Creative distribution in the Shanghai health nutrition market

Diploma thesis
A cooperation between Vigour and the International Marketing and Management students at Fudan University and BI Norwegian School of Management
“This paper is written as a part of the undergraduate program at BI Norwegian School of Management and Fudan University Shanghai. This does not entail that BI Norwegian School of Management or Fudan University Shanghai has cleared the methods applied, the results presented, nor the conclusions drawn.”
Executive Summary

The purpose of the assignment is to explore how Vigour can sell their products in the Shanghai health nutrition market, and to give Vigour guidelines throughout this process. Vigour has not yet launched their products in any markets, but will follow China closely as they see a possibility in China’s health nutrition market.

Vigour and the authors have together developed the problem statement for this thesis.

Methodology

Exploratory and qualitative research design is applied since Vigour did not have any up-to-date reports regarding the health nutrition market in Shanghai. The research has been conducted by individual depth-interviews and use of secondary sources.¹

Findings

The health nutrition market in China is growing as well as the purchasing power is increasing. The nutrition industry in China is promising and it will grow at a rate of 12 per cent to 15 per cent. By 2010, the gross products of China's nutrition industry are expected to total almost $40 billion.

There are several aspects to evaluate when expanding to a market like Shanghai. A PEST- Analysis is conducted to explore the external aspects, a Competitor analysis is used to explore the competitor situation, and the ACE-model is used to explore the internal aspects of Vigour. The external, threats and opportunities, and

¹ The interviews are enclosed in the Appendix.
the internal, strengths and weaknesses, will be evaluated in a double weighed SWOT analysis.

The most important points in the thesis are as follows:

- Vigour should enter the Shanghai market by differentiation through a unique product and a unique marketing channel.
- How Vigour, in an inexpensive way, can promote their brand in a creative way toward the Shanghai health nutrition market.

**Acknowledgments**

The authors of this thesis wish to express gratitude and thanks to the following persons:

Thanks to John Ivar Fjerdingstad and Omar Paulsen Bekheet in Vigour for good support and for giving us this opportunity.

Thanks to Professor Karin Bryntse, for guiding us through our thesis and giving us valuable information of how we can conduct a research in a country so different from our own.

We would like to thank the following for sharing their information with us;

Thanks to Henning Strandås, Brand Manager in Voss Water, Alexander Fransson from the Swedish Trade Council, Irene Shen from Carrefour Shanghai’s Marketing Department, Emma Qiu, Marketing Professor at Fudan University, Shanshan Xu, Partner in Haihua Yongtai Law Firm, Seumas Graham from The Economist and Angela Wu, affluent Shanghainese high end consumer.
Abbreviations and Explanations

- **ASC**: Arctic Seaweed Complex, Vigours only and first product line²
- **B2C**: Business to Consumer, a term used for business directed towards consumers
- **COO**: Country of Origin, “Country-of-origin perceptions are the mental associations and beliefs triggered by a country.”³
- **GDP**: Gross Domestic Product, is the market value of all final goods and services produced within a country during a given time period
- **FDA**: Food and Drug Association⁴
- **MNC**: Multinational companies
- **OTC**: Over the Counter products: Pharmaceutical products sold without the need of prescription
- **POD**: points of difference, are attributes or benefits consumers strongly associate with a brand, positively evaluate, and believe that they could find to the same extent with a competitive brand⁵
- **POP**: points of parity are associations that are not necessarily unique to the brand but may in fact be shared with other brands⁶
- **RHQ**: Regional headquarters
- **The US**: United States of America
- **USD**: United States Dollars
- **WTO**: World Trade Organization

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² Vigour Prospect  
³ Kotler and Keller *Marketing Management* 2005  
⁴ Interview with Shanshan Xu  
⁵ Kotler and Keller *Marketing Management* 2005  
⁶ Kotler and Keller *Marketing Management* 2005
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Part 1. Thesis Introduction

1 Introduction

1.1 Background to Research

Vigour is a company established in Norway 2006 within the biotechnology/life science and health nutrition supplements business. They are still in a product-development phase where they are close to finish their first product line consisting of detoxifying and health bringing products made from arctic seaweed. This kind of health nutrition prevents pollution from tearing down the body as well as it keeps your body healthy.

Vigour has a goal to be leading in their niche internationally, and amongst others, they want to focus on the Chinese market. As Vigour is in an early stage for their company, they have not decided any key markets which they should expand to, but are aware of the possibilities related to the Chinese market. A reason for this is that Chinese consumers annually use more money on health nutrition\(^7\) as well as the pollution in China can create a need for detoxifying products. Although they are aware of this potential, they will not enter the Chinese market before the profit from their sales in Norway can finance an expansion.

The authors of this thesis are undergraduate students from BI Norwegian School of Management and Fudan University. This is a three-year bachelor program with two years in Norway and the last year in Shanghai, China. According to academic requirements for this program the last assignment is a diploma thesis concerning a Norwegian company planning to or already doing business in China.

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The founders of Vigour contacted the authors of this thesis in November 2007, requesting information about the Chinese market. As Vigour wanted to know several aspects of the Chinese market, the authors in cooperation with Vigour, narrowed the thesis purpose down to distribution possibilities in the Shanghai health nutrition market. The aim of this thesis has been to present distribution alternatives and suggests how Vigour can sell their products most efficiently in Shanghai. In addition to this, entry barriers related to importing, opportunities and threats in the Shanghai market has been discussed. The authors have suggested creative solutions where Vigour as a small company can achieve a position in a niche market through distribution.

1.2 Research Aim

Vigour needs information about how they can distribute their product in Shanghai. To create a best possible information platform to base relevant decisions on, the authors created a research aim. The authors of this thesis have in cooperation with the founders of Vigour formulated the aim as:

“How and where can Vigour sell their product in the Shanghai high-end market most efficiently?”

1.3 Research Objectives

In order to reach the research aim the following objectives have been identified.

