

Crack the Chinese puzzle to realise Eastern promise

HSBC BUSINESS THINKING

By Andrew Cave

CHINA is the world's undisputed economic transformation story, surging past Canada, Spain, Brazil, Italy, France and Germany in gross domestic product over the past decade and this year overtaking Japan to become the globe's second largest economy.

It is little surprise, then, that the world's most populous country was chosen as the venue for the last of three 2010 Thought Exchanges held by HSBC as part of its Business Thinking initiative to highlight the best approaches in strategy and innovation for Britain's businesses.

Most commentators agree that in the short to medium term at least, Western growth will continue to be strongly eclipsed by the East and that UK businesses therefore need to look to China and its Asian neighbours for the best growth opportunities.

However, China's growth story is changing in many ways and with this comes increased risks. Geographically, the nation's economic expansion has greatly increased its own economic East-West divide.

In macroeconomic terms, the moves towards increased flexibility of China's exchange rate will have important repercussions for world trade.

And the use of China by UK organisations for low-cost manufacturing could change dramatically if the nation is able to progress up the value chain – indeed, UK companies faced with higher shipping, commodity and energy costs in the once low-cost manufacturing centres are already looking to bring production home, according to manufacturers' organisation EEF.

Such issues made for an enlightening Thought Exchange in Shanghai. Finalists from London, the North-West and Central and East England spent five days immersing themselves



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Dress for success: Achilleas Constantinou, CEO of Ariella Fashions, says businesses must learn to understand the complex China markets

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in the local economy and learning what Ratan Malli, advertising agency JWT's head of strategy for North Asia, calls “the three rules for investing in the Chinese economy”.

Firstly, Mr Malli says China normally follows Western trends within a five to 10-year time lag. He expects this to apply to current trends such as the mobile internet, ready-to-eat meals and environmentally-friendly products and other Western market developments, so says that brand positioning will be partly about being in the market with the right products at the right time.

Secondly, he says Western consumer products need to be “localised” for the Chinese market. Nestlé, for example, saw a five-fold sales increase after introducing instant coffee sachets containing sugar and powdered milk, while Minute Maid diluted its pure fruit juice with water to take account of Chinese tastes and Haagen-Dazs developed green tea ice cream.

Successful Western consumer goods companies should price for scale in China, says Mr Malli, citing a 10-fold leap in the Chinese market share of Crest toothpaste after its owner Colgate Palmolive introduced a

local version that was one-third of the cost in the West.

Business Thinkers on the visit also learnt about the ways the Chinese luxury goods market differs from that in the UK.

“Luxury brands have a different meaning in China,” said Mark Cobham, managing director of travel and outdoor products group Lifemarque, based in Aldermaston, Berkshire. “They are not an indulgence. They are bought to earn respect and trust. They show your worth.”

Achilleas Constantinou, chief executive of London-based Ariella Fashions, added: “China is not one market but different markets, depending on the region. It is more like the European Union, with a lot of consumer segmentation. It also has a mix of traditional and modern beliefs.

“You must understand the psyche of the part of the local market you are targeting to sell to and to succeed.”

Graham Purdy, operations director of Manchester-based audio-visual electronics maker and distributor AVSL, said: “China went from having practically no choices to having many in a relatively short space of time, so being able to position your brand within this consumer-led market is crucial.”