

BUSINESS SWEDEN

CHINA'S NEW CONSUMERS

THE RETAILERS' PLAYBOOK FOR WINNING HEARTS AND MINDS IN THE EAST

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FOREWORD

WHO IS CHINA'S NEW CONSUMER?

The Chinese retail landscape has transformed rapidly over the past decade as millions of people have migrated from rural areas to cities. Rising wages and easier access to shopping opportunities have given retail sales a major boost – but there are other growth drivers too.

Besides shifting consumer demographics and higher disposable income, digitalisation is fundamentally changing the playing field. China is now at the global forefront of e-commerce, social online interaction and Big Data deployment. “Smart retail” is fuelling new consumer behaviour and expectations for simple and seamless omni-experiences.

While China can seem daunting for Western retailers, the market cannot be ignored for three key reasons. Firstly, China has the world's largest population with 1.4 billion inhabitants and is on track to become the largest consumer market. Capturing just a fraction of the cake can be hugely profitable. Secondly, China is a prime mover within a number of technology fields that are reshaping retail experiences with knock-on effects worldwide.

And finally, China's increasingly affluent consumers are avid spenders both at home and abroad. The pay-off is simple: learning from Chinese shoppers can strengthen your position wherever your core business is located. Swedish brands offering good-quality products should keep China top of mind in the next decade.

What makes China's new consumers tick? Find out in this report by exploring the perspectives of 1,500 consumers in the four tier 1 cities in mainland China. The next wave of consumption growth is expected to come from the other tiers, so it won't be long before these findings apply beyond the megacities.

In addition to this survey, we invite you to take stock of the advice and guidance provided by local influencers and business leaders. Whether you are a new entrant in China or looking to expand your existing retail footprint, we hope this study provides a window to the future.

Joakim Abeleen
Business Sweden, China



JOAKIM ABELEEN
Business Sweden, China



KEY HIGHLIGHTS

Omni-experiences are vital as Chinese consumers mix online/offline channels in the shopping journey.

Key Opinion Leaders (KOLs) play an essential role in influencing purchasing decisions.

Mobile payment is the norm in both online and offline shopping.

A mindset shift puts focus on quality products as a result of increased disposable income.

Environmental awareness is highly valued but consumers are reluctant to pay extra.

Consumers are brand aware, not brand loyal and loyalty programmes need to be kept simple.

MARKET OVERVIEW

BOOM TIME FOR CHINA'S RETAIL SECTOR

URBANISATION DRIVES SHOPPING BONANZA

By all accounts, 2021 will be a landmark year as China is set to overtake the US as the world's biggest retail market.¹ China's influence is undeniable following a decade of surging growth in the retail sector. Physical and digital retail are now converging and, interestingly, the current economic slowdown is failing to bite fully on the industry.

China's GDP growth is expected to drop from its current level of 6.1 per cent. But according to analysts, the impact will be marginal for retailers – if noticeable at all. Why is retail going full steam ahead despite economic headwinds? The answer is two-fold: rapid urbanisation and rising spending power. In 2018, China overtook Japan as it climbed to second place in Credit Suisse's Global Wealth Report. Accelerating consumer spending is unleashing huge market potential.

More than half of China's population live in cities and by 2025 some 900 million, or 70 per cent of the population, will be city dwellers. This new generation of urban consumers are unlike any that have come before. How, where and when they purchase products is largely governed by connectivity. No fewer than 690 million Chinese are smartphone users and China has leapfrogged from a cash-driven society to mobile payments. This means that today's Chinese consumer is used to making purchases on the go.

E-COMMERCE: CONSUMERS' FIRST CHOICE

China has the world's largest online retail market valued annually at EUR 400 billion. This is more than 1.5 times Europe's market size. E-commerce now accounts for 25 per cent of China's domestic retail market. Overall consumer spending saw double-digit growth until 2018 and remains above 7 per cent,² which is still impressive in times of trade tensions and economic slowdown.

In many ways, e-commerce has become the consumer's first choice. Platform companies such as Alibaba and Jingdong (JD) – China's largest online retailers – dominate the landscape. And they focus heavily on seasonal shopping festivals and promotional days such as Single's Day³ (Nov 11) and 618 (June 18). Consumers spent EUR 53 billion on Single's Day in 2019 – more than double the combined sales volume of Black Friday and Cyber Monday in Western countries last year.

For good measure, these tech giants have revolutionised delivery and returns so online shoppers barely need to wait at all. Last-mile logistics is the new battle front and JD now promises to deliver 90 per cent of packages within 24 hours, of which 57 per cent arrive within 12 hours. Both Alibaba and JD allow customers to schedule delivery within 30 minutes for certain items including fresh groceries. Third-party delivery solutions in the rapidly growing cities are critical to China's e-commerce success. Changing consumer behaviour and expectations mean that ultra-fast deliveries are here to stay.

Omni from latin *all/the whole of* = the integration of retail channels to enhance experience.

UNDERSTANDING THE ECOSYSTEM

The landscape of platforms and apps in China is also vastly different from what Western companies are used to. More than 90 per cent of online sales take place on aggregator platforms such as JD.com, Taobao and Tmall.⁴ Understanding this digital ecosystem should be a top priority for international companies.