- To explore and suggest a target segment.
- To explore and suggest suitable distribution alternatives and networks in the Shanghai health nutrition market
- To explore the entry barriers related to distribution in the Shanghai market.
- To explore opportunities and threats in this Shanghai high-end health nutrition market.
1.4 Research Limitations

This report was written to satisfy both the need to meet academic requirements determined by BI Norwegian School of Management and Fudan University, and to provide the sponsoring firm, Vigour, with valuable commercial information.

Even though there are many potential cities throughout the East Coast of China, like Guangzhou and Beijing, the lack of time and money limit the authors to only focus on Shanghai. In addition to this, Shanghai was chosen to get a best possible in-depth research on distribution strategy and marketing communication strategy. The east coast of China develops in an enormous pace, which makes updated information very limited.

1.5 Research difficulties

During the research the authors found it difficult to get hold of key individuals for interviews. Many established companies were not eager to share information about their experience concerning entry and distribution in the Shanghai market. In addition to companies, it was not possible for the authors to enter high end places like golfing resorts, since it is a “member’s only” policy. Also many of the planned interviews with market experts were cancelled for different reasons. This resulted in more time invested in finding new interview objects in later stages of the writing process. It has also been difficult to localize specific distributors in health nutrition.

1.6 Thesis overview

This thesis consists of four parts. The first one, “Thesis Introduction” will present Vigour, the analysis purpose and the theories used in the thesis. Part two, findings, will present the raw material in this report. It will provide information about the market situation, the consumer preferences and branding. In part three there will
be an analysis, where the external and internal factors will be discussed thoroughly in order to base a strategy upon. The strategy and the recommendations to reach these goals will be suggested in part four.
2 Vigour

Vigour AS is a newly established company within the biotechnology/life science and health supplements. The company headquarter is located in Tromsø science park in northern Norway and was established in 2006 by Omar Paulsen and John Ivar Fjerdingstad. They have given us an insight in their developing products, seaweed information and their business model, which the authors have described in this chapter. The information following in this chapter is based on information from Vigour.

The vision of Vigour AS is to be leading in their niche in the market for nutrition products/health foods, where the niche is purging products (DETOX) and protecting health foods based on Arctic Macro Alga (sea weed) as their main component.

Their short term goal in Shanghai is to establish a niche position in the health nutrition market through unique distribution.

As the company is very young, they still not have a fully developed product. The result will be an Arctic-Norwegian health nutrition which should be sold on the global market for these kinds of products. They will create a position in their home market before a global aiming, and will expand when the sales profit from Norway can finance further growth.

Table 2 Vigour Business Model
Vigour's main focus is branding and marketing, while R&D and production is outsourced to another Norwegian company which is a specialist in its field.

2.1 Vigour's target segment

Vigour has not yet specified a target segment, but wants to offer a premium product sold to the health-focused consumers who can afford to buy high-class health nutrition. According to Vigour, these consumers should belong to the higher middle class and the high class segment.

2.2 (Arctic) seaweed as health nutrition

The seaweed is known to be especially nutritious where it is harvested from clean sea areas in arctic areas. This special climate with sunlight and cold ocean water provides the right environment for the seaweed to maximize its effect as health nutrition. Seaweed contains several essential amino acids and they have an especially high content of minerals, chlorophyll and other material, such as sodium, calcium, magnesium, chrome and iodine. This is often between 8 and 40 times higher than other terrestrial plants, and is supposed to create synergy effects like gained vitality and energy.

In a longer perspective seaweed could have a future in medicine. Health bringing seaweed products are also sold in spa’s as facial wash and moisturizer. The content of chlorophyll works cleansing, and the content of iodine increase the body’s energy by an activity increase in the thyroid gland.

Seaweed as health nutrition works cleansing since they reduce the absorbing of radioactive material, heavy metals and other toxics. We daily expose ourselves to both pollution and radioactive material through environment and intake of food and liquids, and Vigour are developing health nutrition to prevent this.
2.3 Vigour Product Portfolio, the ASCseries

Vigours first product line, ASC (Arctic Seaweed Complex), will consist of three products based on arctic seaweed.

Seaweed contains the most essential amino acids, vitamins and minerals human beings need. According to Vigour, it is also a fact that seaweed can decrease intake of poisoned pollution, and has a cleansing and slimming effect. ⁸

Arctic seaweed will, according to Vigour, in combination with other active ingredients create a synergy effect, which contributes to an increased everyday vitality and energy. Vigour has described the three products in the product line as;

- Pure: Detox
- Figure: Balance
- Daily: Protection

2.3.1 Pure: Detox

Pure: Detox is the ASC series cleansing and detoxifying product. The cure is suitable to get rid of unwanted waste products that toxify the body from within, and can act as a suited introduction and kick-start to a diet. Pure: Detox cleans the blood and binds heavy metals and transports them out of the body. The product kick-starts the body’s own detoxifying abilities and cleans the body’s inner organs.

Experienced effect after ended cure can be healthier skin, a well functioned metabolism, stabilized

⁸ Vigour prospect
body functions, and reduced chance for head ache and tiredness.

2.3.2 Figure:Balance

Figure balance is the series’ slimming product. Other products on the market act slimming because they block other biological relations (relations which save unused energy as fat in the body), while Figure:Balance increases the body’s own metabolism.

The main content in this product is seaweed, protein, chrome and fiber. The content of iodine in the seaweed enhances the activity in the thyroid gland which results in gained energy. According to Vigour, the content of protein is contributing to burning fat since the amount of fat burning hormones will increase, and the body more easily will let go of the fat depots. Further on the content of fibers is high, something which results in gained feeling of satisfaction. Fiber also has the ability to absorb some of the fat intake and transports it directly through the body. The addition of chrome will also lower the felt need of sweets.9

2.3.3 Daily:Protection

Daily: Protection is the series protection product. It contains seaweed and some of the heaviest antioxidants available. The antioxidant will prevent the body from bacteria’s like cold or fever. The seaweed will prevent radiation, heavy metal intake through food and water, and works cleansing on the blood.

