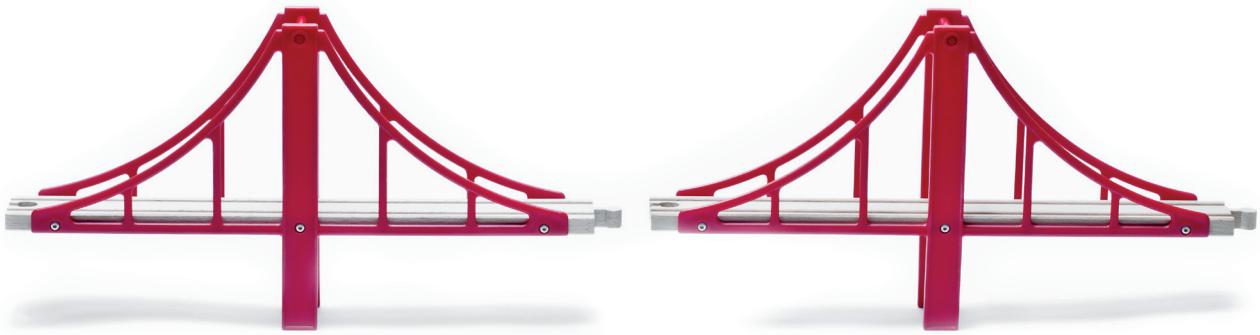
Screening for a joint venture partner

If joint venture with a Chinese partner is your preferred route, then progressively screening for partners is the recommended approach.

Companies are often approached by prospective Chinese partners, which is the initial prompt for many companies looking at China entry. However, a more thorough search is advised—while the first company you find could be the best, more often than not, a more suitable partner is available.

Many companies are persuaded that the most effective way to enter or grow in a new market is to find a partner whose capabilities and resources offer a quick win. However, the search for a good partner is fraught with risk. The pursuit of unqualified partners can exhaust your time and resources, and undermine the entire effort. A partner needs to complement your strengths and enable you to enter China successfully.

Thoughtfully defining a set of guiding principles and screening criteria can increase the efficiency and effectiveness of the partner screening process by quickly excluding those companies unlikely to meet key financial and non-financial criteria. Meanwhile, the screening criteria may need to be adjusted along with the screening process based on actual market conditions. If you and your advisors have already investigated the market thoroughly, you will be better prepared to make these adjustments.



Conclusion: Before the window closes

There remains a great opportunity in China, but the window is closing. Homegrown Chinese brands are on the rise, filling up the consumer market space left vacant by international brands. You should act quickly, but only after careful preparation. Even for those companies most qualified to enter China, the process of market entry will take time to complete.

If yours is a medium-sized, consumer-oriented business in North America or Europe, and especially if your brand is in a niche market, you are likely to find loyal customers for your products in China. If you have not yet entered China, you should be considering how to do so; but be advised of the following:

Firstly, your decision to enter China may be prompted in various ways. These are not limited to marketing opportunities in China: they could include a need to establish a supplier relationship, or an inquiry from a Chinese company hoping to do business with yours. In any case, do your homework and consult China market expertise. You need to spend time accumulating knowledge of the market and the structures for market entry.

Secondly, be careful. Poor selection of partners and inadequate preparation will not only delay your market entry, but may irreversibly tarnish your brand image and exhaust needed resources. Use the most appropriate structure, and be selective with whom you partner.

Thirdly, beware of the shortage of highly-skilled management talent in China. Foreign parent companies often do not spend sufficient time cultivating domestic talent. Start with a foreign team that has authorization from headquarters to make decisions, and come ready to spend as many as four years nurturing a domestic management team.

The time to avoid more costly China market entry is growing short, but not too short for sound decision making. Use local market insight to your advantage when exploring China's domestic consumer markets.

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