

Branding and marketing in China, Part 1

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**BUSINESS
FINLAND**

▶ Today's Lecturer

Contact



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Pablo Recio Gracia



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Bio

- Managing Director at 
- Living and working in China since 2005
- Focus on food and beverage import and distribution processes and trade barriers
- Previously worked for public agencies including **ICEX** (Spanish Institute for Foreign Trade) and **Extenda** (Trade Promotion Agency of Andalusia) as well as private companies
- Bachelor in Business from the University and Granada and Masters in Quality Management and Business Internationalisation

▶ Contents of today's training

1. Overview

2. Chinese consumer behavior

3. Food and Beverage sales channels overview

4. Selling through E-commerce

5. Branding and marketing in China

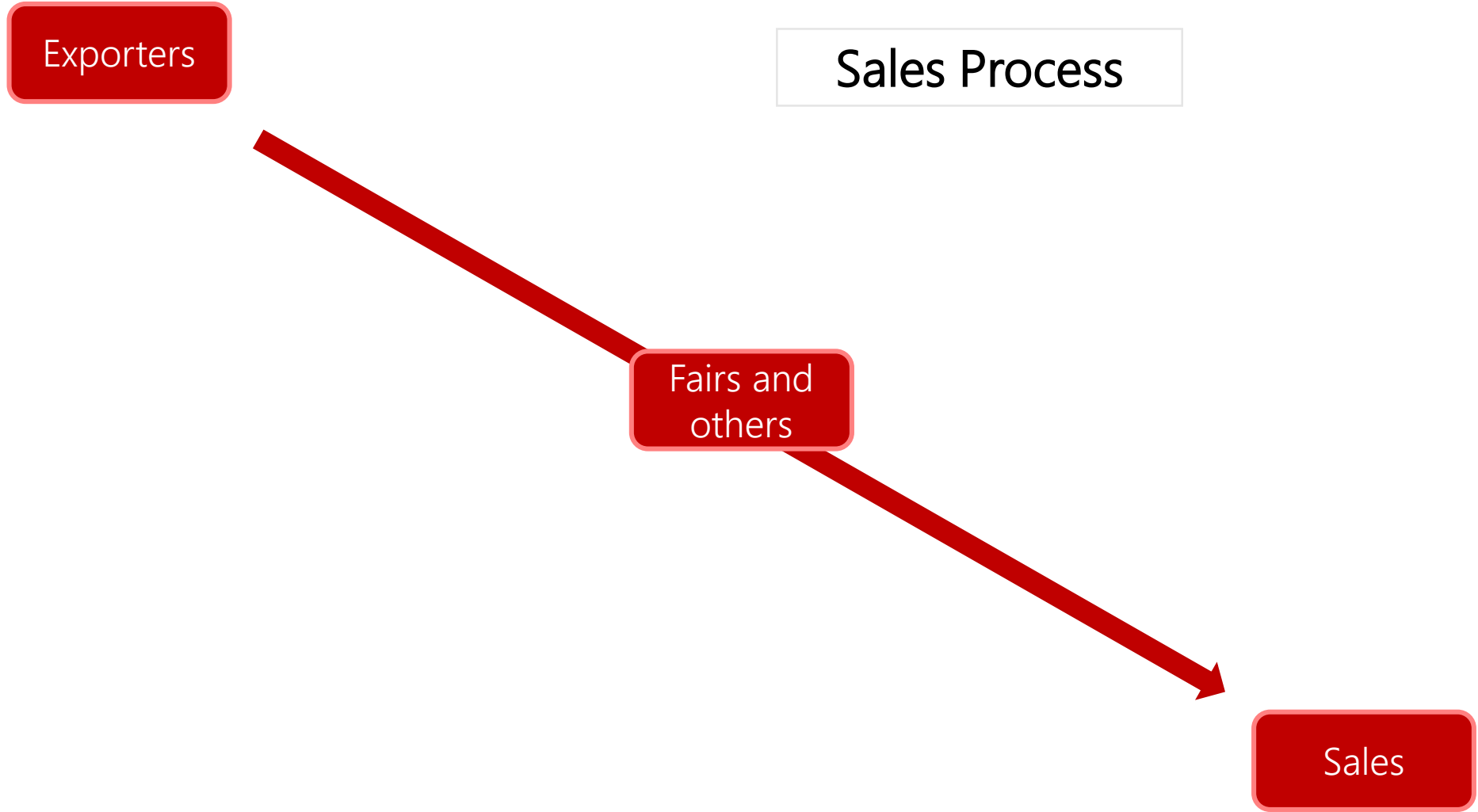
▶ Introduction market overview

Exporters

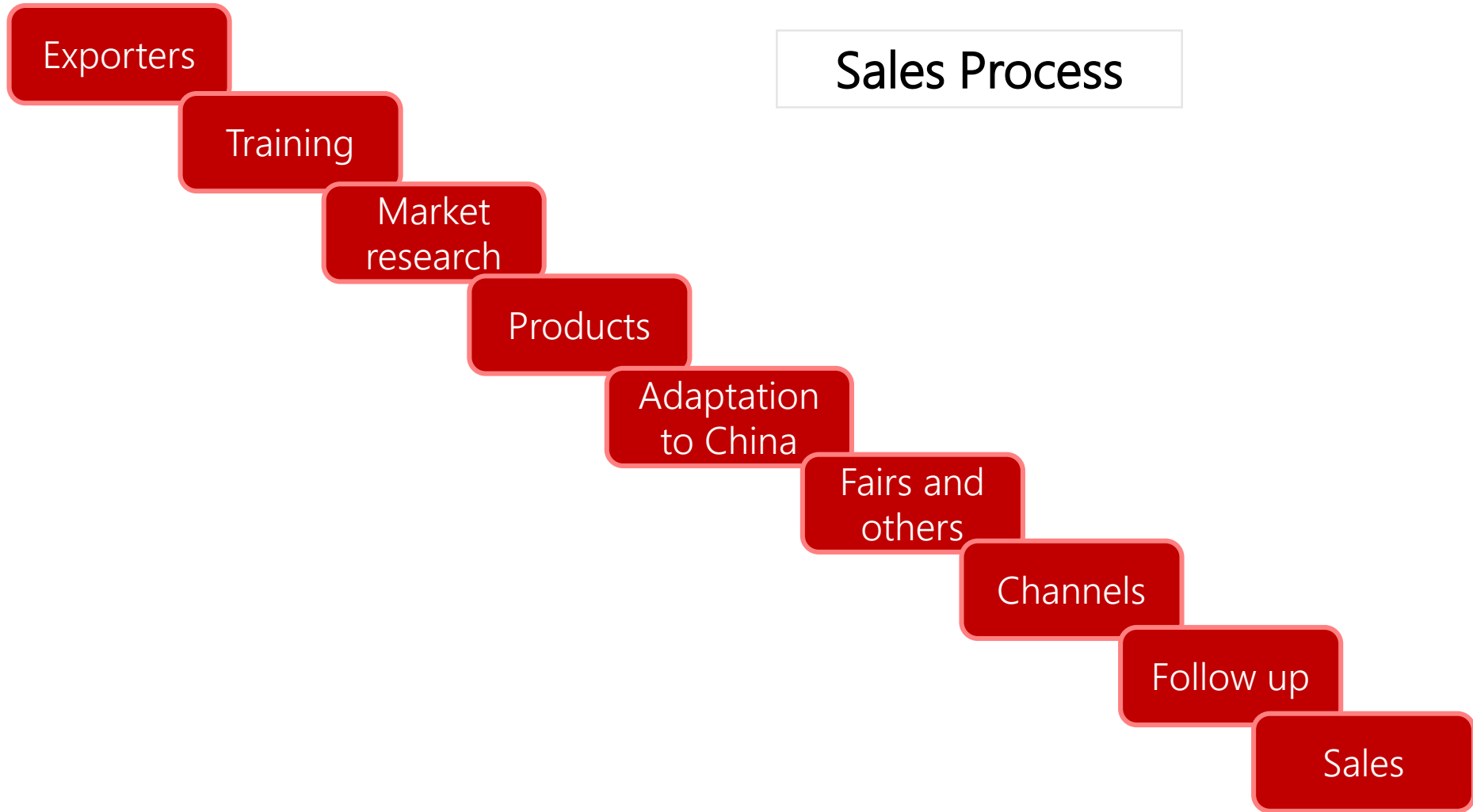
Sales Process

Sales

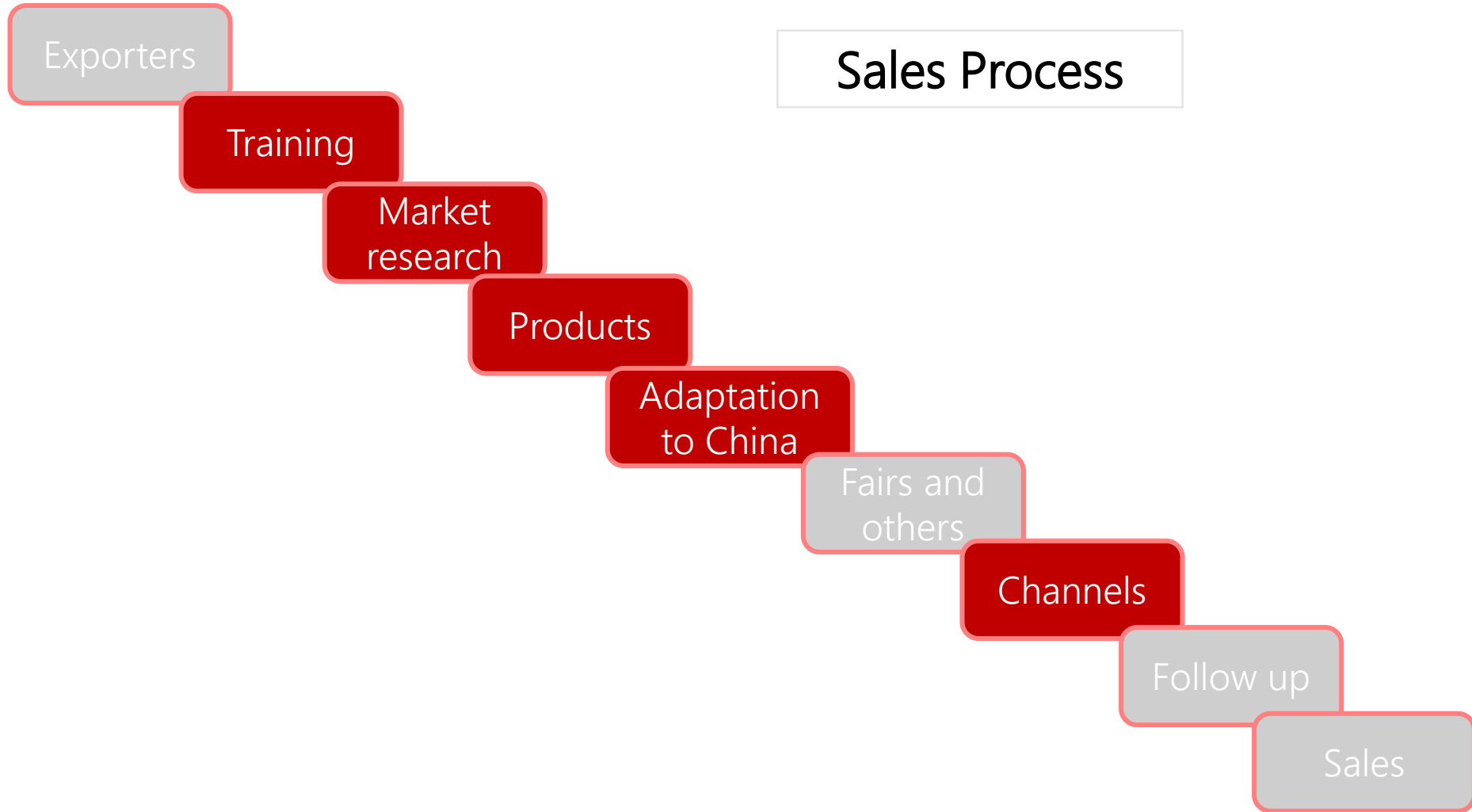
▶ Introduction market overview



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Introduction market overview