But first, e-tailers considering their next move in China need to decide between two pathways for entering the e-commerce market:

– *Establish partnerships with cross-border e-commerce platforms that facilitate international trade*

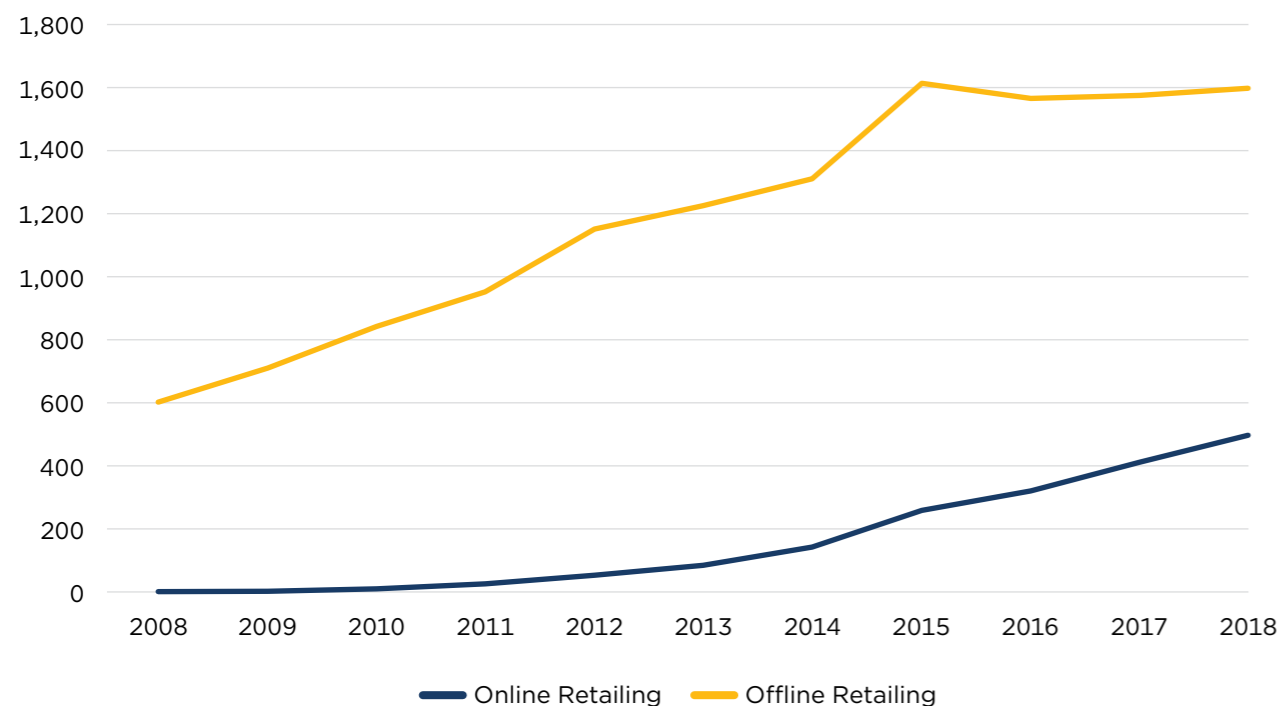
– *Set up a business entity in China and engage with domestic e-commerce platforms*

While both business models come with separate challenges, evidence speaks in favour of a combined approach. Cross-border platforms can provide an initial springboard for penetrating the market.

At the same time, operating from “outside” means that deliveries take longer and become more costly. And you don’t get the same reach as fewer Chinese consumers tend to use cross-border platforms than domestic ones. Close proximity to millions of customers and responsive supply chains are two major plus points of having a local presence.

CHINA'S E-COMMERCE BOOM CONTINUES

SHARE OF OFFLINE VS ONLINE SALES IN EUR BILLIONS 2008-2018



DIGITAL RETAIL

THE AGE OF EXPERIENCE

HARNESSING THE FUTURE OF SMART RETAIL

Given that there are 850 million Chinese internet users today, it is not surprising that China has become the world’s largest e-commerce market accounting for 40 per cent of retail transactions online.⁵ But what is truly impressive is the way in which the sector’s ecosystem of players have integrated their services based on a mobile-centric approach.

By embedding mobile payment solutions, reviews, social media, loyalty programmes, flash sales, ultrafast delivery and return options and, not least, viewpoints from Key Opinion Leaders at every junction of the shopping journey, retailers have put Chinese consumers firmly in the driving seat. And it doesn’t end there.

Digitalisation has revolutionised in-store experiences too. Both Alibaba and JD have made omnichannel shopping the norm by connecting all consumer touchpoints, thanks to new O2O (online to offline) strategies. Using Big Data to track users’ behaviour and needs, RFID sensors, robotics and AI in physical stores, these and other platform giants have laid the foundation for a new age of omni-experiences.

GAMIFICATION DRIVES ENGAGEMENT

China’s retailers were early to latch on to the growing culture of in-store social media sharing and the power of instant gratification. Take for example the rise of “retailtainment”. Beyond selling products, this concept allows shoppers to enjoy smarter, more fun and inspirational store environments. Applications and games give customers the opportunity to earn points and get promotions while browsing physical stores.

The use of gamification has surged in China’s luxury retail segment and so has the concept of social shopping. In 2018, the social e-commerce platform Little Red Book (Xiaohongshu) opened its first physical retail store in Shanghai.

