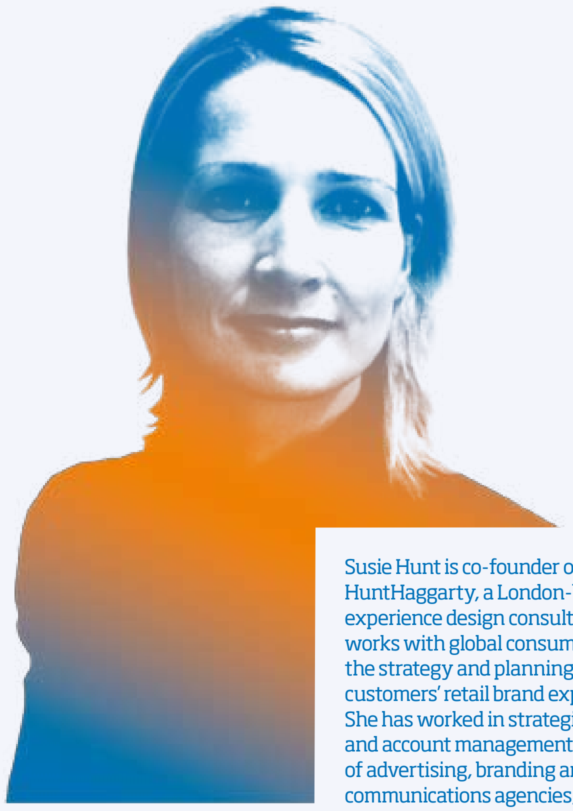
The China Challenge

Decoding China's retail evolution and the relationship between global brands and the country's young urban consumers

by **Susie Hunt**



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The Chinese consumer market is experiencing a growth of immense proportions and retail sales are expected to top $1.2 trillion by 2010. This demand for brands has already seen half of the top 50 international retailers set up a presence in the country. But after the initial launch excitement has subsided, how can global brands ensure longevity in this rapidly developing and demanding market?

Walking through IKEA when last in Beijing, I was reminded of the challenge faced by western brands in deciding how to translate their message and experience for the Chinese market. While consumers in the west may view IKEA as a mass-market quality, low-cost 'room in a box' toolkit, in Beijing it is quite a different experience. There it is a relatively premium offer targeting the design-savvy affluent young urban consumer. IKEA has also departed from worldwide established practice to tailor its 'Blue Box home' customer journey experience to focus on smaller product and impulse buys. Indeed, the ubiquitous IKEA catalogue has been pulled from circulation and replaced with a slimmed down booklet – a world first for IKEA, known as a multilogue – designed to activate smaller product purchases and reach more of these young urbanites.

Chasing the China Opportunity

This growing middle-class consumer segment now numbers over 100 million, with household income in this bracket growing by 12-15% a year. This accumulation of disposable income combined with continuous urbanisation – 529 million people or 41% of the population now reside in urban areas – ensures these consumers continue to be highly seductive for global brands.

This new consumer's obsession with retail is becoming visible through the scale of the country's commercial developments. In fact, the world's largest mall is the South China Mall in Dongguan, Guangzhou Province, which boasts a shopping space of over 7 million sq ft. Indeed, five of the world's six largest malls are found in China and this figure will rise to seven out of ten in 2010. Such dramatic expansions have already enabled global brands from Bulgari and Ferragamo to B&Q, Wal-Mart and Carrefour (just opened its 100th store) to become household names to the ever more brand-savvy middle-class Chinese consumer.

Recent models for brand expansion

Two positioning approaches to the complex China retail market have historically defined engagement for global brands targeting this consumer – a first wave of 'Cut and Paste' global retail and a second wave adopting 'Dual Brand Presence'.

The luxury market – currently 29% of the global market, and soon to overtake Japan as the largest globally – leads the 'Cut and Paste' approach, with a brand experience strictly aligned to global brand principles. Luxury brands are an obvious badge to confirm status and success and, as a result, global luxury brands with a following in China tend to move even further upstream to become super deluxe, with a heavy focus on rarefied limited-edition items. Look at the China World Shopping Centre in Beijing for great examples of this model being undertaken by the luxury retailers such as LVMH and Thomas Pink. For the opening of the LVMH flagship, an exclusive Chinese print was created to maximise impact and appeal.

