Jotun China – Coloring the Internet

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Jotun China - Coloring the Internet

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“This paper is done as a part of the undergraduate program at BI Norwegian Business School. This does not entail that BI Norwegian Business School has cleared the methods applied, the results presented, or the conclusions drawn.”
Executive summary

The aim of this thesis is to provide Jotun China Decorative Paintings with knowledge and insight in the Chinese e-commerce industry and the consumers’ behavior and preferences. Its aim is to show Jotun China how they can utilize this growing online trend in order to increase their market share in the Decorative Paint segment. Jotun China Decorative Paints have already been online on Tmall.com since 2011, but have not been able to get a solid establishment on this platform. They are in a highly competitive market with many providers, both multinational and local enterprises. This is why it is important that Jotun China get a clear and comprehensive understanding of the market they are operating in, in order to be able to compete. Moreover, their current marketing strategy is strongly limited.

Those who influence the selection of a brand and how the process is conducted needs to be further defined. Based upon the data collected from various interviews it can be identified that two parts, the DIY and professionals, make both online- and offline purchasing decisions. Still there are some differences that appear online. Because Jotun China can influence the purchasing process they should position their sales and marketing efforts to fulfill consumers needs and improve their online establishment and presence. To improve their online presence and expand their brand awareness, they have to target the main decision groups and implement a new strategy. A more detailed analysis and further recommendations are discussed in the thesis, with the intention that this will help Jotun China become more advanced and recognized on the Chinese e-commerce market.

Methodology

Because the authors had little former insight and knowledge about the Chinese Decorative Paint market and e-commerce industry in China, an explorative design was applied in this thesis. To answer the research question, the authors based research on published data, secondary data, and qualitative primary data collection through several in-depth interviews. Primary data was collected from employees at Jotun China, different e-commerce experts and people with knowledge and
experience about Chinese consumers and the market. The main purpose of the research was to explore how Jotun China could utilize the growing e-commerce market in China as an opportunity rather than a challenge to increase their market shares in the Decorative Paint segment.

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Abbreviations and explanations

**Alibaba Group** – The world's largest online B2B trading platform

**APEO** – Alkylphenol ethoxylates, a toxin found in paint

**B2B** – Business to business

**B2C** – Business to customer

**C2C** – Company to customer

**CGPC** – China’s Central Government Procurement Center

**CRM** – Customer Relationship Management

**DIY** – Do It Yourself

**FDI** – Foreign Direct Investment

**GDP** – Gross Domestic Product

**JC** – Jotun China

**JD.com** – Online platform for Chinese- and international businesses to sell branded goods to global consumers

**JV** – Joint Venture

**NOK** – Norwegian Kroner, Norwegian currency

**O2O** – Online to offline

**R&D** – Research & Development

**RMB** – Renminbi, Chinese mainland currency

**SAIC** – State Administration for Industry and Commerce

**Tmall.com** – Online platform for local Chinese and international businesses to sell branded goods to consumers in Mainland China

**Tinting System** – Paint mixer machine

**Tier cities** – Demographic categorization of big cities in China, where 1st tier city is the biggest and most resourceful

**VOC** – Volatile organic compound, a toxin found in paint

**WOM** – Word of Mouth

**WeChat** – Mobile text and voice messaging communication service developed by Tencent QQ and is the largest standalone-messaging app in China
1.0 Introduction

1.1 Background to research

In November 2014 the authors of this thesis contacted JC asking for a short-term cooperation in order to get a subject to write about for their thesis. JC responded positively and a meeting was arranged. Different topics were discussed and the authors found one subject more interesting. During a Norwegian Business Association-event, JC presented some of their previous research on the growing Chinese e-commerce market. The interest and enthusiasm shown by JC intrigued the authors to continue writing and assembling more information on this important subject. JC wanted to acquire more knowledge about e-commerce and together with Eric Chang, the authors were able to find a clear problem statement. This statement would help the authors answer JC’s questions about the e-commerce and how they could utilize this as an opportunity rather than a challenge.

E-commerce is gaining more importance in today’s society. The authors of this thesis see themselves as the generation of Internet use and find this subject theoretically important. Because of the increasing popularity in China, e-commerce is changing into a lifestyle. Understanding the change of the growing e-commerce and how companies can use different platforms to reach customers is interesting. In product categories that are usually not associated with e-commerce such as interior paint, there is not a lot of knowledge on the subject. The authors of this thesis believe that the outcome of this research can make JC more efficient by realizing the opportunities within e-commerce.
1.2 Problem statement

“How is the Chinese paint industry affected by the growing e-commerce market in China? How can Jotun utilize this as an opportunity rather than a challenge?”

1.3 Research questions

1. What are the current trends in the Chinese e-commerce market?
2. How does the paint industry currently operate online in China?
3. How will the future growth of the Chinese e-commerce market affect the physical stores?
4. How can JC utilize the e-platforms to increase market share and expand brand awareness?
5. What are the main challenges and opportunities for JC in the Chinese e-commerce market?

1.4 Jotun

The Jotun Group is a market leading Norwegian company that has been developing, producing, and selling paint and coatings on the B2C and B2B market for more than 85 years.

It all started in Sandefjord, in 1926 by the founder Odd Gleditsch Sr. He believed in profitable sales by focusing on improving quality of the products. In 1951 the company invested in R&D and today Jotun has large private R&D centers. In the early 1960s Jotun started their internationalization and since then they have expanded globally.

Their company culture is built upon the four values of loyalty, care, respect, and boldness that symbolizes the penguin spirit and is reflected in their company logo. Their strategy and vision is that “Jotun protects property” - They protect their employees, customers, suppliers, shareholders, the environment, and all property. Their overall strategic direction consists of three main elements: Organic growth, four segments, and a differentiated approach.

Today The Jotun Group has total sales of NOK 17 542 million and they have a global presence with close to 10,000 employees spread out over 90 countries.
Jotun is a matrix organization divided into seven regions responsible for the sale of Decorative Paints and Performance Coatings.

1.4.1 Jotun China

Jotun has been on the Chinese market since 1983 when they established a sales office in Hong Kong. Because they realized the importance of a local partner to succeed in China, they entered a JV with COSCO Guangzhou in 1993 and this led to the establishment of JC. In 1998 they established Jotun Shanghai Office and in 2001 they entered the Protective and Decorative Paint business in China. In 2005 JC entered another partnership with COSCO International Holdings in Marine Coatings with a new entity setup in Hong Kong, where both parties hold 50% equity interests. At this time COSCOs focus was shipping services including coating products. JC brought a wider collection of coating to the JV including new marine coatings and coating specially designed for shipbuilding. JCs contribution in the JV resulted in a significant increase in sales. In 2006, 2012, and 2013 they opened factories in Zhangjiagang and Qingdao. In 2006 an R&D center was set up in China aimed to continuously develop high quality products to meet and satisfy the local markets needs. In 2009 “Jotashield Extreme”, with its advanced energy saving formula in exterior paint, two times UV and heat reflection, was launched. In 2010 the first APEO and heavy metal free product in China, Strax matt odorless, was launched. In 2012 the rising demand for superior quality products arose from the high-end consumers, and as a response the Majestic Optima Air-master was launched. It consisted of features like anti-formaldehyde, anti-crack and Ecohealth technology. From 2005 and until today JC received numerous awards in different categories praising their innovative and environmentally friendly products, outstanding supplier cooperation, and several prizes for their generous donations and charity work.

Today JC has four divisions; decorative paint, marine-, protective-, and powder coatings. In Shanghai they have their China headquarter and just recently established their flagship store. Their main focus here is on the product category Majestic that is one of their most successful products. They concentrate on R&D such as developing innovative solutions and eco-friendly products, and have one of their biggest production facilities located outside Shanghai.
2.0 Internal analysis

2.1 Marketing mix

The marketing mix is applied to analyze the internal conditions at JC. The marketing mix is known as the 4Ps of marketing. Companies implement this in their strategy in order to satisfy the consumer and to maximize the performance within the company. It is a tool that is used to create a successful mix of the right product, sold for the right price, in the right place, while using the most suitable promotion.

2.1.1 Product

JC officially launched Majestic EcoHealth paint in March 2011 which was the first 100% APEO free interior wall paint in China. The paint is completely free from harmful substance like APEO, heavy metals, and contains ultra low amount of VOC. From year 2010 to 2011, JC invested in eco-technology and focused on more health friendly products. They developed a wider range of their products to be completely APEO free with extra low VOC, including the Majestic series. By 2013, all of JC's products were claimed 100% APEO- and heavy metal free. JC currently focus on offering a narrowed portfolio of products in their Decorative Paint segment. This is the reason why they can offer more specialized products and deliver the same high quality. Their products are health friendly and every product is free from APEO, which include colorant and tintable products. Their Tinting System allows the retail shops to meet the needs of the clients, and customize the product to what preferences they must have in order to satisfy these.