► Introduction market overview

A market with a great potential

Despite their **efforts towards selfsufficiency**, China will **continue importing large quantities F&B products** due to a growing demand of quantity, quality and variety.

At the same time China improves their F&B industry, prices are rising and consumers are becoming more demanding.

But Chinese market, although full of opportunities, is not simple: it is **extremely complex and competitive**.

It is not easy, it is not imposible but research before you start.

► Introduction market overview

Forecast

- **Intense growth** in the food industry will continue due to expanding purchasing power, production limits in China and lack of reliability on domestic products
- **More protocols** are being signed
- **Westernized lifestyle** and products are expanding
- **Distribution** and logistics is **improving**
- **Changes in distribution create opportunities**
- **EG.Online sales** open new opportunities

Challenges

However...

- **Competition is fierce**, since China is primary target worldwide
- Market is **fragmented**
- **Most of the population are not target customers**
- Legal and Technical **barriers are complex** and ever changing
- Commercial environment is very **tough and competitive**
- **Understand technical barriers connected to commercial barriers**



Success will require preparation, patience and persistence

▶ Market overview > Evolution of China's imports

Unavoidable demand vs increasing competitiveness and complexity mean that to be successful we **just need to be better than our competitors**. Maybe it is not necessary to do it perfectly but better than the rest.



Turning Chinese complexity adaptation into a competitive advantage

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▶ Consumer behavior. Key ideas

- ✓ Change is constant and **accelerated**
- ✓ Disposable **income** increase
- ✓ Consumer eager to try **new products**
- ✓ **Westernized** life style
- ✓ Looking for **Convenience**, which shapes the sales channels
- ✓ **Demanding** consumer
- ✓ Increasingly **health conscious**
- ✓ **Imported F&B** understanding is still under progress in many cases
- ✓ Products consumption based on **image projection** will penetrate the household consumption



▶ Consumer behavior. Traded up

Trading up (and down) in key FMCG¹ categories: China, US, Germany
% of survey respondents

Increasing:

