The China syndrome: big challenges for US brands

US brands looking to succeed in China must learn to listen and localise or risk damaging losses, warns **Allyson Stewart-Allen**

FOR MANY US brands, growing in China is high on their agenda. While the opportunities are very tempting, US brands may fall into the many traps of selling into a country so different from home.

According to the latest figures, China's import market is worth $1.95 trillion and has surged fivefold over the past decade, an indication that its historically closed markets are opening up for US companies that make physical products over services. After a record 2013, China is on track to push the US off its perch as the biggest trading nation, a position it has held for more than six decades.

Given this rate of economic growth, the Chinese market is a honeypot for US CMOs, some of whom have played it well there while many others have lost sales and reputations. For example:

- When US electronics retailer Best Buy imposed its Western retail model on the Chinese consumer it cost the company its business: all nine of its branded stores closed, leaving the company with huge debts – redundancy payments, early exit of store leases, cancelled supplier contracts – not to mention the reputational damage yet to be quantified.
- Mattel's famous Barbie doll did not appeal to the Chinese market's conservative, family values, with shoppers wary of buying sexy dolls for their children. The company spent $30 million on a flagship store in Shanghai but closed it two years later due to poor sales and bad press.
- After 37 years in China, Revlon recently announced its retreat from the market due to falling revenues. Compared with Western cosmetics companies, Revlon did little brand marketing, relying instead on word of mouth. Combined with its apparent reluctance to invest in developing products specifically for Chinese women – skin whitening creams and increasingly popular anti-ageing products – it is now confronted with writing off this market development investment.
- Deal-of-the-day website Groupon entered the Chinese market in 2011 and, despite the country's flourishing economy, its revenue in the country comprised less than one per cent of total global income six months later. The locals' complaint? US executives were monopolising the operation and not listening to the suggestions of the Chinese staff.
- NuSkin, the US direct-selling cosmetics company, has been broadsided by the Chinese government's allegation that it operates an illegal pyramid scheme in the country without a licence. Backed by a government investigation and a state media campaign, the approach seems to replicate a familiar pattern for global companies in China (Apple, KFC, Walmart) over the past 18 months.

US brands that have successfully expanded in Western markets must (re)think before applying their strategies to the Chinese consumer. Doing your homework on the Chinese economy, its consumers, the culture and your brand's ecosystem are essential to protect you, your reputation and your sales.

One important, and somewhat unique, factor that needs to be kept top of mind when growing in China is 'the little emperor effect' stemming from China's one-child policy. The increased spending power of parents and the desire for their child to experience a better life is shaping the current climate. In part it explains the increased demand for luxury products from parents in their mid-30s.

So what should US brands do to ensure their success with Chinese consumers?

- **Product layout:** unlike Best Buy, which clustered its merchandise by product category (as in the West), successful market entrants will have done their homework and learned that Chinese shoppers choose by brand name.
- **Localise:** General Motors became a leading car producer in China in less than two decades. Shortly after entering the market it moved its Asia headquarters from Singapore to Shanghai. GM did not interfere with the local management running Buick, one of its top-selling marques, making local marketing of the brand extremely successful.
- **Respect tradition:** Jia Duo Bao, a cold herbal tea, outsells Coca-Cola even though it is twice the price. This healthy, herbal, natural product appeals to China's health consciousness.
- **Adapt the product and branding:** Ford's sales shot up by almost 50% last year after expanding its range there, especially in the luxury sectors. Ford also designed cars directly for the Chinese market and branded them with Cantonese names.
- **Pricing:** Chinese consumers are no longer willing to pay a premium for a western brand unless it is demonstrably better. Brands positioned as 'budget' or 'everyday low price' in the West quickly become 'mid-range' in China, forcing US brands to lower prices to capture the budget position or target a different audience than their traditional mass markets in Europe or the US. Mass-market US brands might be a tough sell with demand for top-end, luxury ones currently winning out.

What will make the difference for those who profit in China is good listening, localisation and long-term plans for building market share. ■

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