In October 2014, with the opening of their flagship store, JC launched the product Majestic Design that is a luxurious paint developed in cooperation with professionals. The product is differentiated to be perceived as a more luxurious product for high-end customers. You will need skilled professionals that have been especially trained by JC to conduct the advanced application process. This is in order to get the desired and optimized result that the Majestic Design can offer.
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2.1.2 Promotion
JC does not promote themselves on Chinese TV or other major media channels in China. Most of their promotion comes through the retail shops and the employees’ networks. JC provide the outlets with sales tools and know-how used in campaigns, such as giveaways, flyers, and incentives for the employees. They distribute brochures to the stores with information about the products and the company. In some events JC use media-news coverage in order to gain PR. In addition, they offer quarterly price-discounts on some selected categories. But JC does not invest much on promotion strategies in China, and will not be investing heavily in promotion tools in the near future.

2.1.3 Price
JC focus on high quality with their product portfolio in every segment. They want to be viewed as a high quality brand and the prices of their products are high. JC offers the same price in their outlets, to end-users, as its main competitors. In order to generate a higher sales volume in offline outlets they sell their online products to a higher price.

2.1.4 Place
JC works closely with their distribution channels. You can find their products in outlets, warehouses, and on Tmall.com. Today JC has 80 retail shops in Mainland China. They are focusing on R&D with extensive production facilities in the country. On October 31st 2014, JC officially opened their first flagship store in China. It is located in downtown Shanghai, and designed as an upgraded and innovated version of the traditional Jotun Multicolor Center. The flagship store concentrates on providing excellent service in addition to the “Majestic Design”. The store is strategically placed across the street from Shanghai's biggest IKEA to attract new customers from the popular warehouse. Due to the concern regarding loss of quality control and service, JC do not have 2nd tier cities distribution level. This is because of the increasing number of counterfeit stores and imitation products.
3.0 External analysis

3.1 SWOT analysis

The SWOT analysis is a strategic tool that we have used to analyze JC and the market they are operating in. The internal factors consist of strengths and weaknesses while the threats and opportunities are based on our external analysis. Identifying and understanding both the positive and the negative factors are important in mapping how JC are affected by the growing e-commerce and how they can utilize it.

<table>
<thead>
<tr>
<th>Strength</th>
<th>Weakness</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Global brand name</td>
<td>• Contradictions within the company about further investment in e-commerce</td>
</tr>
<tr>
<td>• Successful in marine and powder coatings</td>
<td>• Difficult to create offline shopping experience online</td>
</tr>
<tr>
<td>• International competence</td>
<td>• Low market share in the decorative segment</td>
</tr>
<tr>
<td>• Financially strong</td>
<td>• Low brand awareness and recognition</td>
</tr>
<tr>
<td>• Has R&amp;D facilities in China</td>
<td>• Limited experience with Chinese e-commerce</td>
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<tr>
<td>• High risk willingness to enter foreign markets</td>
<td>• Limited marketing</td>
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<tr>
<td>• High quality products</td>
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<tr>
<td>• Health friendly products</td>
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<tr>
<td>• Retail shops</td>
<td></td>
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<tr>
<td>• Network</td>
<td></td>
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<tr>
<td>• Established on Tmall</td>
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<td>• Second mover advantage</td>
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<table>
<thead>
<tr>
<th>Opportunity</th>
<th>Threat</th>
</tr>
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<tbody>
<tr>
<td>• Worlds largest e-commerce market</td>
<td>• Competitors</td>
</tr>
<tr>
<td>• Logistics and infrastructure</td>
<td>• Substitutes</td>
</tr>
<tr>
<td>• Economic growth</td>
<td>• Government restrictions</td>
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<tr>
<td>• Booming real estate market</td>
<td>• Political barriers</td>
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<tr>
<td>• Rising middle class</td>
<td>• Weak intellectual property</td>
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<td>• Social media</td>
<td></td>
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<tr>
<td>• Further cooperation with online platforms</td>
<td></td>
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<tr>
<td>• Future CRM-systems</td>
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When we look at the internal strengths of JC we see many important factors. Jotun success in marine- and powder coatings have given them a global brand name and proved their international competence. They are a financially strong company, which have made them able to invest heavily in R&D centers, also in China. Their high risk-willingness to enter foreign markets, led them to explore and grab market shares in countries all over the world at an early stage. They provide high quality products that have a premium perception within the industry. Also their recent focus on health friendly products and implementation of sustainable environment-policies, have made them able to target a wider range of consumers. They have a well-established network of retail shops in Mainland China and also all around the globe. This has provided them with an important offline presence and a big network, which they can build their future business on. In 2011 they initiated their online shop on Tmall.com, but have not exploited this platform to its fullest yet. Because of this, they have gained the second movers advantage, giving them the possibility to learn from and adapt to their major competitors.

When it comes to JC’s weaknesses internally, there are contradictions within the company concerning JC’s further investment in e-commerce. This is because it is difficult to re-create the offline shopping experience to online platforms. They have a low market share in the Decorative Paint segment, followed by low brand awareness and recognition from the Chinese consumers. They have a limited experience with Chinese e-commerce, and also no established specialized e-commerce teams that can provide optimized online targeting and marketing.

Concerning the external factors in the Chinese industry, they have several opportunities. China is the world's largest e-commerce market and have highly improved and developed logistics, and infrastructure in the central areas. The Chinese economy have seen a massive growth leading to a rising middle class with increased purchasing power, a booming real estate market with high demands, and a workforce with interior professionals that needs paint providers. Social media gives JC great opportunities with new, different marketing methods. Also the booming e-commerce popularity gives JC many opportunities.
to cooperate with different online platforms. In addition, JC have the possibility to implement a CRM-system in the future.

Regarding the external factors that can be a threat to JC, there are competitors who already are deeply interpreted in the Chinese consumers mind and hold big parts of the market share. The substitutes can be a threat to JC because there are often innovative solutions that are being introduced to the market that can replace the original paint. Weak intellectual property-protection in China can be a threat, due to the increasing numbers of counterfeit stores and imitation products. Government restrictions and political barriers can pose as a threat to JC. Furthermore, licenses and certificates can suddenly be required of JC in order to operate and produce in China. Also a recent situation that has damaged the relationship between Norway and China is due to the issues concerning the Nobel’s Peace Award in 2010 and Dalai Lama. This has caused an embargo for many Norwegian export companies trying to do business with China.

3.2 Porters 5 Forces

3.2.1 Bargaining power of suppliers - Medium

The bargaining power of suppliers is also described as the market of inputs. The suppliers of raw materials, components, labor, and services such as expertise, can gain power over the firm when there are few alternatives. Suppliers may refuse to work with the firm or charge excessively high prices for unique resources. Manufacturing companies around the world have viewed China as a country with cheap raw materials and low labor cost for decades, but today the price of raw material is escalating and there is a higher labor cost than before. Shortage of raw materials has had a negative effect on the profits for all the actors in the market, and this has led to increasing prices in the paint industry (Jotun Group Report 2011). Because there is a shortage of raw materials and a high number of buyers, the prices are forced up which gives the suppliers a medium bargaining power. To manage these issues, JC works closely with their suppliers to get the best deals available on the market. They concentrate on building relationship. At the same
time they are focusing on different innovative coating formulations, which may help reduce the company's reliance on high priced raw materials in the future.

### 3.2.2 Customers purchasing power - High

The customers’ purchasing power is based on their possibility to choose between different brands. Because many brands offer similar products in the Decorative Paint industry in China, the customers can easily choose between them. This gives the customers high purchasing power for several reasons. There are many competitors on the Chinese Decorative Paint market that can meet the customers’ needs and can provide eco-friendly paint. There is very little differentiation between the products of the brands, and the costs for switching brands are not high. Additionally, the customers are offered substitutes.

Different services provided by paint brands makes the competition tougher. The customers expect to get high quality service when buying paint, and today there is high focus on the after-sale services provided by the Decorative Paint brands. The customers want to get advice, inspiration, and help to redecorate. If the employees in the stores lack knowledge and are not well oriented about the products, the customers may choose to go to the competitors. At the same time, the knowledge and orientation about the products can increase JC's power over the customers.