Quantity

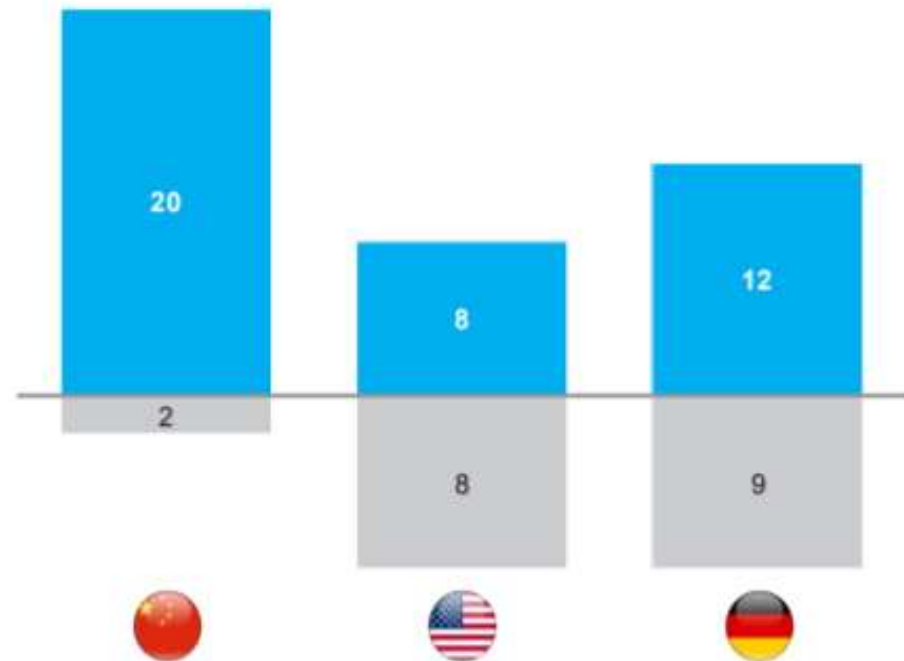
Quality

Variety

Convenience

Traded up to a more expensive brand

Traded down to a cheaper brand



¹ Includes food, non-alcoholic beverages, alcoholic beverages, personal care, household products
SOURCE: McKinsey 2018 Global sentiment survey

▶ Consumer trends affecting sales channels

Traditional retail

Growing very slow now and are facing some difficulties. Their model has been based on *entry fees* and high margins

Convenience stores
(CVS)

Performing well. Convenient and looking for a higher rotation. Also has entry fees.

Food service

Doing well. Directly linked to the economy performance

Traditional E-commerce

Growing and opening new opportunities.

CBEC

Interesting for specific products/strategies only

Gift channel

Not really a channel now, but an important presentation for selling

► Convenience as a central element

- ✓ Easier
- ✓ Faster
- ✓ At any time and place
- ✓ With better information
- ✓ For smaller purchases
- ✓ And many times cheaper

Sales channels > E-commerce

浦发狂欢第二季 橙意继续, 每周二抢满80减50 活动时间: 2017年12月1日 - 2018年11月30日

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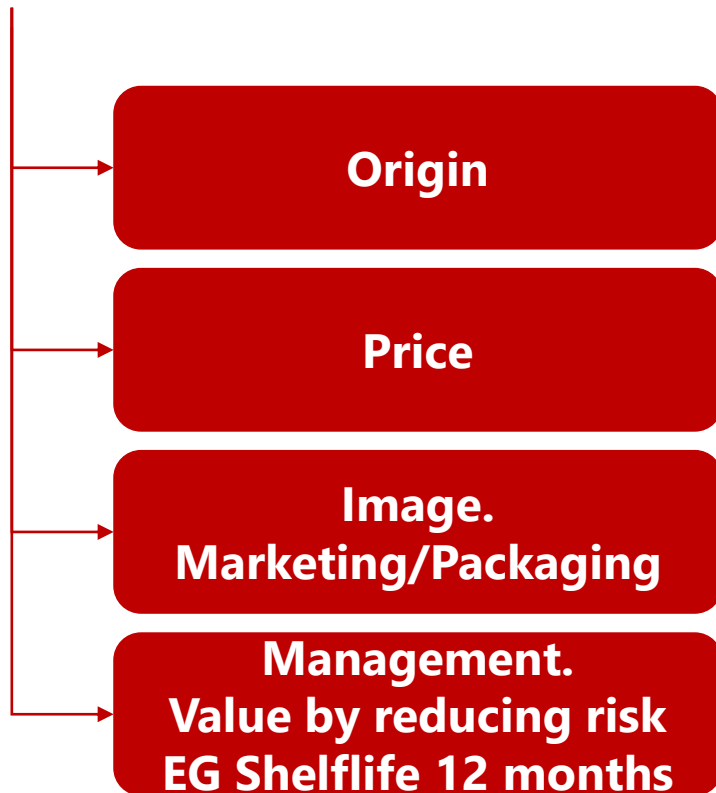
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▶ Decision making process. Understanding China

Limited knowledge makes consumers base purchasing decisions on:



► How changes in consumption turn into opportunities

- ✓ **Combine some of the factors already explained with importers requests:**
- ✓ Check for growing imports on highly demanded products
- ✓ Target adequate channels (Online, CBEC, CVS, Food service or traditional retail)
- ✓ Category management. More variety. Big changes coming. Eg On the go
- ✓ Strong growth on healthy products
- ✓ Fresh products
- ✓ Private label
- ✓ Snacks formats
- ✓ Adapt to China's decision making process. **Make understanding China a USP**