The store is equipped with photo booths for WeChat-sharing, AI powered make-up mirrors, arcade games and claw machines. By completing tasks and collecting points, customers, who are predominantly young trendy females, are rewarded with fashion and cosmetics products.

Another example of innovation is “hands-free” shops that allow visitors to try clothes on virtually and pay using facial recognition. The next step is fast and easy home delivery – all without going to a checkout point. In order to win the hearts and minds of consumers, particularly urban millennials, non-Chinese retailers need to understand and tap into many of these sophisticated techniques that are guaranteed to enrich customer experience.

Key Opinion Leaders (KOLs) are influencers frequently used by brands in all segments to steer purchasing decisions.

Key Opinion Consumers (KOCs) are a new breed of influencers on social media deemed to be more trustworthy, like friends, and less commercially motivated.

CHINA'S POWERFUL ECOSYSTEM FOR DIGITAL RETAIL



6 INSIGHTS FOR GETTING TO KNOW CHINESE CONSUMERS

Want to tap into the minds of China's new generation of digital native shoppers? Get the inside scoop with survey results from China's four tier 1 cities.

SEAMLESS JOURNEY

74% of Chinese consumers use multiple retail channels and take omni-experiences for granted. No more than 10 per cent of shoppers complete the journey from start to finish in physical retail. Similarly, just 16 per cent of shoppers rely exclusively on digital channels.

Retailer challenge: Companies need to build seamless experiences across online and offline channels. Consistent service at every touchpoint is key for capturing sales.

SOCIAL SHOPPING

81% of shoppers in China's tier 1 cities read reviews and consider other people's opinions before making a purchase. Friends, acquaintances and influencers are all important. Local influencers for niche social groups have a larger impact on decision-making.

Retailer challenge: E-commerce platforms in China are often integrated with social media and Key Opinion Leaders (KOLs). Retailers need to set social marketing goals and create engaging content.

MOBILE PAYMENTS

82% of consumers use smartphones to make purchases. Shoppers in all channels and surveyed locations expect a simple and hassle-free checkout process using mobile payment apps and solutions.

Retailer challenge: Partnering with a third-party provider of mobile payments is a vital first step. Companies need to thoroughly assess the benefits and data insights on offer. WeChat Pay and Alipay dominate the market.

QUALITY IN FOCUS

#1 Quality topped the list when Chinese consumers were asked to rank the product features that matter most, followed by safety and warranty in second and third place. The ground has shifted away from price as wages and spending power have increased.

Retailer challenge: New entrants need to identify which specific aspects of quality carry most weight with Chinese consumers, and amplify unique product features in order to stand out in a crowded marketplace.

ECO-AWARENESS

Consumers are increasingly drawn to brands that are environmentally friendly and like to support companies that are facilitating change in society through corporate social responsibility.

Retailer challenge: Brands should promote their environmental profile at all times and communicate steps taken to enhance sustainable performance, without expecting financial gain.

LOYALTY INCENTIVES

62% of shoppers favour online price discounts. Chinese consumers are brand aware but not brand loyal. At the same time, rewards work well to encourage re-purchasing.

Retailer challenge: Monitoring purchasing patterns is essential to ensure timely activation of product discounts that boost re-engagement.

SPOTLIGHT ON CHINA RETAIL

The new Chinese consumers: Business Sweden carried out a survey among 1,500 consumers in China's four tier 1 cities Beijing, Shanghai, Shenzhen and Guangzhou. The majority of respondents were from three-person households in the middle-to upper class income levels. 73 per cent of participants were in the 20-39 age group split evenly across gender.

The participants answered questions about purchasing behaviour including:

- How did you become aware of your most recently purchased brand?
- How did you search and explore information about the product?
- Which channel(s) did you use to buy the product?
- How did you engage with the brand post-purchase?
- What is the likelihood of re-purchasing the item?

In addition, respondents were asked to reflect on which Swedish brands they are aware of and what attributes they typically associate with Swedish brands.

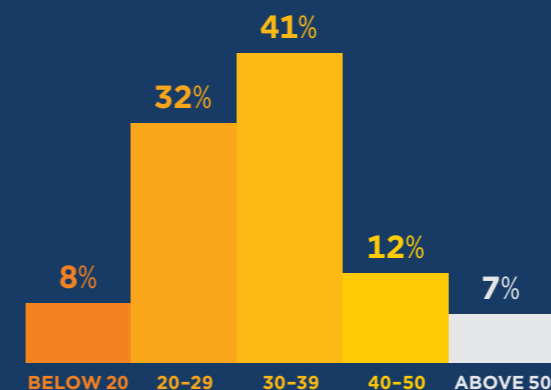
SURVEY CATEGORIES

- Fashion & Beauty**
 - Apparel & Accessories
 - Cosmetics & Personal Care
- Food & Health**
 - Food & Beverage
 - Healthcare & Medicine
- Household**
 - Furniture & Interior Design
 - Electronic Devices & Appliances
 - Baby Products
- Travel & Entertainment**
 - Travel & Leisure
 - Entertainment
 - Sports

DISTRIBUTION OF SURVEY RESPONDENTS



AGE DISTRIBUTION



66%
Three family members in the household



73%
Family monthly income between RMB 15,000-30,000 (-EUR 1,900-3,800)

TOP TAKEAWAYS

Key findings and recommendations for Swedish retailers

“
Brand experience is key.”

