Foreword: Stephen Phillips

As Chief Executive of the China-Britain Business Council (CBBC), it is my great pleasure to introduce Targeting Chinese Consumers: A Guide for UK Businesses.

I should especially like to thank the Royal Mail Group, who have not only contributed the benefit of their considerable expertise to this guide, but have also supported us in their many years as a premium member of CBBC.

British companies have long been market leaders and pioneers all around the world. Our reputation for excellence, innovation, design and ambition is well recognised in China. The rapidly growing new class of aspirational and ever more sophisticated Chinese consumers values our globally renowned brands and companies.

As these discerning consumers start to seek different ways to stand out from the crowd, Britain’s world-class offering, from fashion labels to luxury cars and food and drink, enables us to meet China’s fast-growing demands across the consumer spectrum. The sheer number of Chinese tourists visiting the UK to shop and to experience our culture surely signals that the time is right not just to wait for the buyers to come to us, but to take more of our wares to them.

There is much scope for British and Chinese companies to cooperate for mutual benefit. Chinese partners value the quality of British goods and services, while UK companies can capitalise on China’s great pool of ready shoppers and its manufacturing base. This guide is designed to help UK companies who may be unaware of the potential demand for their products in China and Chinese distributors who may lack the experience or know-how to source from abroad. CBBC, our members and partners can help both sides realise these opportunities.

CBBC, which has 60 years of first-hand experience in the Chinese market, is the leading organisation that helps British companies to develop their business with China. We have 10 offices in the UK and 13 across key locations in China, and we work in close partnership with the UK Government’s UK Trade & Investment. The wealth of practical support and guidance we offer to British companies is only an email or telephone call away, be it to the UK or to any of our offices across China.

As business relations between our two countries reach unprecedented heights, there has never been a better time for Chinese and British companies to make use of the support offered by CBBC.

I hope this guide proves to be invaluable in helping to deliver the success your business aspires to in China.
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The Chinese market presents opportunities to UK exporters both large and small, new and old. While the Chinese economy is complex and multi-faceted, China’s overall trajectory towards becoming a major importer is clear. There will be many opportunities for UK companies to take advantage of the ever-increasing buying power of China’s consumers.

China-Britain Business Council (CBBC) has published this business guide to help UK companies understand the opportunities that exist for them in the Chinese market. CBBC hopes that it will encourage and enable more UK companies than ever before to export their products and services to China and take advantage of this emerging market.

The Chinese market is vast, complex and rapidly developing. This business guide highlights four key sectors, in which CBBC believes UK exporters can benefit from engaging with China:

- **Fashion**
  The new class of young, wealthy Chinese shoppers from the large cities has a hunger for Western culture and international style. Global retailers such as Zara, H&M and Uniqlo have been keen to capitalise on this, but it is an expanding market with space for specialist brands and high-mid-range items. The UK is held in high regard and the Union Jack can be frequently seen adorning the clothes and accessories of young shoppers. With the London Olympics in 2012 prompting a further spike in everything British, this could be the ideal time for UK fashion brands.

- **Luxury Goods**
  An increasing number of Chinese consumers have the disposable income to purchase luxury goods. Between 2001 and 2011 the disposable income of urban citizens grew at an annual rate of 12%, and China has 2.7 million ‘High-Net-Worth Individuals’. Some key product categories stand out: watches account for around 30% of spending on luxury items, while high-end personal care products and leather bags are also very popular. There is a distinction to be made between the majority of luxury goods consumers, who prefer large logos to display as a status symbol, and those in Beijing and Shanghai who increasingly prefer subtlety and sophistication. UK exporters should also be aware that around 30% of luxury purchases are bought as gifts, and that special attention should be paid to gift packaging – an important aspect of Chinese gift-giving culture.

- **Personal Care**
  Consumer spending on personal care goods such as cosmetics, toiletries and nutritional supplements has been increasing rapidly with growing awareness of the benefits they can have for health and appearance. China is now the world’s third biggest market for cosmetics and international brands are performing very strongly, especially the high-end category, which constitutes 22% of the market. Perfume and hair care products are showing great potential, while facial masks and products for men and babies are already proving very popular. China is already the third largest market for nutritional supplements and there are many opportunities for UK companies as imports are often preferred to local products for their perceived guarantee of quality and safety.
• **Food and Beverage**

At the end of 2011 China became the world’s largest market for food and grocery retail, surpassing the US. The sector has also seen significant swings in tastes and buying behaviour, with the health and safety of food becoming a key issue for middle class consumers and those purchasing for children. Meat, alcoholic drinks and dairy products account for around 66% of China's food and beverage imports. High-quality foods, whisky and beer represent good opportunities for UK exporters, but a good local distributor is required to help navigate the complex and evolving regulatory environment.

In order for UK companies to succeed in China, they must carefully plan their business model and execute their plans effectively. In the ‘Routes to Market’ section of this guide, CBBC introduces some of the key options for accessing the Chinese market, including exporting from the UK via a Chinese agent or distributor, using business incubator services, and setting up a permanent presence in China to control your Chinese operations more directly.

For many UK companies new to China, going it alone is a difficult proposition and having a Chinese partner to navigate the market can be a great help. Distribution partners, for instance, can help gain access to Chinese consumers without incurring the expense and logistical difficulties of working independently. CBBC has highlighted some key considerations for exporters when choosing a distribution partner and provided a case study of a UK SME that recently started exporting chocolate to China via a carefully selected distribution partner. There is also a guide to approaching companies in China, covering aspects of the local business culture such as giving your counterparts ‘face’, building relationships, managing negotiations and preparing for presentations.

While a brand may be known in the UK, it may not be in China, and it is important for brands to position themselves suitably within the Chinese market. Brand recognition is very important for newcomers in China who want to really make an impression, so well-designed marketing materials are essential to help a product stand out. CBBC has provided a brief guide to marketing in China with a focus on the key questions to ask when entering the market and also on some practical issues such as brand names, marketing messages and the use of social media.

There is also a section dedicated to e-commerce in China, which has become extremely important since China surpassed the US in 2008 to have the largest internet user base in the world. An effective e-commerce strategy can pay massive dividends to UK exporters hoping to reach a large number of potential customers, especially those located outside China's biggest cities where Western brands have not yet set up shop.

Royal Mail has developed a close working relationship over many years with China Post and can be the perfect delivery partner for UK exporters. As part of this business guide, Royal Mail has provided practical advice to help you prepare for your shipping to China.
China’s Return to Prominence

Since the implementation of ‘Reform and Opening Up’ policies started in late 1978, China has experienced rapid economic development. Over the last 35 years, Chinese GDP growth has averaged nearly 10%, peaking in 2007 at 14.2%. Today China has become the second largest economy in the world behind the United States.

Despite slower economic growth in recent years as a result of the global financial and economic crisis, in 2012 China’s GDP still grew at 7.8%, bringing China’s GDP to a historic high of RMB 52 trillion (app. GBP 5.2 trillion). The Chinese government expects GDP growth to stay at around 8% until 2020.

Source: World Bank
As a result of China’s economic growth, average household income has increased significantly. Per capita urban household income increased from £156 in 1990 to £2,472 in 2011, a 16 times increase. As Chinese citizens become increasingly affluent, they are developing a broader and more sophisticated taste for consumer products, creating opportunities for UK companies.

**Burgeoning Consumerism - Key Factors**

**Affluence**

The rise of Chinese enterprises across all sectors has been very important for the retail sector due to the creation of millions of consumers with extra disposable income. Despite historical virtues of frugality, humility and collectivism, many of those in the new wealthy classes are young professionals who are heavily influenced by Western values such as individuality, modernity, freedom and the importance of wealth and success.

Hence, many Chinese are looking to high-end items to showcase their new-found affluence and status and to acquire goods that their parents could not.
State Encouraged Consumption

China’s consumption rate has traditionally been very low and continues to be so compared to other countries with a similar level of economic development.

However, since the global economic and financial crisis of 2008, China has received less demand for its exports. To counterbalance this, the government has committed itself to transforming the country’s economy from one that is export-led to one more closely focused on domestic consumption. The current 12th Five Year Plan (2011-2015) has placed emphasis on consumer demand as a key strategic emphasis for China’s growth.

During the March 2013 ‘Lianghui’ annual conference the central government asserted that its focus will continue to be moving from exports (where there was a trade surplus of USD 231 million in 2012) to a future focus on domestic consumption as a driver for growth.

With China’s relatively low consumption rate, and stated intention to increase, the future market for consumer goods holds a lot of potential.

Chinese Domestic Consumption: Key Predictions

- Credit Suisse predicts that China will become the largest consumer market in the world by 2020.
- McKinsey Global Institute has predicted that if Chinese government policy objectives are implemented, the consumption rate could be increased to as much as 50% by 2025.

Urbanisation

A prime motivator behind the retail market in general has been China’s rapid urbanisation, the world’s largest-ever human migration. The percentage of people in urban areas has risen sharply in the last twenty years, from 29% in 1993 to 52% in 2012 (an increase of around 300 million people).
This trend is set to continue, with some projections suggesting a further 300 million will urbanise in the next twenty years - which would mean 1 billion urban residents in China.

People who previously lived in rural areas are now living in areas where high-end retail is prevalent and are becoming influenced by consumerism as they have more money to spend. The per capita disposable income of urban consumers is projected to double by 2020.

**Middle Classes**

The emergence and rapid growth of China’s middle class has already brought significant changes to China. According to statistics released by the Chinese government, the disposable incomes of urban middle class families have risen tenfold since 1980.

**China’s Middle Class Consumers**

- Defined by McKinsey as those earning RMB 60,000–229,000 (app. GBP 6,000-23,400)
- Disposable incomes are rising steadily, bringing more and more consumers into this category
- Numbers have already increased dramatically, from 4% of the Chinese population in 2000 to 68% in 2012. By 2022 it is expected that 76% of China’s urban consumers will fall into this category

It is likely that the burgeoning upper middle class will define consumer spending over the next decade.

**High-end Goods**

Newly affluent Chinese consumers have a very positive attitude towards high-end goods as symbols of good taste, success and social status. Imported goods have come to be associated with quality, safety and reliability; and as a result Chinese shoppers are willing to pay a premium for international brands.
International Competition vs. Native Competition

Since China started preparing for its eventual ascension to the World Trade Organization in 2001, the economy has gradually opened to international market forces, and relaxed tariffs on imported goods. The high-end retail industry is as a result dominated by an ever expanding set of Western brands.

International brands have dominated various high-end sectors as it has become easier to enter the Chinese market and to open suitable retail space. This is largely down to the perception that brands from overseas have a more established heritage and better quality products in comparison with their Chinese equivalents, which are under-developed for various historical reasons.

There is also an increasing trend by rich Chinese consumers to travel abroad, causing a growing awareness and demand for foreign brands.

The Luxury Market

It was widely reported in 2009 that China (inc. Hong Kong SAR) had overtaken the US as the world’s second largest consumer of luxury goods, just behind Japan.

Since mid-2012 the overall demand for luxury goods has slowed. Some believe that this situation is impacted by the new round of anti-corruption campaigning launched by the new leadership of the central government. However, most analysts see this as something of a blip and demand for high-quality products amongst Chinese citizens is expected to continue its growth alongside overall economic development. By 2015, McKinsey predicts that more than one-third of the money spent globally on high-end bags, shoes, watches, jewellery and clothes will come from Chinese pockets.

Overseas purchases of high-end items by Chinese citizens have also boomed. Prices tend to be cheaper in the US, Europe and Hong Kong than they are in China for various reasons including taxes on luxury goods and imports (Hong Kong enjoys 0% sales tax and VAT).

Safety Concerns

A number of safety scandals, especially in the food and beverage products have aided the development of the Chinese consumers’ preferences in favour of imported foods. An example is the ‘melamine adulterated baby milk’ incident that struck the Chinese dairy industry in 2008 and received mass media coverage.

Such incidents impede consumer confidence in the locally produced products and many consumers turn to imported alternatives for their perceived superiority in hygiene, safety and quality. This safety phenomenon not only affects consumption of food and beverages but strongly influences children’s products such as toys and clothing and, to a lesser extent furniture, electrical appliances and cars.
Background to this guide

CBBC has published this business guide to help UK companies get a better understanding of the opportunities that exist for them in the Chinese market. CBBC hopes that this will encourage and enable more UK companies than ever before to export their products and services to China, and take advantage of this emerging market.

CBBC provides general industry and bespoke business advice to UK companies that want to find out what opportunities China holds for their businesses. This business guide should give the reader a good overview of the demand for products in China, the regulatory background and the necessary steps required to take advantage of the opportunity.

There will be a series of events throughout the UK in 2014 to coincide with the release of this business guide, in partnership with the Royal Mail Group.

Methodology

CBBC used a variety of primary and secondary sources to gather information for this business guide.

We were able to utilise a broad database of market intelligence and industry reports from member companies and industry partners. Additionally, CBBC consulted our in-house sector experts together with other professionals from companies in our Chinese network and, in consultation with the member network in the UK, significantly including the Royal Mail Group.

CBBC analysed raw census and economic statistics, including metrics published in the China Statistical Yearbook Database from the National Bureau of Statistics of China.

The project team also conducted interviews with market insiders to get advice specifically for this business guide in order to have the most up-to-date information and advice possible.
There’s never been a better time for British e-tailers to enter the Chinese market.

Online shopping is becoming a daily habit for a sophisticated, brand savvy audience that likes to buy foreign products. As a result, China’s online orders of consumer goods from abroad rose by 31.5% in 2012 compared with 2011.¹

Britain is a byword for quality and style and demand for our brands is predicted to grow strongly. Chinese consumers not only want to buy British, but are also prepared to pay a premium.

With around 220 million online shoppers, China is a huge opportunity for British business.² To access this audience you need a reliable delivery partner who can provide expertise and value for money and who really understands the Chinese market.

Royal Mail is helping British businesses exploit growth opportunities in China with a range of reliable, value for money delivery services that make exporting an easier proposition - and make it easy for Chinese consumers to buy British.

As you’d expect, online shoppers in China want the same choice and control as customers in the UK. By providing a range of delivery options at different price points, Royal Mail is helping British e-tailers catch the wave.

**Royal Mail’s Local Delivery Partner Offers Unrivalled Local Knowledge**

Nobody knows business-to-consumer delivery like the local post. So Royal Mail has developed a close working relationship over many years with China Post. They’re perfectly placed to deliver your customer promise because they know their patch and have an unparalleled network throughout China.

Through our partnership with China Post, Royal Mail can connect with every residential and business address in China. By using a local network in China (rather than an international carrier) you’re likely to enjoy higher first time delivery rates. And when customers need to return items, China Post can put its nationwide network of post offices at your disposal to simplify the process.

Reliable delivery through China Post will ensure customer satisfaction and give your customers the confidence to shop with you again and again. And once you’ve shown them how easy it is to do business with you, there’s every chance they’ll tell their friends and family.

China Post can deliver Royal Mail letters and parcels up to 2kg (and pamphlets and books up to 5kg). Royal Mail’s sister company Parcelforce Worldwide also offers a full range of tracked delivery services from the UK for parcels up to 30kg. These are also delivered through local Chinese partners China Post and China Postal Express and Logistics.

¹ [http://www.iresearchchina.com/views/5151.html](http://www.iresearchchina.com/views/5151.html)
We Ship Direct from London Heathrow to China

Royal Mail parcels destined for China leave the UK from our dedicated international hub near Heathrow. The Heathrow Worldwide Distribution Centre is a purpose built, international postal facility designed to help ensure your items leave the UK on the right plane at the right time – every time.

Royal Mail has over 35 airline partners to speed parcels to international destinations. We work alongside them at the airport to ensure sure your parcels are on their way as swiftly and cost effectively as possible.

Did You Know?

A dedicated Royal Mail team is on duty at London Heathrow Airport. Every week they supervise the despatch of over one million export parcels to 210 countries. We’ll help you do your bit for Britain. Growing sales abroad is not as complicated as you might think. The relative weakness of the pound against other currencies - coupled with the strength of Britain’s reputation as an online shopping destination - plus the unstoppable growth of online shopping, all work in your favour.
China is a vast country, spanning 27 provinces, four municipalities and two special administrative regions. Across the country, differences in economic prosperity, consumer behaviour, socio-demographic and economic trends are considerable.

First, Second & Third-tier Cities

China’s demographic and economic complexity has necessitated Chinese cities to be grouped into a tier system. Cities defined as ‘first-tier’ are Beijing, Shanghai and Guangzhou - and Shenzhen is also often also put into this category. ‘Second’ and ‘third-tier’ cities are mostly provincial capitals and prefecture level cities.