▶ Bakery. Booming market



▶ Case study

Meat

- ✓ Market to boom but Brand recognition is low



▶ Opportunities. Category management. Chocolate case study



▶ Opportunities. Healthy products case study



Fruit smoothies

Raising market. 3 ranges

Domestic 6-8 RMB

Imported around 20 RMB

Imported in special category over 26 RMB

► Opportunities. Healthy and ready to eat



Ready-to-eat

Adapted to Chinese lifestyle, products to eat directly, or just needing to add boiling water



Opportunities. Fresh and temperature controlled products case study



▶ Opportunity – Snacks case study



Size
Price. Under 10 RMB line
Image
Location. EG CVS.



▶ Opportunities > Craft beer

Opportunities in Chinese market

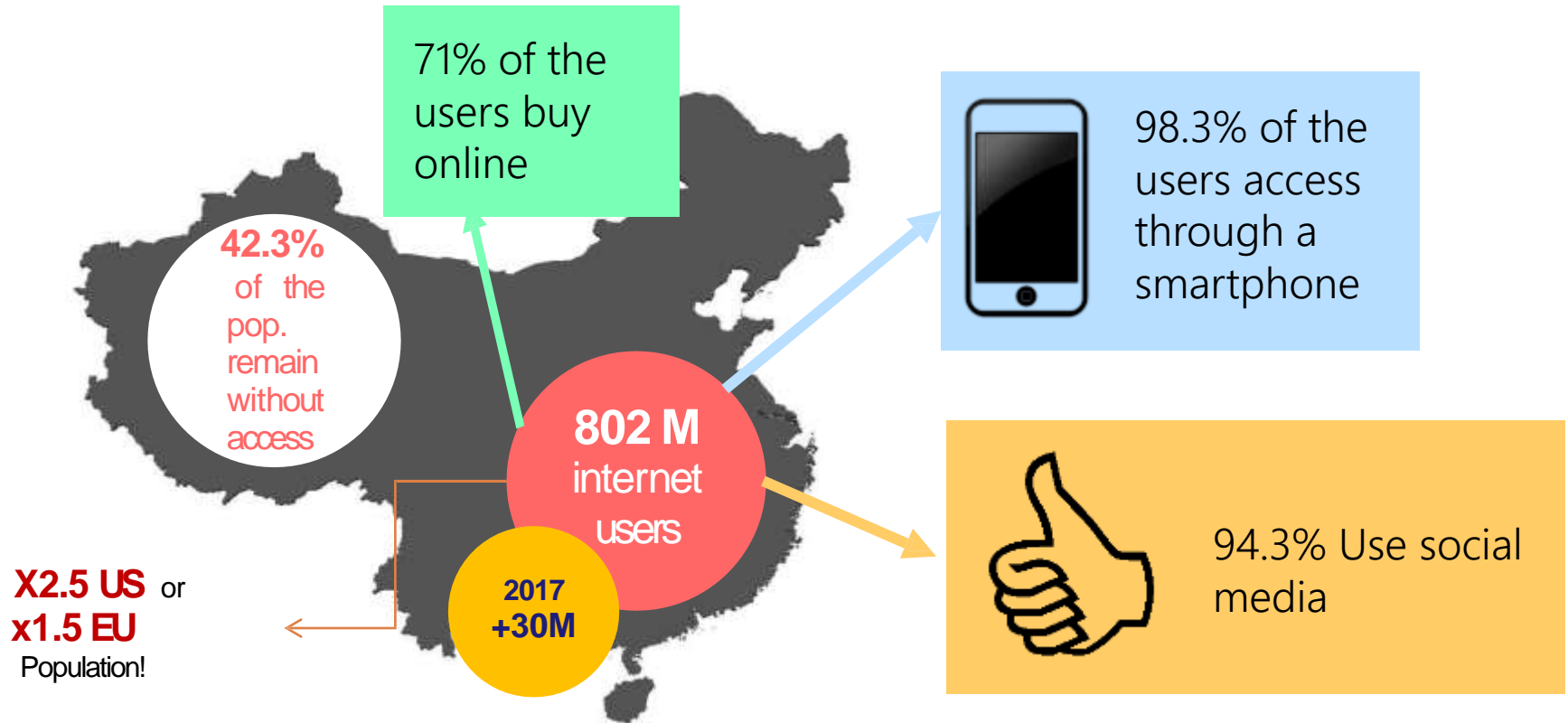
- ✓ The room for craft beer consumption in China is still massive
- ✓ Beer imports have drastically increased since the beginning of the decade. It has experienced more than 900% growth between 2010 and 2016, rising from 64 million litres to 646 million litres¹.
- ✓ Two main competitor types:
 - Domestic craft beer producers
 - Major international players, such as AB InBev, not only selling their imported craft beers, but also acquiring local microbreweries, like Boxing Cat or Kaiba
- ✓ Beer in this segment is domestically brewed in its vast majority (even for foreign brands).