“
Don't just dip your toes, triple the budget.”

DESIGNING FOR OMNI

Creating a seamless customer journey is vital in the Chinese retail market. Urban dwellers in the megacities expect omni-experiences and frictionless interaction. Our consumer survey reveals that 74 per cent of shoppers mix online and offline channels during any given purchase.

Retailers need to support this exploration journey by ensuring that all touchpoints are interlinked. Traditional ads have lost appeal and influence – consumers discover brands and make up their mind while probing the shopping landscape. 36 per cent of respondents find products in brick-and mortar stores, and another 36 per cent on e-commerce platforms that often provide reviews, social media and embedded viewpoints from influencers.

IMPLICATIONS FOR SWEDISH RETAILERS

Identify ideal channels and focus on experience: Create seamless touchpoints across the customer journey.

Engage with e-commerce platforms: Going your own way with proprietary channels is a risky game in China.



DAVID LLOYD

General Manager, UK, Netherlands & Nordics at Alibaba Group

Alibaba Group is the world's largest online and mobile commerce company with platforms such as Taobao.com (mainly C2C) and Tmall.com (B2C), cross border alternatives as well as cloud services, entertainment and payment services.

How can retail brands stand out from the crowd in China?

Chinese consumers do not distinguish between online and offline. They expect to be able to purchase any product at any time, in any preferred way. This means that brands need to maximise consistency in-store and online to build relationships.

Companies should focus on personalised recommendations and experiences, and they must recognise loyal customers. Shopping is far more than a transaction in China. Consumers value brand experience almost as much as purchased products – so retailers need to be on their toes. Livestreaming and virtual reality are two examples of successful marketing tools used to connect with a mobile native consumer base.

How can Swedish brands get recognition and succeed on e-commerce platforms?

Scandinavian and Swedish products are sought after in China for high quality and design. Consumers want to be well informed on all brand elements. By emphasising product materials, safety, heritage and other aspects, brands can really gain popularity and leverage the values of 'Designed in Sweden'.

INFLUENCER MARKETING MATTERS

Outside opinion is essential for winning hearts and minds in China. 81 per cent of respondents checked reviews, asked friends or turned to Key Opinion Leaders (KOLs) before buying a product. 24 per cent of respondents interacted directly with brands on social media.

Knowing in which retail segments KOLs have an essential influence is critical for new entrants. For example, the survey shows that 46 per cent of shoppers in Healthcare & Medicine turn to influencers before purchasing. In Travel, Leisure and Entertainment, consumers rely on insights from influencers to an even greater degree than friends. But less so in Food & Beverage.

At the same time, the lines between KOLs and friends are blurring. Micro-influencers who engage in a two-way dialogue with consumers often demonstrate high conversion ratio in terms of sales impact.

IMPLICATIONS FOR SWEDISH RETAILERS

Identify influencers for your brand: Finding the right mix of influencers will give digital marketing efforts and conversion rates a major boost.

Monitor social media: Chinese use social media more than anyone, and they expect instant feedback on comments.



FOLKE ENGHOLM

CEO at Viral Access

Viral Access is an AI-driven social and influencer marketing firm founded in 2015 in Shenzhen, China. The company has 150 staff based in China, Hong Kong, Taiwan and Malaysia.

What trends have you observed recently?

The growth of Key Opinion Consumers. These are regular people who are already using your product and speaking positively about them. Using data we can now mobilise these KOCs in a way that favours brands.

We also have the shift from celebs to micro- and nano influencers. They are more niched with smaller groups of followers who perceive them as friends, not commercial influencers. Consumers tend to trust the opinion of a friend over a firm or celebrity. George Clooney promoting Nespresso is no longer credible.

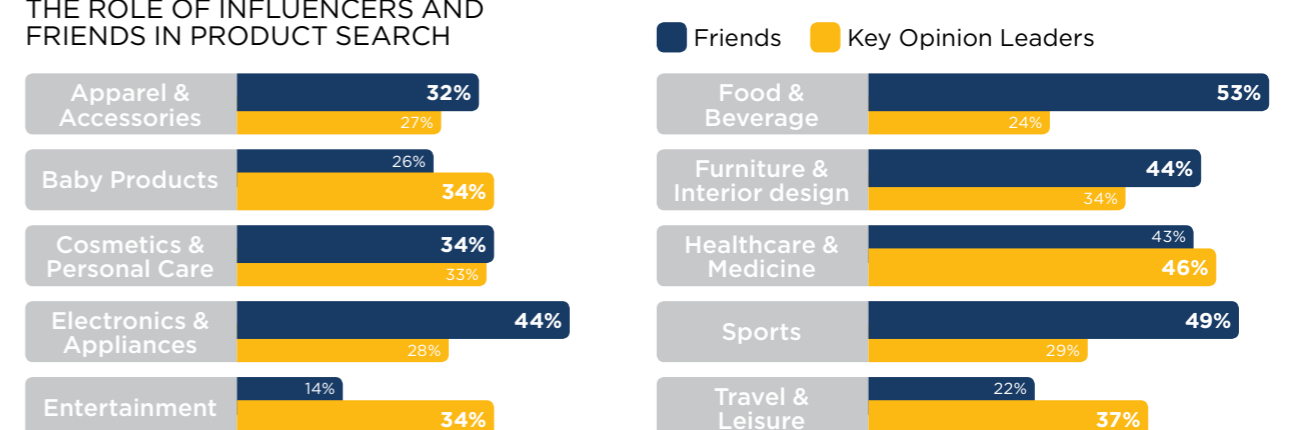
What should Swedish brands keep top of mind when entering China?