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9 Vigour Prospect
2.4 Expanding to the Chinese Consumer Market

The environmental problems have come to a dangerous level for China, and the focus on green initiatives are larger than before amongst the urban citizens.\(^\text{10}\) Health and environment are some of the main priorities, and with the Olympics in Beijing this year and the Expo in Shanghai 2010 the eyes of the world watches upon the nation.\(^\text{11}\)

It is possible that environmental focus in China can result in more health and environment conscious consumers. This can again increase the consumption of health food and health bringing products alongside the growing purchasing power of the urban Chinese high and middle class.

The Chinese people are exposed to large amounts of deadly toxics through food, water and air. Seaweed has the ability to bind heavy metals and carry them out of your body, parallel with preventing radioactivity and give a protection against free radicals. As raw material the seaweed is potent and the nutrition content is far larger than usual vegetables. The Chinese already consumes large amounts of seaweed through food, though this is harvested in polluted areas. Vigour wishes to offer a daily protection against these dangers which can be characterized as – “modern threats”.

2.5 Why are environmental problems an opportunity for Vigour?

Cities are epicenters for air pollution, and the main part of this pollution is toxic for your body. People need to prevent themselves for absorbing the pollution which is increasing, especially in the larger cities of China.\(^\text{12}\)


The human body is constantly exposed to threats it originally was not made for. The human body does not have the ability to evolve as fast as the technology, as for example the radiation you expose yourself to through cellular phones or tanning beds. If you are a frequent flyer you expose yourself to cosmic radiation, and through food and liquids you absorb unwanted metals. Homes can be exposed to radon gas, one of the modern times most dangerous yet less obvious radiation source. A day with stress and demanding work situations will affect you physically and mentally and can often result in fast-food where people find this more convenient. The time people have for workout are decreasing, as well as alcohol often is included when people socialize. All of this affects the immune system’s strength and inner organs function.

Vigour has products which in effect work detoxifying and cleansing for a polluted body. Environmental problems are discussed in the marketing mix where the authors see this as a communication opportunity to create a demand.
3 Choice of Research Methodology

The authors have used both secondary and primary data to gather the information required for analyzing the distribution of Vigours products in Shanghai. The authors have focused on the Shanghai market due to several reasons:

- Shanghai is one of the cities with the highest purchasing power in China\(^{13}\)
- Shanghai is considered as one of the most modern cities in China\(^ {14}\)
- Shanghai is increasingly polluted\(^ {15}\)

3.1 The research process

The research can be described according to the Research Process Model from the Norwegian book “Metode og dataanalyse- Med fokus på beslutninger i bedrifter”.

![Figure 3:1 The Research Process\(^ {16}\)](image)

3.2 Research questions

The questions are supposed to give guidance through the literature search, the decisions of what research methods to employ, the decisions about what data to collect and from whom, analysis of the data, wring up of the data and stop the authors from going off in undesired directions.\(^ {17}\)

To reach the research aim; “How and where can Vigour sell their product in the Shanghai high-end market most efficiently?” The authors have divided the research questions in to three different segments.

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\(^{14}\)People’s Daily Online http://english.people.com.cn/200601/19/eng20060119_236662.html (03.02.2008 15:10)

\(^{15}\)Shangzilla http://www.shangzilla.com/tags/environment (02.03.2008 12:30)

\(^{16}\)Gripsrud, Olsson and Silkoset, Metode og dataanalyse 2004; 53

\(^{17}\)Brymann and Bell. Business Research Methods, 2004; 304
• To explore and find suitable distribution alternatives and networks in the Shanghai high-end health nutrition market
• To explore opportunities and threats in this Shanghai health & nutrition market.
• To explore the entry barriers related to distribution in Shanghai market.

3.3 Research Design

According to Churchill and Brown (2004), research design is the framework for a study that guides the collection and analysis of the data.\(^{18}\)

The different research designs can be classified into;

- Explorative
- Descriptive
- Causal Research

There has been used explorative design to reach the research aim.

3.3.1 Explorative design

Exploratory research is often seen as the initial step. “When researches begin an investigation, it stands to reason that they lack a great deal of knowledge about the problem”.\(^{19}\) Exploratory research is characterized by flexibility with respect to the methods used, and it is the foundation of a good study. The authors had no knowledge about the consumer preferences for this niche product. When the decision maker has little knowledge about the research area, the primary goal should be to explore the topic more thorough.\(^{20}\) This is why an explorative design has been used in this thesis. A natural approach to this type of research methodology is to examine written litterateur and data collected for the same purpose (secondary data). Often it is also necessary to collect own data (primary

\(^{18}\) Churchill and Brown, Basic Marketing Research 2004
\(^{19}\) Churchill and Brown, Basic Marketing Research 2004
\(^{20}\) Grippsrud, Olson and Silkset Metode og dataanalyse 2004
The goal with explorative design is to understand and interpret the actual phenomenon in a best possible way.\textsuperscript{22}

### 3.3.2 Explorative methods

The explorative methods are:

- Focus groups
- Individual In-depth Interview
- Other techniques (e.g. observation)

Primary data are collected information gathered by the authors. The authors have only used individual depth interviews towards professionals.

As the authors have knowledge in both Chinese and English, the interviews has been conducted in both languages depending on the interview candidate.

### 3.3.3 Individual in-depth interview

An individual in-depth interview is performed when the individuals’ personal experiences, opinions or competence are of interest.\textsuperscript{23} The people the authors wanted to interview were;

- Marketing Professionals
- Health nutrition firms already in Shanghai

This is done in one-on-one interviews with an interview guide as a starting point. This is used when it is difficult to get to an answer from regular questionnaires and we seek a detailed answer.