¹ Source: China Customs

Marketing went online and online went mobile...

...so marketing went mobile



Data on July 2018.

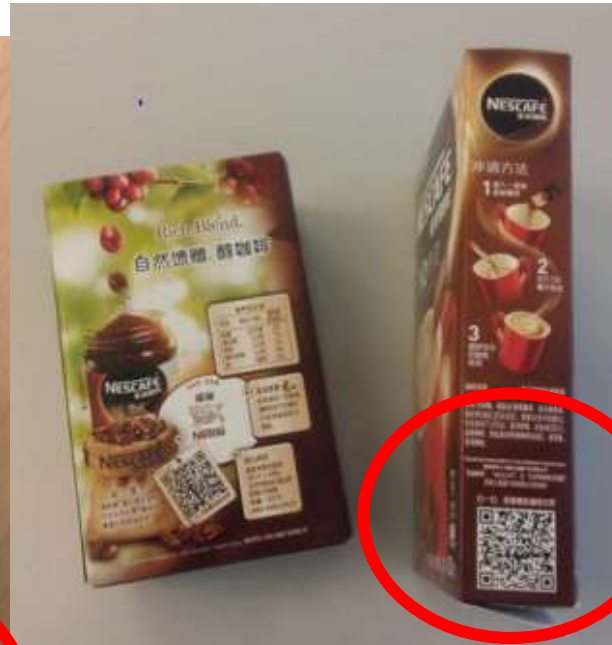
Source: [41st China Internet Development Statistics Report](#). China Internet Network Information Center's (CNNIC)

Digital Marketing and social media. WeChat



► 020 is impacting in traditional methods

QR Code



► Visuals – What is the consumer expecting?



▶ Payment methods also went mobile...

...to the point that no change is available in some stores, taxis or cafes



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Foodservice

- ✓ Growth directly related to the country's or city's behaviour
 - 2017 foodservice revenue in China grew 10.7% to nearly RMB 4 trillion¹
 - Consumer foodservice in China is expected to grow by 6.7% annually until 2020²
- ✓ Imported products are gaining recognition in menus
 - Foodservice divisions of international companies selling ingredients to restaurants are growing more than 10%³
- ✓ Foreign restaurants, hotels and bars are growing, but mainly limited to T1 and secondly T2 and T3
- ✓ High margins
- ✓ Low stock. They place small orders and have local distributors or place orders online
- ✓ Long payment terms, which may lead to non-payment if the business closes

¹ Source: BordBia. *Under 30s are the heart of foodservice in China*

² Source: Euromonitor

³ Source: BAIN&Company. *China's Two-Speed Growth: In and Out of the Home*

► Sales channels > Foodservice

- High-end hotel and restaurant industry is an important channel for imported foods
- Eating out is a common habit among the Chinese urban consumer
- Foreign products and dishes constitute a new experience for the consumer and are sold at a premium.
- New foodservice concepts are popping up around foreign products. Example: beef joints and craft beer microbreweries with foreign ingredients.
- In T1 cities, sophistication and improved food standards shorten the price gap between foreign meals and domestic food.
- Sector works as the city does economically

▶ Study cases

Meat

- ✓ Market to boom but Brand recognition is low
- ✓ Angus and Australia
- ✓ Jamon and Spain case



Traditional retail

- ✓ Suffering because of E-commerce
 - Sales volume and number of stores are decreasing
 - Financial stress
- ✓ Hypermarkets reducing growth rate. 7% 2015-2016¹
- ✓ Smaller supermarkets not growing and becoming CVS²
- ✓ Based on entry fees and high margins for imported products, depending on store type
- ✓ Offer of imported products vary
 - Local and international hypermarkets: 5% imported product
 - Specialty stores: mainly imported product

¹ Source: China Chain Store and Franchise Association (CCFA)

² Source: USDA Gain Annual Retail Foods Report – China 2016

► Sales channels > Retail chains

International Hypermarkets

- High awareness of imported brands and products
- However, imports rarely constitute more than 5% of total SKUs



Supermarkets

- Dominated by local players
- Imported food is relatively scarce
- Consumer base is price sensitive
- Rarely importing or buying directly from importers



Specialty Supermarket Stores and Boutiques

- Originally designed to attract foreign residents in particular areas
- More than 50% of the products on the shelves are imported
- The import/distribution teams can source products directly from foreign suppliers



Convenience Stores

- Becoming increasingly important distribution channels
- Rotation is more important
- Alcoholic beverages are the most common imported product



▶ Study cases

Cityshop

- ✓ Former icon
- ✓ Represents the old model
- ✓ Entry fees and high margin
- ✓ Damage by E-commerce
- ✓ What's next?