The digital ecosystem is more fragmented and complex than in Western markets. Retailers need to understand the platform tool box. This can be challenging, but the tools are very powerful once you master them. Although the Chinese market is three times the size of the US, companies don't invest enough here. My advice is: Don't just dip your toes here, it will not work. Triple the budget to achieve success.

THE CUSTOMER JOURNEY IN CHINA'S MEGACITIES



THE ROLE OF INFLUENCERS AND FRIENDS IN PRODUCT SEARCH



TOP TAKEAWAYS

Key findings and recommendations for Swedish retailers



Accept Chinese mobile payment solutions.



There is a high level of trust in Swedish brands.

EMBRACING MOBILE PAYMENTS

China is today a “mobile first” society for payments both online and in brick-and-mortar stores. 79 per cent of surveyed consumers used smartphones to pay for their latest purchase, and they expect the same simple and fast check-out solutions when travelling abroad.

Western retailers are lagging far behind when it comes to using mobile payment in physical stores. In China, as many as 74 per cent of consumers used their smartphones for their most recent in-store purchase. Scanning systems using QR or bar code are widely deployed and connected to payment providers such as Alipay and WeChat Pay.

IMPLICATIONS FOR SWEDISH RETAILERS

Make sure that customers can use mobile payments from day one:

Create the best conditions for simple check-out and eliminate non-critical steps.

Allow for Chinese mobile payments in Sweden:

More Chinese are visiting Sweden than ever. If they can pay easily they will become your brand ambassadors when returning home.



MRKUMO

WeChat fashion and lifestyle blogger with over 400,000 followers

Which product attributes do you typically highlight in your writing?

Consumers value influencer information and opinion on design and quality since these attributes are less fact based. This is especially true in the online shopping world, where you can't touch and feel the product before you buy it. My perception of Swedish brands is that they are good quality with an elegant design without showing off.

What is your best tip for Swedish brands who are interested in the Chinese market?

Before taking the larger step into China, smaller brands could start by focusing on Chinese consumers who are visiting Sweden, which includes accepting Chinese mobile payment solutions.

QUALITY IS KING

If you thought China was mainly a destination for low price products, think again. Increasing wages and disposable income in households means that values have shifted. Quality was ranked as the most important product attribute, followed by safety and warranty. In relation to experience, quality was also cited by 65 per cent of respondents as the key differentiator for re-purchasing.

Our findings also show that young consumers are more concerned about the origins of products. Consumers below the age of 20 are the least price sensitive across all demographic groups in the survey, including income levels and family size. Western retailers focusing on quality have a unique role to play in capturing their attention.

IMPLICATIONS FOR SWEDISH RETAILERS

Showcase your product's quality features:

Identify which aspects of quality matter the most to your target audience in China.

Provide 'good quality' throughout the journey:

Make sure that customers get both a quality product and a positive shopping experience.



XIAOXIAOBAOMAMA

Social media influencer

Xiaoxiaobaomama has eight million subscribers on WeChat and is one of the top 10 KOLs in China within the mother and baby segment, according to Forbes China 2019.

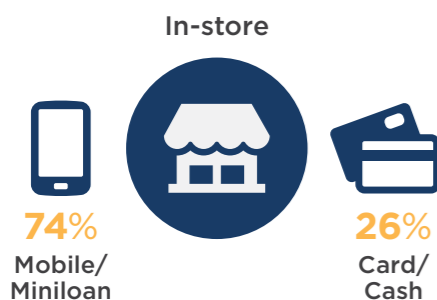
What is the perception of Swedish brands in Chinese consumers' minds?

Generally, people have a high level of trust in Swedish brands. The perception is that Swedish products offer high quality and are safe. Even if a product is made elsewhere, people trust Swedish quality standards and see the Swedish brand as a guarantee for good quality.

What else should Swedish brands know about the Chinese consumer?

Chinese consumers care a lot about service, the shopping experience is crucial. They appreciate when they are respected and receive good service. Another important thing to bear in mind is that Swedish brands need to be mindful of their marketing message - what Swedish consumers care about may not be the same as Chinese consumer, so be sure to hit the right “consumer pain points”.

MOBILE PAYMENT IS WIDELY USED IN-STORE AND ONLINE



RANKING OF PRODUCT ATTRIBUTES



TOP TAKEAWAYS

Key findings and recommendations for Swedish retailers



Consumers care about the environment, but won't pay extra right now.



Social currency matters in China.

ENVIRONMENT IS TOP OF MIND

Environmental profile is the most important brand factor according to all consumers across age groups. Eco-awareness was highest among top-end income families earning RMB 50,000 per month (EUR 6,400) or more. While the relevance of environmental friendliness tends to go hand-in-hand with the price tag of products, some segments stand out more than others.