The interviewees were:

- Henning Strandås, Brand Manager, Voss Water.
- Alexander Fransson in Swedish Trade Council
- Irene Shen, Marketing department, Carrefour, Shanghai
- Emma Qiu, Marketing Professor Fudan University

\textsuperscript{21} Grippsrud, Olson and Silkoset \textit{Metode og dataanalyse} 2004
\textsuperscript{22} Grippsrud, Olson and Silkoset \textit{Metode og dataanalyse} 2004
\textsuperscript{23} Grippsrud, Olson and Silkoset \textit{Metode og dataanalyse} 2000:60
• Shanshan Xu, Partner, Haihua Yongtai Law Firm
• Seumas Graham, The economist
• Sales personnel at local Chinese pharmacy
• Angela Wu, Shanghainese High End Consumer

3.4 Data collection

The collection of data can begin when the research question and research design is defined. There are two different types of data, primary and secondary. At first, the data collection should focus on secondary data. If the information needed is not readily available, then the research must depend on primary data.24

3.4.1 Secondary Data

Secondary data are data that has been collected by someone else for a different purpose than yours.25 Secondary sources are also available within certain similar fields. The authors have used these as far as they are valid. The most significant advantages of secondary data are the time and money they save the researcher.26

In this case, the authors’ search for secondary data has been twofold:

• Recent reports and articles have been reviewed in order to increase the knowledge about consumer preferences and distribution in China.

• Professional literature about marketing principles has been reviewed to gain an understanding of the marketing methods used in China.

The internet has also been an important source, both for finding internal secondary data about distribution and health nutrition in China.

24 Churchill and Brown, Basic Marketing Research 2004
25 Grippsrud, Olson and Silkoset Metode og dataanalyse 2004; 78
26 Churchill and Brown, Basic Marketing Research 2004
The authors are fully aware of the risk of unreliable secondary information. The relevant secondary sources are:

- Assignments from previous years
- Internet articles
- Research within the health nutrition market
- Statistics within the health nutrition market

### 3.4.2 Validity

One of the most important criteria of research is validity. Validity is concerned with the integrity of the conclusions that are generated from a piece of research.\(^{27}\) As a minimum, a researcher should establish that it has construct validity; the extent to which a measuring instrument measures what it intends to measure.\(^{28}\)

The authors have ensured the validity by interviewing experts. They have expertise in their respective fields, related specifically to the Chinese market. To ensure the validity of the survey, all the questions have been made with consideration to the research aim. Triangulation has also been used in order to check the validity of interviews.

### 3.4.3 Reliability

Reliability is an index of whether the research represents the real situation or not. Churchill and Brown\(^{29}\) have defined reliability as “the ability of a measure to obtain similar scores for the same object, trait, or construct across time, across different evaluators, or across the items forming the measure”. High reliability is recognized by independent measures providing approximately identical results. Reliability is a necessary, but not sufficient, condition for validity. This thesis’ native Chinese author has conducted the interviews which may reduce the risk of unreliable answers. Second, it is important that the analysis is done correctly. If

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\(^{27}\) Bryman and Bell, *Business Research Methods* 2004

\(^{28}\) Churchill and Brown, *Basic Marketing Research* 2004

\(^{29}\) Churchill and Brown, *Basic Marketing Research* 2004; 335
there are any mistakes in the analysis, it would influence the strategic decisions and make them unfit.

3.5 Potential Errors in the Research

3.5.1 Potential errors in the primary research
Chinese interviewees have a tendency to answer more positive to questions if the interview is led by a foreigner. With this in mind, the groups’ Chinese member led all the interviews with Chinese interviewees who potentially could give “wrong” answers. This was done to sustain reliability in the answers given to us.

3.5.2 Potential errors in the secondary research
Secondary data should be treated with care and the basic questions you should ask are:\(^30\):

- Where is the data from?
- Does it cover the correct geographical location?
- Is it updated?
- Are the measurement units the same?
- Can you ensure the quality of the data?

The authors have carefully chosen literature, articles and reports with these questions in mind. All information found on the internet has been cross-checked, and the authors of the articles have been checked to make sure that the content is as valid as possible.

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4 Theory

This chapter consists of a description of the models and theories used in this thesis.

It is important to explore the exterior forces of the market to get information about the threats and opportunities existing.31 The authors have used the PEST analysis to explore four aspects of exterior forces; Political, economical, social and technological. A competitor analysis has after this described the competitive situation in the Shanghai health nutrition market. The internal strengths and weaknesses are discussed through the Ace model, which focus on the attitude, competence and embodiment Vigour inhabits.

After the internal and external factors have been analyzed, they are reanalyzed through the SWOT model using three different matrixes to double weigh the factors. The process is more thoroughly shown in the model description.

Theories presented in the strategy chapter are the product diffusion curve and the four P’s of marketing. The four P’s is considered with the push and pull theory, COO and pricing. The authors emphasize Promotion and Place in the marketing mix where the authors have focused on distribution, since this is in coherence with the research aim.

4.1 External Analysis Theory

The purpose of the external analysis is to describe all the external forces which Vigour faces when they enter the Chinese health nutrition market. The findings from this part have later been summarized in the SWOT analysis as opportunities and threats in the Shanghai health nutrition market. The authors used the PEST analysis and the competitor analysis to explore these factors.

4.1.1 PEST-Analysis

The PEST analysis is a theory which describes the exterior forces of a market or industry. There are four factors which might influence Vigours activities in the Shanghai market. These are political, economical, social and technological.

**Political** describe the government regulations and legal frameworks, defining both political and official matters which the company must operate within. Some examples are trade restrictions, import tariffs and government intervention.

**Economic** describe the markets economic situation. This affect the purchasing power and also the financial costs and risks related to enter the respective market. Examples are economic growth rate, level of demand and GDP.

**Social** describe factors such as demographics, geographies, trends and environmental issues in the market. These factors affect the customer needs and the size of the potential market. Some examples are trends, attitudes and class structure.

**Technological** describe changes in technology which might affect your product, its market, logistics etc. An example can be changes in the transportation technology and the use of internet.

4.1.2 Competitor Analysis

The authors have in this analysis described the different competitors and the marketing mix they use, like position and segmentation. Competitor analysis is also used to create an understanding of the competitor’s strategic choices. This information can assist Vigour to create the most profitable competitive strategy towards the Shanghai market.

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4.2 Internal Analysis Theory

Internal analysis theory is used to define the company’s current strength and weaknesses, which later on have been further analyzed in the SWOT analysis.