More recently, a second wave of retailers has been applying a Dual Brand Presence approach. They have recognised that distribution and broader regional presence beyond the tier one and two citiescan be more rapidly gained with acquisitions and joint venture strategies. Tesco broke into the China market by acquiring a 50% stake in the Tingxin Holding Corp's Hymall chain stores, worth £140 million in 2004. This was followed by the acquisition of a further 40%, at a cost of £180 million. Tesco-Hymall has 44 hypermarkets, and Tesco opened its first own-brand store in Beijing in January 2007. Big players such as Home Depot and Best Buy have also made their strategic move after a long wait, acquiring local chains, and Starbucks has bought a 90% controlling stake in Beijing Mei Da Coffee Co, an expansion move it believes will help make China the firm's largest market outside North America.

Half of the top 50 international retailers have now set up a presence in China – a presence that includes multiple retail formats from joint venture flagships to branded stores and shop-in-shops.

Telecoms and fashion brand retailers such as Motorola, Levi's and adidas have especially championed a multiple format approach to drive presence and engagement. Luxury and beauty brands tend to be more restrictive on their format usage. The Body Shop, for example, started their development into China with a shop-in-shop approach, while the luxury retailers tend to limit distribution to their tightly managed franchise or owner-operated stores.

The ongoing China challenge

Notwithstanding these significant plays, the challenge for market share continues, as no single international retailer has managed to dominate the market in the manner to which they may be accustomed in more westernised markets. Indeed, the sales revenue of foreign retailers and food chains accounts, at the moment, for just 3% of retail sales in China. This is a result both of the massive distribution challenge and of pricing strategies, which result in international brands generally being aligned to the more monied consumer base.

It should also be noted that new domestic conglomerates are emerging to add to the pressure on international expansion into the market. Industry experts and academics hailed the merger of Gome and Yongle as an effective move to establish leading national players who are able to compete with international giants such as Best Buy. Such domestic champions have already established a strong position in their own sectors and have emerged as market leaders.

The new evolutionary approach

So what makes the China retail market such a unique challenge for global brands and retailers? Going forward, how can they improve conventional practices when developing strategies for China?

The self-evident but frequently overlooked point is of course that, unlike the west, the brand and retail marketplace in China are not an established model that is being tweaked. Instead, as the market grows, the relationship between brands, the retail experience and the consumer continually evolves.

Therefore the psychology of shopper behaviour and conventional consumer journeys in-store is very different.

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First, unlike in western markets where trust in the actual product in the box is relatively high, in China the trust base is rather lower and shoppers need to fully examine and test out the actual product they will buy, eg a mobile handset. Dedicated, 'out of the box' live experiences are vital, and the brand experience itself must be tactile.

Further, the experimental nature of consumers means that product turnover tends to be extremely high and, to get noticed, brands and retailers are in a rapid and continual cycle of promotional pushes and product launches.

For successful participation in the China market, brands need a strategic framework that is nimble and flexible enough to evolve in line with the consumer's changing relationship with brands and retail. The challenge is to build trust and consistency in the product experience, with an understanding of how important it is to Chinese consumers to see and touch the live product they are going to buy.

Chinese shoppers will respond best to brands that are prepared to rapidly evolve and refresh their experience as consumer trust in them evolves. Brands need to develop customer experiences that recognise and manage this relationship evolution.

So what are the most current learnings and trends in this evolving relationship between consumers, brands and the retail marketplace? To build our knowledge base HuntHaggarty conducts ongoing consumer behaviour and retail research – which we call Asia Anime. The research investigates firstly the evolving commercial challenges for retail and secondly emerging consumer dynamics, which affect shopper behaviour in-store.

1. Evolving retail market dynamics:

Geographically multi-tiered frontline
It is all too easy to focus brand expansion on the major conurbations, assuming the battle with national brands can be won there. In fact, the real frontline between global and local brands is in the coastal belt and tier two and three cities. These are the relatively smaller cities such as Tianjin (still with a population over 10 million) where local brands leverage significant influence. These cities provide a clear opportunity for global brands to provide distinctive, well-received retail experiences to drive brand purchasing.

One brand that has understood the varying urban markets is Motorola, which has led the telecoms sector in creating a globally consistent brand experience targeted locally to the different urban environments in China. This localisation has included multiple retail formats – from flagship stores and branded stores to intense shop-in-shop and POS – and customising the retail toolkit in line with the geographic distribution and low-cost requirements.

Motorola has adopted a series of different retail formats in China to widen appeal in local markets.