The online market is contributing to higher customer purchasing power. The new online trend has made it easier for the customers to do research based on reviews of the product before making a purchasing decision, and this has affected the Chinese paint industry. It is essential for the brands to receive positive customer feedback because this is the new way of doing WOM in China.

### 3.2.3 Intensity of competitive rivalry - High

The intensity of competitive rivalry is the capability of what your competitors in the industry can offer compared to you. In the paint industry high competition is common due to many providers and this makes the intensity in JC's case high. Their main competitors is Dulux and Nippon, who are market leaders and hold more than 30% of the overall market share in the Decorative Paint segment. Also
there are several smaller companies, both domestic and international, that have
bigger market shares than JC on the Chinese market. The competitors offer
numerous products of the same type and in the same price categories as those of
JC. In addition, they might have better developed additional services such as
after-sale- and customer service. This strengthens the intensity of the rivalry
within the industry.

3.2.4 Threat of substitutes products or services – Medium
There is a possibility that substitute products or services on the market can replace
a specific product. In the paint industry, wallpaper is considered the most relevant
substitute for Decorative Paint. It functions the same way and meets the
customer's needs of redecorating the wall. The average cost of wallpaper varies,
and may be higher in some cases. Eco-friendly products can be a future substitute
because the Chinese customers focus on contributing to a sustainable
environment. Also future innovative designs for wall covering can be a possible
substitute threat to JC, which means that they have to stay proactive.

3.2.5 Threat of new entrants – Medium ➔ High
Threat of new entrants refers to the level of entry barriers, and the threat that new
competitors pose to existing companies once they are on the market. China is seen
as a huge market with potential both online and offline. The online market is big
and you can reach many different segments at any given time. There are less entry
barriers, less capital needed to start, and less infrastructure required. Because of
the strong expected growth of the Chinese e-commerce market, the number of
new entrants that goes online is increasing. Based on this, the threat of new online
entrants is high.

China’s membership with WTO has led to lowered barriers for companies that
want to enter the market. Due to this, the Chinese market is seen as one of the
most attractive markets to pursue. In recent decades more multinational
companies have gained a bigger market share in China. The main reason to this is
that the Chinese consumer preference has changed. Assuming it is easy to enter
the paint industry, it may not be as simple to establish a strong position in the
Chinese offline market. The Chinese consumers tend to have low brand loyalty
and focus more on customer service, therefore new entrants need to provide expertise to be accepted. Additionally, the already established companies have experience and networks within the industry. New entrants need to invest in capital, time, and resources to succeed on the Chinese paint market. Based on this the threat of new entrants offline is medium. This is why we see the threat of new entrants from medium to high.

3.3 PESTEL Analysis

We used a PESTEL analysis to understand the political, economic, social, technological, environmental, and legal factors. The PESTEL analysis is also effective in projecting the growth of a company in terms of its revenue, profitability, and corporate achievement. There are a number of external factors that play an important role in how successful a business can be.

3.3.1 Political Factors

The Chinese president Xi Jinping focus on the “Chinese Dream”, which he defines as the transformation of the Chinese nation and the opportunity to realize a middle class lifestyle. It is a core concept of a sustainable version of the “American Dream” adapted to Chinese needs and resources. Xi Jinping wants to build a stronger China that includes a stronger economy, better diplomacy, equity, fairness, and high morals. Sustainability is captured not only in Xi’s goal of creating “moderate prosperity” for all Chinese, but also in one stated campaign priority of creating a “Beautiful China”. This is further defined as a China that has a clean environment with low pollution. The overall objective of the new economic policy is to make the private sector the influential driver of the Chinese economy. Xi Jinping has promised to establish a decisive role for market forces under the guidance of the Communist Party. He aspires to restore China to its rightful place among the world’s nations. China’s membership in the WTO in 2001 required significant changes to the Chinese economy. It signified a deeper integration into the world’s economy and developed a liberalization process. Furthermore, the rapid growth has been achieved by increasing technological advancements, FDIs, and increasing productivity. Private ownership of production is now legal, though some non-agricultural and industrial facilities are still state-
owned and centrally planned. For a foreign company coming to China, it is important to focus on both formal and informal rules, adapt to the country, and the laws.

China’s demand for Paint and Coating Chemicals has grown at a fast pace in the past decade. In the next decade, both production and demand will continue to grow. An interministerial working group in China has developed new regulations to reduce the emission of VOC into the atmosphere. This affects the painting companies. The regulations are a part of the Chinese government’s current efforts to improve air quality throughout the nation. As a result of the regulations, new facilities are already required to use only waterborne or low-VOC coatings.

Over the past few years, the government focused on the development of e-commerce. The legal framework for e-commerce is still in an early stage. China has little experience for drafting e-commerce legislation for topics like intellectual property rights protection and tax. There are not yet any regulations supporting the privacy, recognition of digital signatures, consumer rights, or validation of electronic contracts. In China government regulations, payment system, and logistics systems are the main factors that influence e-commerce development.

3.3.2 Economic factors
After the new market reform was implemented in China in 1978, the GDP had a growth of almost 10% a year. This gave an outcome of decreased number of poor people. China gets a lot of attention from big multinational foreign companies as a result in a continuously high FDI flow. It is still considered a developing country, which brings both positive and negative aspects. The country had decades of strong economic growth, which led to a growing middle class that gave the Chinese public a higher purchasing power. This growth of the middle class will continue to be powered by the labor-market and policy initiatives that push wages up, financial reforms that stimulate employment and income growth, and the rising role of private enterprises.

Since the global financial crisis in 2007, China has felt the impact on this economic rate of growth. Today there are signs that show that the Chinese
economy is slowing down even though the RMB keeps growing stronger. The growing rate in China has today been set to 7% by the government in order to establish a new “normal”. However, the Chinese inflation rate has never been as low as it is today, it was recorded at 1.40% in March 2015. This has led to an increased growth of the Chinese infrastructure and high property prices, resulting in a booming real estate market.

The e-commerce market in China keep growing and see no signs of stopping and alongside of this so does the opportunities that comes with it. The quick growth has created many price options for both domestic and international brands that would not been possible before. Many of the strengths includes reaching your consumer at any time of the day with sales, dynamic pricing based on availability and quantity, and also after-sales services.

A major challenge posed to many businesses is price comparison websites, where the prices are compared in a situation that is not always accurate as delivery charge may be excluded.

Advantages of a digital environment means that companies can adapt to local economic conditions and offer products through other outlets, such as e-platforms like Tmall.com and JD.com.

3.3.3 Social factors
Chinas population was well over 1,39 billion people by the end of 2014. The growth rate has been relatively steady at 5% to 6% for the last 10 years. 54% of the population lived in urban areas in 2013.

China has the most active Internet users in the world counting over 640 millions. Around 80% of white collar workers and students are users of smartphones, and they are not only contained to 1st or 2nd tier cities, but go well through even 4th tier cities and less dense urban areas. Chinese consumers are the world leaders in online buying. About 70% of smartphone and tablet users feel comfortable buying online as long as they believe their personal information is protected. The
generation’s expectation to technology is also a crucial factor for the industry, as they are the ones that determine the trends and preferences. China has the world’s most active environment for social media. Even though many of the social media platforms used around the globe are banned, Chinese providers have created similar platforms.

The younger generation of the rising middle class, typically teenagers in their early 20’s, tend to buy more based on their self-indulgence than before and are more independent minded. This group of consumers has a Western approach when shopping. They are conscious of the many benefits of buying online, and they check the Internet for former customers’ reviews and experiences. They strive after having better taste or higher status. Considering these buying patterns, and the fact that they have a big influence on decisions about household purchases, they will have to be regarded as an attractive segment for the high-end, fashionable paint suppliers.

Among the rising middle class in China we also find wealthy and well educated women in the ages between 25 - 35 years. They make up about 115 million people, and are some of the most active online shoppers and social media users in the country. Most of them owns up to five electronic devices, and are frequently using social media like WeChat to everything from ordering Taxi’s to messaging friends. Two thirds of them are college graduates and half of them are mothers. 85% are in employment, so this is a consumer segment with a high purchasing power and a great interest in social media.

Chinese consumers are getting more sophisticated in their buying habits and are tending to buy things that can show off their unique style and the function of the product, rather than only showing off logos. Products with attractive designs are getting more popular with these consumers, and they are willing to pay premium prices for quality products and services. The Chinese consumers are more conscious about health than before. They pay more for health friendly products, and they are not afraid to share their thoughts about health and safety online. For JC, it is reasonable to believe this trend will increase the demand for their high quality- and healthy products.
3.3.4 Technological factors

The latest years the technology in China has developed rapidly. Only a decade ago China did not have any leading technology firms to compete on the global market, but the government has invested heavily in this as a part of the national socio-economic development. This led to more Chinese companies, such as the market leader Lenovo, proving them able to compete with the major international brands. In order to keep up with the ongoing technological evolution, the paint industry is dependent on staff specialized in this field.