4.2.1 Ace – Attitude- Competence – Embodiment Model

The Ace model is an internal analysis of a company’s readiness to expand to international markets. The main focus here was to analyze Vigour’s international corporate culture, with the objective to find possible weaknesses and strengths that could affect Vigour’s activity in the Shanghai Health nutrition market. The most important factors for success in a foreign market are the company’s attitude and engagement, as well as the company’s international experience and knowledge about the respective market.33

The ACE model consists of three factors: Attitude, Competence and Embodiment.

33 Solberg, Internasjonal Markedsföring 2005
4.2.1.1 **Attitude**

It is important to have the right attitude to have a successful expansion.\(^{34}\) Definition of the right attitudes is to be market oriented, risk taking, possibility oriented and understanding of cultural differences.

4.2.1.2 **Competence**

An essential factor under competence is to be market focused. Market focused defines the importance of a market analysis, which creates an opportunity for product development and future growth. The competence should be in client orientation and relations with their respective partners. Another important factor is the company’s international experience.\(^{35}\) The more international experience a company inhabit, the greater the chance for a successful expansion.

4.2.1.3 **Embodiment**

A mutual understanding and support between the divisions in the company, from bottom to top, is critical to succeed in an expansion. Everybody, from top management to employees in production, must have the “right” attitude in order to get the best possible outcome of the internationalization.\(^{36}\) In other words, internationalization demands a strong commitment throughout the company.

### 4.3 SWOT

The SWOT analysis is a tool used to analyze the strengths and weaknesses within a company, and the threats and opportunities in the surroundings. The purpose of the SWOT analysis is to compare the firm’s resources and capabilities to the competitive environment in which they operate. Successful implementation of the analysis may give a company better understanding of its strengths and

\(^{34}\) Solberg, *Internasjonal Markedsføring* 2005; 144,145

\(^{35}\) Solberg, *Internasjonal Markedsføring* 2005; 144,145

\(^{36}\) Solberg, *Internasjonal Markedsføring* 2005; 144,145
weaknesses, benefit from opportunities and to be aware of the external threats in the market. The different strengths and weaknesses can be put into matrixes and be “weighed” on importance and competence. This is called a double weighing of the factors. The same thing can be done with the external threats and opportunities. Opportunities are weighed after attractiveness and success probability, and threats are weighed after seriousness and probability of occurrence.

4.4 Target Segment

As the main focus in this research is to explore the distribution possibilities in Shanghai, the authors have decided not to give a deep analysis of the segmentation. However the target segment must be qualified before a further strategy and recommendation development.

![Product Diffusion Curve](http://www.quickmba.com/marketing/product/diffusion/)

Figure 4.2: The Product Diffusion Curve

The authors choose the product diffusion curve in order to give a picture of which type of high end consumers Vigour should attract in Shanghai. The product diffusion curve shows which types of consumers who accept new ideas, products or trends within a certain time after.  

37 Quick MBA  [http://www.quickmba.com/marketing/product/diffusion/](http://www.quickmba.com/marketing/product/diffusion/)  (30.05.2008 15:00)
4.5 Marketing mix

The marketing mix has been discussed under the recommendation chapter:
The marketing mix, also known as the four P’s of marketing, covering product, place, price and promotion, is an important part of this thesis. The four factors intervene with each other to make a strategy fit the consumer preferences and the marketing channel requirements.

4.5.1 Product
The product is concerned with developing the right product for the right target market. It includes physical goods, benefits, quality level, packaging, branding and so on. An important factor is that the product should satisfy the consumers’ needs.38

4.5.2 Place
A suitable sales channel can add value to a product. The authors have listed up the possible places and ways to get there for Vigour. Which intermediaries should one use to get to the right place?

4.5.3 Price
The price of a product can tell a consumer much when compared to other similar products. In China a high price is often associated with good quality, and provides a certain amount of security to an uninformed consumer making a decision.39 The figure shows when different pricing strategies can be used based on different strategic agendas.

38 Kotler. *Markedsføringsledelse*. 2004
39 Emma Qiu Lecture, Marketing Research Management
4.5.4 Promotion
There are a number of promotional tools which needs consideration before implementing a communication strategy. Some of them are: Advertising, sales promotion, trade promotion, public relations and direct marketing to mention some. The authors have also discussed the possibility of using COO as a market communication strategy. Promotion will be emphasized as it is directly related to the research aim of this thesis.

Figure 4:3 Pricing Strategy Matrix\textsuperscript{40}

\textsuperscript{40} http://www.marketingteacher.com/Lessons/lesson_pricing.htm (03.11.2007)
Part. 2 Findings

5 Market Overview

According to the state of problem, the authors have explored the markets Vigour will sell their product in, as well as exploring high-end consumer preferences. To get a larger overview, the Chinese market and the health nutrition market have been described before the authors narrow this part down to Shanghai and the consumer preferences. The authors have found their information in articles, internet and through interviews. The interviews are to be found under appendix in the end of this thesis.

5.1 Overview of the Chinese market

*Fuelled by direct investment from foreign companies, China is on full speed towards massive urbanization.*

“The world’s largest playground for marketers” is a term often used for the Chinese market. A rapid increasing purchasing power at around 10% and a population which accounts for a fifth of the world is an extraordinary mix. The purchasing power is attracting several foreign firms to focus on China as a market instead of just a production base. The per capita GDP amongst the 1,3 billion population was $2,458 in 2007, and the economy grew at a searing rate of 11.4 percent, the 16th year with double digit growth numbers.

