



Thornhill Capital



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Marketing in China Requires a Unique Approach, Part I

Many companies believe that their sales and marketing models, business management techniques, and organizational structure, which have proved successful outside of China, will also work in China with little or no modification. As a result, many companies enter the Chinese marketplace unfamiliar with local competitors, distribution systems, the culture, geographic preferences, individual mannerisms, and local marketing techniques that are necessary for them to successfully sell their products. This is an all too familiar theme for those who decide to just *go for it* and enter the Chinese market quickly and with little preparation. “Just get us into China, and our products will sell themselves,” companies often tell us.

Companies know that China, with its over one billion consumers, is

likely the holy grail of consumer markets. Some companies take the time to comprehend the country's culture, geography, mannerisms, and other unique factors. They want to know how they can understand the Chinese consumer's uniqueness and adapt their product lines accordingly. These companies almost invariably succeed. Other companies believe their dominance in the United States and in other global markets guarantees them success in China. All they need, they tell us, is the right connection in China, and their products will fly off the shelves. These companies almost invariably fail.

It's like building an outdoor ice-skating rink in Florida. Great product; wrong environment. Companies that succeed know the environment before they begin construction and therefore enclose the ice-skating rink in an air-conditioned enclosure.

Some companies also believe that Chinese consumers are largely unsophisticated. They argue that, outside of a small percentage of the country who are part of the middle class, affluent, or superrich, Chinese consumers are all the same. Their view is that a majority of the Chinese people aren't familiar with most consumer products unless they're exposed to them through marketing campaigns or by word of mouth. Consequently, they're the same as every other global consumer, who only requires awareness and a value proposition in order to purchase a product. As a result, these companies believe that *one size fits all* and that shoppers on the streets of Beijing and Shanghai are similar to cosmopolitan shoppers in Chicago or Berlin. "Consumers need to be told which products to buy," they tell us. "With substantive and repetitive marketing, consumers will purchase the products that are presented to them."

Our experience has shown that these assumptions don't apply in

China. The assumption that the buying habits of the Chinese consumer are on par with those of consumers in other nations can quickly turn into a costly mistake when companies find their goods failing to capture market share in the world's most dynamic economy. In an illustration provided by Accenture, a multinational management consulting company, a major US appliance manufacturer thought it had China figured out. It was one of the best-selling consumer products companies in the United States, had strong brand recognition, and had a reputation for excellence. But after three years in China, its sales remained minuscule. The problem, as it turned out, was that it had an American mind-set, instituted American business practices, and hired American managers in a market that was not monolithic. It wasn't America. Instead, the environment was uniquely Chinese. Accenture went on to note that China is composed of a matrix of marketing microsegments. These microsegments are further broken down according to differences in consumer tastes that vary by geography, product category, and buyer segment. One size doesn't fit all in China. What works in Europe or the United States may not work in China. Moreover, what works in Beijing may be completely ineffective in Shenzhen.

The MZ-HCI Group, the world's largest independent investor relations firm, notes that the average consumer no longer exists and that customers increasingly see themselves as unique individuals. Marketing to these individuals often involves a knowledge of unspoken cultural and social patterns. This is particularly true in China. Foreign companies that have been successful in China have accurately gauged the needs of Chinese buyers and have culturally and geographically customized their goods to the country's various microsegments. They've understood how to adapt their products to satisfy individual needs.

Attracting the Consumer

Price point is not the motivating factor in a Chinese consumer's purchase of a product. Accenture's research showed that a brand's perceived contribution to the community, such as the creation of local jobs or support of important local issues, as well as perceived harmony with the buyer's personal values, can be more influential than pricing. A brand's national origin is also influential with Chinese consumers. German and French brands, for example, may have low consumer awareness, but the country of origin gives the goods a high level of consideration with consumers because the country of origin has a reputation for engineering precision and luxury goods, respectively. Japanese brands, on the other hand, have a high level of awareness, but are sometimes low on consumer preferences because of China's historical conflicts with Japan and its current dispute over the Diaoyu/Senkaku islands in the East China Sea.

Methods for attracting the Chinese consumer differ from those in other countries. For example, word of mouth carries exceptional weight with Chinese consumers, more so than in most countries. Many companies institute brand loyalty clubs to help perpetuate word-of-mouth promotion of their products. Product reviews, particularly when coupled with endorsements, are unusually powerful in attracting consumers and promoting brand recognition.

Direct mail and cold-calling may work well in some countries, but they don't work well in China. They are viewed as intrusive. However, multimedia kiosks and video boards, which may be viewed as intrusive in the United States and Europe, have a significant impact on the Chinese consumer.

Most companies expect China's current love affair and demand

for foreign products to continue through at least 2020. Chinese consumers, with an affinity for foreign goods, both in luxury brands and inexpensive products, have made China the biggest market for many foreign companies. This demand is increasingly driven by foreign manufacturers adapting their products to Chinese tastes in the various microsegments that comprise the Chinese marketplace.

In our next newsletter we'll explain logistical challenges, e-commerce, and more for those who want to sell their goods to the Chinese consumer. References for the data and information contained within the above material can be found in *Conducting Business in the Land of the Dragon* by Alan Refkin and Scott Cray.

Alan Refkin

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