The environmental profile of brands was considered particularly important in the baby products category, regardless of price, followed by sports, furniture and design goods. At the same time, environmental awareness is often limited to aspects affecting Chinese consumers at home. If choosing a certain brand improves local air quality or enables a healthier lifestyle, then going green is a no brainer.

IMPLICATIONS FOR SWEDISH RETAILERS

Communicate your brand's environmental profile at all times: Focus on sustainability aspects that benefit Chinese consumers directly.

Don't expect a pay-out: A green profile strengthens your brand image, but higher prices can turn customers away.



PROFESSOR GUOQUN FU

Department of Marketing, Guanghua School of Management, Peking University

How important are retailers' efforts to promote environmental sustainability?

More and more Chinese companies are carrying out campaigns and engaging in environmental protection activities to gain media attention and support from the government. If a company has an environmentally friendly profile, it will be favoured by consumers; if the image is bad in this respect, it will damage the company's reputation.

Are consumers willing to pay more for sustainability?

Most Chinese consumers care about the environment but may not be ready to pay more for a brand's environmental efforts. If the price remains the same, then it will be icing on the cake. Environmentally friendly products that are more expensive will be less popular, but in specific market segments such as gifts, they can have a premium appeal.

LOYALTY FOR THE DISLOYAL

Chinese consumers are brand aware but not brand loyal. Loyalty programmes work but only if they are simple to engage with. 38 per cent of respondents are open towards receiving offers post-purchase in all channels. Just 10 per cent feel that targeted offers infringe on privacy.

The best way to build a loyalty programme is to make it mobile-friendly and easy to grasp in seconds. Platforms such as WeChat offer functions for embedding such programmes into the service with personalised offers. Discounted prices were favoured by 62 per cent of respondents and vouchers by 54 per cent. Consumers are susceptible to offers via social media and e-commerce platforms, but reject text messaging and e-mail promotions.

IMPLICATIONS FOR SWEDISH RETAILERS

Make loyalty programmes simple and fast for users: Do not distribute physical cards. Leverage the opportunities offered by e-commerce platforms.

Focus on instant rewards: Membership benefits such as discount offers and vouchers are tried and tested with good results.



HERBERT LAW

Brand Director at Oatly, the plant-based food and beverage company

How do consumers engage with your brand?

Oatly is still a small brand in the food & beverage segment. Consumers discover Oatly either at cafés or restaurants, or will find us through a friend's recommendation. We also actively use PR and reach out to news outlets to spread our brand message. Social currency matters a lot. Consumers like to engage by taking pictures of our products. They upload them to social media and show their social circles.

How does Oatly use "Brand Sweden" in China?

As we are a Swedish brand we definitely use it to our advantage. Sweden stands for many positive things: quality, safety and cool design. Imported goods means quality in China and I would believe that the country of origin is the most important factor for food and beverage consumers.

RANKING OF BRAND ASPECTS IN PURCHASING DECISIONS



1

Brand's environmental work



2

Popularity among friends



3

Country of origin



4

Visibility in media



5

Perception of being luxury

RANKING OF BRAND ASPECTS IN PURCHASING DECISIONS



62%

Product discount



54%

Vouchers



52%

Collected points



38%

Birthday gift or discount



32%

Personalized recommendation with discounts

HOW CONSUMERS WILL SPEND: 4 GROWTH SEGMENTS

E-commerce is a must!

Baby products from foreign brands are in high demand

Frictionless cross-channel experiences increase the re-purchase rate

FASHION & BEAUTY

Apparel is the largest e-commerce category in China accounting for 20 per cent of all online sales. This segment is expected to grow more than 50 per cent by 2023. Similarly, beauty and personal care are on the rise as more international companies are competing on the market.

The field of cosmetics is expected to flourish in the years ahead with sales growing at a rate of 13.5 per cent. As shown in the survey findings, non-Chinese brands are popular in this category and e-commerce dominates sales. 35 per cent of purchased products in cosmetics & personal care were foreign brands. In the entire fashion & beauty segment, foreign brands accounted for 23 per cent of purchased products.

Note to retailer: Word-of-mouth in social circles and KOL/KOCs are a powerful force in this segment. Partnering with an influencer can help to boost brand visibility and sales.



FOOD & HEALTH

Disposable income has surged in the megacities which means that urban dwellers have become more conscious about their health and what they eat. China's tier 1 cities reveal plenty of promising opportunities for brands selling organic and healthy food products.

Online grocery shopping is accelerating faster in China than anywhere on the planet, with a whopping 70 per cent annual growth rate.⁶ Almost half of the food purchases cited in the survey results were made via the dominant platforms such as Tmall and JD.com. Again, outside opinion is critical. 52 per cent of respondents consulted social circles when searching products.

Note to retailer: Chinese consumers expect extensive information regarding food products on e-commerce platforms. Without it, locals may be reluctant to choose unfamiliar food brands.



Freshness of food products is a key deciding factor for Chinese consumers

HOUSEHOLD

Chinese consumers entering the upper middle class are paying a lot of attention to home styling these days as their wallets become thicker. Furniture & interior design and baby products are two household segments that can look to a bright future. The electronics field has similarly shown outstanding sales performance recently.

