Navigator

Made for China

HSBC

"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. 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"."

Stuart Tait

Regional Head of Commercial Banking, Asia-Pacific, HSBC

Made for China

HSBC's **Navigator: Made for China** survey explores the intersection of international businesses' growth ambitions with China's increasingly affluent and discerning consumers.

We surveyed 1,205 small and large companies across 11 key global economies that already export to China or are considering doing so.[1]

We found that businesses that are truly 'Made for China' understand a few key points:

- **Target millennials:** An overwhelming majority of international businesses expect those born after 1980 to drive sales growth.
- **High-tech, high-demand:** Technology services, consumer electronics and high-end intelligent equipment will be the fastest-growing sectors in the next 3-5 years.
- **Quality meets prosperity:** International businesses believe that the distinctive quality of their products and services and the growing affluence of Chinese consumers will drive sales growth.
- **Cultural matters:** Understanding the local business culture and adapting to local tastes are the top challenges faced by foreign companies.
- **Making it work:** Partnerships, distribution agreements and e-commerce platforms are the keys to success for international companies selling to China.

Is your company Made for China?

HSBC's **Navigator: Made for China** survey charts international businesses' ambitions in China.

Roughly one quarter (24%) of business currently selling to China list China as a top-three export destination – and it is the primary export destination for about two-thirds (65%) of them.

Among companies currently exporting to China, more than four in five (83%) see their business with China as at least among the most important. The figure is highest in Asia-Pacific and among businesses in the services sector (both 89%).

Almost half of businesses surveyed see China-related trade pacts as helpful in driving business growth in China.[2]

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

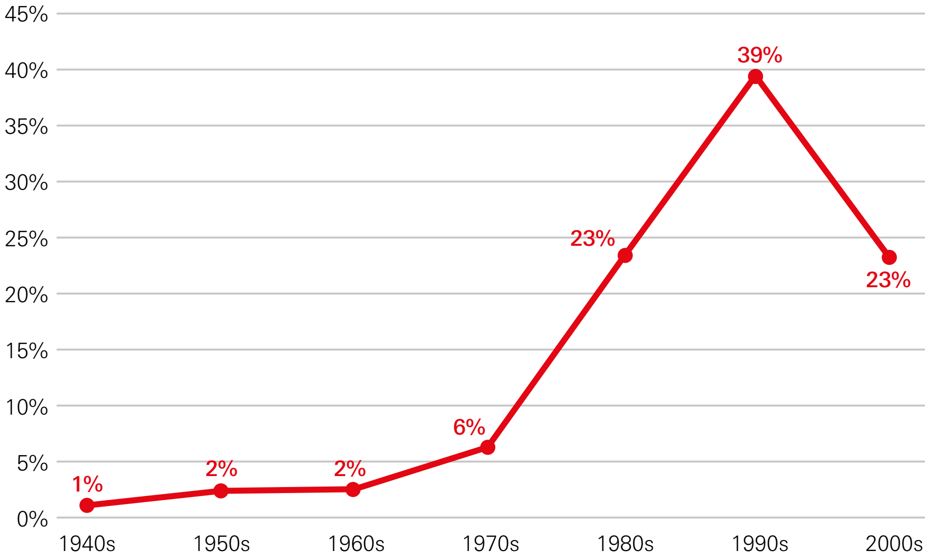
2 Source: Navigator: Now, next and how for businesses, November 2018

Chinese Consumers: Influence of affluence on businesses

It's all about the younger crowd

Millennials will drive consumer demand in China for years to come. Indeed, 39% of the global companies surveyed in HSBC's **Navigator: Made for China** believe that those born in the 1990s will provide the strongest sales growth. 23% believe that the best sales prospects will come from those born in the 1980s and another 23% believe it will come from those born in the 2000s.

Fig. 1: The generations which will provide the greatest future growth in China



> 39% of the global companies surveyed believe that those born in the 1990s will provide the strongest sales growth.

High-tech, high demand

International businesses believe that technology services such as big data (38%), consumer electronics (27%) and high-end intelligent equipment such as robotics (25%) will be the fastest-growing sectors in China over the next 3-5 years. This reflects the sophistication of Chinese consumers and their demand for products and services that can enhance their lifestyle.

Fig. 2: The three fastest-growing sectors in China

Region	Top factor		Second factor		Third factor	
Global	Technology services (e.g. IT, biomedical technology, big data, AI etc.)	**38%**	Consumer electronics and appliances	**27%**	High-end intelligent equipment	**25%**
Asia-Pacific	Technology services (e.g. IT, biomedical technology, big data, AI etc.)	42%	Consumer electronics and appliances	30%	High-end intelligent equipment	26%
Europe	High-end intelligent equipment	32%	Technology services (e.g. IT, biomedical technology, big data, AI etc.)	30%	Automobile	▲ 27%
North America	Technology services (e.g. IT, biomedical technology, big data, AI etc.)	40%	Consumer electronics and appliances	29%	Apparel, accessories and consumer goods	25%

▲ Significantly higher than Global average at 95% C.I. ▼ Significantly lower than Global average at 95% C.I.

