Thornhill Capital

China Newsletter – June 2016

Marketing in China Requires a Unique Approach, Part II

Increasingly, foreign companies are realizing that their future is in China. Even though Chinese brands generally enjoy a 90+ percent awareness, the average Chinese citizen has a greater degree of trust in a foreign brand. Take automobiles, for example. All premium and exotic car manufacturers expect China to be their largest market. Many forecast the Chinese super-car market to grow by 20 to 30 percent per year for the next five to ten years. Rolls Royce estimates that it will sell eight hundred cars in China in 2013, surpassing the United States and making China its largest market. Audi sales in China have surpassed Germany’s, to become its largest market. Audi expects to sell more than one million cars in China in the next three years, surpassing both BMW and Mercedes-Benz in China.

Mercedes-Benz sales in China have increased by nearly 50 percent, and Porsche is on track to have China pass the United States as its largest market.

Chinese consumers have also shown an affinity for foreign retailers. UK-based Tesco, the world's number three retailer, believes that its current expansion program will quadruple its existing annual revenue in China to $7 billion over the next five years. Japan's Familymart plans to increase its current one thousand stores in China to forty-five hundred by 2015, and to eight thousand outlets by 2020. In apparel, Ralph Lauren plans to open sixty stores in China in the next three years, and Michael Kors plans to open fifteen stores in China the first year and one hundred stores in the next three to five years. Hugo Boss plans to add fifty stores to its existing eighty-six, and Prada plans to open 160 stores in China by 2016, given that 40 percent of its growth and 72 percent of its increase in profits comes from China. Sweden's H&M chain recently opened its one hundredth store in Nanning, and European fashion company C&A plans to expand from eleven stores to 150 stores throughout China by 2015. The list of companies expanding in China continues to grow as companies want to take advantage of China's love affair with foreign goods and products.

Logistical Challenges

Among the challenges foreign companies face are the logistical challenges inherent with conducting business in China. Supply chain effectiveness is a challenge for foreign companies, especially where customers may be a distance from China's ports and major air hubs. As a result, logistical costs can be up to three times higher than those of the United States, the United Kingdom, or Japan. Part of the reason is that there's more demand for rail, ports, air, and river services than current capacity permits. In addition, the Chinese rail system, although its undergoing improvement, is primarily geared to move bulk commodities, such as coal, over long distances. It doesn't have the same efficiency in moving containers from ports to inland cities. Moreover, roads in some regions of China are not well-maintained and prove to be a challenge for the overland transport of goods. The government knows about these bottlenecks and is increasing infrastructure investments in an effort to try and address these issues.

E-Commerce

According to *The Economist,* China's e-commerce sales will soon surpass those of the United States. E-commerce in China is dominated by Alibaba, a family of Chinese Internet-based businesses; two of Alibaba's portals in 2012 handled $170 billion in sales, more than eBay and Amazon combined. Alibaba also accounts for more than 60 percent of all parcels delivered in China. The Boston Consulting Group indicates that apparel is the most popular e-commerce buying category, comprising 50 percent of all online sales in China, compared to 20 percent in the United States. Digital content makes up one-third of all online sales. By 2020, China's e-commerce market is expected to be larger than the combined e-commerce markets of the United States, Great Britain, Japan, Germany, and France.

China currently has an estimated 193 million online shoppers, more than any other country. The Boston Consulting Group predicts that e-commerce could account for more than 8 percent of all retail sales in China by 2015. The primary reason for online shopping's popularity, according to the Acquity Group, a digital marketing and global branding e-commerce company, is that it's convenient. In addition, consumers find that online shopping gives them greater product selection and provides the ability to compare prices across various vendors.

Lauren Indvik, of Mashable, indicates that there are a number of factors driving China's e-commerce growth:

- government-subsidized Internet
- low shipping costs
- growing middle class

The spread of government-subsidized high-speed Internet access and Internet-connected cell phones provides e-commerce companies with a potential shoppers' pool of 513 million, or 40 percent of China's current population. Broadband Internet access in China is relatively inexpensive, around $10 per month, compared with $30 per month in India and $27 per month in Brazil.

Another factor driving China's e-commerce growth, according to the Boston Consulting Group, is that shipping costs for Chinese companies are about one-sixth those of their American counterparts. This makes ordering goods online relatively inexpensive for the average consumer and gives Chinese e-commerce companies an advantage not enjoyed by those in many other countries.

A third factor driving e-commerce growth, according to the Acquity Group, is that China's middle class is rapidly expanding and is expected to grow from 200 million to 800 million in the next twenty years. Middle-class shoppers have shown the highest affinity for e-commerce transactions.

Combined, all these factors allow those willing to become involved in

China's growing economy the opportunity to participate and prosper in what will become the principal global economy for at least the next two decades.

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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