



China's Going Domestic: New Opportunities in the Consumer Market

Introduction

The consumer market in China has been growing rapidly alongside its GDP for over a decade and there are no real signs of it slowing down. Over the last few years the government has been making significant efforts to increase consumer spending in order to keep growth at a stable rate. Consequently, during the economic turmoil being experienced by the rest of the world, China still managed to record a 7% growth in the final quarter of 2008. Now, in 2009, a year pretty much written off by most countries, there are keen commitments to stimulate the domestic market and compensate for the reduction of manufactured export products. One such package of nearly USD \$600B, aimed at areas of social welfare and infrastructure, will have a knock-on supportive effect for consumer spending. No doubt that China will have an impressive growth rate again by the end of this year, despite serious decline elsewhere in the world.

A segmented breakdown of the domestic consumer market will provide a valuable insight to potential growth opportunity.

Electronics

Predicted to have the most growth in the near future, as the quality of life and household income for the average Chinese person has been steadily rising. The stability of this new disposable income has resulted in their lust to buy into the latest technology. Most commonly, flat screen LCD televisions have been popping up in many households, even more so as the prices continue to fall. The electronic arena is vast, covering home appliances, audio-visual and entertainment, communications and computing. The latter three are enjoying the increased buying power of the urban city dwellers while home appliances have the greatest potential for the rural population, where only 25% currently own a refrigerator. Mobile phones, owned by everyone, will see another re-birth as the largest phone company, China Mobile, starts construction of a 3G network.

High-tech electronic equipment, such as the digital camera, was normally only in the hands of the urban elite. Recently, as competition intensifies, the prices have fallen and people have been spending. Games consoles can also report success and it is no longer unusual to see people, boys and girls, young and old, parading around with portable handheld gaming devices. Soon enough, a variety of *gadgets*, now widely available in the Western world will soon be hitting the streets of China in a similar way. The government is well aware of the domestic potential and are introducing incentives accordingly. For example, a high tech company enjoys a much lower VAT rate at 15%, compared to the usual 25%.

Food and Drink

Chinese people tend to shop frequently for their food to ensure it is as fresh as possible. This means the market for packaged, frozen and prepared foods is smaller than in Western countries and predominantly lies with the younger generations that live away from home. Commonly, the younger and professional people will eat outside the home. In particular business people will spend frequently, as eating in restaurants and drinking in karaoke bars is part of the business culture. The number and variety of restaurants provides an intense playing ground where low quality foods will not survive, even if they are ridiculously cheap. The Chinese are passionate about their food and every year there will be new innovative designs of snacks and dishes hitting the streets to capture people's attention. But instant popularity for a season may not ensure a lifetime of success for a new product. Food-fashion cycles are common but, encouragingly, if it is interesting enough then consumers will remain loyal.

Western food chains, such as McDonalds, KFC and Pizza Hut are prospering in the Chinese environment. Pizza Hut made the transition easily because it can be eaten 'family style' and fast food chains have fused their style with Chinese food creating new products. Mostly the younger generation have succumbed to the Western style as it offers something different. However, as in many other countries, people are becoming more health conscious about what they eat but as yet *juice and salad* bars are in short supply. There is obvious room in this market for innovative and healthily designed food products.

Automobiles

Historically, China's car market was primarily domestic but since their entry into the WTO import tariffs have been vastly reduced. The number of luxury cars being sold has increased, as more people have been willing to take out loans in order to fulfil their desires. In theory the financial crisis should slow down consumer spending on luxury cars but given the existing number of vehicles on the streets, related after-market products and services should not be affected. Even so, more Western brand cars are making an appearance as Chinese people, young and old, perceive the enhanced value of renowned quality and a famous name. German brands are particularly popular.