In the end of February 2015 the CGPC made major changes in the “approved state purchase list” and banned some of the worlds leading technology brands from this list, while approving more local companies. This was a response to the US cyber-espionage program, and protecting the Chinese “cyber-sovereignty”. This might shield the domestic technology industry competition from the global market, and can be a threat to the paint industry as the government regulates everything. On the other hand, the paint industry can develop more cost effective solutions with new Chinese technology, inexpensive components, and cheap workforce. Another area that has seen improvements in China is the investment in infrastructure, which in addition has resulted in a skilled force of innovative engineers. This could make it easier for the logistic coordination to reach out to new market opportunities in the 2nd and 3rd tier cities.

To make new foreign companies transfer their technology and R&D to China, they have given incentives, again empowering their possible competitive advantage. The paint industry can also take advantage of this with collaboration and access to new innovative solutions.

A big technological threat is caused by the increasing B2C industry, which does not focus on offering the security level that is needed to keep up with the amazing growth. Here the main issue is that they have not yet developed a safe and stable online payment system, causing a significant risk. As Chinese buyers are high on uncertainty avoidance level and long-term orientation, the problem is strengthened. Paint companies might deal with these issues by implementing a
highly secure and dependent system to increase their credibility. Cyber security regulations from the government can also become a threat to the future e-commerce expansion of paint companies. Along with these new standards, future changes in some of their products and services might be required.

The extreme economic growth has led to extensive pollution, making the scale of China’s environmental damage huge. The environmental awareness increased among the population and the focus is now on damage prevention in the future. This has opened up big opportunities to green technology firms, because the Chinese government needs help to find efficient technology solutions to reach their new climate goals. The country has built up a “cleantech” sector, and is one of the top global investors in overseas renewable energy. However, this leads to challenges and chances for the paint firms as a participator in the chemical industry. Many companies choose to implement strategies that advocate environmental sustainability on different levels. This can give them advantages on the market as Chinese investors and the Government is working actively to promote China as a green, conscious marketplace.

3.3.5 Environmental factors
There have been many years with widespread pollution in China due to poor environmental regulatory enforcement. This has led to tightened legislations addressing the issues. This is now a big obstacle for many, especially foreign companies who wants to get accepted in order to produce in China. In the past the paint industry has been known to work with and produce chemicals that can cause health risks, and be a direct threat to the environment. The paint industry is focusing more on a sustainable future and offers a wider range of health friendly products. The result of this trend has led to a great impact on government regulations.

Committing to a sustainable environment, Jotun has created the “Jotun GreenSteps - For a more colorful world, we’re taking steps to be a little greener”. These are measures that focus on reducing hazardous materials, energy consumption, carbon footprint, and waste. They promote their actions by offering
solutions that make a difference and at the same time do not compromise the premium quality or durability of the products. They have implemented different climate certifications in their global factories, along with innovation and research on VOC regulated products. All of these actions and steps can increase the credibility and positive perception from both the consumers and within the industry. It is also important to mention extreme weather caused by climate changes that is a potential threat to different industries. This can damage the natural resources and raw materials that some are dependent on in order to operate and produce like normal. All these factors lay the foundation for new possible industries, but at the same time it can eliminate the existing ones.

3.3.6 Legal factors

The Chinese paint industry has to adapt to local regulations such as health, labor, and safety. The industry is also affected by international regulations and standards. Most of these standards are obligated to follow and some are optional. Many products need to be registered and certified before they can be sold in China. Chinese law offers comprehensive protection of copyrights, patents, and trademarks, but at the same time there are extensive violation and unsuccessful implementation of the law. When it comes to online legal factors, the legal environment has a huge influence on a wide range of aspects such as contracts, password, privacy, intellectual asset, and the protection of consumers. The legal system will continue to develop the Chinese e-commerce in the future. By the end of 2015 China’s first official e-commerce law will be completed. The main purpose of the law is to spur innovation and competition in the growing e-commerce market. The law will include an honest environment, quality of goods and services, protection of consumers’ interest, and intellectual property rights. These clarifications came after the Chinese minister of the SAIC commended e-commerce platforms to take responsibility for promoting credibility and integrity.

JC can take advantage of this by marketing effectively to any group of middle class consumers. This requires an understanding of the needs of specific segments and the recognition of which segments that provide the greatest potential profitability for a particular product.
4.0 Research Methodology

4.1 Research design
The explorative design is used when the researcher has little or no prior knowledge about a subject. This is used to give insight and also to create a better understanding. Because we had little knowledge about the Chinese Decorative Paint- and e-commerce market, an explorative design was applied in this thesis. (Gripsrud, Olsson and Silkoset. 2010. p 29)

4.2 Data collection

4.2.1 Primary data
Primary data is known by being specially customized and collected in order to answer research questions. In this thesis, individual in-depth interviews were used to collect primary data. (Gripsrud, Olsson and Silkoset. 2010) The interview objects were chosen because they had the required expertise in both the fields of Chinese e-commerce and the JC organization.

4.2.2 Secondary data
Secondary data is known by being collected by others with different intentions. (Gripsrud, Olsson and Silkoset. 2010) information was mostly gathered from the Internet, previous reports, and analysis conducted by JC.

5.0 Findings

5.1 Primary data

5.1.1 In-depth interviews

5.1.1.1 Interview with Mr. Allen Liao – specialist in Alibaba Group
The main aim of this interview was to use Allen’s expertise on the field to get a better knowledge about the Chinese e-commerce and the paint industry. We
Jotun China – Coloring the internet

wanted to establish a better understanding about the changing behavior among the consumers. Furthermore, we want to find out how JC can utilize this as an opportunity rather than a challenge.

According to Allen, e-commerce is the best way of doing business. By using the Internet you can track your customers and see their shopping behavior and preferences. The e-commerce in China drives and develops the logistics. Online shopping has become a part of the Chinese lifestyle, as an effect of the increased purchasing power among the middle class. No one ever knew how much the Internet would mean for the shopping industry, and today the e-commerce is developing rapidly. When the online shopping process inevitable become more efficient, the consumers will buy more. The biggest trends in China are to use your smartphone to purchase online products such as clothes, food and electronics. As an effect of this the purchasing process is changing:
   1. They become aware of the product.
   2. They read reviews about the product online.
   3. They try the product in a physical store.
   4. They buy it online.

Information given by Allen indicates that there are two major leaders on the e-commerce platforms in China. JD.com and Alibaba Group have 80% market shares combined, and together they have 60% of the total market share.

Allen does not believe the growing e-commerce would affect the physical stores in a negative way. In the physical stores you can sense the product, but online you cannot create the same shopping experience. The physical stores and the e-commerce are combined together. In the future he believes that the online and the physical stores would rely more on each other.

Allen says it does not have to be expensive to go online. The company does not need to change the business model internally, but they will have to change the business location, as in offline to online. This could be done by hiring someone externally who specializes on e-commerce to help the company get started. As a company wanting to go online, the most efficient way is to cooperate with a well-established e-platform such as Tmall.com and JD.com. When establishing your
own website, one of the most crucial parts is to secure the site with relevant and updated software so you prevent possible hacking. This kind of protection is expensive, and not every company has the competency or ability to do so. If exposed to hacking, it would cause severe damage to the company’s reputation, and in worst case this can be the end of the company. By cooperating with a well-established e-platform you will gain this important protection and additionally a big customer base. This will improve your credibility among the consumers.

According to Mr. Liao, only 3 % of the interior industry revenue comes from the online sales which also consists of Decorative paint as a sub category. He believes that the 3% can increase in the future if the Chinese paint industry develops a better understanding of the e-commerce market. When selling paint online you need to provide additional services so that you can offer the “whole package” as the Chinese tend to not re-decorate by themselves. Offering services that does everything from deciding on colors, cover up the furniture and paint the walls could be a part of this “whole package” service. Because the working force in China is very cheap, due to the huge population, skilled labor, and high demand for more jobs, this does not have to be expensive to offer.

