HSBC

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FROM 'MADE IN CHINA' TO 'MADE FOR CHINA': GLOBAL BUSINESSES PRIORITISE QUALITY PRODUCTS, PARTNERSHIPS AND MILLENNIALS AS KEY TO DRIVING CHINA SALES

Navigator: Made for China survey charts international businesses' ambitions to sell to China's fast growing consumer market

International businesses are confident that the quality of their products will appeal to Chinese consumers, understand that distribution partnerships and e-commerce platforms are key to success in this market and are targeting the growing spending power of consumers aged under 40. These were among the key findings from HSBC's first *Navigator: Made for China* survey, which was launched today at the China International Import Expo in Shanghai.

"To succeed in the future, international businesses must be 'Made for China.' China is no longer just the world's factory; its fast-growing consumer market is prompting international businesses to re-evaluate how and what they sell to China," said Stuart Tait, Regional Head of Commercial Banking, Asia-Pacific, at HSBC.

"While made-in-China goods are found in-store and online around the world, the rapid development of China's economy means that Chinese consumers are shaping the strategies of international businesses. These companies need a new playbook: 'Made in China' is no longer enough; they and their products need to be 'Made for China,'" said Tait.

HSBC's *Navigator: Made for China* survey explores the intersection of international businesses' growth ambitions with China's increasingly affluent and discerning consumers. In September, the survey canvassed the views of 1,205 small and large companies in 11 key global economies that already export to China or are considering doing so.[1]

No substitute for quality

Among respondents from companies currently selling in China, 37% identified being able to provide distinctive or superior products and services as the top factor that would drive their sales growth there. European respondents were particularly confident about the appeal of their products, with 45% choosing this as their top driver.

Another 30% of current exporters to China highlighted the rising affluence and increasing disposable income of Chinese consumers as the key catalyst for their companies' sales growth.

[1] Europe: France, Germany, UK
Asia-Pacific: Australia, Hong Kong SAR, Malaysia, Singapore
MENA: UAE
North America: Canada, Mexico, USA

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What Chinese consumers want

According to government estimates, China is going to import US$8 trillion worth of goods in the five years from 2018 to 2022. That is equivalent to an average of US$1.6 trillion a year, which is about the same as the gross domestic product of Canada or South Korea in 2017.

China's increasingly powerful consumers are equally focused on price and quality, our respondents believe, indicating that Chinese customers look for competitive pricing (40%), quality and safety (40%), and technologically superior products and services (30%) when they make their purchases.

International businesses also believe that technology-related products and services will achieve the fastest growth in China, reflecting the sophistication of Chinese consumers and their demand for products that can enhance their lifestyle.

Globally, 38% of respondents said that exports in the technology services sector (such as information technology, biomedical technology, big data and artificial intelligence) would grow the fastest. Consumer electronics (27%) and high-end intelligent equipment such as that found in the 'Internet of Things' (25%) were also identified as expected leaders in export growth to China.

"Chinese consumers haven't just become richer," said Helen Wong, Chief Executive, Greater China, at HSBC. "They've become more health-conscious, more concerned about the environment and more discerning about brands and the quality of what they buy. This is about a growing middle class buying avocados and wearable digital devices – just like middle class consumers in Europe or North America."

Millennials, platforms and partnerships

Most businesses we surveyed said Chinese consumers aged under 40 today will drive Chinese consumer demand for years to come: 39% believe that those born in the 1990s will provide the strongest sales growth, while 23% believe that growth will come from those born in the 1980s and another 23% believe it will be driven by those born in the 2000s.

Businesses already selling to China identify the importance of having both a physical and an online presence to reach their target consumers. The strategies most commonly used to access the Chinese market are developing local distributor networks (51%), entering into joint ventures (47%) and selling directly via e-commerce and m-commerce (46%).

The importance of e-commerce to the under-40 demographic is clear. These consumers have grown up alongside the phenomenal expansion of online shopping platforms, which recorded sales of over US$1 trillion in 2017. Businesses in Asia-Pacific and North America in particular see e-commerce platforms as key to connecting with consumers.

Challenges and solutions: how businesses can be 'Made for China'

Understanding the local business culture was identified as the top challenge faced by foreign companies already selling to China – a concern most keenly felt among European companies (43%) but less so by companies in the United Kingdom (28%) and the U.S. (33%). Adapting to local tastes, allowing more time for compliance with local regulations (both 35%) and pricing products and services more competitively (31%) were seen as further challenges.

The top three challenges for companies considering selling in China are finding the right local partner (34%), adapting to Chinese tastes (33%) and competition from other foreign companies (32%). Businesses are looking to overcome these challenges by setting up local partnerships (32%), improving their own distribution network or distributor relationships (31%) and improving the skills of their local employees (29%).

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