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## Looking to enter the Chinese Market? Recent consumer trends that may influence your market entry strategy in China



The Chinese economy slowed down in 2018 and many western companies and e-commerce sites are now feeling the full effects. Those looking to newly establish there may also now find the appetite of Chinese distributors, retailers and consumers for western brands to be diminished.

However, a few major consumer trends may offer insights for developing a good market entry strategy for those looking to establish in China in 2019/2020. Recent quantitative research from Nielsen and qualitative research by [Hub of China](#), found some surprising results relating to opportunities relating to launch location, cost-effectiveness/value for money and local brand perception.

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First-tier cities like Shanghai are often considered to be the more economically developed areas of China and often the first – if not the only places – that western brands look to establish themselves. The lower tier cities are notoriously deemed to be lesser off and often dismissed not even worth examining for potential.

The results of the Nielson study found, however, that consumers in lower tiered cities were more likely than those in first-tiered cities to choose premium western brands.

David Joseph, managing director of Hub of China, a Chinese research company based in London, feels this is a result of a premium product being less of a 'novelty' in the developed cities these days, whereas the same brands were still aspirational for those residing in lower tiered cities where the level of choice and familiarity was lower. Moreover, those bearing the high costs of living in 1<sup>st</sup> tier cities are likely to have less disposable income than their lower tiered city counterparts.

This was confirmed when they conducted focus groups with 1<sup>st</sup> tiered (Beijing Shanghai) & 3<sup>rd</sup> tiered (Harbin, Qingdao) city participants with the objective to find out more about their luxury consumer purchasing habits. 3<sup>rd</sup> tiered city participants were excited about new international brands coming to their city, whilst the 1<sup>st</sup> tiered participants were a lot more apathetic towards these brands.

Coupled with the facts from Tencent/BCG's Report on Chinese Luxury Shopping, showing that more than half of Chinese luxury consumers are living outside the top 15 economically developed cities in China, the implication is that western brands and retailers cannot afford to ignore consumers in the lower tiered cities of China. In some instances, market entry success may be gained by focusing efforts specifically there.

## Cost-Effectiveness

The Neilson report on over 2,000 consumers found a common denominator in choosing a brand or product: 75% of respondents wrote 'cost effectiveness' as the most important factor when making a purchasing decision these days.

The implication is that western brands can no longer anticipate commercial success purely on the basis of being a western brand. Having a clear value proposition that underlines the price and reason to purchase, plus supporting marketing activities for ensuring brand value is positioned appropriately for the price, are just as important in China as in any other market.

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## Domestic Brands

Another surprise was that value conscious Chinese consumers are increasingly choosing domestic home-grown brands. Huawei in 2017 surpassed Apple as the world's second largest smartphone brand largely due to the domestic market and their sales further increased in 2018 with Apple lulling well behind. Chinese brands are no longer seen as 'lesser' than their westerner competitors; in certain sectors, quite the opposite.

Domestic demand does depend heavily on the sector however, with Chinese consumers still likely to prefer western food products on a safety basis over Chinese food products.

### In summary

Research insights into lower tiered cities highlights that good opportunities may still exist for western brands – where the cachet of being western is still desirable and consumers have the disposable income to buy more luxury products. Moreover, the competitive environment may not be as intense nor as expensive for a retailer as it is in the major cities.

Consider your positioning and pricing carefully. Being a western premium brand is likely to no longer be 'enough' in China, especially in the 1<sup>st</sup> tier cities. What value and uniqueness do you offer over and above the local competition, as well as your western competitors? It's imperative that you do your research and understand what it will take to win consumer share in China.

***Guest blog by David Joseph, the founder of Hub of China, a leading provider of [market research in China](#). Through their extensive experience, they deliver reliable insights into Chinese consumer behavior and help to devise Chinese market entry strategies***

***If you are looking to expand your business into China, please contact [info@tradehorizons.com](mailto:info@tradehorizons.com) or [David.joseph@hubofchina.com](mailto:David.joseph@hubofchina.com)***

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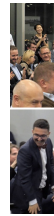
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