First-tier cities are those that have the highest level of economic development, sophistication and international significance. Characterised in recent times by rapid and continuous industrialisation, fast growing consumer markets have emerged with rapid sales growth for international labels and luxury goods. In these cities, private consumerism continues to develop with greater sophistication, although the markets are becoming highly competitive and even saturated in some sectors.

China’s second and third-tier (or ‘regional cities’) have developed at a slower pace, until more recently. The sophistication of consumer tastes are not as high as those of first-tier cities, but their markets are less competitive. Some of China’s regional cities are now developing very quickly and can present the best long-term potential for SMEs from the UK. There are currently more than 300 million people living in second and third-tier cities and this number is growing due to mass migration from the rural areas.

Overview:

- It is estimated that China has over 160 cities with over one million inhabitants
- For purposes of economic analysis, China’s cities are ranked by tier. First-tier cities are the most highly developed and already have a significant foreign commercial presence
- Second-tier and some third-tier cities are developing rapidly and will provide potential opportunities in the near future
As China’s rapid urbanisation continues to move forward, brands that are reaching maturity in first-tier cities will need to consider second and third-tier cities where disposable income per capita is still rising quickly. Rising affluence of Chinese consumers in China’s emerging markets in regional cities will continue to create increased demand for imported high-end goods.

East vs. West

The vast majority of first-tier and wealthy second-tier cities are concentrated around China’s east and southeast coastline. The Chinese government has therefore been under pressure to reduce the income disparity between the relatively poor western areas and the wealthier East. The ‘Go West’ policy, which started over a decade ago, has already helped grow the economies of western cities such as Chongqing by providing favourable conditions for would be domestic and overseas investors.

Hotspots for Retail

The first-tier cities of Beijing and Shanghai stand out as the largest and most sophisticated market segment for retail. Additionally, Guangzhou, Shenzhen, Tianjin, Chongqing, Chengdu Hangzhou and Nanjing for example are all recognised centres for high-end and international brands based on sales volume and market presence.

Retailers and brands have to choose to focus entirely on cities with established markets, or to venture into the markets of second and third-tier cities - not too early so that there is no market appetite for the products, but not too late so as to lose out to competition.
Beijing: First-Tier City

Introduction

Beijing is one of the four ‘great ancient capitals of China’, but it is also a modern commercial hub, bustling with innovative Chinese companies and multinational corporations alike. It is the political capital of China and therefore hosts the headquarters of the majority of the country’s state-owned enterprises and is the base of China’s central government authorities.

Beijing and China’s recent development and internationalisation culminated in it proudly hosting the 2008 Beijing Summer Olympic Games showcase – the most expensive Olympic games in history. Beijing is also China’s number one tourist destination, with 200 million visitors annually.

Quick Facts:
- Municipality population: 21 million
- GDP 2012: £267 billion
- The capital of the People’s Republic of China
- China’s political and cultural capital for most of the last 700 years
- The nation’s heart for scientific research, education, history and culture
- Beijing and London established sister city ties in 2006

Beijing Retail and Consumer Market

Compared to Shanghai, Beijing’s economic and commercial influence has been overshadowed by the city’s status as China’s capital and political centre. Before the 1990s, consumerism was not a priority in many Beijing people’s lives. State-owned department stores were the main source of apparel, shoes and household articles. These department stores provided limited styles and ranges of choice.

However, in the 1990s state-owned enterprises were reformed thus allowing the retail industry to commercialise and become market-orientated. Beijing has become a pivotal city to many international brands who wish to expand in China thanks to its discerning shoppers’ awareness of brands in both downtown and suburban areas of the city.

The retail sector in Beijing did not begin growing at a rapid pace until the early 2000s. Beijing today is not only the hub for international fashion brands – it is also regarded as one of the largest luxury markets in the world. Beijing’s retail property market has gone through a decade of rapid expansion, leading to the creation of many new department stores and shopping malls throughout the city.
Beijing’s Major Shopping Centres

The Malls at Oriental Plaza:
130,000sqm large and housed in one of Asia’s largest commercial complexes on Beijing’s Wangfujing shopping street.
Website: www.orientalplaza.com/eng/

Taikoo Li Sanlitun (Formerly Sanlitun Village):
The South Village houses popular brands including Nike, Apple, and Uniqlo while the North Village boasts high-end brands including Montblanc and Armani. There are hotels, restaurants and a cinema.
Website: www.taikoolisanlitun.com

Shin Kong Place:
Taiwanese-owned department store with over 900 international retail brands including Gucci’s largest flagship in Asia. Both high-end and mid-end brands are available.
Website: www.shinkong-place.com/web-en/index.html
Shanghai: First-Tier City

Introduction

Shanghai is the largest city by population in China, and the largest city by urban population in the world, with a total of over 23 million inhabitants. It is a global city with influence in commerce, culture, finance, media, fashion, technology and transport.

Quick Facts:
- Population: 23.5 million
- GDP 2012: £322 billion (7.8% growth rate in 2013 Q1)
- World’s busiest container port
- Services industries account for 58% of GDP
- Maglev airport express runs at 268 mph
- Shanghai Disneyland to open in 2015

Economic reforms implemented in the 1990s resulted in an intense re-development of the city, aiding the return of foreign investment, international influence, and increasing affluence. Today life expectancy in Shanghai is 82 years, the highest in mainland China, and two years longer than the UK average.

Shanghai itself is an eclectic mix of quaint colonial era buildings and modern skyscrapers - the Shanghai Tower will be the second tallest building in the world upon completion in 2016.

Shanghai Retail and Consumer Market

Shanghai was once considered the cultural and economic centre of East Asia during the early twentieth century. Shanghai’s consumer market is the largest of China’s cities, drawing the biggest and most prestigious international brands to its shopping centres. Shanghai residents also demand international foods and 1,500 food and drink producers from 70 countries presented at the Food & Hospitality China (FHC) expo in 2012.

Today Shanghai’s shoppers are considered some of the most cosmopolitan and sophisticated in their tastes. Shanghai has formed its own ‘Shanghai Fashion Week’, held twice a year in October and April.
Shanghai’s Major Shopping Centres

Raffles City:
Home to leading international fashion brands, Raffles City is the choice destination for trendsetters.
Website: www.rafflescity.com.cn/en

Xintiandi Style:
Xintiandi aims to provide a platform to nurture and promote Chinese designers, allowing them to interact with world-class international designers. The mall is set adjacent to the fashionable Xintiandi area, characterised by winding Shikumen alleys containing a variety of fashionable boutiques and restaurants.
Website: www.shanghaixintiandi.com/xintiandi/en

Global Harbor:
Mega mall complex covering 480,000 square metres of Romanesque design.
Website: www.global-harbor.com/projects/
Hangzhou: Second-Tier City

Introduction

The city of Hangzhou is the political and cultural capital of Zhejiang province, but not a municipality like first-tier cities of Beijing and Shanghai.

Hangzhou has been growing rapidly and has achieved 10% average annual economic growth over the last 21 years. Furthermore, for six successive years from 2005 to 2010, Hangzhou was rated by Forbes magazine as the ‘Best Commercial City in Mainland China’.

Quick Facts:
- Population: 7 million
- GDP 2012: £115 billion
- Capital of Zhejiang province
- 10% average economic growth rate over past 21 years
- One hour from Shanghai by high-speed train

The city is a city of great significance for tourism in China. The West Lake became a UNESCO world heritage site in 2011 and can be seen on the back side of a 1 Yuan (RMB) note. When Marco Polo visited the city in the late 13th century he declared Hangzhou to be one of the most beautiful and elegant cities in the world.

Hangzhou is connected to surrounding cities such as Shanghai through several key transportation links including a high-speed train network, which runs at speeds up to 240 mph.

Hangzhou’s Retail and Consumer Market

In the 2011 Official Report of the World Luxury Association Blue Book, outside of Beijing, Shanghai and Guangzhou, spending on luxury goods in Hangzhou was ranked first amongst mainland Chinese cities at USD 10.7 billion (app. GBP 6.7 billion).

Top luxury brands such as Chanel, Louis Vuitton, Zegna, Dior, Hermès, Balenciaga and Bottega Veneta have opened stores in Hangzhou.
Hangzhou's Major Shopping Centres Raffles City:

Hangzhou WAOW Plaza:
Wahaha Group, primarily known for selling drinks, expanded into the retailing business in 2012. Its shopping mall mainly sells mid-to high-end international brands.

The MixC Mall:
Hangzhou’s largest shopping centre. The shopping mall is aimed at high-end consumers for most of the stores sell luxury brands.
Website: http://www.hzmixc.com/

Hangzhou Tower:
Located in the Hangzhou Wulin Square it carries high-end brands such as Hermes, Cartier, Chloe, Valentino and La Mer, as well as Chinese brands. It was the second highest in terms of sales revenue in the entire country in 2012.
Website: http://www.hangzhoutower.com/
Section 2: Growing Consumer Sectors

Fashion

Great Consumer Power in China

Young Chinese constitute a new and powerful consumer force in the Chinese clothing market. Rising salaries among China’s rapidly expanding middle class leave young adults with more disposable income than any previous generation and they are increasingly discerning in their clothing purchases. International retailers have been quick to capitalise on this and international ‘fast fashion’ retailers such as Zara and H&M have had notable success in providing young, fashion-conscious consumers with affordable, brand-name versions of the latest fashions.

According to the National Bureau of Statistics of China (NBS), total retail sales of clothing, shoes, hats and textiles in 2011 rose by 24% year-on-year, and are worth RMB 796 billion (app. £82 billion).

Rapid Development of Chinese Department Stores

China’s department stores are also experiencing strong growth and sales revenue totalled RMB 323 billion (app. £33 billion) in 2011, with sales growth of 18% in the same year. If this rapid development continues, China’s department stores are projected to be entering their strongest period so far this century.
Emerging Markets in Second and Third-Tier Cities

Due to the imbalance in China’s development, first-tier cities, while far from saturated themselves, represent only a small portion of the potential for expansion for this industry and it is consumers in China’s second- and third-tier regional cities that provide the opportunity for significant future growth in this sector.

For example, over 66% of customers on Uniqlo’s online Tmall outlet are using the e-commerce service because their home town lacks a physical store. As salaries and disposable incomes in smaller cities catch up with the first-tier cities, these young people will begin to flock to the fashionable new stores in increasing numbers.

In recent years, many foreign apparel brands have been keen to develop a strong presence and expand across China. Well-established players are seeking to penetrate markets in the relatively untapped lower-tier cities, while those brands that do not yet have a presence in China’s lucrative markets are working hard to make their market entry.

Expansion of major apparel brands in China to date:

<table>
<thead>
<tr>
<th>Apparel Brand</th>
<th>Expansion in China</th>
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<tbody>
<tr>
<td>Zara</td>
<td>From 64 stores in 2011 to a total of 142 stores by September 2013</td>
</tr>
<tr>
<td>Uniqlo</td>
<td>Proposed to open up to 100 new stores in China each year starting from 2011; from 76 stores in 2010 has reached a current total of 237 branches across 55 cities and 24 of mainland China’s 31 provinces</td>
</tr>
<tr>
<td>H&amp;M</td>
<td>From 47 stores in 2011, H&amp;M now have 144 stores across 49 cities in China, with 7 more opening soon</td>
</tr>
<tr>
<td>C&amp;A</td>
<td>Current total of 46 stores across 22 cities; has planned to increase the total number of retail stores in China to 150 by the end of 2015</td>
</tr>
<tr>
<td>Gap</td>
<td>Aims to add 20 more stores to the current total of 60 in China and Hong Kong by the end of 2013. Also plans to bring sister brand Old Navy to the Chinese market, opening first store in 2014</td>
</tr>
<tr>
<td>Marks &amp; Spencer</td>
<td>Announced an intention to double its number of stores in mainland China during 2013, from a current total of 12 across 6 cities</td>
</tr>
</tbody>
</table>

(Source: respective brand websites; China National Commercial Information Centre; Fung Business Intelligence Centre: Retail Market in China, September 2013. All figures as of Sept 2013; totals do not include Hong Kong or Macau unless stated)
Market Segments

Today’s consumers spend more money on fashionable clothing as they embrace a more liberal lifestyle and enjoy a wider range of brands and styles from which to choose. As a result, competition is increasing, especially in the middle and low-end segment, for items priced up to RMB 1,000 (app. £100).

Generally speaking, womenswear is more developed and competitive than menswear. According to Euromonitor, the market size of womenswear has reached USD 67 billion (app. £41.8 billion) while menswear is at USD 56 billion (app. £34.9 billion).

Research by the Fung Group suggests that there has also been rapid growth in demand for baby clothing, and the market for children’s clothing in general is currently experiencing excellent growth with forecasts of about 20% annual growth over the next three to five years. This is thanks principally to the expanding size of China’s middle class, increasing income levels across the board and a steadily increasing infant population.

The popularity of outdoor sportswear is also growing steadily, with consumers buying outdoor apparel for everyday use due to their comfort and functionality. In 2007 there were 377 outdoor brands in China, and by the end of 2012 there were over 800.

The Fashion Sector: Key Data

- Total retail sales of clothing, shoes, hats and textiles in 2011 rose by 24% year-on-year and are worth RMB 796 billion (app. £82 billion)
- China’s department stores recorded sales growth of 18% and revenue totalled RMB 323 billion (app. £33 million)
- Consumers in China’s second and third-tier regional cities will provide the motor for significant future growth
- Key market segments include out-door wear and baby clothing, with growth driven by the rapidly expanding urban middle classes. The womenswear market is 20% bigger than the menswear market
Leading Fast-Fashion Brands in China

International Brands

H&M
Gap
Uniqlo

C&A
Zara

Domestic Brands

Me & City
Ochirly
Footwear

Within China’s fashion market, one key sector that has shown huge potential is the footwear market. With growing consumer demand and steadily increasing sales across all product categories, the footwear sector is predicted to see rapid and steady growth.

Footwear Sales in 2008-2011 (RMB Millions)

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Children’s shoes</td>
<td>23,269</td>
<td>24,008</td>
<td>26,097</td>
<td>28,973</td>
</tr>
<tr>
<td>Men’s shoes</td>
<td>71,369</td>
<td>76,867</td>
<td>84,862</td>
<td>96,2178</td>
</tr>
<tr>
<td>Men’s non-athletic shoes</td>
<td>44,214</td>
<td>47,541</td>
<td>52,377</td>
<td>59,518</td>
</tr>
<tr>
<td>Men’s athletic shoes</td>
<td>27,154</td>
<td>29,327</td>
<td>32,485</td>
<td>36,700</td>
</tr>
<tr>
<td>Women’s shoes</td>
<td>98,995</td>
<td>106,609</td>
<td>119,133</td>
<td>134,861</td>
</tr>
<tr>
<td>Women’s non-athletic shoes</td>
<td>80,892</td>
<td>87,193</td>
<td>97,465</td>
<td>110,509</td>
</tr>
<tr>
<td>Women’s athletic shoes</td>
<td>18,103</td>
<td>19,416</td>
<td>21,668</td>
<td>24,352</td>
</tr>
<tr>
<td>Total</td>
<td>193,632</td>
<td>207,483</td>
<td>230,092</td>
<td>260,051</td>
</tr>
</tbody>
</table>

Source: Euromonitor International

According to the data above, women’s footwear in particular stands out as an area with enormous growth in demand. Chinese women have continuously increasing disposable income, and their preference for beauty and lifestyle products, particularly footwear, is likely to contribute to stronger than average growth in the fashion sector.

Many international brands are looking to tap into the high-end footwear market in China, targeting 30-45 year old, middle class ladies, with a preference for international brands. Although import prices are always higher than for domestic shoes, customers often prefer to pay for the foreign brands. However, these imported brands are increasingly facing fierce competition from domestic alternatives, which can respond quickly to the latest fashion trends and still retain lower prices by relying on their strong sourcing network and massive local manufacturing base.
One emerging consumer group in particular is attracting the attention of more and more footwear brands. In recent years, the generation born in the 1980s and 1990s has gradually become the fashion market’s principal target consumer group. These consumers are demonstrating keen interest in fashion and a strong desire to keep up with international trends. Unlike the high-end market, this market segment is mainly served by domestic brands.

Dominant domestic players such as Belle, Daphne and Saturday have established sub-brands producing items of stylish design and high-quality manufacturing but with comparatively low prices of RMB 200–500 (app. £20–£50), hoping to attract the younger generation.

Meanwhile, some international brands are also trying to gain a foothold in this market. Charles & Keith, a Singaporean brand known for trendy designs, high-quality manufacturing and reasonable prices, has recently opened its 80th store in China.

They only entered the Chinese market in 2010 and plan to have 120 stores across China by the end of 2015. With its large number of outlets and its on-line retail network, the brand has successfully broken into the Chinese fast-fashion footwear market. As well as women’s footwear, it plans to introduce its men’s footwear brand Pedro and the high-end Charles & Keith Signature Label in 2014.

