

# CHINA FOCUS

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## Competing in China 2.0

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China's business landscape is always evolving. But our client work across different industries in Greater China gives us grounds to believe that today, we are witnessing a **historical turning-point** with particularly deep implications. In China 2.0, foreign businesses will have to rethink their strategy from the core.

On an organisational level, China 2.0 is about the **shifts happening within domestic and foreign businesses**. Homegrown startups are going from cost-cutting imitators to disruptive innovators, while foreign enterprises are facing tougher competition and more moderate growth than when they first entered the market.

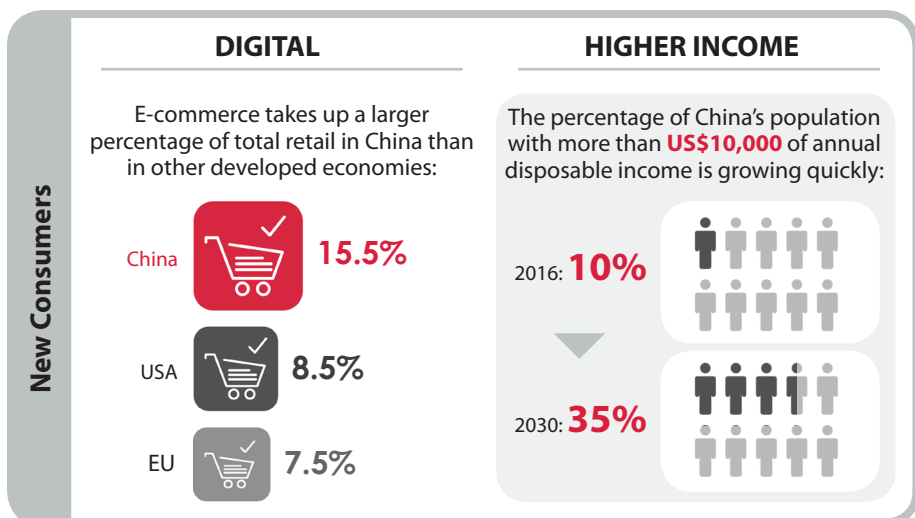
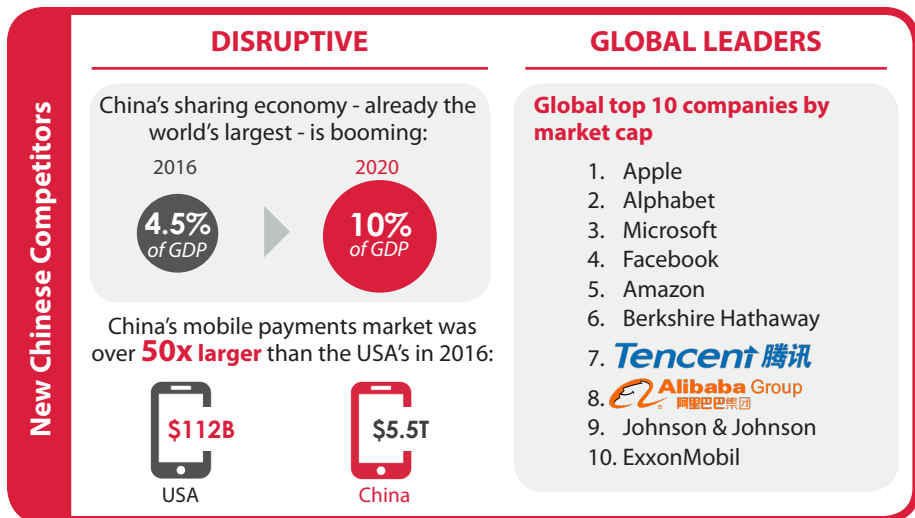
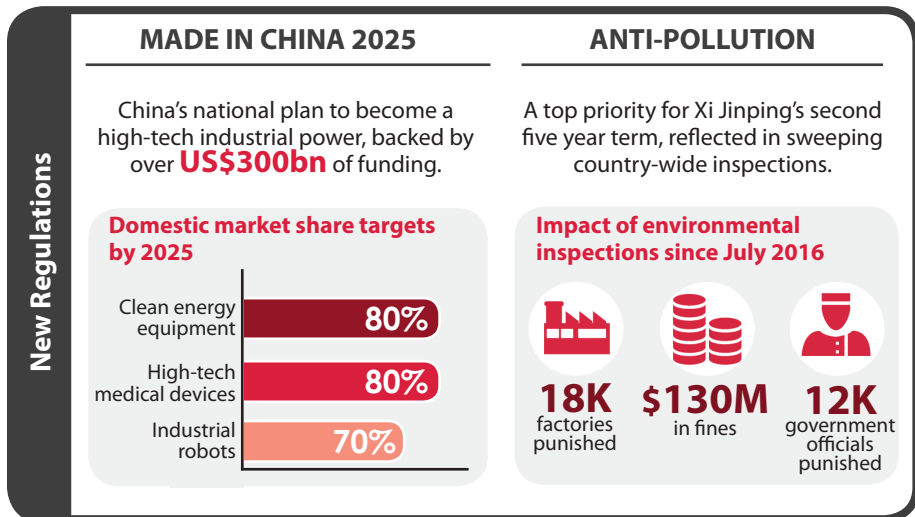
This is happening against the **backdrop of regulatory, economic, and demographic change**. In China 2.0, government policy and rising costs are driving automation, while the country's new consumers - digital, wealthier, and more globally-g geared than before - are powering fresh business models. The goods and services that China wants are changing, and so is the way in which consumers discover, purchase, and pay for them.