<table>
<thead>
<tr>
<th>China</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Population: 1.321 billion</td>
</tr>
<tr>
<td>• Per capita GDP 07: $2,458</td>
</tr>
<tr>
<td>• National GDP Growth: 11.4%</td>
</tr>
<tr>
<td>• Total GDP: $3.3 trillion</td>
</tr>
<tr>
<td>• Population growth rate: 0.606%</td>
</tr>
<tr>
<td>• Received FDI 2007: $80 billion</td>
</tr>
</tbody>
</table>

Table 3 Info box, China

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41 ACNielsen, Trend Watch article
43 U.S Department of State http://www.state.gov/r/pa/ei/bgn/18902.htm (11.02.2008 11:30)
The opening of China has lifted large parts of the population over the international poverty line and attracted foreign investments from all over the world. The received foreign investment in 2007 was $80 billion.45

In a marketing perspective, China is a collection of cities with different growth rates and characteristics. This disparity is one of the reasons why companies tend to formulate city and region-based strategies when expanding in China.46 The China market is usually split along city tiers. Tier 1 cities are developed cities as Shanghai and Guangzhou, while Tier 2 cities are “up and coming” cities like Ningbo and Dalian. The Tier 2 cities are fast catching up on Tier 1 cities, and many companies are focusing their efforts there now as the Tier 1 city markets often are considered as "sewn up".47 Tier 2 cities are a cheaper way to enter china where downtown business space, labor cost and ad-expenses are lower.48 Although this thesis has focused on Shanghai, the authors must emphasize the importance of the second tier cities in the next phase of development in China.49

Table 4 Tier 1 and Tier 2 cities in China

<table>
<thead>
<tr>
<th>Tier 1 Cities</th>
<th>Tier 2 Cities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shanghai</td>
<td>Shenyang</td>
</tr>
<tr>
<td>Beijing</td>
<td>Daliens</td>
</tr>
<tr>
<td>Shenzhen</td>
<td>Tianjin</td>
</tr>
<tr>
<td>Guangzhou</td>
<td>Harbin</td>
</tr>
<tr>
<td></td>
<td>Chongqing</td>
</tr>
<tr>
<td></td>
<td>Chengdu</td>
</tr>
<tr>
<td></td>
<td>Wuhan</td>
</tr>
<tr>
<td></td>
<td>Nanjing</td>
</tr>
<tr>
<td></td>
<td>Suzhou</td>
</tr>
<tr>
<td></td>
<td>Hangzhou</td>
</tr>
<tr>
<td></td>
<td>Ningbo</td>
</tr>
</tbody>
</table>

46 World Pharmaceutical Frontiers article
47 Interview Seumas Graham, The Economist
5.1.1 The Chinese Health Nutrition market
Despite a long tradition of herbal medicine, ginseng and preventive cures, sales of added value health products have been soaring in the recent years.  

Chinese consumers are working harder and longer than before, but they are not compromising on their health. The demand for products with claimed health benefits has gotten stronger than ever as workers look for a quick fix and something to help them through a stressful day. The preferred products are tonics and multivitamins offering all-round protection.

As the urban Chinese usually have one child, Chinese often buy health supplements to provide their child the best nutrition and vitamins. Added value health products are a popular gift to relatives or friends, and are often brought home from overseas countries.

5.1.1.1 An emerging health player
The Asia Pacific region is the global sales leader with $22.6 billion in the dietary supplement market, a market share of 44.2 percent, where China by far is the largest player in the region. The nutrition industry in China is promising and it will grow at a rate of 12 per cent to 15 per cent. By 2010, the gross products of China's nutrition industry are expected to total almost $40 billion.

5.1.1.2 Education equals healthcare awareness
According to World Pharmaceutical Frontiers a higher educational standard increases the likelihood of engaging in self-medication and treatment.
Urban consumer awareness of OTC (over the counter) products by educational level achieved.

![Chart showing Urban Consumer Awareness of OTC medicines by educational level achieved]

Table 5 Urban Consumer Awareness of OTC medicines by educational level achieved

It shows that all educational levels over junior college have over 50 percent awareness to OTC (over the counter) products, something which is quite remarkable given the fact that OTC products are relatively new in China. These kinds of products have only been in place in the last years but have been absorbed from Chinese consumers as a reliable treatment.

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57 World Pharmaceutical Frontiers article
58 World Pharmaceutical Frontiers article
### Most commonly experienced health problems

<table>
<thead>
<tr>
<th>Health problem</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cold without fever</td>
<td>26.6</td>
</tr>
<tr>
<td>Headache</td>
<td>18.5</td>
</tr>
<tr>
<td>Sore throat</td>
<td>17.0</td>
</tr>
<tr>
<td>Dandruff</td>
<td>16.1</td>
</tr>
<tr>
<td>Toothache</td>
<td>14.3</td>
</tr>
<tr>
<td>Dermatophytosis</td>
<td>13.4</td>
</tr>
<tr>
<td>Cold with fever</td>
<td>12.4</td>
</tr>
<tr>
<td>Joint pain</td>
<td>12.1</td>
</tr>
<tr>
<td>Stomach ache</td>
<td>11.2</td>
</tr>
<tr>
<td>Discomfort of alimentary tract</td>
<td>9.6</td>
</tr>
</tbody>
</table>

| Base                             | 7270 |

Source: IMS Health, IMS China

Table 6 Most commonly experienced health problems in the cities of China

5.1.1.3 **The most common health problems**

According to the figure from World Pharmaceutical Frontiers, the most common health problems in China are cold without fever and headache. It is generally a larger problem in big cities, where it is possible that pollution and stress contributes to the statistic.

5.1.1.4 **Sources of healthcare information**

TV advertisement and advice from doctors and healthcare professionals is the most important source of healthcare information.

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59 World Pharmaceutical Frontiers article  
60 World Pharmaceutical Frontiers article  
61 World Pharmaceutical Frontiers article  
62 World Pharmaceutical Frontiers article
Promotion is expensive in Shanghai although the authors can assume that PR in pharmaceutical magazines, promotional leaflets and a “recommend us” campaign towards healthcare professionals will be nicer concerning expenses.

The health nutrition products are mainly from Australia and the United States of America, and has through their young years in the Chinese health nutrition market educated Chinese consumers to rely on their country of origin. The health nutrition products are mainly sold in shopping malls and pharmacies, although protein and weight gainer supplements are to be found in some fitness gyms.