Two British footwear brands active in the China market are Clarks and Dr Martens.
Opportunities and Challenges for UK Companies

Over the next five years, China’s fast-fashion market will enter an important period in its development, seeing both opportunities and challenges.

Department Stores

For UK SMEs entering Chinese market, it is important to choose the right distribution channel and suitable local partners. Department stores and specialty stores are major distribution channels for branded apparel in China and in 2011 around 38% of total apparel sales were through department stores, while clothing & footwear specialist retailers accounted for around 39% of the total.

While department stores are seeing rapid growth, they are also facing challenges, particularly on how to sustain sales and maintain consumer loyalty. One important factor is the relative homogeneity of department stores in China, which tend to rely on the same big brands to secure commissions, and the merchandise mix is largely similar across department stores. More and more department stores are starting to respond to this, looking for ways to differentiate in a competitive market.

One potential solution could involve a move away from the current concessionary model in favour of different department stores offering exclusive access to particular brands; department stores could act not only as retail landlords but also exclusive agents for specific imported brands, providing them with a unique range of products and thus increased customer loyalty, while potentially providing UK brands with an opportunity for decreasing the cost and risk of building distribution channels.

Demand for European Design Elements

Chinese consumers have a noticeable preference for European designs or brand elements in their purchasing habits. The fashion industry is still a long way behind Europe and Chinese trends are heavily influenced by ideas originating in Europe.

The passion for UK fashion in particular could be rooted in the large population of Chinese with an overseas background, with the London Olympics in 2012 prompting a further spike in demand. For UK fashion brands considering entering the Chinese market this could represent ideal timing.
Challenges

UK fashion brands must consider a number of related issues when approaching the China market, among the most significant being consumer education, regional differences, counterfeit products and trademark registration. Some of these challenges, if well managed, could actually be turned into advantages if handled as part of a broad, well-planned entry and growth strategy.

Most Chinese consumers do not yet fully understand or appreciate the lifestyles associated with many medium to high-end brands and outside of the most popular and mainstream names there is still a low level of brand awareness. Additionally, many customers still purchase fashion goods purely as symbols of wealth, without any particular stylistic considerations. Fashion brands will often need to invest in a variety of cultural activities to promote a more generally fashion-conscious lifestyle and culture in China. Activities include high-profile fashion shows, special events and advertising campaigns, promotion through social media and various other public relations activities.

China’s vast geographic area means that there is considerable diversity in the market, with consumer preferences often differing significantly across regions. Customers in Shanghai, for example, generally prefer European fashions, while in Guangzhou people tend to favour Hong Kong brands and styles, whatever their country of origin. Second- and third-tier fashions still tend to lag behind the first-tier cities. Regional diversity can pose a challenge to effective management of inventory and distribution channels to ensure that suitable products are brought to market. Retailers who overlook this may find themselves following in the footsteps of fast-fashion retailer Forever 21, which had to withdraw from the China market after shutting down its business operations in Changzhou, a city no more than two hours from Shanghai.
Interview with Bells Shoes

Bells Shoes is a UK wholesaler of branded shoes such as Clarks, Ecco and Gabor. The company sells branded shoes through their e-commerce websites and wholesale channels. In recent years, approximately 50% of sales have been generated from the Chinese market. CBBC asked Edward Martin, General Manager of Bells Shoes, for his perspective.

Edward Martin, General Manager of Bells Shoes

“We are currently dispatching up to 2,000 pairs of shoes per week to our Chinese buyers. Last year we sold over 50,000 pairs to China, which is over 50% of our total sales. The boom of on-line orders from China makes us want to invest more attention in the China market and we are now working with six Chinese buyers who are based in different regions across China, providing online orders for us to fulfil.

“The formula works because we offer a discount on the shoes; the 20% VAT doesn’t apply and we subsidise the postage from the UK. This enables our clients to offer very competitive prices in the China market and drive volume orders for ourselves. Our understanding is that Clarks, Ecco and Gabor are perceived completely differently in China compared with the UK. This arrangement works for us because although margins are low, volumes are high to compensate.

“We believe that there’s a massive space in the Chinese market for our business. The public recognition of UK brands is far beyond our expectation. Even though we haven’t conducted any marketing promotion in China, we still receive a few individual orders from China through our website. The pricing gap of branded shoes between UK and China provides opportunities for UK SME traders like us to make profit in Chinese market, although we had less knowledge about this country before.

“It is very important to have suitable Chinese partners to work together with at the beginning, when entering China. From our experience, language could be a key problem for UK SMEs. Some of the Chinese we deal with can speak very good English but we have struggled with language barriers with our new customers at the current stage. A good local partner can definitely help you out of language mess and save time and money on unnecessary misunderstanding caused by culture difference.

“Royal Mail is our first choice for parcel delivery to China. We use Royal Mail Airmail on a regular basis and it normally takes about two to three weeks to reach our Chinese clients. We are happy to stay with Royal Mail in future, for sure.”

“We believe that there’s a massive space in the Chinese market for our business. The public recognition of UK brands is far beyond our expectation.”
Luxury Goods

In recent years global retailers have seen China’s market potential and are rushing to target its new middle class consumers. Between 2001 and 2011 the annual disposable income of urban citizens grew at an annual rate of 12%, and for China’s rural residents net income increased at an annual rate of 11%.

As a result, the proportion of Chinese consumers considered ‘middle class’ has increased dramatically from 4% in 2000 to 68% in 2012.3

There are currently over 300 million middle class consumers and as incomes continue rise that figure is expected to reach as many as 800 million by 2020, with McKinsey & Company predicting that 76% of the urban Chinese population will reach middle class status by 2022.

Luxury brands have been among the primary beneficiaries of this growing wealth, recording sales of US $12.6 billion (app. £7.8 billion) in 2011 – or 28% of the global market share. As increasing numbers of these consumers shift from lower- to upper-middle class status, their collective spending power will continue to increase.

3 McKinsey & Company use purchasing-power parity to define the middle class in China as those earning an annual household disposable income of RMB 60,000-RMB 229,000 (app. £6,200-£23,600)

<table>
<thead>
<tr>
<th>Luxury Brand</th>
<th>No. of Stores</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hugo Boss</td>
<td>139</td>
</tr>
<tr>
<td>Armani</td>
<td>119</td>
</tr>
<tr>
<td>Dunhill</td>
<td>107</td>
</tr>
<tr>
<td>Montblanc</td>
<td>101</td>
</tr>
<tr>
<td>Zegna</td>
<td>82</td>
</tr>
<tr>
<td>Coach</td>
<td>80</td>
</tr>
<tr>
<td>Bally</td>
<td>59</td>
</tr>
<tr>
<td>Burberry</td>
<td>56</td>
</tr>
<tr>
<td>Ferragamo</td>
<td>55</td>
</tr>
<tr>
<td>Gucci</td>
<td>55</td>
</tr>
<tr>
<td>Louis Vuitton</td>
<td>42</td>
</tr>
<tr>
<td>Dior</td>
<td>40</td>
</tr>
<tr>
<td>Cartier</td>
<td>37</td>
</tr>
<tr>
<td>Bottega Veneta</td>
<td>24</td>
</tr>
<tr>
<td>Bulgari</td>
<td>23</td>
</tr>
<tr>
<td>Versace</td>
<td>23</td>
</tr>
<tr>
<td>Tiffany</td>
<td>22</td>
</tr>
<tr>
<td>Hermes</td>
<td>20</td>
</tr>
<tr>
<td>Prada</td>
<td>20</td>
</tr>
<tr>
<td>Chanel</td>
<td>8</td>
</tr>
</tbody>
</table>

Source: Bain & Company, 2012 China Luxury Study: Bain Point of View, December 2012
Slowing Growth?

However, overall luxury brand store openings in China are starting to slow down and high-end commercial real estate development is facing overcapacity as brands become more cautious in their expansion and more selective with property.

The rapid growth of the luxury market that was evident over the last few years is now slowing, due to a number of factors: increasing international travel and a preference for purchasing abroad due to lower tax rates; more cautious spending habits as GDP growth slows nationally; and a crackdown on officials’ spending, to avoid accusations of corruption. Luxury sales have been slowing globally and this has been more marked in China than in many other parts of the world.

The product categories worst affected by the slowdown were luxury watches and jewellery, in part due to the increase in overseas shopping by Chinese consumers conscious of the particularly large price gap for those products. Imports of Swiss watches, for example, fell 24% year-on-year in the first quarter of 2013.

But not all luxury brands have seen the same pattern. For example, Andrew Keith of Lane Crawford, a high-end Hong Kong-based department store owner, reports no slowdown at his stores in Hong Kong or in Beijing. Furthermore, British fashion brand, Burberry, enjoyed sales growth in China of about 20% in the first quarter of 2013.

Although growth in the Chinese luxury market may be slowing, desire for luxury goods among Chinese consumers remains impressive. Chinese citizens are increasingly travelling overseas and opportunities to shop for luxury brands often feature high on their itineraries.
The London Olympic Games brought the UK enormous numbers of travellers and consumers, including over 250,000 from China. London’s famous luxury stores have now been equipped with Chinese-speaking shopping guides in preparation for the large streams of ‘generous’ Chinese customers. UnionPay, the widely used Chinese bank card system, can be used in nearly all such stores.

**Luxury Online**

Chinese consumers are significantly more likely to engage in online shopping than consumers in the rest of the world. A recent global KPMG technology survey found that 79% of Chinese respondents prefer to purchase goods online rather than in dedicated retail premises.

Spending on e-commerce sites has increased by an average of 70% per year since 2009, and the Chinese market is forecast to overtake the US this year to become the world’s largest. Bain Consultancy estimates the market will be worth £340 billion in 2015.

The continuing growth of e-commerce in China offers further opportunities for luxury players. Chinese consumers are increasingly interacting online, visiting online forums to research and discuss brands on the internet. This provides significant digital media opportunities, enabling brands to interact with both existing and potential customers.

**Luxury E-Commerce:**

- There are two main types of online retailing platform used effectively by luxury brands in China:
  - Self-operated online platforms
  - Third-party-operated B2C online platforms

The third-party option, while more convenient, leaves luxury brands potentially vulnerable to counterfeiters selling on unauthorised online outlets.

- According to a survey by KPMG of 1,200 middle class consumers in China, Chinese shoppers are increasingly willing to purchase luxury goods online, but the figure remains comparatively small and frequently cited concerns include authenticity, after-sales service and payment safety.

<table>
<thead>
<tr>
<th>Year 2011</th>
<th>Very much interested</th>
<th>Somewhat interested</th>
<th>Neutral</th>
<th>Somewhat not interested</th>
<th>Not interested at all</th>
</tr>
</thead>
<tbody>
<tr>
<td>9%</td>
<td>34%</td>
<td>34%</td>
<td>16%</td>
<td>6%</td>
<td></td>
</tr>
<tr>
<td>Year 2012</td>
<td>7%</td>
<td>19%</td>
<td>34%</td>
<td>30%</td>
<td>10%</td>
</tr>
</tbody>
</table>

Source: KPMG: Global Reach of China Luxury
Gifts

Gift-giving is a very important tradition in China, both in social and in business spheres. HNWIs usually choose gifts worth between RMB 5,000 and RMB 20,000, with men choosing more expensive gifts than women. Small but expensive gifts are favoured, with watches and red wine being the most common choices.

According to figures from the Bain Survey of Luxury Goods Consumers in Mainland China, gift spending has consistently constituted approximately 30% of total luxury spending.

High-Net-Worth Individuals in China

China has approximately 2.7 million High-Net-Worth Individuals (HNWIs). According to the Hurun Report on China’s wealthy, East China has the highest proportion of HNWIs, with approximately 1.2 million individuals, constituting 40% of the national total.

Of all China’s provinces and municipal cities, Beijing has the highest total number of HNWIs, with 460,000 individuals; Guangdong province is in second place, followed by Shanghai and Zhejiang province.
The characteristics of HNWIs are:-

- Personal assets of more than RMB 6 million (app. £620,000)
- Average age of 39 (more than half aged between 31–45)
- 6 in 10 are male
- Main sources of wealth are returns on investment and company ownership
- On average they own 3 cars and 4 watches each
- They have an average of twenty days holiday, enjoying travelling and popular sporting activities such as golf and swimming
- 70% drink alcohol, with around half favouring red wine
- 2 in 3 enjoy collecting decorative items – with watches, classical paintings and calligraphy being the most popular options

### The Top Three Luxury Brands by Category in Beijing and Shanghai

<table>
<thead>
<tr>
<th>Category</th>
<th>Brand</th>
</tr>
</thead>
<tbody>
<tr>
<td>Watches</td>
<td>Cartier</td>
</tr>
<tr>
<td></td>
<td>Omega</td>
</tr>
<tr>
<td></td>
<td>Rolex</td>
</tr>
<tr>
<td>Jewellery</td>
<td>Cartier</td>
</tr>
<tr>
<td></td>
<td>Bvlgari</td>
</tr>
<tr>
<td></td>
<td>Tiffany &amp; Co.</td>
</tr>
<tr>
<td>Womenswear</td>
<td>Chanel</td>
</tr>
<tr>
<td></td>
<td>Dior</td>
</tr>
<tr>
<td></td>
<td>Burberry</td>
</tr>
<tr>
<td>Menswear</td>
<td>Giorgio Armani</td>
</tr>
<tr>
<td></td>
<td>Ermenegildo Zegna</td>
</tr>
<tr>
<td></td>
<td>Burberry</td>
</tr>
<tr>
<td>Leather Goods</td>
<td>Louis Vuitton</td>
</tr>
<tr>
<td></td>
<td>Prada</td>
</tr>
<tr>
<td></td>
<td>Hermes</td>
</tr>
<tr>
<td>Shoes</td>
<td>Salvatone Ferragamo</td>
</tr>
<tr>
<td></td>
<td>Bally</td>
</tr>
<tr>
<td></td>
<td>Jimmy Choo</td>
</tr>
<tr>
<td>Cosmetics, Perfumes &amp; Personal Care</td>
<td>Chanel</td>
</tr>
<tr>
<td></td>
<td>Estee Lauder</td>
</tr>
<tr>
<td></td>
<td>Dior</td>
</tr>
</tbody>
</table>

**Evolving Tastes Amongst China’s Wealthy**

The desire among HNWIs and the growing middle classes for a higher standard of living has gradually become a more significant factor than the initial function of luxury goods - that of a status symbol. People in the first-tier cities are increasingly becoming more discerning consumers, moving away from ostentatious, heavily branded luxury goods in favour of more unique items that can identify them with a specific social group or present a more cultured image. At the same time, a good branding reputation is also still seen as one of the important characteristics of luxury products.
According to Bain & Company’s survey of luxury goods consumers in China, some consumers based in Beijing and Shanghai indicated that when they had just started buying luxury goods a few years ago they would always choose items with a conspicuous logo. Now, however, they find such goods to be out-of-date and tasteless and some say they would prefer small logos and more elegant designs. Consumers based in second- and third-tier cities, however, still consider logos to be important and want others to see what luxury brand they are using and wearing.

There is also a clear tendency to buy certain luxury goods abroad, or in Hong Kong and Macao. On average HNWIs go abroad or to Hong Kong or Macao for shopping three times a year. Half of them go once or twice a year.

**Customisation**

The market for custom-designed products is also growing in China, where traditionally brands have always been seen as a sign of reliability, prestige and quality. While there has been an existing market for commonly tailor-made products such as fashionable apparel and tourist services for some time, other less frequently customised items are now being offered and commissioned to clients’ specifications. Items from watches and jewellery to furniture, sports cars, private aircraft and yachts are all growing in popularity.
Case Study: Burberry

Customisation

Burberry is an internationally recognised British luxury goods brand with a market presence in countries across the globe. It is involved with a wide range of products, including men’s and women’s clothing, accessories and fragrances.

By June 2013, Burberry had a global total of 207 retail stores, 212 concessions, 50 outlets and 64 franchised stores.

In China, Burberry fully owns all of its retail stores, after buying out its franchise partner in 2010. The brand’s famous camel, red and black check tartan is displayed in its 70 locations in 35 Chinese cities.

Expansion in China

Burberry opened 11 new stores in China during the past year, boosting revenue by 20%. Since opening its flagship Beijing store, China has been increasingly important to the company and recently as much as 15% of the company’s global sales have come from China, with a further 10% from stores outside the mainland where Chinese consumers have been recorded as shopping.

Online Strategy with Chinese Characteristics

Burberry’s digital strategy, combining extensive e-commerce and canny use of social media, has paid off greatly. Their stores across China are equipped with floor-length touchscreen displays featuring life-sized images of their products, and sales staff carrying iPads on which customers can browse and purchase the entire range of Burberry products. Customised services for private clients are also available via the company’s website, offering personalised items delivered direct from the UK or Italy within 8 weeks of ordering.