As a result, **foreign companies are having to step out of their comfort zone**. As technology and high-quality become increasingly commoditised, and as the Chinese market sets trends at a dizzying pace, how can they stay ahead?

In this China Focus, we interview three companies from the **machinery, consumer goods, and medical equipment** sectors, to get a glimpse of how far China 2.0 is being felt across different industries. They all agree on one thing: **it is time to learn from China's speed**.

*Stefan Kracht*

### CHINA 2.0 IN FIGURES



Sources: The Economist Intelligence Unit, World Economic Forum, Mercator Institute for China Studies, US Census Bureau, China's National Bureau of Statistics, Fiducia Analysis.

“Consumers here are already living the online-to-offline experience.”

The government’s “Made in China 2025” plan is not the only force driving China’s innovation push. **A new breed of Chinese consumers - digital, millennial, and increasingly well-off - are powering disruptive trends** that are particularly visible in the consumer goods sector.

**M-Industry**, the manufacturing arm of Switzerland’s largest grocery retailer Migros Group, is experiencing these changes first-hand. **Patrick Glauser, Head of Operations and Business Development in China**, shares some of the game-changing trends the company is encountering as it introduces its premium food and near-food brand Orange Garten into the local market.



**Are Chinese businesses disrupting the grocery retail industry?**

Omni-channel formats are developing faster in China and they definitely have a disruptive character. **Consumers here are already living the online-to-offline (O2O) experience.** Hema is one example: an O2O supermarket from the Alibaba group, where every product in their physical store has a code that can be scanned for more

information and product recommendations. RISO, another new initiative, combines grocery shopping with eating-in experiences. These formats foster new consumer habits and combine channels and categories in new ways. **We have to be ready to play on this landscape** by managing our distribution channels accordingly.

**China’s online retail market is already the world’s largest. Is it also the most advanced?**

**The behaviour of online consumers is certainly advancing more quickly in China than in other markets we are present in**, including Europe. The ease of purchase is boosted by the fact that the shopper’s personal details are saved and payments are made so easily. Another difference is Chinese shoppers’ higher demand for online product information. They are always on the lookout for something new, more so than in Western markets. Since they invest so much time researching new goods and services, they expect extensive descriptions and reviews. Across a variety of platforms, it is necessary to communicate how your products are used, what is unique about them, and where they can be found.

**In this sea of goods and information, how do you make your brand stand out?**

**There are some cultural and communicational challenges when it comes to positioning our products.** It is difficult from a management perspective to evaluate how a brand is coming across if you don’t understand the subtleties of language or culturally-specific associations. On the other hand, **the inquisitiveness of Chinese consumers works in our favour.** Increasingly, they seek products they can trust in terms of quality, health, safety, and environmental sustainability - attributes which we absolutely fulfil with Orange Garten. They are also giving more and more thought to what lies behind a product: the brand’s authenticity and lifestyle associations. As a Swiss manufacturer with a tradition of almost 100 years, we are able to bring many of these functional and emotional elements to the table.