International brands are not just welcome but highly sought after in this product category. More than half (51 per cent) of the baby products purchased by the surveyed consumers were foreign brands. Chinese parents have become increasingly concerned about the safety of domestic baby products due to quality scandals.⁷ 41 per cent consulted friends before making their most recent purchase.

Note to retailer: Safety and origin are two decisive factors for the urban consumer. If your brand is unknown locally, eliminate doubts by beefing up your safety messaging.



TRAVEL & ENTERTAINMENT

Chinese travellers have become a force to be reckoned with in less than two decades. They spend more on shopping than any other country's outbound travellers. And with more money in their pockets, segments such as travel, sport & fitness and entertainment have all benefited.

A key distinction should be noted. Chinese shoppers turn to influencers for knowledge and inspiration to a far greater degree for travel-related products and services. Nonetheless, all of these categories are expected to be in high demand.

According to the survey results, 31 per cent of consumers looking for entertainment products became aware of foreign brands via physical stores. This means there is a strong case for boosting visibility offline too.

Note to retailer: Consumers are active in multiple channels when buying products in this segment, including WeChat and other social media platforms.



BRAND SWEDEN

HALL OF FAME

“Brand Sweden” has plenty to offer Chinese consumers. But which product features and values are most appealing? And which Swedish brands are most recognisable today? A few survey statistics help fill in the picture.

The majority of respondents in Business Sweden’s survey associate Swedish brands with good quality products (59 per cent) followed by safety (48 per cent) and sustainability (41 per cent).

When it comes to price, just 17 per cent of consumers perceive Swedish brands to be “expensive”. Again, this reaffirms the conclusion that China is no longer a discount market where Western brands are easily outperformed.

There is no shortage of Swedish brands that Chinese consumers recognise instantly. The companies on the top 10 list have successfully adapted business models to local needs, preferences and consumer patterns.



MAGNUS OMSTEDT

China Retail Expert, formerly Head of Asia Growth Program at H&M

How is retail transforming in China?

My prediction is that we will continue to see the birth of local brands acting at China speed. Just look at Luckin Coffee, Perfect Diary, ZaoZuo and Peacebird. These brands are using trend data, hyper convenience and peer-to-peer marketing to seriously challenge their Western counterparts.

We will also witness the further growth of the F2C (Factory to Consumer) phenomenon, with factories connecting directly to Chinese e-commerce platforms such as Little Red Book and Tmall, instead of simply being suppliers to foreign brands.

How can Swedish brands compete in the Chinese market?

Consumers associate Swedish brands with quality, smart design – “clever products” – and innovation, which companies should pick up on in their branding for China. Chinese companies have unbeatable advantages in the home market in terms of price, fast data-driven product-to-market response and hyper convenience.

To offer something different, Swedish retailers need to amplify their brand identity and unique product features that are more difficult for other players to copy. Design, brand story, safety, product testing certificates, sustainability are all good examples.

HOW SWEDISH BRANDS ARE PERCEIVED IN CHINA



- IKEA
- VOLVO
- H&M
- ERICSSON
- ELECTROLUX
- ISADORA
- FJÄLLRÄVEN
- DANIEL WELLINGTON
- SAS
- TETRA PAK

TOP 10 LIST OF MOST RECOGNISED SWEDISH BRANDS IN CHINA

CONCLUSION

WHAT'S IN STORE FOR SWEDISH RETAILERS?

Swedish retailers looking to break into the Chinese market need to be prepared for moving into a supercharged future. There are no shortcuts to long-term success in China – the need to cast off mindsets shaped in the West regarding e-commerce or in-store retail cannot be overlooked.

The urban Chinese consumer thinks differently, acts differently and is very often ahead of the game in adapting to new retail trends. Purchasing decisions in the megacities are shaped by a variety of factors. And it all begins with frictionless, integrated, inspirational and “mobile first” customer experiences.

The seamless omni-experience includes fast and easy mobile payments and is the departure point for China's new consumers. Perhaps the biggest difference in terms of consumer culture is the central role of influencers. Business Sweden's survey from China's tier 1 cities revealed that up to 46 per cent of consumers scan the views of KOLs before purchasing in segments such

as healthcare & medicine.

The good news for Swedish brands is that consumers in China have shifted their attention to good quality products as a result of increased spending power. But communicating the message about quality, environmental sustainability and other typical Swedish traits needs to be done methodically in the right way, in the right channels and at the right time.

Whether you already have a presence in China or are planning to enter the market, your operating model and ways of thinking need to match China's fast-paced market and advanced use of digital and social media platforms. And as always you need a detailed plan that takes purchasing patterns, business conditions and cultural nuances into account.