Meanwhile, the brand has also strengthened its online promotion. It has increased cooperation with Chinese internet companies including Baidu and Sina and has announced plans to work with Taobao and Alibaba for promotion in the beauty and fragrance market.

Thoughts from the Chief Executive

Commenting on the slowdown experienced by some other high-end foreign brands in the Chinese market, Burberry’s Chief Executive Angela Ahrendts noted that, “There’ve been a lot of government changes, a lot of policy changes, and we’re thrilled with 20% [sales growth] in this environment.” She attributed the brand’s resilience to their product range, stating that, “Most of our big peers in China are accessories businesses; we’re still 60% apparel.”
Designer apparel is a key driver of Chinese sales. “We did some unique things there, specifically around Chinese New Year and Golden Week. Playing the same strategy socially that we do in other markets but trying to unlock the consumer in that market.”

Burberry plans to spend £200 million to open 25 stores in 2014, and the majority will be in China and Latin America. The fashion brand’s flagship Asia store will open in Shanghai in December this year.

The Chief Executive is optimistic that Burberry’s growth in China will continue. “The metrics are there,” she said. “It should continue to be one of the fastest growing [markets] in the sector, not only for Burberry. There is still a thirst for great brands.”

"The metrics are there," she said. "It should continue to be one of the fastest growing [markets] in the sector, not only for Burberry. There is still a thirst for great brands."
Angela Ahrendts, CEO
In the last decade the market for personal care products in China has developed rapidly. This section will focus the following subcategories:

- Cosmetics (make-up):
- Toiletries: perfume, hair care products, facial masks, male grooming and baby and child-specific products
- Nutritional supplements: such as vitamins and dietary supplements

**Cosmetics/Make-up**

The growth of sales of make-up has outpaced many other sub-categories of personal care. Thanks to the increasing numbers of Chinese women using make-up, sales of cosmetic products in China are catching up with developed markets such as the US, Japan and Europe.

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**Cosmetics Market Ranking by Country**

*(2012, USD Billions)*

- US: 55.3
- Japan: 27.3
- Mainland China: 25.9
- Brazil: 21.1
- France: 19.8
- Russia: 13.9
- Italy: 12.3
- South Korea: 8.4
- Middle East: 4.9
- UK: 3.5
- Germany: 3

Source: National Bureau of Statistics China; APCO Worldwide Analysis
Chinese consumers have a strong preference for international brands including Chanel, Dior, M.A.C. and Bobbi Brown, as well as high-end Japanese brands. The big brands often attempt to upgrade their market positioning using a shop-in-shop format in department stores.

Currently, department stores, supermarkets/hypermarkets and the internet are the three most popular sales channels for cosmetics products in China, with online retailing growing in importance. Chinese cosmetics brands have adopted a diverse range of Business-to-Consumer (B2C) online retailing portals.

B2C online platform operators and group purchase websites also provide a wide range of cosmetics brands in different price tiers. In addition, Chinese consumers use online agents to order toiletries, cosmetics and nutritional supplements from overseas.
### Perfume

The perfume market in China is clearly far from saturated. China accounts for about 20% of the world’s population but perfume consumption takes up only 1.5% of the global sales, as most Chinese consumers only wear perfume or aftershave on special occasions. Perfume is considered a luxury item, and therefore the top-selling perfume brands are all high-end imported products.

With increasing disposable income, beauty awareness and the advertising campaigns of international brands, the market is expected to see vigorous growth. According to Domestic-Overseas Flavor Fragrance Cosmetic Information (a Chinese monthly periodical), the market for high-end perfume in China will grow rapidly until at least 2015.

### Hair Care

International companies account for a dominant share of the hair care market in China. P&G and Unilever are the two key players in the market, taking up about 60% and 15% of the total market share respectively. Local brands account for only 10% and mainly target the lower end of the market, as well as third- and fourth-tier cities.

Competition in the low-end and mid-range shampoo market is very intensive. High-end shampoo, hair conditioning and styling products are seen as having greater potential to grow.

### Facial Masks

Facial masks are a relatively new niche product category and one that is proving increasingly popular in China. Facial masks have gradually moved from being considered purely a luxury item to being a regular mass-market FMCG, with a sharp increase in market penetration. According to a market survey by Euromonitor, facial mask sales achieved 14.2% growth in 2012 - the fastest sub-category for cosmetics.
Male Grooming

Reports from AC Nielsen indicate that the Chinese male grooming market increased by 20% in 2011. As the leading player in male grooming products in recent years, L’Oréal has experienced double-digit growth in China, with a market share of 22% in male grooming and 41% market share in male skincare products in 2012.

Due to large market demand, a relatively small base and increasing sophistication amongst men, male grooming will continue to grow in the next three to five years. The lower-tier cities and rural areas in China are expected to be the driving force behind the accelerating growth of the market.

Baby and Child-Specific Products

Skin care products for children is a market that may offer huge potential. According to Euromonitor, baby and child-specific products saw a dramatic 17% growth in 2012. Where some cosmetics categories were affected by the economic slowdown, baby and child-specific products still maintain high growth, which is mainly driven by increased sales in third and fourth-tier cities.

Chinese parents regard children as the centre of the family, and they are often willing to spend more money on children than on themselves. Increasing awareness of the need for baby and child-specific products in lower-tier cities means that the market is likely continue to see high growth.

Nutritional Supplements

According to Shanghai Economic Review, China has become the third largest market in the world for nutritional supplement consumption, with the output value of nutritional supplements approaching RMB 280 billion (app. £28.4 billion) by the end of 2012.
However, spending on nutritional supplements as a proportion of disposable income still only accounts for a fraction of that of Europe and the US. With the number of over-60-year-olds in China expected to exceed 200 million by 2015, consumers are paying increasing attention to health issues. Therefore, the nutritional supplements sector is seen as an industry with large potential for growth.

International pharmaceutical giants such as Pfizer and GSK have moved parts of their production to China in efforts to take a bigger share of the nutritional supplements market. However, there are still opportunities for lesser-known brands owing to the high degree of consumer confidence in imported health and nutritional products, compared with locally produced and branded products, which have been tainted by health and corruption scandals in the past.

It is an objective of the 12th Five Year Plan for the food industry that the output value of nutritional supplements will reach RMB 1 trillion (app. £101 billion) by 2015.

Sales Channels
In China, the traditional sales channels for personal care products include department stores, supermarkets, wholesale markets, specialist health stores, direct-marketing, pharmacies and beauty parlours.

For the cosmetics market, department stores and supermarkets tend to be the main sales channels, accounting for about two-thirds of sales. In recent years, the specialised ‘cosmetics supermarket’ or ‘one-stop shop’ has become a new trend. The key players include Watson’s and Sasa (Hong Kong), Sephora (France) and Gialen (China).

It is noteworthy that online retailing has accounted for a large part of the growth in many categories of personal care products in recent years. Two specialist online cosmetics retailers, Jumei and Lefeng, experienced 350% and 135% year-on-year growth respectively in 2012. Other online sales channels include B2C cosmetic online platforms such as Tmall.com, JD.com and C2C platform Taobao.com.
Interview with Chinese Distributor
Mr Leo Huang, General Manager
Crown-A International Trade Co Ltd

Crown-A International are a rapidly growing agent and distributor of imported Fast-Moving Consumer Goods (FMCG) brands. In addition to the Shanghai headquarters, they also have offices in Beijing, Shenzhen and Chengdu and in 2009 also expanded into Osaka, Japan.

Crown-A International represent more than 25 international brands covering over 1,000 individual products. Companies represented include SC Johnson from the USA, NUK and Natracare from the UK, Unicharm, Morinaga and Kao from Japan, and Hero from Switzerland.

Mr Huang has been pleased by the rate of growth of imported toiletries over the past few years. In many major cities in China, products from Japan account for more than 50% of the imported toiletries market while the rest of the products come from Europe, US, South Korea, Southeast Asia and Taiwan. The underlying reason is that consumers in Japan and China have similar consuming preferences and behaviours; and Japanese products are also known for their high-quality.

Mr Huang suggests Shanghai would be an excellent point of entry for UK based toiletries. The market has well-established distribution channels, and there is a large group of consumers consisting of foreign expatriates, white collar workers and a large number of Chinese who have studied or worked overseas. These consumer groups tend to purchase imported products on a regular basis and influence preferences of their peers.

For UK toiletries brands wishing to enter the Chinese market, Mr Huang suggests that they should be very clear what the Unique Selling Points (USPs) of their products are and what value could be added for the Chinese consumers.

Mr Huang believes that organic or environmentally-friendly products would be one of the most exciting opportunities for UK brands. He has noticed the increasing consumer preference for organic toiletries and in particular how well certain organic hand-wash and hair care products from France have been selling.

In terms of distribution channels, Mr Huang emphasises that high-end shops within department stores are most suitable for imported toiletries. According to his experience, displays or product trials at selected department stores help to gain the attention of target consumers and build brand image, which often proves to be more effective than Direct Mail or discounts at supermarkets/hypermarkets.

Mr Huang also suggests that UK brands should select a well-established local partner, who not only understands import policies and regulations, but also knows the local market and has a good network.
The rising income of China’s urban population is adding sophistication to the market. Instead of purchasing raw ingredients to cook at home, consumers are spending more of their income on dining out, while also purchasing more processed and packaged products than ever before. At the end of 2011 China became the world’s largest market for food and grocery retail, surpassing the US.

China’s food and beverage imports have demonstrated strong growth in recent years, with European producers benefiting a great deal from China’s growing affection for international cuisine. From 2006 to 2011, China’s European food and beverage imports tripled.

The pie chart below shows that in 2012 China was already the world’s fourth biggest importer of food, with similar import values to those of Japan and the US.

**The World’s Top 15 Importers of Food**

- EU (27 States) = 38.2%
- United States = 7.9%
- Japan = 5.5%
- China = 5.2%
- Russian Federation = 2.6%
- Canada = 2.2%
- Korea = 1.8%
- Mexico = 1.7%
- Saudi Arabia = 1.5%
- Hong Kong SAR = 1.0%
- Indonesia = 1.2%
- Malaysia = 1.1%
- India = 1.1%
- United Arab Emirates = 1.0%
- Iraq = 1.0%
- Others = 27%

Popular Imported Food and Beverage Products

Factors Affecting Demand

China's urban household annual income per capita increased 16 fold from 1990 to 2011, leading to increased purchasing power and demand for imported food and beverages. Chinese citizens, especially those in the big cities, have become increasingly influenced by global culture and those that can afford it are interested in trying more Western food imports.

Food safety scandals in China, including the Melamine Scandal (baby milk scare) in 2008, have strongly destabilised trust in local food production and quality control processes. As a result, the Chinese middle classes have developed a preference for imported foods, particularly dairy products for children. This also complements the small but growing interest in imported natural and organic foods, which are deemed to be the safest choice.

Meat products, alcoholic drinks and dairy products are the leading EU exports shipped to China. These three sectors alone accounted for 66% of all EU food and drinks exports to China in 2011, as shown in the data from Eurostat displayed below.

EU Food & Drink Exports to China

- Meat Products: 28%
- Wines: 17%
- Spirits: 12%
- Dairy: 12%
- Fish products: 6%
- Homogenised food preparation: 6%
- Prepared meals: 6%
- Oils and fats: 3%
- Confectionery and chocolate: 3%
- Other food products: 9%
**Dairy Products**

Traditionally, milk and other dairy products were not part of the Chinese diet. However, times are changing and, in 2011, total dairy sales in China reached RMB 204 billion (app. £20.7 billion), representing a 16.4% rate of increase year-on-year. There are many domestically produced dairy products available in supermarkets, but dairy products have also become some of the most popular imported products in China.

Continued concerns over the quality of domestic dairy products and food safety crises have had a substantial impact on the demand for imported dairy products, which are perceived to be of higher-quality and more reliable than domestically produced dairy products.

Many foreign brands are available on China’s supermarket shelves. Currently, there are over ten American cheese brands available including Leprino, Sargento, Borden and AmeriDairy. Other imported dairy brands include Kraft (made in Australia), President and Cantorel (France), Emmi (Switzerland) and Kerry Gold (Ireland).

Growth in the sales of dairy products is expected to continue over the coming years as Chinese parents are paying increasing attention to their children’s health and consider milk and yoghurts paramount for healthy growth.

**Confectionery Biscuits and Snacks**

Unlike dairy products, chocolate, confectionery, biscuits and snacks have been traditionally popular in China. They are particularly popular amongst young adults, students and females. The Chinese market is dominated by imported confectionery in the upper end of the market whilst the lower-end market is occupied by the locally produced products (international and domestic brands).

**Beer**

Imported beer was previously only available in hotels and high-end beer-themed bars, with prices often ten times those of domestic beers. Imported beer, however, is increasingly being sold in mid- and low-end bars and supermarkets that sell imported products.

Boutique beers from SME producers have potential to seize opportunities by working with local distributors who distribute products to local specialist stores and high-end bars in first-tier cities.
Chinese consumers tend to prefer light beers and as a result some European brewers have developed beers specifically for the Chinese market. Oktoberfest-style beer festivals are popular in some areas and offer opportunities to promote boutique beers.

**Wine**

Grape wine is currently the largest single European food and beverage export to China. It has been successfully promoted as a healthy and sophisticated alternative to ‘baijiu’, the traditional Chinese white spirit. Premium wine is a luxury item in China and represents social status. Second- and third-tier cities offer the most unsaturated market potential for wine exporters, as first-tier cities are already experiencing high-competition for imported wine.

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**Some Examples of Opportunities**

- **High-end food and drinks** are a popular gift category in China and margins are relatively high. Packaging for gifts in China is paramount and many companies tailor gift packaging to cater for Chinese festivals and special events.

- **Others** target business people who want to demonstrate their sophistication by presenting foreign gifts at business meetings - a common practice in China. Popular gifts include wine, chocolate and high-end packaged baked goods, confectionery and many others.

- **Baskets** of specialty Western goods are also popular. Examples include cheese and wine baskets, wine sets including glasses, assortments of biscuits, preserved vegetable platters and pre-packaged European snacks.

- **Gourmet food** is a niche yet growing market. The concept of ‘gourmet’ in China sometimes corresponds to items that would be considered standard supermarket products in the UK, but are more desirable in China and can therefore command a higher price.
Challenges for Food Importers

Legal and Regulatory Challenges

For some product categories, market entry costs can be high because of mandatory certification and the resources required for attaining them. Product registration, labelling and expiry dates are the major concerns that the central government focuses on for imported food.

Challenges also lie in the inconsistencies in the interpretation of regulations between officials at different ports. Regulations change frequently and often without warning, so adjusting and accommodating to regulatory changes can be time-consuming and expensive. CBBC recommends having a local presence or partner, with experience of import regulations, in order to keep up to date with the best methods of navigating the regulatory environment. CBBC and Royal Mail are also available to offer assistance.

IPR Protection Issues

Counterfeiting is prevalent in many sectors in China, including the food and beverage sector, where many well-known brands have been dealing with issues of forgery. Smaller importers are affected less but should remain vigilant. A number of high-profile cases of wine forgery and adulteration came to light in China in recent years. It is important to develop a plan early on to protect your IPR before entering the market. CBBC can recommend how to get the best advice on IPR if required.

Distribution

China, geographically, is vast and the nationwide network of delivery and storage is often a challenge for many companies. Therefore distributors are typically focused on a city-by-city or region-by-region basis. Moreover, considering the contrasting purchasing power and eating habits across the country, it can help to identify distributors who are regionally focused and can demonstrate their strengths in their target regions, on particular good categories.

Food and beverage distributors in China tend to be more interested in wholesaling and less so on brand development, especially for new brands. Distributors are often conservative in introducing new brands to the market as it often takes time to develop an image amongst Chinese consumers and they therefore prefer products that are already in the market.
Case Study: British SME

Spencer & Fleetwood, a confectionery and gift producer, used CBBC to find distribution partners in China.

Spencer & Fleetwood is a multi-award-winning UK confectionery and giftware company. Based in Epsom, Surrey, they have over 25 years’ experience exporting throughout the world.

Knowing the rapid growth in food and beverage imports in China, Spencer & Fleetwood were willing to explore the opportunity of exporting its products to China. They spent time and effort understanding the Chinese market, with initial market research in consultation with CBBC. After forming their China strategy based on specifically selected products, Spencer & Fleetwood received a high-value order from a Chinese client.