Retail rush hour
The surge in shopper traffic in China during weekends and holiday periods is so intense that retail brand experiences need to be tailored to accommodate exceptional footfall. During Golden Week holidays it is estimated some 120 million Chinese consumers are on the move and official statistics record that $5 billion was spent in Golden Week in October 2007. Such levels of footfall fluctuation require flexibility to enable a swifter simplified customer journey, which still maintains a differentiated brand experience.

Here today, here tomorrow
With retail sales expected to top $1.2 trillion by 2010, there is intense pressure for retailers to open stores in China to take advantage of consumer spend. But simply capturing floor space does not guarantee repeat visits, and for successful sustainable retail brand experiences a 'refreshment strategy' is vital. Methods for this include an intense promotional refreshment plan, daily in-store and store threshold live demonstrations and store-exclusive product launches and giveaways.

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Top-up shopper society
Chinese consumers tend to shop more than once during the week for food and prefer fresh produce for daily cooking. Given the low rate of private car ownership, public transport and bicycles are widely used for shopping for food, and hypermarkets have a much smaller catchment area than those in the west. So new multi-format thinking is required, to drive maximum footfall and average transaction value. Companies such as Carrefour have achieved this by breaking their global norms of big box (3,000-5,000sqm) supermarkets to operate neighbourhood convenience stores to capture 'top-up' shopping.

Brands like Carrefour, which has just opened its 100th store, are becoming household names to middle-class Chinese consumers. Image credit: www.picasaweb.google.com

CosPlay, a dressing-up craze that offers brand opportunities

2. Evolving consumer and shopper behaviours:

Chuppie VIPs
A remarkable one in three of the population are aged 15-29. With high levels of confidence in their future, and strong employment opportunities, the 23-27 year old bracket is the largest consumer segment, preferring to spend today rather than save for the future. Brands therefore need to rethink the western mindset of the VIP experience being aligned with more established consumers. As in South Korea, Chinese telecom brands have now started dedicated VIP clubs, targeting a youth audience in recognition of their long-term value to the brand. Youth brands such as Levi's are also creating dedicated in-store experiences to create youth VIPs.

Embedding this 'youth VIP' experience within retail brand experience is valuable, and developing unique retail is a clear opportunity to be further developed. Adidas has successfully engaged the youth VIP market with the expansion of its Adicolor experience. There are even unique Adicolor customised shoe experiences with different offers in different stores to maximise the exclusive appeal to youth consumers.

Rise of the queen bee
Historically women in traditional Chinese culture might not even have received a first name – they just carried the family name – and just four years ago only 25% of all consumers in China were women. Today the power of women in influencing culture and business has never been greater. This is because women are now achieving greater educational, social and economic independence. And with this independence comes spending power and strong desires to visually demonstrate their success through what they buy. The luxury market is particularly benefiting from this through the accessories business, with women in the 20-30 age group leading luxury purchases. The luxury market as a whole was estimated to be worth $6 billion in 2007, according to a Goldman Sachs study. The sensationally popular TV show Super Girl (a Chinese X-Factor for girls) has reinforced this sense of empowerment with unprecedented popularity in China.

CosPlay community connections
CosPlay (Costume + Play) communities provide a potent reflection of the desire among some youth communities to step outside expected personas. Well established in Japan, this dressing-up craze has recently spread to China and provides an untapped arena for brands to participate and create relationships with younger Chinese youth audiences.

Nike taps into the Manga culture with a recent advertising campaign.
Image credit: http://kad.heavy.jp/

Manga life

Unlike their more niche positioning in the west, Manga and Anime are a pervasive cultural influence in Asia, especially among the Chinese youth. The Manga industry generates $10 billion in revenues and China is the second-largest market outside Japan. Contrary to some western perceptions, it reaches far beyond a fascination with comics and is becoming a mainstream communication and brand storytelling device - as demonstrated by Nike in its Chinese advertising and retail campaigns.

Combining short-term evolution with long-term reinvention

With so many new influences affecting the evolving relationship between consumers, shoppers and retail brand experiences, it would be naive to conclude with a perfected, single strategic formula of how to develop next-phase brand strategies. Instead the key is to ensure a short-term evolutionary strategy is in place for engagement today, supported by a longer term reinvention plan. The short-term evolutionary approach requires fast-track understanding of the consumer relationship with your brand, especially from a shopper behaviour perspective. What is the current and desired relationship with the category? What are the barriers for trust? What is the role for the live experience at retail? What type of retail format is best suited to building the strongest, most profitable relationship with your consumer? This is the learning to inform strategic fast-track participation.