Accept no substitute

Another key finding is that quality matters. Companies currently exporting to China believe that their ability to provide superior products and services is their biggest driver of sales growth. This is followed by the growing affluence of China's consumers. For North American exporters to China, competitive pricing is also a key factor.

Fig. 3: Top 3 factors driving company's growth in sales / exports to China among companies currently exporting to China

Region	Top factor		Second factor		Third factor	
Global	Being able to provide distinctive / superior products / services	37%	Rising affluence / increasing disposable income	30%	Partnerships / distribution agreements with local companies	29%
Asia-Pacific	Partnerships / distribution agreements with local companies	32%	Being able to provide distinctive / superior products / services	32%	Widespread usage of sales / e-commerce platforms in China	28%
Europe	Being able to provide distinctive / superior products / services	45%	Rising affluence / increasing disposable income	37%	Lack of international competition from companies selling or exporting to China	30%
North America	Being able to provide distinctive / superior products / services	40%	Own company's competitive pricing	36%	Partnerships / distribution agreements with local companies	30%

Companies currently exporting to China believe that Chinese consumers look for quality and safety (40%), competitive pricing (40%) and technologically superior products and services (30%) when they make their purchases.

Fig. 4: Top 3 factors China customers are looking for among companies currently exporting to China

Region	Top factor		Second factor		Third factor	
Global	Competitive pricing	40%	Quality and safety	40%	Technologically advanced / innovative products	30%
Asia-Pacific	Quality and safety	41%	Competitive pricing	39%	Convenient access to products and services via digital / e-commerce platforms	24%
Europe	Quality and safety	38%	Technologically advanced / innovative products	37%	Access to specialist products / services	32%
North America	Competitive pricing	54%	Quality and safety	38%	Easy ordering process / speedy delivery	35%

‘Made for China’ means knowing China

Overcoming challenges

Foreign companies trying to grow in China face three big challenges: finding the right local partner (34%), adapting to Chinese tastes (33%) and competition from other foreign companies (32%). These challenges can be overcome by setting up local partnerships (32%), improving their own distribution network or distributor relationships (31%) and improving the skills of local employees (29%).

Fig. 5: Top 3 challenges for company’s growth in China

Region	Top factor		Second factor		Third factor	
Global	Finding the right local partner	34%	Ability to adapt to Chinese tastes	33%	International competitors	32%
Asia-Pacific	International competitors	34%	Local competitors	34%	Ability to adapt to Chinese tastes	33%
Europe	Finding the right local partner	40%	Ability to adapt to Chinese tastes	33%	Intellectual property / product security	32%
North America	International competitors	34%	Regulatory requirements	34%	Ability to adapt to Chinese tastes	34%

Fig. 6: Key strategies to overcome growth challenges

Region	Top factor		Second factor		Third factor	
Global	Setting up partnerships with local companies in China	32%	Improving own distribution network or distributor relationships	31%	Investing in staff training / up-skilling	29%
Asia-Pacific	Setting up partnerships with local companies in China	36%	Investing in staff training / up-skilling	33%	Greater use of e-commerce platforms	31%
Europe	Expanding product / service offering	31%	Improving own distribution network or distributor relationships	31%	Investing in staff training / up-skilling	29%
North America	Improving own distribution network or distributor relationships	33%	Greater use of e-commerce platforms	32%	Setting up partnerships with local companies in China	31%

When in China, do as the Chinese do

The top challenge companies have found in selling to China is understanding the local business culture. This concern is most keenly felt among European companies (43%) but less so by companies in the United Kingdom (28%) and the US (33%).

Adapting to local consumer tastes, allowing more time for compliance with local regulations (both 35%) and pricing products and services more competitively (31%) are further challenges.

Different businesses face different challenges. Manufacturers are most concerned about understanding the local business culture, while wholesalers and retailers are more worried about adapting to Chinese e-commerce platforms as well as customising products and services for the Chinese market.

Fig. 7: Key challenges in selling / exporting to China

	Global	Asia-Pacific	Europe	N. America
Need to understand Chinese business culture	39%	40%	43%	34%
Need to customize products and services to meet Chinese market needs	35%	38%	32%	36%
Need to allow more time for complying with local regulations in China	35%	34%	40%	32%
Need to price products / services more competitively	31%	32%	29%	30%
Need to adapt to Chinese e-commerce platforms	27%	31%	22%	27%
Need to build brand awareness and consideration	25%	24%	22%	29%
Need for access to market intelligence	23%	21%	21%	27%
Need to be more conscious about foreign exchange risks	22%	23%	20%	24%
Need to allow more time for invoicing and payment process	20%	20%	22%	20%

Partnerships can help meet local needs…

The challenge of meeting Chinese consumer needs can be overcome by partnerships or distribution agreements with local companies as well as investment in local staff. Businesses in Asia-Pacific and North America also see e-commerce platforms as key to connecting with customers.