► Study cases

Jingkelong

- ✓ 280 retail shops in Beijing and Langfang area (Hebei)
- ✓ Started their business with a supermarket/hypermarket model, but it is slowly becoming a convenience store
- ✓ There are normally no more than 3-4 people queuing
- ✓ Product purchase average is 3 per person



▶ Study cases

Hypermarkets going convenient

- ✓ Carrefour opens Carrefour Easy, convenience stores type brand
- ✓ The stores have a range of everyday food items that can be eaten in or taken away
- ✓ Numerous services, including on-site catering, mobile payment facilities, Wi-Fi, lottery tickets, mobile top-ups and a photo printing facility.¹



¹ <http://www.carrefour.com/current-news/carrefour-easy-a-fast-growing-convenience-banner-in-china>

▶ Channels

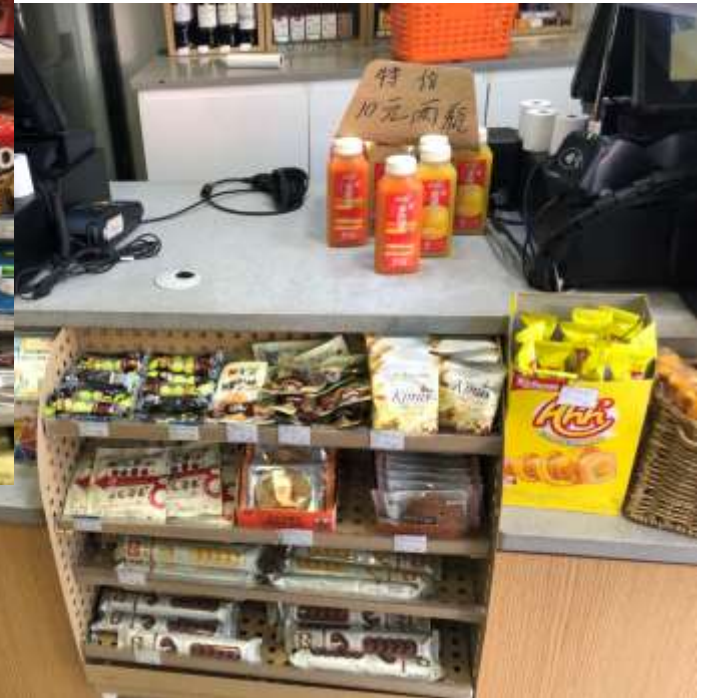
Convenience Stores CVS

- ✓ Multiplying number of stores
- ✓ Growing fast, becoming a key sales channel. 19.5% average growth in 2016 among top 20 convenience stores in China*
- ✓ Domestic chains. Reduced offer of imported product and poor management.
- ✓ International chains (Japanese). Greater offer of imported product and proper management. Asian products over represented
- ✓ Concentrated in T1 and T2
- ✓ Entry fees but...
- ✓ High rotation. CVS offer a clear image of what is working in the market
- ✓ Smaller formats, less SKUs per category
- ✓ Product types: impulsive-shopping products or products frequently purchased

*Source: China Chain Store and Franchise Association (CCFA)
CVS located in gas stations not included in the analysis

▶ Channels

Convenience Stores CVS



► 7- Eleven Case Study



- Increasing imported products
- Cold chain
- Locations



Traditional E-commerce

- ✓ Growing fast (represent approx. 18% of total retail sales; 4% of fresh products, concentrated in T1 and T2). Specialized platforms claim to grow 200-300% yearly, general platforms 25%
- ✓ Expected to grow to 25% of total retail sales by 2020¹
- ✓ Dozens of different platforms, both general and specialized
- ✓ Difficulty to outstand among competitors
- ✓ Marketing campaign indispensable
- ✓ Almost unlimited offer of imported products. Wide coverage
- ✓ Low prices and frequent promotions
- ✓ Two business models
 - Shop-in-shop
 - Buying and reselling product

¹ Source: PWC. E-commerce in China-The future is already here

► Sales channels > E-commerce



天猫 Tmall.com



本来生活 benlai.com
中国家庭的优质食品购买平台

- Growing in investment and sales very rapidly
- Big number of players but concentration is happening around JD, Tencent and Alibaba groups. Companies not invested by them will probably disappear or be absorbed.
- Pushing fresh produce departments.
- Investment in cold chain and delivery is huge.
- They are starting to source directly two types of products:
 - Hero products: those that are exclusive and provide branding for the platform as the go-to place for exclusive products. Sell little at a high mark-up. Example: Iberico ham.
 - Products that sell volume: big quantities with a reasonable mark-up justify sourcing directly. Example: fruits, meat.
- They still lack any processing capacity, so they need to source products ready to be delivered to the consumer.