Key Points from Spencer & Fleetwood’s Experience

The key points to take away from Spencer & Fleetwood’s experience are summarised as follows:

• Choose a professional and trustworthy trade promotion bureau to conduct a local market research with the intention of gaining a better understanding of local buying habits, preferences for imported confectionery products, potential competition and the identification of potential distributors.

• Spencer & Fleetwood also visited local supermarkets, imported food stores and other retailers to gain a real sense of the local market.

• They used the knowledge they generated during their visit to make changes to some of their products’ packaging (they offer sex appeal cartoons and adult humour jokes on packaging in the UK and other markets, which needed to be modified for the Chinese market in order to demonstrate respect for local sensibilities and culture).

• Finally, Spencer & Fleetwood also created a bespoke product to cater for local tastes and preferences.

• This case might not necessarily be applied to all food and beverage exporters from the UK, but it is worthy of reference as a well-informed approach can ease the journey of expansion overseas.
Before venturing into business in China, it is crucial that companies understand both the market they are entering and their own strategy. Products and selling points that appeal to one demographic in the UK can have an entirely different cultural relevance in China and it is important to understand these differences before making your investment. Moreover, regional economic and cultural differences mean that even within China the marketability of some products may vary widely between different areas.

Good, reliable research will save costs and improve efficiency and can have an impact on the long-term success of your venture.

**Questions to Ask**

The following factors should be considered when contemplating market entry:

- What are the unique selling points of your products and how will they appeal to Chinese consumers?
- Does your company have the time, resources and commitment needed to break into a new market?
- Will you aspire to a nationwide presence, or focus on a regional market?
- Which locations will provide the most favourable market for your product – first-tier cities with more sophisticated markets, or developing regional cities with potentially more opportunities and less competition?
- Are there any legal or regulatory issues affecting your market entry?
- What kind of venture will best suit your company, both initially and in the long term? Will you operate from the UK or establish a physical presence in China? If the latter, will you set up a Wholly Foreign-Owned Enterprise, or a Joint Venture with a Chinese partner?
- How will you communicate both with your Chinese partners and with your customers?
- Have you evaluated the business risks of all aspects of your venture, including protecting your intellectual property and conducting due diligence?
Some of these questions will require quantitative research in your sector, while others involve more contextual and cultural considerations. Talking to other people in your industry and regularly visiting your intended market will give you access to the most current advice, and such experience can often lead to new insights and form the basis for further research.

**Getting Help**

Investing in comprehensive preliminary research can help you make long-term strategic decisions. However, up-to-date and reliable information can be more difficult to obtain in China than in Western markets and publicly available information is often compromised by the sheer pace of market development.

There are a large number of highly qualified China-based consultancies that can help you conduct research on the Chinese market, providing advice on some of the questions above and assessing the business opportunities available. As a non-profit organisation, China-Britain Business Council’s (CBBC’s) services are a popular choice for many SMEs from the UK. CBBC is the UK government’s chosen partner to deliver business development services on their behalf in China.

We work closely with UK Trade & Investment (UKTI), the British Embassy in Beijing and the British Consulate-Generals in Shanghai, Chongqing and Guangzhou.

CBBC’s research and consultancy teams span thirteen cities in China and include sector specialists who can help you assess opportunities for your business. Our Chinese team have typically trained or worked in the UK as well as having a wealth of business experience in China; and our British staff are China specialists who have extensive experience helping international companies in China. Together the team is well-placed to help UK companies understand market potential and to advise on the best way to access it.
Intellectual Property Rights (IPR)

The risk of IPR abuse is commonly cited by UK companies as one of the main deterents to doing business in China. In reality the situation is complex and in a recent survey UK companies actively involved in the Chinese market placed IPR ninth in a list of challenges. From having no IP protection law in the late 1970s, China has progressively enacted legislation to the point where it broadly matches or exceeds our own. However, enforcement has been an issue.

Substantial progress in enforcement has been made in recent years, partly driven by the rise of ‘home-grown’ intellectual property, developed and owned by Chinese companies themselves. The number of patents being filed by Chinese organisations is rapidly increasing and a large number of Chinese companies are successfully using the legal system for redress where they have faced infringements.

Trademarks and logos can be particularly problematic if action is not taken early. Unlike in many other countries, the first person to register a trademark in China is the legal owner, and it has been known for Chinese distributors to pre-emptively register the trademarks of foreign brands. It is important to consider this before entering the market, as if your brand has been registered in this way, lengthy cancellation procedures and court proceedings will be necessary, with no guarantee of success.

Practical steps include: assessing the risks of having your IP infringed and what effect it would have on your business; choosing partners carefully and developing business relationships that are of mutual benefit and hence a deterrent to infringement.
When considering the vast area of China, coupled with its complex and constantly changing business environment, as well as various cultural and linguistic concerns, it becomes clear that China is not an easy market to penetrate and succeed in immediately. In order for a company to succeed in China, it must carefully plan its business. Foreign companies must take their time in developing a successful business network and their brand awareness and reputation, while demonstrating their commitment to potential partners in the market.

In this section, CBBC will present the various business models that are available to British companies interested in China. For those wanting to expedite their market entry in order to maximise a business opportunity, setting up a permanent presence in China could be the first step. However, for those companies wanting a more measured approach, with a step-by-step progression, organising exports to China from the UK is the preferred first move.

**Exporting to China from the UK**

**Using Distributors and Agents**

An Agent will take responsibility for selling, promoting, winning orders, problem-solving and debt collection in exchange for a commission on sales. However, they do not usually handle goods themselves, leaving you responsible for logistics.

A Distributor generally purchases goods from the exporter at a discount and sells them on your behalf at a profit. There are different ways to structure an agreement with a potential distributor. They may be the sole licensed distributor in that territory, with the manufacturer reserving the right to also sell to customers directly over the internet. Alternatively, the distributor can have exclusive rights to the product. Distributors can also provide useful insight into market trends.

Market entry through an agent or distributor can have many advantages, including the reduction of time and costs accrued in entering the market and the benefit of the agent’s local knowledge and network. They not only help overcome entry barriers but can also assist with collecting market data, tracking regulatory updates but can also respond to retailers on your behalf in a timely manner.
Nevertheless, there are also drawbacks. Employing a third party results in additional cost to the supply chain. You may also lose some control over the marketing, image and intellectual property rights of your brand in the market, increasing the risk of your product being copied or counterfeited.

More major advantages and disadvantages of using agents and distributors include:

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<tr>
<th>Advantages:</th>
<th>Disadvantages:</th>
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<tbody>
<tr>
<td>• Speed of market entry</td>
<td>• Loss of margin for your business or increased product cost</td>
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<tr>
<td>• Reduced risk and investment needed by UK companies</td>
<td>• Less control over your business in China</td>
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<tr>
<td>• Access to local knowledge of logistical issues for imported products</td>
<td>• Reliance on agent/distributor to generate sales</td>
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<tr>
<td>• Ready-made knowledge and connections to deal with Chinese administrative issues, regulations and customs</td>
<td>• Limited access to local information</td>
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<tr>
<td>• Access to relationships with Chinese retailers regionally or nationally, and thus a ready-made sales network</td>
<td>• Difficulty of finding a suitable distributor</td>
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<tr>
<td>• Well suited to companies for which little or no product adaptation is needed for the local market</td>
<td>• The distributor may not prioritise your products and they may be unwilling to invest in marketing and advertising</td>
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<tr>
<td>• Importers/distributors can request exclusive sales rights in order to differentiate themselves from competitors, which increases reliance on their sales ability</td>
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Once a working relationship is established, the agent/distributor needs to be managed actively; this may be achieved by the following:

• Visiting regularly at a senior management level, in order to reinforce your interest in and commitment to the agent and the market. This also provides opportunities to learn about the market and the popularity of your products

• Helping with marketing and sales strategy planning

• Providing regular training for the sales and after-sales staff

• Linking performance to incentives and agreeing milestone targets
Exporting Directly to Retailers

British exporters can alternatively send their products directly to retailers without distribution partners in China. However, goods can only be imported through a company that has an import/export license under Chinese laws. Only the biggest retailers tend to have the relevant licences; hence, other companies must use a licensed intermediary.

Exporting directly not only makes it possible to generate better margins, it is also an opportunity to more closely understand the retail system in China and receive feedback on sales volumes and consumer preferences. However, it may be difficult to justify logistical and freight costs to retailers unless large volumes are guaranteed.

Even if a company decides not to export directly to retailers, CBBC recommends that companies should schedule meetings with retailers when they visit China. This can increase interest in your products via product introductions, which can later be harnessed by your local business partners and representatives.

Exporting Via UK-Based Consolidators/Exporters

Another option for any UK business can be to use a British or European consolidation company, who can handle the exports for you from the UK. This option may seem to be the most straightforward, but the non-Chinese consolidator will often either lack the know-how for the Chinese market and/or need to use local agents and distributors in China anyway, which will increase costs. It will also become difficult to control customer relationships, or your pricing and brand image in China.

Using your Own Distribution Network

This option gives you full control over logistics, branding, marketing and customer relationships, but it is an expensive option, usually only open to the big players.

E-Commerce

E-commerce is rapidly growing in China, with 240 million e-shoppers. It is an attractive option to those with little experience of China, who wish to test their product with Chinese customers before entering the market through other means.

Chinese consumers are less familiar with international e-commerce websites and many do not understand English or use international credit cards. Some Chinese platforms do not require a company to be registered in China to sell products on their website, allowing easy purchase by Chinese consumers.

However, using e-commerce without a presence in China can have complications in the order process, local logistics and after-sales services, which may necessitate extra Chinese partners for delivery. An e-commerce section is provided later in this guide, which provides a more complete introduction to e-commerce in China.
Licensing and Franchising

Licensing and franchising (which have strong similarities in China) can be appealing business models for international brands seeking to expand their Chinese activities. The franchiser, who owns the enterprise, lends their trademark and/or business model to the franchisee, who often pays initial and royalty fees for this right.

Franchisers are normally involved in initial training, site approval, branding and advertising. It is sometimes the case that brands will only license certain categories to the franchisee, allowing them to use designs and produce and/or distribute products under their trademark.

Fashion retailers have been among the most prevalent users of franchising. It is relatively low-cost, low-risk and can be a quick way to test consumer demand in an unfamiliar and complicated market like China.

There are brand management specialist companies that are active in franchising, especially in the fashion sector. These companies generally demand exclusive sales rights in the Chinese market in order to secure a return for financial investment.

A major concern for franchisers is the lack of control involved, especially if they value brand identity and customer experience as key factors. There may also be problems due to the franchisee’s relative lack of capital, their business ambition and vision and even protection of Intellectual Property. Increasingly, several international brands that initially used the franchising model to enter the market have changed their business model to become Wholly Foreign-Owned Enterprises (WFOEs).

Business Incubator Services

If business trips are proving to be financially onerous or time-consuming, there are other methods to have someone represent you in China without incorporating a company locally.

A medium-term option is to use a business incubator service; this allows you to have a year-round representative on the ground.

Launchpad provides a simple, cost-effective, low-risk and legal means of having a presence in China before you set up your own office there.

CBBC members can have their own representative working for them in China, with their own space in one of CBBC’s 13 offices. This is a fast and cost-effective way of enabling companies to test the local market before committing to a permanent presence. More details of this service can be found on the CBBC website: www.cbbc.org/what_we_do/services/launchpad
Having a Permanent Presence in China

When confidence in the Chinese market reaches a sufficient level, you may consider setting up a permanent presence in China via a Foreign Invested Enterprise (FIE). Having a permanent presence can provide several benefits, including:

- Market presence, showing commitment
- Quick and direct access to customers and/or distributors
- Direct control over corporate strategy and activities
- Trading in the Chinese currency Renminbi (RMB), which eases business transactions
- Total control over brand image and distribution in China
- Depending on the business sector and product in question, the time and effort needed to establish a foreign-invested enterprise in China vary significantly. Research should be carried out on Chinese regulations in your industry which affect foreign businesses, and on registration procedures.

Independent Legal Entities in China

Under current regulations, foreign companies cannot legally employ Chinese staff unless the company is registered in China. Therefore, if you are ready to make a long-term commitment, the establishment of your own legal presence is the way to go.

Operations must be set up as a legal entity, the type of which will depend on the intended business scope. All locally incorporated companies need to be compliant with Chinese legal and tax requirements.

It is usually more difficult to alter a business structure once a legal entity is incorporated or established, so it is important to seek professional advice on your structure during the first stages of planning. Your intended business activities must be clearly defined, practicable to carry out and must take into consideration any entry barriers.
**Model 1: Representative Offices**

Representative offices (rep offices) are the first step taken by some foreign companies when establishing a permanent presence in China. They are officially liaison offices, and as such they cannot generate income through contracts, tax receipts, invoices or sales activities, but instead are useful for activities such as market research, public and business relations and support. Visiting visas can be obtained more easily through business visits to rep offices, but only four working visas for foreign staff can be obtained, while all local staff must be hired through a government-approved agency.

This is the least complicated method for a foreign firm to have a legal presence in China and was, at one time, the first choice for foreign companies with little experience in the country. However, due to the limited operational scope mentioned above, WFOEs are typically a better option for entrants seeking to develop their business in the long term in China.

**Model 2: Joint Ventures**

A joint venture (JV) is an organisation jointly owned by both Chinese and foreign partners. A JV can be formed by way of equity contribution based on each party’s monetary contribution (‘Equity JVs’) or by contractual agreement (‘Cooperative JVs’).

In certain restricted sectors, such as insurance and the automotive industry, JVs are currently the only permitted route for international companies in China. However, JVs are now becoming less prevalent as Chinese economic reform has gradually opened up new industries to WFOEs. International companies often prefer the autonomy and flexibility that is afforded to them through WFOEs, despite the full business ownership risk.

JVs may be beneficial in various ways. Local partners can contribute market knowledge and strong marketing and distribution channels and they may help reduce the costs and risk of market entry.

The common risks associated with entering into partnerships with other companies apply in China and are often exacerbated by cultural differences and business practices. Hence, the right partnership is essential in establishing and running a successful JV. The ability to maintain effective communication, and control where necessary, is also crucial.

It is important that you carry out corporate and financial due diligence before cementing any partnership. JVs should only be created when both parties have a clear understanding of the business objectives and when appropriate exit strategies have been developed.
Model 3: Wholly Foreign-owned Enterprises

Wholly Foreign-owned Enterprises (WFOEs) are Chinese-incorporated companies that are fully owned by foreign organisations. They are currently the most popular option for foreign enterprises, as they provide complete control and full profit from operations, alongside limited liability. WFOEs also generally provide greater protection to intellectual property rights compared to JVs and can directly employ local staff, unlike rep offices. However, they do have a minimum investment requirement that is dependent upon the locality and nature of the business.

WFOEs are the appropriate structure for companies whose main activities in China are to manufacture and sell products, or provide services such as R&D or business consulting. A WFOE allows the foreign investor to issue invoices and receive revenues in RMB that can then be converted and repatriated outside of China.

Incorporating in China

In the UK, incorporating a company takes a few days, whereas in China it may take several months and involves a complex process through which the foreign investor must obtain various approvals. Foreign companies will likely require professional support on aspects of business incorporation, including tax planning, legal advice and project management. Foreign companies are required to use a government-certified ‘Filing Agent’ in some regions of China during this process.

CBBC provides detailed guidance on various issues regarding business incorporation in China and offers a managed incorporation service. There are also many professional service firms in the private sector that can help with this process.

Mergers and Acquisitions

M&As have become increasingly popular in recent years for foreign investors. There are numerous options for M&A in China, including equity and asset acquisitions as well as mergers. As a form of FDI, the general rules on the establishment of Foreign-Invested Enterprises (FIEs) also apply to M&As.
Once you have assessed the market and identified a demand for your products, the next step is to find a way to access potential customers. Whatever the nature of your business, it is likely that at some point you will need to enter into a business relationship with a partner company in the local market.

For most foreign companies, finding such partners, initiating contact, establishing a relationship and concluding a business arrangement are daunting tasks. Without adequate understanding of the business environment you can find yourselves fraught with difficulties. However, with a certain amount of preparation and awareness of cultural differences the right partner can be found and healthy relationships established.

**Finding a Distribution Partner in China**

For UK companies interested in exporting consumer products to China, a key role that Chinese partners can play is with the distribution to retailers and end users. A distribution partner can help your products gain access to Chinese consumers without your incurring the expense and logistical difficulties of distributing them independently.

Two popular choices for exporters when seeking a local-market distribution partner are agents or distributors.