…and help understand the local regulatory landscape

Cultivating local ties can also help foreign companies navigate the local regulatory environment, especially considering that China-related trade agreements will have a positive long-term impact on their businesses.

Meanwhile, in the short term…

Businesses with a negative outlook on global trade cite the US-China trade dispute and increased protectionism as the key factors for their pessimism. In particular, companies already trading with China name the US-China trade dispute as their number one worry.

Fig. 8: Reasons for negative outlook for company's prospects in foreign trade

	Top factor		Second factor		Third factor	
Global	Tariffs	31%	US-China trade dispute	31%	Increased protectionism	23%
All exporters	US-China trade dispute	36%	Tariffs	35%	Increased protectionism	24%
Trading with China	US-China trade dispute	44%	Tariffs	35%	Increased protectionism	31%

Source: Navigator: Now, next and how for business, November 2018

Access China: On the ground and online

Businesses selling to China identify the importance of having both a physical and an online presence. They generally access the Chinese market by developing local distributor networks (51%), entering into joint ventures (47%) and selling directly via e-commerce and m-commerce (46%). The latter is used most by Malaysian and Mexican companies (both 58%), wholesalers and retailers (60%) and construction companies (66%).

Fig. 9: Key strategies used to access Chinese market

	Global	Asia-Pacific				Europe			N. America			MENA
		Australia	Hong Kong SAR	Malaysia	Singapore	France	Germany	UK	Canada	Mexico	USA	UAE
Developed local distributor network	51%	50%	▲ 65%	▲ 62%	55%	40%	44%	47%	42%	44%	53%	52%
Entered into joint venture	47%	50%	43%	▲ 60%	45%	36%	39%	39%	38%	32% ▼	50%	57%
Sold directly, for example through e-commerce platform / telephone / email	46%	51%	42%	▲ 58%	44%	32% ▼	26% ▼	43%	43%	▲ 58%	53%	53%
Set up subsidiary company	35%	40%	▲ 49%	41%	33%	31%	35%	28%	31%	23% ▼	31%	35%

▲ Significantly higher than Global average at 95% C.I. ▼ Significantly lower than Global average at 95% C.I.

Bricks-and-mortar sales and online sales are equally important

Physical stores and virtual stores are equally important when it comes to driving sales in China. Physical sales are made at third-party premises (58%) or at the companies' own premises (55%), while online sales are made through their own websites (58%), through local e-commerce platforms (57%), or through third-party websites (56%). Wholesalers and retailers are somewhat more likely to sell direct either through their own websites (66%) or through local e-commerce platforms (65%).

Fig. 10: Sales channels contributing to sales in / exports to China

		Size of company		Industries				
	Global	Business Banking	Corporates	Services	Non-services	Wholesale / Retail Trading	Construction	Manufacturing
Sales at distributor / partner store / office / business premises	58%	61%	56%	56%	60%	55%	59%	63%
Direct sales through own official website	58%	56%	60%	57%	59%	66%	59%	57%
Direct sales through local e-commerce platforms	57%	56%	57%	55%	59%	65%	64%	57%
Sales through third-party / distributor website	56%	56%	56%	59%	53%	59%	59%	50%
Sales at own store / office / business premises	55%	52%	58%	54%	55%	46%	56%	57%

Conclusion: All eyes on China

Significant growth ahead for companies that are 'Made for China'

Nearly half of businesses that are currently selling to China see it as a top-three destination to expand their business in the next 3–5 years. The sentiment is strongest in the US (58%) and among manufacturers (51%).

Among companies that are considering expansion into China, 76% regard it as at least among the most important markets. 40% of US companies and 39% of UAE companies believe that China will be their most important market, compared to only 15% in Europe. In Asia-Pacific, Malaysian businesses (91%) and Australian businesses (84%) attach the greatest importance to China for their companies' future.

About Navigator: Made for China

HSBC's inaugural Navigator: Made for China report surveyed 1,205 businesses with turnover of $5m-$50m USD turnover from 11 key markets globally, including: US, UK, Singapore, Malaysia, Australia, Hong Kong, UAE, Germany, France, Canada and Mexico.

Survey respondents were key decision makers from businesses already or considering selling and exporting to China. The survey gauges future growth drivers of trade to China, strategies and sales channels as well as fast growing sectors and consumer generations.

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