5.1.1.5  China`s five year health plan

China is embracing healthcare as they emphasize this crucial task towards a harmonious society. The government will establish a basic medical and healthcare network covering all urban and rural residents by the end of 2010.

Table 7 Consumer sources of healthcare information

![Graph showing consumer sources of healthcare information]

Source: IMS Health, IMS China

63 World Pharmaceutical Frontiers article
64 Interview Emma Qiu, Interview Irene Shen Carrefour
65 Interview Emma Qiu
66 China Org.cn http://english.hanban.edu.cn/english/health/203922.htm (01.03.2008 10:30)
The Chinese government is inviting health bringing brands and products to China. China has no larger health supplement brand which the government need to defend against the largest global players, but 6,200 domestic products where 98%, excluding traditional Chinese medicine, are copies of foreign products.67

5.1.2 The Chinese High End market
The Chinese high end market is growing, and the authors believe this is relevant to mention as Vigour aims to be a luxury brand sold in high end places.

Most of the world’s largest high-end brands have already established themselves in China, mainly in key cities like Shanghai, Guangzhou, Beijing, Chengdu and Hong-Kong.68 The high-end market has exploded and a luxury demand is rapidly spreading amongst Chinese consumers who want to express their personality and status. Some Chinese even use 40 percent of their monthly salary to buy luxury goods, justifying by saying;”Everyone has so much pressure. We need to over consume to balance – to justify why we work so hard”69

The expected growth of the luxury market is 20 percent annually70, where Chinese spent $6 billion on luxury goods last year71. “The fact that a population of 1.3 billion potential consumers with a internationally low average annual per capita is able to create such a ripple in the world’s luxury goods market reflects the hunger that Chinese consumers have for high-end goods.”72

5.1.3 Shanghai Market
Shanghai differs from the rest of China with its unique and fast growing economy. It is fast becoming many multinational companies’ (MNCs’) regional headquarters (RHQ), and is often used as a “ramp” for future expansion to other Asian markets.

67 Lee. How to Outsmart China, 2007
68 Youzhen Zhao Lecture. International Business
69 I Am Not Rich But I Deserve It, Bates Asia.
70 “China Luxury goods”, A plus, 10.2007. “China, the new lap of luxury”, Ernst&Young 09.2005
71 “China Luxury goods”, A plus, 10.2007. “China, the new lap of luxury”, Ernst&Young 09.2005
72 “China, the new lap of luxury”, Ernst&Young 09.2005
There is a large pool of educated people here and a good infrastructure for distribution and regional coordination.\textsuperscript{73}

Shanghai, China’s economic capital achieved a GDP of 1, 2 trillion in 2007, up 13, 3% from 2006. The per capita GDP reached $ 8,949 measured with international standards,\textsuperscript{74} almost four times that of the national average, which was $2,458 U.S. dollars. Shanghai has set a target of per capita GDP of permanent urban residents of 10,000 U.S. dollars by 2010, which is possible where Shanghai’s GDP has maintained double-digit growth for the past 15 years.\textsuperscript{75}

5.1.3.1 Shanghai as the largest retail pharmaceutical market in China

The authors found numbers of the retail pharmaceutical market by city from 2005. Even though it is difficult to predict what a new 07/08 report would say, the authors still think it is important to show these numbers. This table numbers some of the largest cities in China and their pharmaceutical product share by city. It shows that Shanghai was the largest retail market for health and pharmaceutical products in 2005 which also can be possible today.\textsuperscript{76}

\begin{table}[h]
\centering
\begin{tabular}{|l|l|l|}
\hline
City & $\text{million MATZQ04}$ & Share by city ($\%$) \\
\hline
12 Cities combined & 418 & 100.0 \\
Shanghai & 107 & 25.5 \\
Beijing & 74 & 17.8 \\
Wuhan & 48 & 11.5 \\
Guangzhou & 43 & 10.4 \\
Chengdu & 26 & 6.1 \\
Nanjing & 24 & 5.8 \\
Shenzhen & 19 & 4.5 \\
Chongqing & 18 & 4.3 \\
Hangzhou & 17 & 4.1 \\
Shenyang & 17 & 4.0 \\
Qingdao & 14 & 3.3 \\
Tianjin & 11 & 2.6 \\
\hline
\end{tabular}
\caption{Retail pharmaceutical market by city\textsuperscript{75}}
\end{table}

\textsuperscript{73} Interview Seumas Graham
\textsuperscript{74} Fresh Plaza http://www.freshplaza.com/news_detail.asp?id=16390 (10.02.2008 10:45)
\textsuperscript{76} World Pharmaceutical Frontiers article
5.2 Distribution through webshop

The authors believe internet is the future, and have explored the preferences towards this kind of distribution channel in Shanghai.

*Most products will at all times be available in web shops.*\(^{77}\) - Vigour

*The web provides a unique distribution and communication channel to marketers across the world. It is the ultimate marketplace to buy and to sell goods and services.*\(^{78}\)

According to a research conducted by Cheskin in 2005, the use of internet is high amongst the educated youths, and serves as a main connection to youth trends elsewhere.\(^{79}\) 3.6% of the Chinese population used internet in 2002,\(^ {80}\) and it seems fair to assume a higher percentage today. Marketing professor Emma Qiu is adding that there is an increasing trend for “web consumers” in the urban cities of China, which buy things on the internet to a cheaper price than the retail price.\(^ {81}\)

Although the young and technological experienced consumers prefer internet as a cheaper way to their desired products, many Chinese prefer face-to-face interaction.\(^ {82}\) Online shopping is relatively modest compared to the international average, and some Chinese are sceptical to pay by card over internet.\(^ {83}\)

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\(^{77}\) Vigour Prospect  
\(^{78}\) Kotabe and Helsen *Global Marketing Management* 2004: 562  
\(^{79}\) Cheskin Article  
\(^{80}\) Kotabe and Helsen *Global Marketing Management* 2004  
\(^{81}\) Interview Emma Qiu  
\(^{82}\) Interview Emma Qiu  
\(^{83}\) Interview Emma Qiu
6 Consumer Preferences

Vigour wants to identify high-end preferences and trends to position their company as an exceptional provider of high-quality Norwegian health supplements. The authors have described the high-end consumer preferences to get a better insight of how to reach and please these consumers.