An agent is a company’s direct representative in a market and is paid commission, while a distributor sells products on to customers after buying them from the manufacturer, making profits from the price margins.
When choosing an agent or distributor as a business partner, these are some considerations:

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<th>Background</th>
<th>Distribution Channels</th>
<th>Are they right for you?</th>
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| • Company size, history and ownership (private or state-owned) | • Regional coverage  
• Types of outlets covered  
• Transportation and warehousing facilities | • Does the agent/distributor have a genuine interest in representing your product?  
• Can they benefit from actively promoting your products (is it a win-win)?  
• Do they also represent any competing companies/products?  
• Can you communicate effectively with your counterpart? |
| • Quality and quantity of the sales force | | |
| • Customer feedback and trade/bank references | | |

A good starting point for identifying potential distributors is the Overseas Market Introduction Service (OMIS), which CBBC delivers in partnership with UK Trade & Investment in China (UKTI).

OMIS can be used to tailor a list of potential customers, agents, distributors or other business partners and arrange a meeting programme for when you visit China. These projects are subsidised, and as part of UKTI’s export promotion scheme there are discounts available to first-time users of the service.
Meetings, Presentations and Communications with Chinese Partners

Once you have decided on your distribution model, you will need to come to China and meet with your prospective distributors or other business partners. This section will bring attention to some key issues to be aware of during your visit to China.

Meetings

In order to develop good relationships with Chinese business partners you might find yourself in some social situations that you would not usually associate with doing business. In China some three-quarters of business deals are sealed outside of working hours; tea houses, karaoke bars and restaurants can all be locations where discussions and deals are made. Banquets have traditionally been an essential part of doing business in China, although the practice varies depending on where you are and who you are dealing with.

Be careful, as in such situations it is crucial to understand that the event is as much part of the negotiating process as any other formal meeting; and the distinction between verbal promises and written contracts in Chinese business dealings is smaller than in the West.

Language and Interpreters

A good interpreter is the key to successful communication. If they have not understood what you have said, your message will be lost on your audience. While an increasing number of internationally-oriented Chinese companies have English speakers on their staff, it is rare that everyone in a company will speak English – especially the decision makers. At the very least, get a Chinese name for your company and prepare a one-page company profile in Chinese to be contained in your company brochure and website. A Chinese translation of your whole brochure would be even better.

There are two forms of interpreting. Consecutive interpreting means you speak and then your interpreter speaks, and this is the usual form for meetings, discussions and negotiations. Simultaneous interpreting is generally used only for large conferences and requires special equipment. Interpreting is a skill requiring professional training; bear in mind that just because someone is fluent in English and Chinese it does not necessarily mean that they will make a good interpreter.

Use your own interpreter to represent you, rather than one provided by the Chinese side who may have their own agenda. When negotiating through an interpreter, avoid using colloquialisms and be conscious of your speaking speed and any technical vocabulary, which may be difficult to translate. People working in a second language will often pretend to understand as a face-saving exercise - and this will be no different with many interpreters, especially as it is their job to understand English.

If China is likely to become a significant part of your business, you should consider hiring a Chinese-speaking member of staff. There is a rich pool of talent in the huge number of Chinese students graduating from British universities, who are keen to have internships or short-term employment in the UK before returning to China. These students can also be recruited through specialist recruitment agencies.
If you are working in Guangdong province near Hong Kong, do not assume that the business language is Cantonese rather than Mandarin. This region has a vast population of immigrants from non-Cantonese-speaking parts of China working at all levels. If in doubt, ask first.

Presentations

The expectations of some Chinese firms are for international companies to deliver professional presentations (e.g. with PPT) that will help the Chinese audience understand the value of the UK company to Chinese customers. Delivering presentations well brings clarity to the prospective client, but also makes Chinese companies feel their UK counterparts are credible and interested in doing business. Considerations when presenting to Chinese audiences:

- Chinese audiences like to see case studies of how and where your product is used, preferably in China or a neighbouring country. Client lists will also be good reference points for the Chinese side.

- Dual-language presentations and hand-outs are useful, but if you are presenting in English be conscious of the speed and clarity of your presentation. While your audience may speak English, their grasp of the language will never be as good as that of a native speaker. Chinese audiences will often pretend to understand, rather than admit not understanding or ask you to repeat important points.

- Do not be put off if your audience is extremely passive. Throwing questions to the audience, inviting group discussion and asking for questions may not elicit much reaction.

- For cultural reasons Chinese people are seldom willing to give an opinion before their peers and will hesitate before making any negative feedback about your presentation known. As it is going to be essential for you to understand and allay the Chinese party’s concerns, one solution is to ask individuals their opinions one-on-one and informally outside of the formal group presentation.

- If you are giving a speech or presentation, remember that the need for consecutive interpretation will cut your speaking time approximately in half. Make sure that the interpreter can cope with any technical or specialist terms in the presentation. If you are giving a speech, consider giving the interpreter the text in advance and forewarn them of any changes.

How much?
The Chinese language has no numerical unit or word for ‘million’ or ‘billion’. They do have unique numbers for ‘ten thousand’ and ‘one hundred million’ – ‘wan’ and ‘yi’. Therefore the chance of mistranslation of large numbers is high, so make sure you clarify numbers by writing them down.
Deal Making and Negotiations

Time Constraints

Chinese negotiators are known to use time constraints more strategically than their Western counterparts. It is generally believed in China that Westerners are always in a hurry and the Chinese business people have often been accused of trying to get you to sign an agreement before you have had adequate time to review the details.

Even though Western business visitors are deadline-driven, they may need to slow down to the Chinese pace when having discussions. Another way to avoid having to make last-minute concessions is to not let your Chinese counterpart know your time constraints for concluding the deal.

Maintaining Face

Face is an essential component of the Chinese national psyche. Having face means having a high status in the eyes of one’s peers and is a mark of personal dignity. The Chinese are acutely sensitive to gaining and maintaining face in all aspects of social and business life. Giving face earns respect and loyalty, whereas causing someone to lose face could ruin business prospects or even invite recrimination.

The easiest way to cause someone to lose face is to insult an individual or criticise them in front of others. Westerners can unintentionally offend Chinese people by making fun of them in a good-natured way, as this can be easily misinterpreted. Another common faux-pas can be to treat someone as a subordinate when their status in an organisation is high. Just as face can be lost, it can also be given by praising someone for good work or intelligence before their colleagues.

Relationship Building and ‘Guanxi’

The Chinese put great emphasis on building personal relationships before entering into a business partnership, often saying, “Let's first become friends, then do business.” This way of doing things can seem frustrating to business people used to Western, deadline-oriented practices, but it is important not to try and take short-cuts in relationship-building, as this can damage your chances of long-term success. Virtually all successful transactions in China result from careful cultivation of the relationship with the Chinese partner and you should expect that your initial visit to China may be spent entirely in getting to know possible candidates for business partnerships.
The objective of developing close relationships is to build what the Chinese call ‘guanxi’ (pronounced gwanshee), which are essentially social or business connections based on mutual interest and benefit. In a centralised and bureaucratic state where the legal system is still relatively weak, reliance on personal contacts is often seen as the most effective way to get things done, and both Chinese and foreign companies will often attribute their business success to having good relationships in China.

**Overcoming Cultural Barriers**

Find a reliable Chinese ally to work with you. An effective Chinese colleague will often be able to analyse body language at meetings, work out who in the other negotiating team holds real power (not always the boss), and help smooth out any inadvertent wrinkles.

Conversely, the presence of a Westerner should be exploited to the fullest. Chinese interlocutors will often see a visit by a foreigner as an indication of sincerity and commitment by the British party, and they often do not accord mainland Chinese or Hong Kong representatives the same status as a foreigner. The ideal sales team, therefore, is often a Chinese person to take care of the working-level contacts and a foreigner to do honour to the higher echelons.

**Contracts**

Traditionally, commercial law scarcely existed in China and certainly indicated bad faith. Today, the early appearance of a draft legal contract is still seen as inappropriate or, more likely, irrelevant because it carries no sense of commitment. Many Chinese see the personal relationship as the key factor in a business deal, rather than a signed piece of paper that is merely a snapshot of an agreement made at a particular time and in particular circumstances. Concessions may be requested later so do not cut your margin down to the bone from the outset of the agreement.
In 2008 China surpassed the US to have the largest internet user base in the world, and it will soon also lay claim to the largest population of online shoppers. There are now over 240 million Chinese e-shoppers and, together, they are spending an average of USD 40,000 (app. £25,000) every second.

Online shopping in China is expected to see exponential growth over the next five years. According to McKinsey Global Institute, by 2020 China’s e-tail market could be as large as today’s markets in the US, Japan, the UK, Germany and France combined.

The chart below shows that both Business-to-Consumer (B2C) and Consumer-to-Consumer (C2C) transactions have seen a very recent and substantial jump in transaction volume, with B2C e-tailing only maturing more recently.

China E-Commerce Market Growth (RMB Billions)

Source: Bain & Company 2012: “China e-commerce: Heading toward RMB 1.5 trillion”
**Government Policy**

In August 2013, the central government announced ‘Broadband China’, a new strategic policy for increasing public use of the internet. The main aims are to facilitate the construction of a new internet infrastructure, popularise online applications, enhance service innovation and assist in the coordination of internet-related industries.

According to state media outlet Xinhua, by the end of the 12th Five Year Plan (2011–2015), the ‘Broadband China’ strategy will attract RMB 1.6 trillion (app. £162 billion) of government investments, and broadband internet’s prevalence is expected to increase by a further 10%. This will provide a significant boost for China’s e-commerce sector.

**The Business-to-Consumer (B2C) / Online Retail Sector**

The expansion of internet usership and online shopping penetration rates has provided a solid foundation for the development of the Chinese online retail industry. According to the China E-Commerce Research Centre, in the first half of 2013 Chinese online retail market transactions topped RMB 754 billion (app. £77 billion), accounting for 6.8% of total retail sales of consumer goods – an increase of 47.3% year-on-year (YoY).

Tmall is undoubtedly the No.1 in the online retail market, representing a 50.7% market share by sales value. However, in recent years its dominance has been challenged by Jingdong (AKA 360Buy), which now has 17.1% market share.
The main reasons for the steady growth of the Chinese B2C market from 2009 to 2012 are:

1. Mainstream B2C platforms have been waging ‘price wars’ in order to compete for market share
2. Traditional enterprises have increased their online operations
3. The increase of online customers

As an internet-based industry, Chinese B2C companies have spent a lot of resources in supply chain management and they are also experienced in front-end services.

Currently, ‘price war’ remains the core competition model at this primary stage of development in the Chinese B2C market. However, in the future, the competition will focus on providing differentiated products and services, not just pricing. According to a 2012 survey of online shoppers by Bain Analysis, an increasing number of consumers are motivated to shop online by convenience and product variety, rather than pricing.

**Case Study: Johnnie Walker’s Tmall Store**

Following the rise of B2C platforms in China, in February 2013 Diageo opened an online store for Johnnie Walker on Tmall.com. Johnnie Walker’s Tmall store has the same style and colour scheme as its official website, which enables it to keep its unique corporate image while leveraging the benefits of Tmall’s commerce platform.

Nathalie Fan from Diageo in China told CBBC: “The main reason to use Tmall as a platform is that it has over 50% market share in the B2C market in China, so leveraging its traffic to build our brand and generate sales is key. Tmall does not have its own customer inquiry handling system. We have a third-party agency to do this.”

Diageo worked with different third-party service providers to set up and run the Tmall store’s operations, particularly creative and web designers and providers of logistics services. Diageo has maintained a role in the overall brand control, including product selection, planning promotion strategies and other marketing activities. The use of outsourced service providers has minimized costs, while keeping brand management in-house.

The online showcase of Johnnie Walker not only attracts customers online but also serves an O2O (online-to-offline) function, promoting their brand in and driving sales in brick-and-mortar retail outlets at the same time.

http://johnniewalker.tmall.com
Online-to-Offline (O2O)

Brick-and-mortar retailers are now developing strategies to direct shoppers from the physical store into the online store and vice versa. According to a recent speech by Dr Yuanyue, founder of the Horizon Research Consultancy Group for durable consumer goods, Chinese consumers prefer to compare the range, brands and product features online but eventually purchase the item in person. This is especially in cases where high reliability and after-sales services are required.

Retailers need to improve online brand awareness and both the online and offline shopping experiences in order to influence shoppers through multichannel marketing and direct them back to high-quality offline services.

Tip: How to Establish an Online Store on Tmall.com

In accordance with Tmall policy, only companies with business and tax registration in China can open an online store on Tmall. The requirements for different business sectors vary and detailed rules can be found on the following web page: http://rule.tmall.com/tdetail-921.htm

The application process can be found at the following address: http://service.tmall.com/support/tmall/knowledge-5088010.htm

The verification process takes about seven working days. Once the application is approved, the company will sign an agreement with Tmall, take an entrance exam and pay the annual service fee. Once all of the steps have been completed, the company will be allowed to publish its products on Tmall.

Tip: Using Suning’s Online Platform “SOP” (B2C)

A giant of traditional brick-and-mortar retailing, Suning entered the online retail sector in September 2013, opening its own B2C e-commerce platform for use by third parties. In order to compete with Tmall, SOP will not charge sellers an annual service fee for the time being.

Local business and tax registration certificates, a trademark certificate and brand authorisation documents are all required to open an online store on SOP. The application procedure can be found at the following address: http://sop.suning.com/mer/portal/aicenter/aicenter.html
The Consumer-to-Consumer (C2C) Sector

In previous years China’s online C2C sector, driven by amateur shopkeepers, dominated the nation’s e-commerce market. However, the Chinese B2C e-commerce market is now growing rapidly and is providing tough competition.

Due to the rise of the online B2C sector, the total number of individual online C2C shops has declined by 27.8%. This trend suggests that customers are becoming increasingly concerned about quality and service and have higher expectations for the online shopping experience.

In the online C2C retail market, Taobao remains the strongest player, claiming 95.1% of the entire C2C market, leaving only 4.7% to PaiPai.com and 0.2% to Eachnet.com.

Business-to-Business (B2B) Sector

As of June 2013, the value of China’s B2B e-commerce market transactions reached RMB 3.4 trillion (app. £345 billion), an increase of 15% YoY.

Among those B2B e-commerce service providers, Alibaba.com continues to rank first in terms of revenue. According to e-commerce specialists EBRun, Alibaba has 43% of the market share, followed by MySteel.com, GlobalSources.com.cn, HC360.com and Made-in-China.com.

Mobile E-Commerce

Chinese internet has witnessed a very recent rapid increase in mobile e-commerce. China’s state media outlet Xinhua stated that as of June 2013 the size of the China’s mobile e-commerce market reached RMB 53 billion (app. £5.4 billion), an increase of 44.1% YoY. As this statistic indicates, the momentum of this market remains strong.

In the Chinese market, mobile e-commerce is focused on retail, entertainment and personal finance needs. Compared with the other online services, the data flow of mobile e-commerce contains more private data and its business models are closer to the inelastic demands of individuals.
According to CNIT-Research’s report published in August 2013, the number of mobile e-commerce users in China is as high as 370 million. This figure has increased dramatically since 2009, when there were just 36 million users.

CNIT-Research estimates that users of mobile e-commerce will reach 500 million by the end of 2014. The roll-out of 4G networks, with higher connection speeds, combined with more consumers switching to smart phones, will further stimulate the growth of mobile e-commerce.

**Case Study: JiaYuan.com**

JiaYuan.com is the biggest online dating platform in China and the company has been listed on Nasdaq since 2011.

In JiaYuan’s case, the mobile e-commerce environment provides clients with unique experiences. Among the features of its mobile apps, its popular Location Based Service enables users to search for the locations of their potential dates.

In order to attract more people to its marriage dating network, JiaYuan has released its mobile apps on iPhone, Android, Windows Phone and Symbian system. JiaYuan’s CEO stated that “currently the activity of mobile users is higher than those on PCs. The average login times and average time spent online are higher than PC users as well.”
Getting Access to China’s Online Consumers

For British businesses trying to access the Chinese e-commerce market, the first step is to work out a practical and reliable e-commerce strategy. In the past, the only way to directly handle the online shopping demand from China was to establish an online store in Chinese e-commerce platforms, meaning that domestic business registration and tax reporting were essential. Many SME producers of consumer goods tend to use Amazon China as their first step in China because Amazon China provides the same management tools and interface globally. However, Amazon China has limited market influence and low traffic compared to its competitor Tmall.com. Moreover, Amazon China requires a full set of domestic business registration and taxation information in order to open a seller account. The actual operational cost of running such an online store in China is often higher than expected.

Another option is to set up a dedicated e-commerce access point for Chinese target customers, which is physically hosted outside of China (for example, Google chose Hong Kong to host its server clusters for Chinese visitors). For British SMEs, hosting Chinese content in the Asia-Pacific region means Chinese customers could get a faster connection, which is very important in the e-commerce market. The latest cloud-based hosting services provide reliable solutions at affordable prices.