When we asked Allen about JC and how they could utilize the growing e-commerce market, he said that all foreign companies should let the market decide and not use the global role to regulate the position on the market. He thinks JC should seize Tmall.com and JD.com as e-platforms to acquire more insight about the customers needs by gaining more knowledge about the trends and the market. The booming e-commerce in China has become a part of the culture. The culture is always changing, and if you do not understand this you will struggle in the future. Mr. Liao had an interesting answer when we asked him about the online strategy for JC. He said that they should develop a new product line exclusively for online sales with a lower price, to differentiate them from the offline market and to increase the online presence.
5.1.1.2 Interview with Mr. Josh Gardner from Kung Fu Data

The main aim of this interview was to use Gardner’s expertise on the field to get a better understanding about the Chinese e-commerce. We wanted to establish a better knowledge about the changing behavior among the consumers. Josh Gardner is the CEO of Kung Fu Data located in Shanghai. The company specializes in data analysis and business optimization of e-commerce on the Chinese market.

According to Mr. Gardner, e-commerce is an online shop that has to consist of shopping cart technology, inventory management, and payment processing so it will function as a transaction platform. Any website that does not have a purchasing function is just a brochure, brand, or a showroom for the particular company. Mr. Gardner says e-commerce is all about generating response, because the consumers have to be willing to buy your product. He refers to this as, “direct response marketing”, and the ability to communicate in a way that the audience responses back to. Once you have their attention it is all about persuasion. The optimized response to this is the “see – click – buy”, which is the goal for any e-commerce.

Tmall.com has 60% of the entire market share in the B2C online market in China, and they have a great optimizing potential. The possibilities are big if done the right way. First of all you have to “get in”, and as a part of Tmalls new policy you have to be on a pre-approved brand list. This means you have to get a written acceptance letter from a category manager if you are not already established. Unless you are a well-known brand, it can be difficult to receive one of these letters if you do not have a personal relationship to them, considering the importance of Guanxi in China. But once you are already in, the support is great. Alibaba is open and transparent, which means you get access to a huge CRM base with highly valuable information. This means you can keep up with your competitors and also the daily trends. In addition, Gardner says that it is not enough to only be present online, you have to keep up with the changes in the market as well.

In China the changes are significantly faster than in the rest of the world. You have to optimize your web page daily, so you are prepared for anything like a
change in the conversion rate. To keep up with these changes, he suggests that the optimization team alone should consist of full-time employees like a data analyst, store manager, creative designer, and an optimization expert. He also focuses on the importance of online customer service as this can reflect badly upon the company and the e-commerce platform. Tmall.com has implemented a fine-system to prevent this from happen.

Mr. Gardner continues to explain that patience is key. Meaning the company might not grow as fast as you predicted, but the profits will be higher. He estimates that return on profit could be within 9-18 months for breakeven in niche categories, and up to 2-3 years in other highly competitive categories such as clothing and cosmetics. Everything depends on whether or not the brand is ready to be launched online. You need a successful offline infrastructure to educate the Chinese consumers. This is also his argument why the online shops are not a big threat to offline shops, it is more a mutual dependent collaboration. The online brand has to have broad brand awareness, so they can focus more on brand extension when they launch online. Second mover advantage is important when doing online business in China, giving companies the opportunity to see what works and what does not.

Mr. Gardner says that online sales will have a higher percentage in China than in any other country. Alibaba, Tmall.com and Taobao, JD.com, and QQ Tencent stand for an outstanding 87% of the B2C market in China. Not only because the offline selection and availability is limited but also because the rapid growth of the Chinese population. There is per this day no efficient developed offline shopping infrastructure in China due to lack of organized que-systems, few efficient payment methods, and over-crowded shops and public transportation which could make the offline shopping experience feel like a hassle. You will most likely have a hard time doing shopping if you live in a 2nd or 3rd tier city, but today the logistics is so effective that you can buy anything online and get it delivered home.

If you want to change your company’s business model to adapt to the new trend, you simply have to completely localize everything and do some cultural justification. According to Mr. Gardner the recipe to success is, “if you try to
change the market you will fail, but if you listen and adapt you will succeed in the end”.

5.1.1.3 Summary of key external findings
Both of our interview objects have similar thoughts and ideas about the e-commerce in general and how Jotun can utilize the growing Chinese online market.

First of all, both of the respondents are convinced that the Chinese e-commerce will continue to grow in the future. There will be changes, but the booming online shops do not pose a particular threat to the physical stores. They say that it will be cooperation, rather than competition between online and offline shops. They are and will be mutually dependent on each other. The Chinese consumer behavior is gradually changing consistent with the e-commerce industry. This means that companies have to adapt and customize to the new preferences and needs of the consumers in order to satisfy these.

In order to succeed, you first need to have established offline brand awareness. You have to distinguish yourself from your competitors by offering products that will meet the consumers’ needs in a specific market. Second of all, you have to go online. When doing so you need to conduct research and also think about which platform to choose. It might be wise to consider entering the online marked in collaboration with someone who is already well established. JC has already passed this step by entering Tmall.com.

Both of the respondents agree that JC has to improve their already established e-platform to be able to compete in the market. They should consider using their second mover advantage and explore what their main competitors are doing. This can help create a successful strategy. Some of the possibilities are:
1) Introduce an online limited product line.
2) Collaborate with more than one online platform.
3) Use social media to create visibility.
5.1.1.4 Interview with Mr. Erik Aaberg - Vice President Jotun China, North East Asia General Manager

The aim of this interview was to learn about Mr. Aabergs experiences as a Western manager working in China and to understand how he believe the Chinese paint industry can utilize the growing e-commerce. In addition we wanted to know about his future goals for Jotuns Decorative paint department in China.

Aaberg previously worked 20 years in the Middle East for Jotun before he was transferred to JC. Mr. Aaberg also contributed to develop the product line “Majestic” in the Middle East that later was introduced to the rest of the world.

According to him, the underlying beneficial factor of choosing Jotun is the shopping experience that is created in the retail shops. The customers will get professional advice and inspiration. Jotun provides products with high quality that are healthy and environmentally friendly. JC also believe that they can attract more consumers by being perceived as locals instead of a Norwegian company. Thus creating more credibility and avoiding political barriers.

JC currently does not focus on marketing on other channels except through its retail shops and press releases. When it comes the current marketing, Mr. Aaberg thinks that JC needs to increase its number of retails shops in order to gain more market share and brand awareness. The main costs when it comes to marketing are the subsidization of the shops. JC provides the financial support in order to get the stores up and running, and provide them with interior design and products to improve the outlook of the shops. You have to bring your former experience with you to the new markets, and adapt to the local culture in which you are trying to implement your business in. This type of business model has worked in other parts of the world, and he strongly believes that this will eventually work in China as well.

One of Jotuns main advantages is that they focus on high standard products with premium features. Even though the prices are higher, the Chinese consumers are willing to pay for quality.
Mr. Aaberg doubts that e-commerce will expand the market share and increase the company’s profit. He believes that people will not buy paint online, but will continue to visit the retail stores. The reason to this is that buying paint is considered as a complicated purchasing process. You need to experience the product before you buy it, which he thinks is difficult to create online. Despite this, he does not want to pull out of the online Tmall.com platform, because it provides critical insight on market trends among consumers and competitors.

5.1.1.5 Interview with Mr. Ray Sun, Senior Marketing Manager Decorative Paints – Jotun China

The aim of this interview was to learn about Mr. Sun’s experiences as a senior marketing manager in China, and how the Chinese paint industry can utilize the growing e-commerce. In addition, we wanted to know about his future goals for Jotun’s Decorative Paint department in China.

According to Mr. Sun, the underlying beneficial factors of choosing Jotun are first of all the quality; secondly they provide health friendly products. The current strategy for JC Decorative Paint segment is to increase their market share by focusing on the retail shops. When it comes to the future strategy, JC hopes to implement a CRM system. No CRM systems have been launched in China yet, because of government regulations and legal issues. JC wants to implement the system as soon as it is legalized and available.

The current marketing is based on the retail shops and its store manager’s network. They center their marketing strategy on providing the stores with different products and décor. Today JC has 80 outlets in Mainland China with an estimated increase in stores equivalent to 20% each year. Currently, the annual marketing budget is 10% of the total revenue. The biggest investment is providing the shops with a Tinting System, customer giveaways, and sales tools.

JC is trying to build stronger brand awareness by looking into new opportunities. Mr. Sun says that social media should be a bigger part of the future marketing. In order to increase online visibility JC should be more interactive with the customers, such as offering better after-sale services and expand the use of social
media platforms like WeChat. Presently they have an already established WeChat group to expand their network with painters.