China's huge market is both tempting and, for many retailers, more than a little daunting. Making your mark successfully depends on doing your homework and adopting an agile business approach. Here's how to get started:



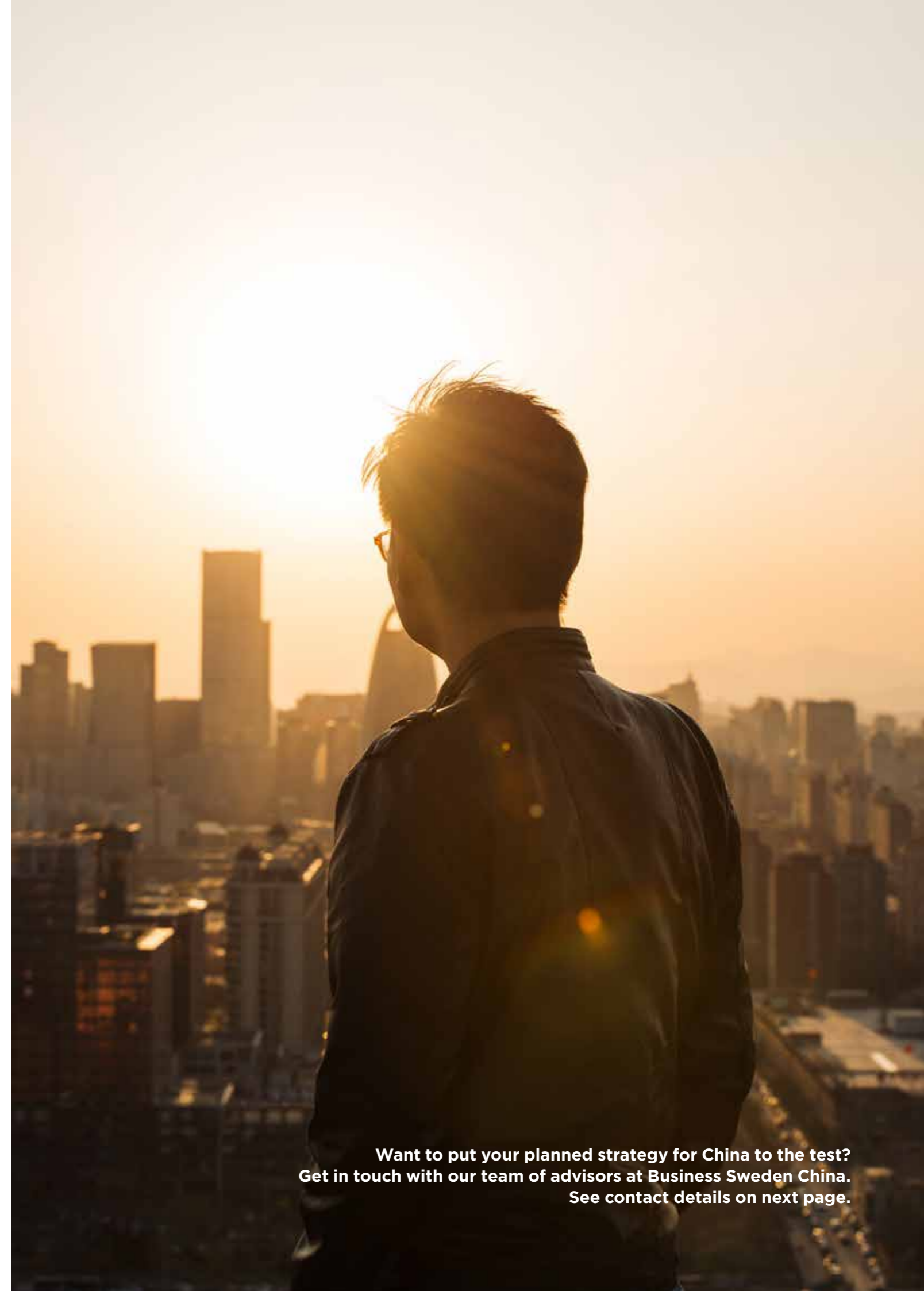
THE ROADMAP TO CHINA: 4 ELEMENTARY STEPS FOR SWEDISH RETAILERS

Build a profile for China's consumer: Probe the market and identify consumer behaviour in your product segment. How will your products fill a gap? Is the business case solid enough?

Assess purchasing patterns: Identify the customer journey and plan for online/offline omni-experiences. What are the preferences and needs of Chinese consumers in your segment?

Choose the right partners: Make a tentative list of potential partners starting with the e-commerce provider. Who will operate your online store? How should you position your products offline? And which influencers can help spread the message about your brand?

Plan for the long haul: Ensure that your technologies and supply chain can support growth. How will you collect data and adapt the value proposition?



Want to put your planned strategy for China to the test?
Get in touch with our team of advisors at Business Sweden China.
See contact details on next page.

ABOUT BUSINESS SWEDEN APAC

Business Sweden's purpose is to help Swedish companies grow global sales and international companies invest and expand in Sweden. Swedish companies can trust us to shorten time to market, find new revenue streams, and minimise risks.

We offer strategic advice and hands-on support in more than 44 markets. Business Sweden is owned by the Swedish Government and industry, a partnership that provides access to contacts and networks at all levels.

Business Sweden has been present in APAC for many decades with 15 local offices throughout the region. Business Sweden has helped Swedish brands succeed in the Chinese market since 1994. Over the years we have built strong expertise in the Chinese consumer market, forging relationships with influencers, platform owners and leading retailers. We help you grow where the markets are growing.



15 OFFICES IN APAC

- | | | |
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| 1 Beijing | 6 Hanoi | 11 Seoul |
| 2 Shanghai | 7 Kuala Lumpur | 12 Tokyo |
| 3 Hong Kong | 8 Singapore | 13 Dehli |
| 4 Taipei | 9 Jakarta | 14 Bangalore |
| 5 Bangkok | 10 Manila | 15 Sydney |

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FOOTNOTES:

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