Before entering the Chinese e-commerce market, it is important to understand frequently changing government regulations and the local business landscape. CBBC recommends UK companies visit China to meet local partners and potential supporting staff. A good local partner can act as a sensor of industrial trends and as a guide to building business relationships.

In addition, the success of e-commerce activities is heavily dependent on pre-sale consultation and post-sale support services. A local partner would be in the best position to handle these issues.
Top 10 Tips for Chinese E-Commerce

1. Know your friends, clients and enemies
   Go through local stakeholders in your segment of the e-commerce industry. Unite partners, monitor competitors, build networks, form partnerships and/or acquire existing firms.

2. Establish clear directions, combine online and offline development
   Carefully plan your e-commerce strategy. In a multi-channel retail environment, conflict between your online and offline channels could have a negative impact on your brand image.

3. Choose the right platform for your business
   Existing platforms could increase traffic and help with payment, promotion and delivery issues. On the other hand, having your own e-commerce store could offer more flexibility.

4. Maintain an e-commerce workflow of high efficiency
   Once you have started your e-commerce activities, maintain an efficient workflow that includes information updates, product presentation and data analysis.

5. Improve communication with customers
   Ensure that you provide detailed information through pre-sale communication and high-level services in post-sale support.

6. Do your research on local business culture
   Integrate your business into the Chinese e-commerce ecosystem.

7. Catch up with the trend of mobile e-commerce
   Carry out a usability assessment, ensuring that your platform has a well-designed interface for mobile internet users.

8. Understand government regulations
   Seek consultation relating to the policies and regulations of your business sector.

9. Never underestimate the importance of logistics issues
   Investigate methods of maximising the efficiency of the logistics process.

10. Keep innovating and keep up with e-commerce trends
    Any improvement in process optimisation and technical enhancement could make a great contribution to conversion rate and revenue.
Strategy and Brand Building

For many international companies, one of the key market entry barriers in China is low brand awareness in the local market. A UK business may be well known in Europe, but it is still important for the business to position itself suitably within the Chinese market.

Chinese customers place a strong emphasis on brands that they have heard of, and those which are well established within the marketplace. Therefore building brand recognition is very important for newcomers in China who want to really make an impression.

Well-designed marketing materials are essential to help a product stand out from other similar products and capture people’s imagination. UK enterprises need to focus on presenting the uniqueness and specific qualities of their products compared with competitors and the advantages of purchasing them.
Brand Names and Marketing Messages

Normally consistent global branding is seen as important, but the Chinese language presents some specific branding issues. In order to create a memorable impression of your company and your brand in China, it is essential to have a name that Chinese consumers can remember. It is therefore essential to have a suitable Chinese company or product name to sell your products.

The Chinese translation of Coca-Cola is an example of best practice and highlights the issues involved in creating a suitable name. Coca-Cola in Chinese is “Kekou-Kele” which not only sounds like the English name but can also be translated as “Tasty and Joyful”, thus creating a name that is easily memorable for Chinese speakers while retaining some degree of global consistency.

The concept of symbols is emotionally important to many people in China. Therefore, many companies make use of positive symbols and avoid those with negative connotations in order to maximise the success of their products. For example, the number 4 is regarded as unlucky and 8 is regarded as lucky, because when spoken they sound like ‘death’ and ‘wealth’ respectively. So many businesses avoid the number 4 and often use the number 8 in promotional activities, branding, pricing offers and telephone numbers.

Images and colours are also important. Red and gold are regarded as lucky colours, but white is associated with funerals and death. Images of animals are used to convey meaning and Chinese often use a dragon, phoenix, unicorn, tortoise (Buddhist symbol of learning), crane and fish to convey attributes such as vitality, strength, longevity, beauty, intelligence or versatility.

Having a Geographical Focus

Almost the same size as Europe, with twice the population, China should NOT be regarded as a single national market, but as a varied region made up of over 30 different provinces and municipalities.

Coastal ‘first-tier’ cities in the east of China, including Beijing and Shanghai, have been characterised in recent times by rapid and continuous growth and vast consumer markets have emerged with rapid sales growth for international labels and luxury goods.

However, some markets within these first-tier cities are even becoming saturated and the emerging markets in inland second-tier cities such as Chongqing, Chengdu and Changsha cannot be ignored. The increasing middle class population has led to a sharp increase in brand awareness and consumption.

Apart from the increased buying power, there is a lack of globally recognised brands in these second-tier city markets. Establishing a presence early on is an option that helps protect the brand from the fierce competition it would face in the well-developed regions.
Technological Changes and Social Media

The acceptance and usage of technology and mobile devices in China has grown exponentially. According to the Foreign & Commonwealth Office’s April 2013 China Country Update, China has the highest total number of internet users in the world, with nearly 600 million users (over 40% of the population), over 400 million of whom are mobile internet users.

The internet therefore has become a key source for finding information on products and services, communicating with communities of interest and engaging with customers across China.

Channels such as Facebook and Twitter that Western communities may be used to are not widely available in China; however, there are Chinese equivalents such as ‘Weibo’ and ‘WeChat’ which are widely used with Chinese consumers.

Chinese social media have become an important part of many companies’ marketing communications and sales strategies in the China market. International marketers are keen to engage with influencers within these social media communities to increase awareness of their brands and communicate marketing messages.
Some brands have done very well by using these platforms, and if these tools are utilised effectively, they can be a low-cost alternative to traditional advertising.

Social media is an important tool when a UK business promotes its products in China, and there are several reasons why even SMEs should consider embracing social media in their marketing:

- **Cost Efficiency**: Registering a social media account costs nothing. But companies can use it to respond to consumers directly, promote products and build up a community.
- **Enabling Peer-to-peer Dialogue**: Social media allows companies interact with consumers in a real-time dialogue, which can increase brand loyalty.
- **Bigger Reach than Email**: Social media encourages information-sharing on the Internet.

**Customer Service and After-Sales Support**

One of the core USPs for many UK and other Western companies is the provision of high quality customer service and after-sales support to clients in their domestic market. However, due to the geographic scale of the Chinese mainland it is difficult for companies to deliver high-quality on-site support.

For those companies that do want to deliver after-sales service in China, one of the key solutions is to invest in training and management of partners in China to ensure that your business is represented in a way that reflects your brand values and also ensures the appropriate levels of services for your customers.
Marketing Strategies: 8Ps of Marketing in China

For the context of China, we have added ‘Partnerships’ to the traditional 7 Ps traditionally used by marketing managers. Researching and answering these questions will allow UK companies to make informed decisions on the market and create a strategy covering all tenants of the marketing mix.

1. Partnerships

Both UK SMEs and large corporates that have been successful in China have created long-term win-win relationships with local companies that have allowed them to understand the market better, create a channel to customers and gain the government and business relationships that are an important part of creating open access to the market. Developing and nurturing effective partnerships is important in creating an effective marketing plan in China and yet it creates an extra layer of complexity.

Key questions when considering creating Partnerships:

- What type of partner are we looking for in terms of their core capabilities and business offering?
- Have we ensured our intellectual property is protected and undertaken due diligence before we sign an agreement with our new partner?
- Is this an exclusive partnership, a regionally specific or market-specific one? What suits our business best? How many partners do we need?
2. Price

China has traditionally been a very price-sensitive market and this is still the case especially in the less affluent regional cities. However, the growth of the more affluent and aspirational middle classes has created opportunities in niche markets where international companies can deliver premium products at a higher price. Chinese consumers will accept higher prices for trustworthy brands and high quality products.

While pricing must reflect the quality and attractiveness of any company’s products, it must also be attractive to Chinese consumers. As in all market pricing it will be set based upon the perceived value specific to the customers in that market. Naturally, marketers must take into account both their international competitors that can deliver high-value products and their new domestic competitors that have strong and entrenched relationships within the market.

Key questions when considering Pricing Strategies:
• How does our new Chinese customer define value and how much are they willing to pay for the product or service?
• How are our international and domestic competitors delivering value and pricing? Would it pay off to enter the market at a lower price point or will this negatively affect our brand image?
• What is the price structure our business can support, depending on our business model, and taking into account any extra costs associated with the supply chain and getting the product to China?

3. Product

There are markets in China such as Shanghai and Beijing that have become crowded with a wealth of imported products available to customers. It is important that UK companies differentiate their product in these competitive markets, which may involve customisation.

Alternatively, some companies have chosen to focus on less competitive areas of China. Regional cities in China are developing strongly and represent areas of opportunity for UK companies who want to get their product in early.

Key questions when considering Product Strategies:
• How do customers in our market niche define premium and what aspect of our product is particularly appealing to this market?
• Do we need to redesign or alter products for the needs or uses of Chinese customers?
• Which of our competitors are in the market selling competing products?
4. People

Understanding the nuances of the Chinese market and Chinese consumers, and balancing that with the strengths of your business, is going to be useful for your China strategy.

For this reason, many international companies choose to hire local Chinese staff to assist in creating and executing their marketing plan in China. This way your company can leverage the knowledge and relationships of their local team, gain real-time feedback on how the business is developing and also deliver hands-on relationship management with partner companies within China.

By using an incubator service, SMEs can gain the benefits of having representation in the market at a lower cost, but the team must be managed effectively and remotely from the UK.

Key questions when considering People Strategies:
- Will investing in people either in the UK or China create a better return on investment for our business?
- How can we attract the right kind of quality people to work for our company through providing training and opportunities?
- How can we train, develop and supervise both our employees and partners to deliver consistently high levels of service to customers?

5. Place

As mentioned in previous sections, it is helpful to view China as a country of many different markets rather than one large market. One of the keys to success for many businesses is researching and understanding where to focus the company's resources for maximum impact.

Many successful SMEs focus on one particular area to build deep relationships with partners and customers first. If they are new to market, they often test the viability of their product first on a small scale. Once confident that their products resonate with the Chinese consumers they then look to expand quickly.

Key questions when considering strategy and plans for Place:
- Which cities are our core target customers likely to be based in?
- Is there a cluster of cities within that region that will allow our business to expand without creating undue stress on our resources and supply chain?
- Where are our international and domestic competitors based?
6. Process

As businesses develop internationally they need to understand how they can expand their quality control and core standards internationally too. This creates an extra layer of complexity working with partners in a market as far away as China.

While it is important to put your new Chinese customer at the centre of your marketing planning, the processes side of the business cannot be overlooked as this will be the backbone of providing consistently high levels of quality and service to your clients.

**Key questions when considering Processes:**
- How can our company standards and processes be applied to China and be implemented by our Chinese partners to maintain our brand image?
- What changes do we need to make and how can we manage and accommodate these changes?
- What partners can we use to ensure the efficient transport of our products through customs to ensure timely delivery to customers?

7. Promotion

Focusing on a niche client and a core geographical area will help you create a communications strategy that is effective and manageable. The use of television or other mass media for communications is often regarded as expensive and not targeted enough to be effective. Social media is regarded as a very powerful tool; however, a clear strategy needs to be created to create positive messages on your brand and to manage any messages that may be detrimental to your business in China.

Naturally, all communications need to be translated into Mandarin and managed in Mandarin. Although many young Chinese consumers speak English, if you are aiming to create a message that really has impact and resonates with a Chinese audience it is often prudent to use Mandarin or a combination of Mandarin and English.

**Key questions when considering Promotional Strategies:**
- Where would our Chinese consumer buy our products or hear about our brand?
- What types of social media, publications and exhibitions are specific to our target market use and how can we integrate our communications strategy to exploit this?
- How do we develop or improve our Chinese promotional materials?
8. Physical Environment

The northern part of China is extremely cold and the southern tip of Guangzhou is tropical, seasonal trends vary, lifestyles vary and businesses operate and staff work differently in many different ways. The major cities are often congested with traffic and many major cities suffer from environmental issues. It is important therefore to ensure that your product is relevant to the lives of those who live in the area where it is going to be sold.

Physical promotional materials must also be prominent and remain in good condition, whatever the physical environment has in store.

• Key questions when considering plans for the Physical Environment:
  • Are there any specific weather or geographical considerations that affect our product or how it is used?
  • How does the physical environment impact your supply chain and how can you ensure that you can get products to your client in a timely manner.
Case Study: Dartington Crystal

Dartington Crystal has over 50 years’ history making paperweights, artistic crystal giftware and home ware. In 2012 they introduced one of their brands, Caithness, in department stores in China, with a partner called “L.O.L.” who has the exclusive distribution rights. See below some of the Chinese marketing Ps employed by Dartington.

**Product:** After initial market research, they decided to focus on their Caithness brand, which they had learnt was most suitable for the Chinese market. Caithness is targeted at the middle-income, 35–45 year old generation, who enjoy Western design styles and often buy gift items. They are less price-sensitive and appreciate brand value and exceptional quality. Going forward, Dartington plan to design more collections specifically for the Chinese market.

**Partnerships:** Dartington emphasised having local market contacts, translation skills and the ability to provide tailored support for the distributor in the early stages. Aside from their partnership with L.O.L., Dartington will consider using a Chinese-based PR agent in the future to further their brand image. They are also looking at legal support to protect their brand and trademarks in China.

**Promotion:** Dartington are starting by building their brand around in-store experience, an important marketing tool that is often ignored. Their emphasis is on presenting the product as the best possible and letting it speak for itself. After testing the market and working out where their niche is, they will consider taking on a wider range of marketing activities.

**Place:** Caithness’s products require a light physical environment to show the best aesthetic features of the products. In a new market for a new brand, Dartington felt online sales could not offer this kind of impression, but the New World Department Store in Shanghai could.

**Take Away:** The success factors for their China market entry & development were:

- Thorough consumer & retail sector market research
- Working with a well-established retail partner
- Training for local partners
- Tailored product range & designs
- Repackaging and redesigning to meet the Chinese consumers’ needs
Royal Mail Delivery Services to China

Our dedicated international experts can advise you on the most appropriate Royal Mail service to deliver your customer promise in China. We offer services for letters and parcels - some have features such as online tracking and signature on delivery.

Please visit www.royalmail.com/international for full details on each service.

Preparing your International Mail Labelling

Address your mail fully and clearly and always include the zip code or postcode and the country in English. The country must be written on the last line of the address in CAPITALS. The full country name ‘THE PEOPLE’S REPUBLIC OF CHINA’ must appear as the last line of the address.

Remember to include a UK return address on the post you send so that we can return it to you if it can’t be delivered, free of charge, and ideally place it at right angles to the address.

Checklist: Check that you’re using the correct tariff for the country you’re posting to – underpayment can cause delays.

- Always check the minimum and maximum size limits and weight restrictions before posting.
- Packaging material should protect the items enclosed from damage and be fastened securely to avoid them coming undone in transit.
- Ensure the item is one that can be sent by post and is allowed into the destination country – by checking restricted goods and prohibitions as well as country information.
- If you’re sending a parcel outside the EU, you must complete a customs declaration for each item (see below).

China - Prohibited and Restricted Goods

You are responsible for checking whether or not an item is prohibited. Failure to comply with these regulations could result in prosecution. We cannot accept responsibility for loss or damage to items if the articles inside are prohibited in the country you’re posting them to.
Articles Prohibited as Imports to China

The following prohibited products are not permitted in the mail under any circumstances:

- Arms, ammunition and explosives of all kinds.
- Coins, banknotes, currency notes, securities payable to bearer, travellers’ cheques, counterfeit currencies and counterfeit negotiable securities.
- Aviation regulated solids or liquids - substances with narcotic, noxious or irritating characteristics that can cause extreme annoyance or discomfort to people if leakage occurs.
- Printed matter, films, photographs, gramophone records, cinematographic films, loaded recording tapes and videotapes, compact discs (video and audio), storage media for the computer and other articles that are detrimental to the political, economic, cultural and moral interests of the People's Republic of China.
- Deadly poisons of all kinds.
- Opium, morphine, heroin, marijuana and other addiction-inducing drugs and psychedelic substances.
- Animals, plants and products thereof infected with or carrying disease germs, insect pests and other harmful organisms.
- Foodstuff, medicines and other articles from epidemic-stricken areas and harmful to man and livestock or those capable of spreading diseases.
- Platinum, gold and silver, whether manufactured or not, precious stones, jewels or other valuable articles.

Articles Subject to Restrictions as Imports to China

- Radio transmitter-receivers and units ensuring secrecy in communication.
- Tobacco and wines.
- Endangered and rare animals and plants (including specimens thereof) and their seeds or reproducing materials.
- Other articles subject to Customs quantity control.
- Renminbi (China’s national currency).

International Mail Prohibitions

For safety reasons, some items such as nail polish, perfume and alcoholic beverages above 24% ABV cannot be posted from the UK to international destinations. There are also, for example, strict rules governing the posting of batteries internationally.
You are responsible for checking whether or not an item is prohibited. Failure to comply with these regulations could result in prosecution. For a full list, see Royal Mail’s Prohibitions and Restrictions in UK and International Mail:


Sending Valuables to China

Like many other countries, China doesn’t allow money to be sent through its postal network. British carriers cannot accept liability for loss or damage to mail items containing money.