Fashion and Cosmetic Products

Traditionally, fashion was not uppermost in the minds of the average Chinese person, where practicality was far above style and trends. But recently, again alongside increased disposable income, people have developed an appetite and a keen eye for the designer label. The younger generation are at the front line, seemingly happy to spend about a third of their wages on new fashion items. However, slightly unexpected from a Western point of view is that both sexes are equally interested in the latest trends. And it does not stop at clothes: cosmetics such as moisturizing creams and hair products are also enjoyed by both sexes. Make-up, however, still remains firmly in the female realm. Recently, major foreign brands such as Gap, Zara etc, are popular for the similar reasons as the Western food chains and the Western brand car. They have found their way into the market via the many new shopping centres springing up in cities all over the country. On the side, in the ground floor shops of new buildings (office and residential) local private clothes shops offering items of clothing a little different from standard are now more commonly seen as well. Particularly fashionable lingerie, as it is still considered rather a taboo among the older generation.

Opening the Door for Foreign Activities

In accordance with the WTO, China has made large steps towards operating a more open market place. Some key changes have been made under the new rules for foreign retailers:

- Fully own their Chinese subsidiaries
Joint ventures can still be beneficial
- Operate in any location with unlimited amount of stores
Also, be able to freely acquire local retailers
- Minimum size no longer required
Sales, capital and assets
- Able to integrate all aspects of distribution
Rather than rely on local distributors

The rise of modern retailing is offering opportunities for any potential investor or business people who are thinking of setting up shop in China. Notably, these retailers can never compare to the prices in the popular local “dirt market” but they do have some advantages that keep attracting consumers. For instance, foreign food outlets will have reliable hygiene standards and quality ingredients over the local counterparts. Also, Chinese people are warming to the idea of convenient shopping with longer opening hours in shopping centers.

Utilizing a few strategic requirements will be important for success. Adapting to cultural differences, i.e. approaching business from the Chinese perspective, involves constantly re-adjusting to the business culture, which can be inherently different in each city in China. Redefining core competencies for operation is critical when constructing a business strategy for this consumer market. Keeping it local is absolutely necessary. Local managers can offer the new foreign investor key information and practically secret routes to success. However, they are not cheap and the good ones are vulnerable to offerings from other companies.

Current Situation

The government is aiming to sustain growth in China by encouraging domestic markets and particularly consumer spending. To do this they are providing support for high-tech industries like electronics for the domestic market. However, on the flipside of the coin is that exports will see little support. Clearly this is the case of the Guangdong toy industry. Around 50% of the factories were closed in 2008, mostly small-sized toy producers. The reasons are lack of demand but also rising human and production costs and quality standards. It is reassuring to know that there are special campaigns to help restore the toy industry so a complete collapse can be avoided. With such defence strategies in place there is little doubt that by the end of 2009 China will have recorded another impressive growth rate, maybe somewhat subdued compared to recent years but highly significant in the current global crisis.

Eyes on China can Shape a Bright Chinese Future for you

China's consumer market is gearing up to become a significant opportunity for attracting any orient-minded business, investor and entrepreneur. The challenge will be to navigate a path through the maze of risks, obstacles and obscure rules and regulations. *Eyes on China* can help you to answer the following questions:

- What is the current market situation?
- What can my company offer that will be attractive to the Chinese consumer?
- How am I different from the competition?
- How can I enter the market and what can I do to prosper in China?

For instance, our consumer products professionals offer many services in all areas of the consumer market. *Eyes on China* manage business processes, from co-operation with agencies involved in investment projects to legal and technical consultancy services. *Eyes on China* will navigate the client through the complex legal liability issues and regulatory compliance. High quality project management skills are utilized for all aspects of the product lifecycle: from product design and transformation to manufacturing to color schemes for packaging and product launch support. The services from *Eyes on China* encompass:

- Analysis of the market opportunity
- Constructing tailor-made feasibility plans
- Research, development and manufacturing support of a new consumer product
- Outsourcing decision making and management of the supplier interface
- Product safety, quality assurance assessment and regulatory compliance
- Environmental analysis and corporate responsibility

Eyes on China will work from design concepts or finished products. Our internationally experienced team will aim to ensure that Western standards of product safety and quality are maintained wherever feasible and necessary. The professional team at *Eyes on China* will work diligently to assist with implementing a low-cost, efficient and high performing business strategy as well as evaluating the risks and obstacles. We utilize our insider information and experience, taking into account

cultural differences and, together with our client, developing tailor-made solutions that fit their long-term objectives for success in the China market.