According to Mr. Sun, JC chose to go online to observe the competitors and the market but without a clear strategy. At this time JD.com was not popular and therefore they only chose to establish a platform on Tmall.com. He believes that defining a new strategy and utilizing the growing e-commerce market would result in increased transactions and eventually higher profits. Today JC’s biggest competitors, Nippon and Dulux, are established on Tmall.com, JD.com, and other online platforms. Because these brands are favored among the Chinese consumers, JC remains unseen. A solution to this would be buying “keywords” so they will appear on the first pages when searching for paint on Tmall, because organic hits are not enough. In an attempt to meet and neutralize threats from substitutes like wallpaper, JC offers products such as Majestic Design.

Mr. Sun believes that the main challenge of being online is the threat it represents to the retail shops. He thinks that a solution to this issue could be a cooperation based on O2O where the retail shops and the online store are mutually dependent on each other. JC needs to utilize the current online establishment by getting a better understanding of the online market. They need to join other platforms such as JD.com and find solutions to attract customers to the platforms. He says that they should look into the possibility of hiring an external resource to help them gain more knowledge about the market and the trends.

Mr. Sun’s personal opinion is that JC should continue to invest in e-commerce. They need to provide market analysis reports and develop a strategy that includes cooperation with dealers, so that both can gain profit. He believes a possible solution to the challenge is including the dealers as a part of the logistic chain. The retail shops can function as a warehouse or pick-up-point for the products sold online and provide the after-sale services.

5.1.1.6 Summary of key internal findings
The interview objects had different thoughts and ideas about the e-commerce in general and how JC could utilize the growing Chinese online market.
Mr. Aaberg is not yet convinced that e-commerce is the future for JC. According to him, the dealers and the retail shops are the most important assets for the company. JC build relationship and network through their dealers and educate them so the customers can get professional advice and inspiration. Mr. Aaberg thinks that JC needs to increase its number of retail shops in order to gain more market share and brand awareness. He doubts that e-commerce can increase the companies’ profit. Mr. Aaberg is not confident that it will be possible to bring the offline shopping experience online, because paint is a product category that is unattractive on e-platforms. Despite this, he does not want to pull out of Tmall.com when the contract expires in 3 months. This is because it provides valuable insight on market trends among consumers and competitors.

Mr. Sun on the other hand, is convinced that e-commerce is something JC should invest considerable more in. He believes that this is a better way to reach new customers and increase the brand awareness while cooperating with dealers in retail stores at the same time. Furthermore, he thinks that social media should be more integrated in the future marketing plan.

According to Mr. Sun, JC chose to go online to observe the competitors and the market, but without a clear strategy. He believes that defining a new strategy and utilizing the growing e-commerce market would result in increased transactions and higher profits. One of the main challenges of being online is the threat it may represent to the retail shops. Mr. Sun thinks that a solution to this issue could be a cooperation based on O2O, where the retail shops and the online stores are mutually dependent on each other.

Both of the respondents are convinced that the retail shops and the dealers will continue to be an important asset for JC in the future. At the same time they disagree on whether or not JC should invest more in e-commerce and how it can be an opportunity rather than a challenge. Mr. Sun has faith in the opportunities that e-commerce can create, and with the right strategy he presumes that JC can utilize the growing online market.

Both of the respondents agree that JC should stay on the already established platform. This is a good way to keep up with the competitors and use the platform
to better understand the market. Neither of them knew if JC had a clear strategy when entering Tmall.com. Both assumed that JC entered the e-commerce market in cooperation with Tmall.com because it was the most popular platform and also to monitor the competitors.

5.2 Secondary data

5.2.1 Decorative paint industry in China

Considering China’s massive growth in both economy and real estate, it is an intriguing market for almost any industry. Decorative painting is no exception and the biggest brands are selling Decorative Paint for hundreds of millions RMB each year. Even though the growth of GDP in China is at 7%, which is slower than previous years due to government control over the real estate market, it still has enormous potential.

Due to the changing and modernizing lifestyle of the Chinese middle class and their disposable income, the interior market in China is now one of the biggest in the world. An approximate estimation from interior and redecorating trends show that the paint industry has potential for increased sales. This is because consumers may choose to paint their rooms to match the interior when renovating or redecorating their homes. With the wide range of companies that offer after-sale services today it makes redecorating easier.

The business of Decorative Paint has increased steadily with long-term sustainability. Over the last three years, Decorative Paintings has achieved remarkable sales numbers, developing into a new and mature stage. The great success in this segment is due to the parallel development of project and retail business.

Guanxi

Guanxi is the influence of network and relationship most commonly practiced in Chinese business culture. It is important to keep this practice in mind when doing business in China whether you are local or not. Maintaining Guanxi with the dealers in the retail shops is essential because they are the main connection between JC and the customers.
After-sale services

The Chinese consumers have a higher demand for quality and service. For some customers, after-sale services is what makes one supplier stand out from another often more than product or price. In the last years this has become a more important part of the paint industry. These services strengthen the bond between company and customer and help maintain a long-term relationship. JC provide this type of services in form of professionals helping you with the whole process of redecorating including painting, covering the furniture, and cleaning.

5.2.2 Chinese customers

Along with the wave of the rising middle class in China and their increased income, the purchasing power has seen a rapid growth. The consumers are embracing e-commerce and companies are offering more sophisticated online services. One of the trends is that the physical retailers are changing into showrooms and increasing the consumer enthusiasm for O2O services.

E-commerce is precipitously transforming the way Chinese consumers research and purchase products. Two of the most important factors when making a purchasing decision are to read reviews from previous customers and WOM. A Chinese consumer will make approximately 10-12 visits to online and offline stores before buying an expensive product. Additionally, they use social media to find new products, show off their latest purchases, and strengthen social status.

A low price is no longer the main drive of customers’ satisfaction and brand loyalty. The increased demand for better quality and services are contributing to shape the trends in e-commerce. A report on Chinese online consumers (McKinsey China, 2015) can confirm our findings from in-depth interviews; the number of physical stores will decrease, but they are still mutually dependent on each other. In order to differentiate themselves, showrooms will eventually replace some of the retail stores. 71% of the Chinese customers are using O2O services. Of these, 97% want to use the same service in the upcoming 6 months. For those who have not yet tried the services, ⅓ would like to try within 6 months. In the rural areas, over 60% of the digital customers are e-commerce users. Some of China’s leading retailers are moving fast to exploit this trend developing
services and logistics. Compared to the 1st and 2nd tier city shoppers, 25% more of the rural customers see themselves as online shopping experts and are eager to try out new products.

### 5.2.3 E-commerce in China

Two decades ago China did not grasp the opportunities that followed e-commerce, even though the US online market was booming and spreading to other big global players. With only 2.1 million Internet users, it was difficult to foresee how much this would eventually affect business in general and how it would change the way the buying process is conducted.

Nowadays China has a completely different market landscape than it used to. Because of groundbreaking discovery within technology development, China has surpassed the US and has become the largest e-commerce market in the world. With Internet users almost approaching 700 million, there are no signs that the evolution will stop. A flawless e-commerce platform will attract additional business. The Chinese government has set a 5-year plan in order to maintain their position as the global e-commerce leader. Simultaneously they are trying to transform the people to become more consume-driven rather than invest-driven.

> “In other countries e-commerce is a way to shop, in China it’s a lifestyle.”
> - Jack Ma, founder of Alibaba

Due to the rapid growth, there will be challenges concerning how to reach consumers across borders while still maintaining the quality of the offered product or service. The scarcity of high quality logistics providers may eventually cause problems in the future because they will not be maintainable. Some of the most important issues to address include late deliveries, damaged and lost products, poor return procedures, bad customer service, and no special after-sales services offered.

As the market continues to grow in the speed it has been until now, the ability to offer reliable and consistent services and delivery can be the major source of competitive advantage. A way to improve or make this less of a problem is that
companies could build their own logistics network, outsource to third-party providers, or form partnerships with e-platforms, and acquire existing providers. This is not an easy task, but can work if done correctly.

When doing e-commerce one of the major issues that companies face is the online security, and this is a significant factor if you want to succeed on the e-commerce market. Cooperation with a reliable site is essential, because the company will always be held responsible for the security of the webpage.

Both the Chinese consumers and the companies are taking advantage of the growing market. Shortage of time has become a bigger issue in today’s society. Major brands and online platforms have seen great opportunities in online shopping. The consumers have already embraced the trend as well as they are enhancing it. Due to its convenience, this method of shopping can be conducted anywhere at any time. The mobile device is about to replace the original PC and 69% of Chinese consumers purchased a product or service through their smartphone in 2014. Social media is contributing to spread WOM, acting like a marketing tool, and making global communication possible. The escalation of social media has led to companies implementing this as both an internal and external communication tool.