If you are sending valuables, money or jewellery overseas, we recommend that you use one of our international priority services, International Signed For™ or Airsure®.

Getting Your Parcel through Chinese Customs

One of the benefits of our partnership with China Post is ease of movement through the Chinese customs system. Because of their scale and expertise, your parcels are less likely to encounter delays en route to your customers.

Customs Declaration Forms

All items with contents up to the value of £270 must have a signed and dated customs declaration form CN22 attached to the front. The current CN22 forms are white. Any item sent with a value in excess of £270 must have a fully completed CN23 customs declaration form. This should be attached using the plastic wallet - SP126. Both declaration forms and the plastic wallet are available from Royal Mail or at your local Post Office® branch.

Exporting to China from the UK

If you are a VAT-registered business and intend to zero rate items being sent overseas, you will be required to present customs with proof of export. A Certificate of Posting (COP) can be obtained at the Post Office® branch when you post your item. For more information regarding the export of goods from the UK, please see HM Revenue & Customs notice 703.

Import VAT

The standard rate of VAT that is imposed on import of goods into China is 17%. This is calculated against the CIF value (Customs Value + Cost of Insurance and Freight). ⁴

A lower rate of 13% applies to goods such as books, newspapers, magazines, cereals, edible vegetable oils, tap water, heaters, coal products for residential use and other goods as prescribed by the State Council.

⁴ http://www.bjreview.com.cn/business/txt/2009-08/03/content_210354.htm
**Weight and Size Restrictions**

**Size: Items Packed Flat**
- Minimum size: 140 x 90mm.
- Maximum size: length, width or height less than 600mm; length + width + height: less than 900mm.

**Size: Items Rolled Up**
- Minimum size: length + (diameter x2) must be more than 170mm (with the greatest single dimension more than 100mm).
- Maximum size: length + (diameter x2) must be less than 1040mm (with the greatest single dimension being less than 900mm).

**Weight: Non Books & Pamphlets**
- The maximum weight for an individual item is 2kg, unless it is a book or pamphlet.

**Weight: Books and Pamphlets**
- You can send books and pamphlets (meaning any papers ‘bound’ together), up to 5kg.
- Items between 2kg and 5kg in weight which contain books or pamphlets must be marked as ‘Printed Papers’ in the top left hand corner on the front of the parcel.
- You should not include personal correspondence with these items.

**General Tips for Safe and Secure Packaging**
- Use padded envelopes for sharp edges or odd shapes.
- Make sure any outer containers are strong enough for their contents.
- Fragile items shouldn’t touch either each other, or the side of the container.
- Fill out containers with cushioning material like bubble-wrap or polystyrene chips (available from most Post Office® branches).
- Write a return address on the item.
- Put a contact name, address and telephone number inside.
- Seal securely with nylon or vinyl tape along all edges and openings.
- Flatten any sharp edge from staples or metal fastenings, and cover with tape.
- Use a ‘FRAGILE’ sticker, if necessary.
Top 10 Tips for Exporting Success

1. Do your Research
   Try carrying out an assessment of market demand and only target those countries/regions where potential demand for your product is highest.

2. Be Prepared to Adapt
   What works well in one country may not be right in another. Think about how you can adapt your product to meet local needs and cultural differences.

3. Protect your Profit
   Exporting to new markets sounds like a good idea but remember to factor in exchange rates, shipping costs, translations, insurance, etc, when you work out whether it’s profitable for you.

4. Make your Website Easy to Understand
   Is it clear to people who use English as a second language? Avoid colloquialisms and jargon. Think about providing prices in Euros and US dollars with international shipping prices.

5. Get your Payment Sorted
   You may want to make sure payment is cleared before you ship. Get set up to receive electronic payments through bank drafts or card payment. Or register for an online payment system such as PayPal™ or the Chinese version Alipay.

6. Address Packages Accurately
   Always include the zip or postcode and the destination country in English. Also remember to include a UK return address on the package.

7. Package Securely
   Make sure your products are well protected from damage in transit.

8. Get the Price Right
   Check you’re using the right postage tariff for the country you’re sending to. You’ll find full details of size and weight restrictions at royalmailexport.com.

9. Consider Customs and Insurance
   If you’re mailing outside the EU, you must complete a customs declaration. And if your package is valuable you may want to consider insurance so remember to include the extra cost in your shipping prices.

10. Any Questions, Just Ask

For more help and advice – Our specialist international sales advisers are on hand to offer free advice on exporting to China. And you’ll find a wealth of useful export information on everything from e-commerce strategy to country-by-country postal regulations and costs on our website. You can find more export help and advice at www.royalmailexport.com or by calling 0845 600 1979.
Before you Leave

Preparing for your Trip

- **Remember to Apply for a Visa:** Any travel to China will necessitate obtaining a visa. For business trips, one will typically apply for a business (F) visa. The processing time for Chinese visas is typically 4 working days (though this can be expedited with a premium charge).
  
  - There are three Chinese Visa Centres in the UK (London, Manchester and Edinburgh).
  
  - Alternatively, if one is willing to pay a premium, a visa agency can handle the entire process. Agents can be particularly useful in making sure all the documentation is in order.

- **Change Money:** China’s currency is the Renminbi. It is a good idea to change some money before you come to China. It is also important to note that, outside large hotels, vendors will rarely accept international credit/debit cards. However, many of the larger banks will have ATMs that accept international credit/debit cards (at a fee).

- **Pack Wisely:** Weather varies dramatically across China. Some parts of the country can be extremely warm/humid or cold depending on the season. It is important to pack appropriately to ensure a decent level of comfort throughout the duration of one’s stay in China.

- **Bring Power Adapters:** China operates on a 220V/50HZ system. Chinese sockets are similar to those found in the USA.

- **Keep in Mind that Internet Access is Restricted:** You will experience restricted access on certain foreign websites (for example, Facebook, YouTube, Twitter).

- **Arrange Travel Insurance:** It is better to be safe than sorry, so you should pre-arrange travel insurance before your trip to China. Ideally, make sure your travel insurance covers international hospitals.

- **Remember the Time Difference:** The whole of mainland China is under one time zone, China Standard Time (CST) (GMT+8; BST+7). This is important to keep in mind when calling business partners or your prospective hosts in China.

- **Schedule a Jet Lag Recovery Period:** Given the time difference, it is a good idea to allow for some time to acclimatise to the time difference.

- **Have Emergency Contact Information Prepared:** This can be someone of your choosing or CBBC.
• **Locate the Closest Embassy/Consulate**: Keep the embassy’s contact details on hand in case you encounter a situation that requires consular support. The UK maintains a presence in the following locations:
  - Beijing (British Embassy): +86 0(10)5192 4000
  - Shanghai (Consulate-General): +86 (0)21 3279 2000
  - Guangzhou (Consulate-General): +86 (0)20 8314 3000
  - Chongqing (Consulate-General): +86 (0)23 6369 1400/6369 1500

• **Read your Overseas Market Introduction Service (OMIS)**: If you have commissioned an OMIS project via CBBC and UK Trade & Investment remember to read and bring your final report with you. It will help you become familiarised with the Chinese companies you will meet.

• **Arrange a Translator**: As English is not widely spoken in China, arranging for a translator may be useful. CBBC offers a translator service.

• **Bring Plenty of Business Cards**: Exchanging business cards is a frequent activity when conducting business in China. It is also recommended to print double-sided English/Chinese cards to give to your Chinese counterparts.

• **Research Chinese Local Customs/Practices**: You will impress your guest if you familiarise yourself with some of the more nuanced traditions of the cities you will be visiting (e.g. In Guangdong, it is customary to wash bowls and cutlery before eating – this is typical in restaurants as well).

### Once in China

#### Practical Issues

• **Taxis**: Have the address of your hotel and destination written/printed in Chinese characters (汉字). Taxi drivers will usually not be able to understand English writing or Romanised Chinese written with the Latin alphabet (hanyu pinyin), and will not know where to take you. Additionally, remember that it is very difficult to get a taxi on rainy days and during rush hour and big Chinese cities can get very congested at these times. Never take unlicensed taxis (‘black taxis’), as they are illegal.

• **Account for Irregular Travel Times**: Whether travelling within a large city or cross-country, it is a good idea to account for delays and longer than usual travel times. This is especially true in cities such as Beijing or Shanghai where traffic can increase transit times considerably. Generally speaking, the trains in China run on time, but planes are often delayed. The new high-speed rail network (with an average speed of 200 km/h) is a fast and reliable choice.

• **Chinese Roads**: Crossing the road can be precarious for someone unfamiliar with Chinese traffic laws and how they are applied. Remember, cars do not have to stop at zebra crossings and they can turn right on red lights even if there is a green man at a pedestrian crossing. Many roads have cycle and motorcycle lanes, for which traffic rules are rarely implemented. Be careful, and when in doubt, follow a local.

• **ATMs**: Unlike in the UK, you will receive your cash first, and then the card. Do not leave the cash machine without both in hand!
Business Meetings, Communications and Social Etiquette

• **Business Card Etiquette**: Always give and receive business cards with both hands and a short bow. Also, when receiving a business card, don’t put it immediately in your pocket, as this can be portrayed as flippant. Take a moment to inspect it and then place it gently in your pocket or portfolio.

• **Speak Slowly and Clearly**: English will not be your counterparts’ first language. Speaking slowly and in a simple (but not patronising) manner will help ensure that you convey your message effectively. Try also to limit using British humour/sarcasm as Chinese people will likely find this strange or rude.

• **Avoid Taboo Subjects**: It is unwise to bring up politically sensitive subjects such as Tibet, Diaoyu Islands, Xinjiang, bribery, human rights and jokes of an adult nature.

• **Avoid Insulting or Being Condescending, Especially in Front of Peers**: ‘Saving face’ is one of the most important aspects of Chinese culture. Even inadvertently causing your host/business partners to lose face can be disastrous for your relationship with them.

• **Physical Contact**: Although shaking hands has become the norm for business greetings in China, it’s often deemed unnecessary on social occasions. Avoid physical contact such as hugs and back patting.

• **Be Patient**: Business negotiations can be drawn out considerably longer than in the West.

Hospitality and Dining

• **Food is Shared**: In most situations, food is ordered for the whole table for everyone to share. It would be considered very odd to keep the tastiest dishes to yourself (this rule doesn’t apply when eating Western food).

• **Chopsticks**: Be aware that many restaurants will not have Western-style cutlery.

• **Do Not be Alarmed by Drinking**: Drinking of alcohol is common at business dinners in China, as alcohol is thought to show an individual’s ‘true face’. If you do not wish to drink, make this clear to your host before dining (be prepared to hold your ground). The traditional Chinese liquor is ‘Bai’jiu’, though beer is also very common.

• **Guests Eat First**: Your host may insist that you, as the guest, are the first to try each dish.

• **Expect your Host to Offer you Excessive Amounts of Food**: It is considered hospitable to invite your guest to eat to excess.

• **Arguing to Pay the Bill**: At the end of the meal, Chinese people will usually fight over paying the bill. This is done to demonstrate their generosity.

• **If Invited to a Private Dinner, Bring a Gift**: Gift giving is part of Chinese culture, including at business meetings. If invited to somebody’s home for dinner, some fruit, for example, will suffice. Ideally, any gift should be presented in a gift box or a gift bag. Don’t be disappointed if your host doesn’t immediately open it and comment on its attractiveness/practicality. They may do so in private later to avoid looking greedy.

• **Avoid Gifts that Bear Negative Connotations**: Items which may raise eyebrows include: clocks (=death), red ink (=sever relations) or books (=losing).
The written language is uniform throughout China; however, as in any other country, Chinese dialects vary from region to region. The standard language, Putonghua (often called Mandarin), is based on the Beijing dialect and is spoken by most people across the country. This is the language of business and if you would like to learn some Chinese, Putonghua is the language to study. There are numerous free-to-access websites designed to help you learn Putonghua, and some simple phrases are below:

<table>
<thead>
<tr>
<th>English Phrase</th>
<th>Pinyin (Romanised Chinese)</th>
<th>Phonetic Pronunciation</th>
<th>Chinese Characters</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hello</td>
<td>Ni hao</td>
<td>Nee how</td>
<td>你好</td>
</tr>
<tr>
<td>How are you?</td>
<td>Ni hao ma?</td>
<td>Nee how ma?</td>
<td>你好吗</td>
</tr>
<tr>
<td>Goodbye</td>
<td>Zaijian</td>
<td>Sigh jyen</td>
<td>再见</td>
</tr>
<tr>
<td>Thank you</td>
<td>Xiexie</td>
<td>Share share</td>
<td>谢谢</td>
</tr>
<tr>
<td>You’re welcome</td>
<td>Bukeqi</td>
<td>Boo ke chee</td>
<td>不客气</td>
</tr>
<tr>
<td>Sorry</td>
<td>Duibuqi</td>
<td>Dway boo chee</td>
<td>对不起</td>
</tr>
<tr>
<td>No problem (it’s okay)</td>
<td>Mei guanxi</td>
<td>May gwan shee</td>
<td>没关系</td>
</tr>
<tr>
<td>I would like to go to...</td>
<td>Wo xiang qu...</td>
<td>Wor sheang choo</td>
<td>我想去</td>
</tr>
<tr>
<td>Hotel</td>
<td>Jiudian</td>
<td>Jeew Dyen</td>
<td>酒店</td>
</tr>
<tr>
<td>How much is...</td>
<td>Duo shao qian</td>
<td>Dwo shao chee-yen</td>
<td>多少钱</td>
</tr>
<tr>
<td>Too expensive</td>
<td>Tai guile</td>
<td>Tie gway-la</td>
<td>太贵了</td>
</tr>
<tr>
<td>Toilet</td>
<td>Cesuo</td>
<td>Tsir swor</td>
<td>厕所</td>
</tr>
</tbody>
</table>
Project Team

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Royal Mail Group
International Shipping & Delivery

Contacts CBBC in your Region

<table>
<thead>
<tr>
<th>Region</th>
<th>Email</th>
<th>Contact number</th>
</tr>
</thead>
<tbody>
<tr>
<td>London &amp; South East</td>
<td><a href="mailto:Lise.Bertelsen@cbbc.org">Lise.Bertelsen@cbbc.org</a></td>
<td>+44 (0)20 7802 2004</td>
</tr>
<tr>
<td></td>
<td><a href="mailto:Mark.Hedley@cbbc.org">Mark.Hedley@cbbc.org</a></td>
<td>+44 (0)20 7802 2018</td>
</tr>
<tr>
<td>East of England</td>
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<td>+44 (0)1787 310245</td>
</tr>
<tr>
<td>West Midlands &amp; Wales</td>
<td><a href="mailto:Mark.Eaton@cbbc.org">Mark.Eaton@cbbc.org</a></td>
<td>+44 (0)7730 985144</td>
</tr>
<tr>
<td>Yorks &amp; Humber</td>
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<td>+44 (0)7908 228556</td>
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<tr>
<td>West of England</td>
<td><a href="mailto:Stewart.Ferguson@cbbc.org">Stewart.Ferguson@cbbc.org</a></td>
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<tr>
<td>South West England</td>
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<td>+44 (0)7984 175318</td>
</tr>
<tr>
<td>NE England &amp; N.Ireland</td>
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<td>+44 (0)1484 325320</td>
</tr>
<tr>
<td>Scotland</td>
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<td>+44 (0)7931 880934</td>
</tr>
<tr>
<td>North West England</td>
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<td>+44 (0)1512 271234</td>
</tr>
<tr>
<td>East Midlands</td>
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<td>+44 (0)1507 580255</td>
</tr>
<tr>
<td>North China</td>
<td><a href="mailto:Mike.Dethick@cbbc.org.cn">Mike.Dethick@cbbc.org.cn</a></td>
<td>+86 (0)10 8525 1111 (701)</td>
</tr>
<tr>
<td>East China</td>
<td><a href="mailto:Simon.Stewart@cbbc.org.cn">Simon.Stewart@cbbc.org.cn</a></td>
<td>+86 (0)21 3100 7900 (121)</td>
</tr>
<tr>
<td>West China</td>
<td><a href="mailto:Kyle.Wang@cbbc.org.cn">Kyle.Wang@cbbc.org.cn</a></td>
<td>+86 (0)28 8665 6793</td>
</tr>
<tr>
<td>South China</td>
<td><a href="mailto:Tom.Simpson@cbbc.org.cn">Tom.Simpson@cbbc.org.cn</a></td>
<td>+86 (0)20 2885 8218</td>
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