The long-term reinvention plan then provides a vision for the category to create new ways of winning consumers in the longer term. What type of relationship does the brand seek to have with the consumer and shopper in order to maintain a relationship? What are the category conventions in the consumer experience that the brand seeks to disrupt? This provides a reinvention platform within which the short-term evolutionary plan can develop. With this combination approach, brands are able to participate flexibly in the marketplace in the short term while continually learning as the market evolves. It may not be the most gung ho approach, but it goes without saying that the market is a complex commercial risk. It is worth remembering with a smile the Chinese proverb 'Fortune is built on taking a little profit now and leaving a little for the next man'.

Asking the right questions in building a China strategy

To conclude here are some key questions, which we use at HuntHaggarty to help challenge and develop China retail brand strategies for the short and long term.

1. Square Footage Vanity vs Profitable Sanity – what is your brand's required participation to succeed in an initial China engagement?
2. How well does your business know how your shopper behaves in-store and what are the triggers to activatethe type of customer journey in-store that yields most profit?
3. What are the current latest trends and influences affecting how your target audience engages with your category? And how can these be reinvented (eg relationship with local brands or new retail/online experiences)?
4. How far is your brand experience customised to reflect local consumer needs as compared to a global model? What is the balance you seek?
5. How are you communicating with women as a discrete audience? Is there an opportunity for specialised communication?

SPECIAL FEATURE

Global Scanning

Brands, marketing and the booming over-50s market

As previously mentioned in the 'Grey Gold' article by **rdsi**, baby boomers are a growing and influential audience, harnessing substantial spending power and open to new experiences. Retailers and brands that listen and respond to the needs of this diverse market with useful and inspired offers will have a greater appeal and be able to forge sustainable consumer relationships.

In order to present an authentic offer, marketers need to acknowledge that mindsets among this generation have changed. Mature consumers are no longer content to lead low-key, sedentary lives. In fact, quite the opposite. Many boomers are now in possession of greater disposable income and large amounts of free time, with a new wanderlust and appetite for leisure activities.

The campaigns, ventures and products described below are resonating with boomers by drawing on issues that are close to their hearts. Successful brands and retailers have also realised that a large dose of honesty and positivity has far-reaching benefits. Methods of delivery and media channels employed are now being carefully considered by leading brands, as modern means of advertising and communication online are no longer beyond the grasp of the boomer.

by Mandy Saven, GDR Creative Intelligence

Travel & Adventure

Off the beaten track (1)

Elder Treks, the world's first adventure travel company designed exclusively for people 50+, offers active, off-the-beaten-track adventures on land and sea in over 80 countries. The trips include a combination of adventure, culture and nature, and knowledgeable tour guides include well-timed stops to allow travellers to recharge and enjoy the scenic views. Options include a wildlife safari in Tanzania and a Patagonian hike.
Source: www.eldertreks.com / www.trendwatching.com

Pink adventures

Another travel company enjoying success with this generation is Rosa Bussarna (meaning pink caravan), which operates over 20 pink buses that travel around the world on 3-8 week adventure trips. Two years ago, the company added trips exclusively targeted at people over 50 and the initiative proved so popular that today Pink Caravan offers 14 trips solely targeted at young-at-heart baby boomers who want to relive their backpacking years. During these trips, emphasis is placed on meeting like-minded individuals and relaxing and working as a team, with travellers often cooking meals together.
Source: www.rosabussarna.com

Networking & Involvement

Booming search engine

Eons is an online social network and information portal for baby boomers. It encourages mature surfers to explore, be productive, celebrate life and connect with like-minded people. The site is divided into seven categories: Fun, Love, Money, Body, Goals, Obits and LifePath. The goals section lets members publish the top 10 things they'd like to accomplish before turning 100. Another feature is a search function called cRANKy, which is touted as the world's first age-relevant search engine. cRANKy limits results to the highest-ranking handful, as well as some that have been hand-picked by editorial staff and members. Members can also create personal life maps and blogs.
Source: www.eons.com / http://cranky.eons.com / www.springwise.com

Socks with a story (2)

Swiss company Netgranny is a collective of 15 grannies who knit socks on demand and sell them online. Customers can choose their favourite granny from a gallery of 'Grosis', which includes information on why they enjoy knitting and past knitting credentials, and can either select the colour of their socks or opt for a surprise design. After placing an order, it takes two weeks to knit the socks, which are sold for €26 a pair, including delivery. Netgranny was founded by Swiss fashion label Tarzan, who wanted to create a product loaded with storytelling opportunities and give grannies a sense of industry and purpose.
Source: www.netgranny.ch