All of the top three e-commerce trends in China have similar traits. They all help companies reach consumers without having geographical border issues and it helps fulfill consumers’ needs.

The first trend is the innovative solutions for the way people traditionally pay for products in China. Popular platforms such as WeChat have added payment functionality to their application, so that users can purchase directly. Other innovations such as e-credit cards have been developed, giving consumers alternatives for online payment. China is making the shift from cash to cashless faster than western countries (Mastercard, 2013).

The second trend is the demand for more global quality products. The rising Chinese middle class causes this. Their increased purchasing power and international knowledge may lead to change in customer preferences, such as lack of loyalty towards domestic brands.
The third trend is that the growth of the Chinese e-commerce market makes companies realize the potential in rural areas. Numbers and reports show that the demand is high in these areas due to an underserved market.

The trends in the Chinese e-commerce market changes as quickly as it grows. But what we know for certain is that it enables a closer connection and understanding between suppliers and consumers, making them dependent on each other.

5.2.4 Competitor analysis

The purpose of the competitive analysis is to determine the strengths and weaknesses of the competitors within your market.

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<td>• Quality and innovation</td>
<td>• Quality and innovation</td>
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<tr>
<td>• Keep the market leader position</td>
<td>• Keep the second market leader position</td>
<td></td>
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<tr>
<td>• Accelerate cost analysis process</td>
<td>•</td>
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<tr>
<td>• Faster decision making progress</td>
<td>•</td>
<td></td>
</tr>
<tr>
<td>Current strategy</td>
<td>• Investment in application service</td>
<td>• Investment in application service</td>
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<tr>
<td>• Promotion strategy: media channels</td>
<td>• Promotion strategy: Media channels</td>
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<tr>
<td>• R&amp;D products</td>
<td>• Family values</td>
<td></td>
</tr>
<tr>
<td>• 3000 franchised stores</td>
<td>• R&amp;D products</td>
<td></td>
</tr>
<tr>
<td>• Service centers</td>
<td>• Target segment: DIY users and professionals</td>
<td></td>
</tr>
<tr>
<td>• Target segment: DIY users and professionals</td>
<td>• Focus on coastal cities</td>
<td></td>
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</tbody>
</table>
Jotun China – Coloring the internet

<table>
<thead>
<tr>
<th>Assumptions</th>
<th>Capabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Innovative market, have to focus on this</td>
<td>• High brand awareness</td>
</tr>
<tr>
<td>• Growing market</td>
<td>• Knowledge</td>
</tr>
<tr>
<td>• Higher purchasing power</td>
<td>• Eco-friendly perception</td>
</tr>
<tr>
<td>• Higher competition</td>
<td>• Good marketing</td>
</tr>
<tr>
<td></td>
<td>• R&amp;D – quality improvement</td>
</tr>
<tr>
<td></td>
<td>• Credibility - Trust awards</td>
</tr>
</tbody>
</table>

As a result of conducting this analysis of JC’s main competitors, Dulux and Nippon, we see that most of their qualities are the same. They have common focus and vision such as offering eco-friendly products and after-sales services in order to meet the consumers’ needs. Still we recognize the few differences. These two competitors take the biggest share in the online and offline market.
6.0 Strategy and recommendations

6.1 Strategic problem statement
“How can Jotun utilize the growing Chinese e-commerce market as an opportunity rather than a challenge?”

6.2 Strategic goals

6.2.1 Short-Term (0-3 years):
• Analyze and optimize the current web traffic from Tmall.com within 6 months.
• Hire an e-commerce consultant for 1 month to propose and implement optimization changes within 6 months.
• Increase the Decorative Paint market size from 0.4% - 0.5% within 2015.
• Improve the offered after-sale services within 1 year.
• Prolong Tmall.com contract within 3 months.
• JD.com cooperation within 1 year.
• Increase traffic to the company’s official e-commerce platforms with 30% within 2 years.
• Increase traffic in stores.

6.2.2 Long-Term (3-5 years):
• Receive at least 95% positive customer feedback regarding the after-sale service on established platforms.
• Receive at least 95% positive customer feedback regarding the products on established platforms.
• Implement a CRM-system as soon as possible after government legalization.

6.3 Critical Success Factors:
Based on the internal and external analysis and the findings, JC needs to present the critical success factors if they want to reach the goals:
• Acquire higher level of market orientation
6.4 Strategic alternatives

After conducting a thorough analysis we have selected two different alternatives for JC. They can either withdraw from the current e-commerce establishment or they can implement a new strategy. The current strategy is vague and it does not utilize the opportunities in the Chinese e-commerce market.

6.4.1 Alternative 1: Withdraw from e-commerce establishment

Currently JC is not generating enough money online to breakeven in the Decorative Paint department. They should consider a complete strategic withdrawal from the e-commerce market. This is in order to eliminate the inefficiencies due to high competition, low internal risk-willingness, low customer loyalty, and brand awareness. By doing so they can give full attention and accelerate their offline presence with retail shops and effective marketing campaigns in order to increase market shares.

**Advantages:** They can conserve their financial and human assets for use on the offline market. By expanding the offline presence, they have the chance to strengthen the ability to re-enter the online market in the future. This can prevent future loss of financial resources, which could rather be used in other projects.

**Disadvantages:** By pulling out of the e-commerce establishment JC might face several challenges. One of the most important factors is the ability to obtain market share and to achieve financial equities. They will most likely lose knowledge about the market and the opportunity to develop a better understanding. If they withdraw their online presence they will lose access to the customer database. This can make it difficult to understand the customers' needs, keep up with the market trends, and make it hard to target new customers in the future. By choosing this alternative they will miss out on using their online
presence as a reasonable marketing tool and could lose the opportunities that social media can provide.

6.4.2 Alternative 2: Implement a new e-commerce strategy

The current strategy is unclear and JC are not taking fully advantage of the opportunities on the Chinese e-commerce market. They should gradually implement a new e-commerce strategy to better satisfy the customers’ needs and achieve a bigger market share.

Advantages: JC are financially strong and capable of continuing the support of the Decorative Paint segment both online and offline. This alternative could lead to a better insight and stronger market orientation online and also target new segments. Additionally, the current experience with Tmall.com can help JC gain a better position in the market when entering possible new online cooperation. A new clear strategy with further concentration on the e-commerce market may lead to a higher performance and cost efficiency. They can take advantage of social media and online marketing tools to reach customers in a cost reducing way. At the same time they can use their online position to monitor the competitors and give them the ability to differentiate themselves on the market. Moreover, JC can meet the customers’ needs for innovative, efficient solutions by focusing on R&D and show willingness to adapt to the local culture and environment.

Disadvantages: If the strategy is not well implemented they may lose money. In addition, it may take a while before the strategy generates profits for the company. By implementing a new strategy there are some challenges that may arise. If the dealers feel excluded from the new strategy, JC may damage their well-nurtured relationships and risk losing their networks within the industry. JC may face more competition and it can be hard to create the shopping experience online because paint is a product many customers need to sense before purchasing. Investing more in e-commerce includes financial risks because there is a possibility of failure in expanding and implementing new strategies.
6.5 Recommendations

After evaluating each aspect of the two alternatives, we recommend JC to select Alternative 2 – Implement a new e-commerce strategy in order to utilize the opportunities. JC will be able to monitor the competitors and keep up with the market dynamics. By choosing this alternative they will be able to fulfill the previous discussed goals. They will expand brand awareness and increase profitability in the Chinese Decorative Paint market. In addition, JC should continue amplifying the relationship to the dealers since they provide the most important connection between JC and their customers. They need to develop a detailed plan and be prepared to follow it through.

Based on the analysis and our research, we recommend the following plan, divided into 4 steps as shown below.

6.6 The 4 strategic steps

Step 1: “Defining online presence”
Start out with prolonging the contract with Tmall.com before it expires, and work on a JD.com cooperation as this may take 4 to 8 months. Find a qualified e-commerce expert to help analyze the current web traffic and find out what adjustments that can optimize the e-commerce platforms and match the customers’ preferences. Monitor the competitors by looking into the customer reviews, their after-sale services, marketing strategies, and use of social media. Continue to build Guanxi with the dealers and conduct a market report to further analyze the market.

Step 2: “Examine the online market”
JC should start looking for new optional establishments after they are well settled on both Tmall.com and JD.com. They should continue to analyze data from the e-commerce expert and use the information to improve the after-sale services. Another channel worth looking into is the social media application WeChat, and how to use the application internally and externally. JC can use WeChat to keep in touch with the dealers and painters. More important, they can use the app to create a better interaction with the customers.
Step 3: “Include the dealers”
JC need to include the dealers in the e-commerce strategy. By working together, they can increase the traffic in both online and offline stores to generate a higher profit. The physical stores will provide the online customers with after-sale services and in the future the stores will be a part of the logistic chain.