**Are local competitors catching up with international FMCG brands in the premium segment?**

Chinese companies and brands are improving their products and ingredients, but the biggest development is on a marketing level. **More local competitors are positioning**



*Under the “Orange Garten” brand, M-Industry has introduced a range of its Swiss-quality products to the Chinese market. The company recently announced a cooperation with NetEase Koala, a cross-border e-commerce platform, as part of its online push.*

**themselves to compete directly with international brands.** We see it across all our categories: premium yogurt, bottled water, detergents, and cosmetics to name a few. If you see a box of Blue Moon detergent or a bottle of Nongfu Water, the packaging design has a similar appeal to that of a high-end international brand. **However, the appearance of local premium products sometimes doesn’t match the inside.** There are inconsistencies in their messaging, pricing, or technical features. This is a big challenge for consumers.

**What is the main challenge you face when competing against local peers?**

**Chinese companies have the advantage of being culturally closer to the consumer. We try to overcome this by getting local knowledge into the equation** with a team who truly understands the market and helps us foresee and react to trends, something we do in every market we enter. Furthermore, we foster intercultural competences through trainings and exchanges between our global teams and our headquarter in Switzerland. This way we remain authentic while allowing for adaptation.

**What can international players in this industry learn from their Chinese peers?**

**The fast prototyping and speed-to-market of Chinese companies is something we can and should learn from them.** It allows them to quickly gain consumer feedback on what works and what doesn’t in terms of product, packaging, and marketing. We have high quality standards, and strong innovative capabilities when it comes to product development. However, when we are entering a new consumer market as complex and large as China’s, embracing this trial-and-error approach could help one understand the local market much more quickly. ☺

HOW WE CAN HELP



**Competitive market insights & strategy**

- ▶ Industry segmentation, trends, and drivers
- ▶ Competitor benchmarking
- ▶ Voice of Customer analysis
- ▶ Go-to-market strategy

“Our German team is learning from the Chinese mindset. This leads to shorter processes and a faster speed-to-market.”



learn from each other. On the one hand, **our German team is learning from the Chinese mindset, which is more relaxed and risk-taking.** This leads to shorter processes and a faster speed-to-market. On the other hand, the program means giving our Chinese team full access to our data and know-how. As a high-tech company, we initially had our doubts about this. But **we have seen China shift from a country of copycats to one of developers,** and until now we have had a positive experience.”

If “Made in China 2025” goes according to plan, China would go from being the world’s largest producer of machinery to becoming one of the most technologically advanced. For international suppliers of high-tech manufacturing solutions, this is a call to rethink their China strategy. China Focus interviewed **Dr. Georg Holzinger, President of Injection Molding Machinery for KraussMaffei China,** to ask him how the company is adapting. A leading German supplier of machinery and systems for plastics and rubber processing, KraussMaffei has had a local presence since 2001. These are some of **Dr. Holzinger’s recommendations** on how to ensure continued success in a changing Chinese market.

**1. Expanding your product portfolio**

“Chinese consumers are demanding higher-quality products across the board, from electronics, to cars, to medical equipment. A study we carried out recently confirmed this trend, showing that the low-end segment in our industry is shrinking. Since our solutions are used for high-quality applications, this is positive for us. However, growth in the premium segment is not really accelerating. **To grow in our industry, you**

**have to push into the mid-tech market.** We are looking into expanding our product portfolio in this direction. The key decision is how low are we willing to go in terms of performance and cost.”

**2. Driving differentiation**

“The injection molding industry is changing and our product is slowly becoming commoditised. Chinese competitors are quickly upgrading their performance. They might still need a few years, but they are approaching our level across our entire portfolio. **Our advantage is our system competence.** We don’t just sell injection molding machines, we also provide the whole system and services around it. This is our differentiation as a European supplier. **In the future, digital services and technologies around “Industrie 4.0” will be an even more important source of income.** Machine suppliers have to be prepared to provide this know-how to customers.”