► Sales channels > E-commerce O2O

- ✓ E-commerce platforms are going offline. Also called 'New Retail' or 'Boundaryless Retail'
- ✓ Alibaba has opened 100 Hema stores and JD.com has 7Fresh stores
- ✓ Reassurance to customers of the freshness and quality of the purchases
- ✓ Customers can scan the barcode of any item in the store to learn about the product's source, nutritional information, and price.
- ✓ Delivery is available at both stores in as little as 30 minutes after consumers have made their purchases.¹



¹ <http://ecommercechinaagency.com/what-is-the-future-of-e-commerce-in-china/>

▶ Study cases

Hema. E-commerce platforms going offline

RETAIL

- ✓ Selling domestic and imported fresh products
- ✓ Customers need to download the Hema app, linked to their Taobao or Alipay account, to buy at the store
- ✓ Three ways of shopping:



1. Offline. Go to the store, buy and take the products yourself
2. Online. Buy through the app and products are delivered within 30 minutes (3 km)
3. Offline-online. Buy at the store and the products are delivered within 30 min (3 km)

¹ <https://marketing4ecommerce.net/asi-funciona-hema-supermarket-new-retail-alibaba/>

▶ Study cases

Hema. E-commerce platforms going offline

FOODSERVICE

- ✓ Stores create new experiences, which cannot be found online
- ✓ Customers can select some products that will be cooked at the spot by Hema cooks
- ✓ Fish and seafood are the most popular products in foodservice in Hema¹



¹ <https://marketing4ecommerce.net/asi-funciona-hema-supermarket-new-retail-alibaba/>

► Sales channels > E-commerce O2O

E-commerce platforms search for retail support

- ✓ Walmart and JD.com, started their strategic cooperation on June 2016.
- ✓ Walmart opened their own store in JD.com's platform and gained access to their delivery network, while JD.com benefited from increasing their product portfolio.
- ✓ Just one year after, they expanded their cooperation, integrating Walmart's physical stores with the online platform, including inventory and sharing customers.¹
- ✓ Alibaba Group invested in Sun Art Retail Group (Auchan and RT-Mart), obtaining a 36.16% stake of the company²



¹ <https://news.walmart.com/2016/06/20/walmart-and-jdcom-announce-strategic-alliance-to-serve-consumers-across-china>

² <https://www.businesswire.com/news/home/20171119005069/en/Alibaba-Group-Auchan-Retail-Ruentex-Form-New>

Sales channels > E-commerce

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▶ Study cases

Missfresh

每日
优鲜

- ✓ Founded in 2014 as an E-commerce platform selling through WeChat
- ✓ Fast growth due to large amounts of invested money and Tencent as their partner
- ✓ Despite this growth, they keep selling just through WeChat and their own mobile app
- ✓ 2 big distribution centers in Beijing and Shanghai and 1 in Guangzhou and more than 1000 mini-warehouses. Each mini-warehouse serves a 3 km² area. For Beijing and Shanghai delivery is guaranteed within 1 hour
- ✓ O2O expansion. Vending machines using mobile payment in business offices with +50 employees



Cross Border E-commerce

- ✓ Restricted by different regulations
 - Lower duties (difference is getting smaller)
 - Less regulated (for a reduced group of products)
 - Less controlled
- ✓ B2C
- ✓ Products can be already in China (FTZ or Hong Kong) or the exporter must be able to send them by plane
- ✓ Products limited in a Positive list
- ✓ Individual shops vs. Platforms
- ✓ Best selling categories:
 - ✓ Food supplements
 - ✓ Animal fed
 - ✓ Cosmetics
 - ✓ Products for children and mothers (not infant formula)

Channels

CBEC shops platforms. Koala.com

- ✓ Irish company Emerald Green selling two of their brands in a CBEC shops platform (Mother and baby products and cosmetics)

The screenshot displays the NetEase Koala.com (网易考拉海购) website interface. The main navigation bar includes '所有分类' (All Categories), '首页' (Home), '今日限时购' (Today's Limited Time Offer), '每日上新' (Daily New Arrivals), '国家馆' (Country Pavilion), '全球旗舰店' (Global Flagship Store), and '工厂' (Factory). The search bar shows '爱尔兰' (Ireland) with a dropdown menu indicating '商品共39个' (39 products). The product grid features several items:

- Ovelle 婴儿专用水润乳霜250毫升/瓶**: Price ¥99.00 (original ¥120.00). Description: Ovelle water-based cream, suitable for dry skin, safe and effective.
- ELAVE 婴儿强效保湿霜 150毫升/瓶**: Price ¥89.00 (original ¥105.00).
- ELAVE 婴儿天然有机尿布疹护膏 1...**: Price ¥99.00 (original ¥120.00).
- ELAVE 天然有机植物精华 宝宝沐浴露**: Price ¥95.00 (original ¥115.00).

The right sidebar shows a detailed view of the Ovelle product, including a large image of the tube, a price tag of ¥99.00, and promotional banners for '限时优惠' (Limited Time Offer) and '加入购物车' (Add to Cart). The bottom of the page features the website URL 'www.eibens.com' and the EIBENS logo.

Channels

CBEC. Examples



Food supplements



Organic berry products (without Chinese organic certificate)