Step 4: “Evaluate the results and the process”
This is a long-term strategy and JC should not expect immediate, positive financial results. However, after a period of time they will need to evaluate the results in each step including economic and non-economic goals. If the results are unsuccessful they should locate the issues and come up with a solution to fix it or develop a new strategy.

7.0 Research Limitations
When conducting this thesis we encountered some research challenges. The limitations we saw were often connected to cultural differences between China and Norway. One of the major challenges was that much of the secondary data was in Mandarin, giving us problems with interpretation.

Among the many companies we tried to contact, very few gave any response we could use in our thesis. There are also very scarce secondary data about the Decorative Paint industry in China, and this made it difficult getting enough information about the industry. When researching for good secondary data we realized that many of the numbers we would need were inaccessible or confidential.

Furthermore, it was hard to get admittance to key numbers from e-commerce platforms, and we realized that we needed financial numbers from JC to make valid estimations. Most of the primary data we assembled was through in-depth interviews. The respondents had high positions in the relevant companies, which led to difficulty reasoned busy schedules. If given more time we would strengthen our thesis by interviewing more of our intended resources to make the thesis more valid and reliable.
8.0 Appendix

8.1 Interview outlines

8.1.1 Interview with Mr. Allen Liao from Alibaba Group

Interviewer: The group
Interview object: Allen Liao, Online Marketing Expert
When: March 25th, 2015
Where: Alibaba office, Hangzhou.

1. What would you say qualifies as e-commerce?
2. How has the developed logistics influenced the e-commerce?
3. Why do you believe the Chinese e-commerce market is growing rapidly?
4. What are the pros and cons of going online?
5. What is the cost perspective of going online?
6. How severe is the competition in the Chinese e-commerce market?
7. Why do you think consumers prefer to do online shopping?
8. Do you see any changes in the Chinese consumer behavior, due to the increasing
9. Global e-commerce market?
10. How important is it to have knowledge about consumer purchasing behavior?
11. What are the trends in the growing Chinese e-commerce market?
12. What characterizes a typical online buying process?
13. How should brands and retailers transform their business model to adapt to customers online patterns?
14. When doing e-commerce, should you collaborate with other channels?

Now we would like to ask you some questions about the Chinese Paint industry and their opportunities of going online. We attended the Jotun earlier this year where you gave a presentation based on this. We believe you can help us based on your knowledge.

Paint industry in general:
Jotun China – Coloring the internet

1. How can the growing e-commerce market impact the paint industry in China?
2. How do you believe the future e-commerce market will affect the physical stores?
3. What are the main challenges of going online for paint companies?
4. How do you predict the growth of eco-friendly technology in the paint and coating industry in China?
5. How has the booming real estate market affected the Chinese paint industry?

And now we want to ask you some questions about Jotun and their opportunities of entering the e-commerce market.

1. How can Jotun create a market share online?
2. What do you believe are the main challenges going online for Jotun?
3. Who do you recommend Jotun should enter a collaboration with?
4. Why should Jotun cooperate with Taobao?
   e) What advantages would it be for Jotun?

8.1.2 Interview with Mr. Josh Gardner from Kung Fu Data

Interviewer: Christina, Henriette and Ola
Interview object: Josh Gardner, CEO
When: April 1st, 2015
Where: Farine, Shanghai

E-commerce in general

1. What would you say qualifies as e-commerce?
2. What is your past experience, and involvement in e-commerce?
3. What are the current trends in the e-commerce market?
4. Why do you believe the Chinese e-commerce market is growing rapidly?
5. How does the e-commerce market affect the physical retail stores?
6. What are the pros and cons of going online?
7. How can an already established online business increase their market share?
8. Why do you think consumers prefer to do online shopping?
9. What characterizes a typical online buying process?
10. When doing e-commerce, should you collaborate with other channels?
11. How has the developed logistics influenced the e-commerce?

8.1.3 Interview with Mr. Ray Sun Decorative Paints Jotun China

Interviewer: The group
Interview object: Ray Sun, Senior Marketing Manager
When: April 10th, 2015
Where: Jotun Headquarters, Shanghai

Jotun China in general
1. What are the underlying beneficial factors in choosing Jotun?
2. What is Jotun China’s current marketing mix?
3. What is the current strategy for Decorative Paint segment?
4. How does Jotun China conduct its current marketing?
5. What is Jotun’s annually marketing budget?
6. What are the biggest costs when it comes to marketing?
7. How many distributors does Jotun China have?
8. How is Jotun building a stronger brand name in China?
9. What is the current customer service offered by Jotun?

Jotun China online
1. Why did Jotun China go online?
2. How can Jotun utilize its current online establishment?
3. Why did Jotun choose Tmall.com?
4. What are the financial costs of staying online?
5. How do you believe the future e-commerce market will affect the physical stores?
6. Who are currently the main competitors of Jotun online?
7. What are the main substitutes?
8. How has the booming real estate market affected the Chinese paint industry?
9. What are the main challenges for Jotun online?
10. How can Jotun gain more knowledge about the ecommerce market?

8.1.4 Interview with Mr. Erik Aaberg, North East Asia General Manager

**Interviewer:** The group

**Interview object:** Erik Aaberg, Vice President Jotun China

**When:** April 9th, 2015

**Where:** Jotun Headquarters, Shanghai

**Jotun in general**

1. What would you say are the underlying beneficial factors in choosing Jotun?
2. How does Jotun China do its current marketing?
3. What are the biggest costs when it comes to marketing?
4. How is Jotun building a stronger brand name in China?
5. What are the main substitutes to Jotuns products?
6. Is Jotun taking any actions to meet the increasing environmental awareness among the Chinese consumers?
7. Has the booming real estate market affected the Chinese paint industry?

**Jotun online**

1. Why did Jotun China go online?
2. What are the main challenges for Jotun China online?
3. How can Jotun utilize its current online establishment?
4. What do you believe Jotun China should do to be more present online?
5. Why did Jotun China choose Tmall.com?
6. What is the financial cost of staying online?
7. How do you believe the future e-commerce market will affect the physical stores?
8. Who are currently the main competitors of Jotun China online?
9. How can Jotun China gain more knowledge about the e-commerce market?
10. How can Jotun China transform the buyer experience from offline to online?
8.2 Summary of Jotun China’s main competitors

Screenshot of PowerPoint and summaries of numbers provided by Alibaba Group.

**Dulux**

Dulux is ranked as number 1 on the online paint market. They are in the same price range as Nippon. They launched a campaign in 2014, which increased their sales rapidly. The campaign focused on family values, and showed the customers how great and practical Dulux's after sales services was. These services included a professional team coming to your home, covering up all you furniture and painting the walls for you. Partly due to this campaign, Dulux's total sales in 2014 were 218,251,086 RMB. 453,872 customers placed an order from the website, which equals 5.61% of the 8,092,125 unique visitors on their website. The average purchase spending was at 481 RMB. Their website got favored 476,562 times on Tmall.com, and bookmarked 594,767 in peoples web browsers. There was 1,197 Tmall.com-stores offering Dulux products in 2014, and 159 of them got an order placed on a daily basis. Sales revenue on average per store was 3,764 RMB per day.

Every online store offers different products from Dulux to differentiate themselves from other stores, to adapt to trends and supply the consumers with the most relevant product. From a geographical perspective the sale of Dulux are quite similar to that of their competitors. But at the same time they vary because they are more concentrated in the coastal cities. Dulux’s top three cities are Shanghai, Beijing and Guangzhou.

**Nippon**

Nippon is ranked as number 2 on the online paint market, and had in 2014 a total sales volume of 178,357,717 RMB. 329,886 customers placed an order from their website which equals 5.22% of the 6,317,068 unique visitors. 333,088 favored their sites on Tmall.com. There are 2,029 Tmall-stores offering Nippon products, and 167 of them get an order placed on a daily basis. Sales revenue on average per store was 2,934 RMB per day.
Nippons main products are sold in 15L barrels. This gives them a chance to sell at a lower price than their competitors, which is favorable amongst the Chinese bargain hunters. Nippon retailers compete with each other at promotion and sales, so there are different prices varying from store to store. Nippons products sells better than their competitors products in the 2nd tier cities. This is because of their pricing of the 15L barrels, which is lower than their main competitors. Nippons top three cities are Shanghai, Putian and Chengda.

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