**3. Fostering two-way learning**

“We are implementing a “global engineering footprint” program where R&D teams from, say, China, Slovakia, and Munich work together on a project. In the process, all sides

**4. Sino-Foreign cooperation**

“In January 2016 ChemChina became the main shareholder of KraussMaffei. **Being part of the ChemChina family has broadened our growth opportunities in China,** giving us access to new customers, including state-owned companies which usually see European suppliers as high-end. It also enables us to have a longer-term strategy compared to our previous 15 years under private equity. For ChemChina, one advantage is that we are helping to globalise the mechanical engineering companies in their portfolio. In a few years, **seeing Chinese firms competing in the US and European markets will be much more common.**”



The GX Series is an injection molding machine manufactured in KraussMaffei’s production plant in Haiyan, China, for the Asian market.

HOW WE CAN HELP



**Upgrading management & team setup**

- ▶ Assessment centres
- ▶ Talent mapping
- ▶ Executive search
- ▶ Organisation design



**Mergers, acquisitions & strategic partnerships**

- ▶ Strategic supplier/distributor search
- ▶ Target identification and analysis
- ▶ Commercial due diligence



**Corporate Health Check & operational efficiency**

- ▶ Operational benchmarking
- ▶ Contract review
- ▶ Internal controls for fraud detection
- ▶ Financial health check

“It will certainly take time for Chinese manufacturers to get to where we are now.”



China is pursuing a great leap forward in high-end medical equipment. By 2025, the government hopes that 70 percent of high-performance medical devices sold in the country will be local. Are Chinese manufacturers on track to reach this target?

Wieland Paul shared his view on this and other industry trends from his position as Director of International Sales at PARI - a leading German manufacturer of respiratory therapy equipment. A lot has changed in the Chinese market since PARI entered it nearly 20 years ago: fast-growing online channels, tighter regulations, and a rise in respiratory sicknesses. But in the company's niche, the technological lag of local competitors remains.

### Are Chinese manufacturers matching the quality of foreign medical devices?

In our product category, Chinese manufacturers are not competing in the premium segment yet. Some of them have grown big and are even branching out internationally, but their focus is on the very low-price segment. We are seeing more devices that are similar to ours in terms of look and design but their performance and technology are still behind.

Inhalation devices are always used together with medication, and getting the right combination takes extensive testing. We have invested a lot of time and resources into this since our beginning in 1906 to ensure stable quality, and we are backed by over 300 scientific publications providing clinical proof for our products. It will certainly take time

for Chinese manufacturers to get to where we are now. Because of their focus on low prices, investing in quality control might be a challenge for them.

### How do you deal with the challenge of having less competitive prices?

With our high quality products we are in a unique position. Most nebulisers in the world are made in China, and within China cheap devices take a big share. But the demand for our “made in Germany” products is growing. Aside from that, we are now looking to localise our business more to develop products that are even more suitable for the Chinese market in terms of quality, price, and design.



*PARI SINUS is a nebuliser system for treating acute and chronic sinusitis – one of many respiratory sicknesses that are becoming more frequent in China due to severe air pollution.*

### What is driving China's growing demand for high-end medical devices?

In our segment, China's air pollution problems paired with improvements in diagnostics are important factors. Our products help people with airway diseases, such as children with allergies or asthma as well as patients with sinusitis or chronic

obstructive pulmonary disease (COPD). Some of these conditions become more severe with pollution.

In terms of business segments, the fastest-growing one is home care – patients who buy devices for personal use at home - a large part of which is online. The proportion of online business in China is certainly bigger than in Germany. It's important to work with experienced partners and key online platforms to seize opportunities in this channel.

### Are you also facing new difficulties?

At the moment, we are spending a lot of time and money on the registration process for some of our new devices, often much longer than the period outlined in official documents. Counterfeits and trademark infringements are another ongoing challenge. Sometimes our customers are confused by companies who falsely claim to represent PARI products in China.

### How do you overcome these challenges?

What we always do, also in China, is build a very strong relationship with key opinion leaders such as doctors. We collaborate with them on trainings, studies, and papers to prove that our products are up to standard not only in terms of regulations and quality, but also from a scientific point of view.

### What can foreign medical devices firms learn from their Chinese peers?

It would certainly be good to get some of their speed. In China we see new products emerge every few months. They try different things and improve their quality over time, whereas we have longer processes to make sure that every product we bring to the market is 100% perfect. There is a reason why we take longer. Any mistake would damage our brand, which is already established worldwide, so the pressure is bigger. Having a local team involved in product development and production will help us follow the speed of the Chinese market better and offer an even better service to our local customers. ☘

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