6.1 The High-End Consumer

The Chinese consumers have happily adopted the foreign brands and the western notions of consumption the economic boom attracted. According to Cheskin, many Chinese consumers experience shopping as a motivated education, where they get more information about products like nutrition, fashion and medicine. Chinese want much information on the products they are buying, especially nutrition where they want to make sure that the products are of premium quality. One of the most important consumers in this booming market is the affluent consumers in China. The affluent Chinese are more likely to be willing to pay full price for a product which is perceived as top quality and convey higher status and lifestyle value.

A research conducted by the China economic monitoring and analysis center for MasterCard has been used to describe the Chinese high-end consumers. This 2008 report describe the brand preferences of the Chinese affluent in the Tier 1 cities Shanghai, Beijing and Guangzhou in the second half of 2007. This research was conducted by random surveys in city centers and key shopping malls, and only those respondents with an annual income exceeding US $ 16,000 were included in the data analysis. A total of 600 qualified samples were collected in each of the three cities with the demographics as shown under in table 10.

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84 Vigour Prospect
85 “Trend watch” ACNielsen report 2006
86 Cheskin article
87 Interview Emma Qiu
88 Brand preference of the China affluent, MasterCard 1Q2008
89 Brand preference of the China affluent, MasterCard 1Q2008
6.1.1 Are brands an important thing for the Chinese high end consumers?

Table 11 shows that the importance of brands is high amongst the rich. It shows that large parts of the people in these key cities put emphasize the importance of brands, especially in Shanghai and Guangzhou. In Shanghai, 96.5% answered important and extremely important, against 3.5% neutral and 0.5% not important.

Table 11 Importance of Brands in the Tier 1 cities

<table>
<thead>
<tr>
<th>Percentage</th>
<th>Beijing</th>
<th>Shanghai</th>
<th>Guangzhou</th>
</tr>
</thead>
<tbody>
<tr>
<td>Extremely Important</td>
<td>29.0</td>
<td>43.5</td>
<td>37.0</td>
</tr>
<tr>
<td>Important</td>
<td>61.5</td>
<td>52.5</td>
<td>58.5</td>
</tr>
<tr>
<td>Neutral</td>
<td>8.5</td>
<td>3.5</td>
<td>4.0</td>
</tr>
</tbody>
</table>

Table 10 Demographics of the respondents to MasterCard’s research 2008*

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* Brand preference of the China affluent, MasterCard 1Q2008

** Brand preference of the China affluent, MasterCard 1Q2008

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34
### 6.1.2 Preferring Foreign Brands

In MasterCard’s research, foreign brands could enjoy an advantage against the “up market” domestic brands and world famous brands. Shanghai is the city with most consumers preferring world famous luxury brands. The affluent people in China’s tier 1 cities prefer foreign brands, as well as the general Chinese urban citizen. According to Emma Qiu the Chinese consumers often buy products because it is foreign. As health nutrition the preferred brands are foreign because they are foreign.

![Brand Preference Chart](chart.png)

**Table 12 Brand preference in the Tier 1 cities**

### 6.1.3 Quality is important

High quality is the most important factor behind brand preference among the affluent Chinese consumer. As seen in table 13, 92.7% of them indentify quality as a key factor for choosing a brand.

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93 Brand preference of the China affluent, MasterCard 1Q2008  
94 Interview Emma Qiu  
95 Brand preference of the China affluent, MasterCard 1Q2008  
96 Brand preference of the China affluent, MasterCard 1Q2008
Table 13 Factors determining brand choices in the Tier 1 cities

There is clearly a strong perception that a strong brand represents a high-quality product. Being widely recognized and being fashionable come in second and third as reasons for choosing brand.

Although quality scored highest, being recognized scored high as well and must not be underestimated. Chinese high class consumers search for products which will fit their image, and are likely to prefer luxury designs and bags to show off.

6.1.4 Woman Power
Women in china are finding new expressions through fashion and the way they take care of themselves. Research conducted by Cheskin has observed that there has been a rapid increase in women’s demand for devices and products that reflect their aspirations and identities. More women-centered media, radio talk shows and magazines giving advice to woman on clothing, make up and home design defines the emerging demand. A boom in gyms and beauty services are defining new standards for physical beauty and a healthier lifestyle.

97 Brand preference of the China affluent, MasterCard 1Q2008
98 Brand preference of the China affluent, MasterCard 1Q2008
99 Interview Emma Qiu
The women’s incomes are growing at a rate of 5 percent per year, and will reach US$37 billion by 2009. The emergence of Chinese women’s purchasing power must not be underestimated, where the market possibilities for product diversification could benefit a company’s brand and profit.  

6.1.5 Package and Design

Packaging is often underestimated by companies, but is often important to increase attention and to provide information. Powerful packaging fulfils several different roles successfully throughout the product life cycle, and should work as:

- shopper-attention-grabber and brand cue communicator at point of purchase
- to product protector and carrier in transport and storage
- functional and practical dispenser in use, and
- easy and environmentally safe at disposal.

Successful packs are ones whose dynamics address specific consumer needs at critical stages of the product’s life cycle. Packages should grab the customer’s attention, where the package works as a vital marketing mix element, with the power to strengthen brand impact in-store.

As Chinese consumers prefer information on products, a product should have design decluttering, which in effect is packs that maximize space for key brand and message communication, along with nutritional and/or usage information. Chinese consumers tend to interact with new products at point of sale, whether by squeezing, opening or sniffing the product. A solution to this has later in this

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100 Interview Emma Qiu
101 Packing Environmental Report, Nielsen Global March 2008
102 Packing Environmental Report, Nielsen Global March 2008
103 Interview Emma Qiu
104 Packing Environmental Report, Nielsen Global March 2008
thesis been discussed under the marketing mix as a “transparent pack” which will provide consumers the opportunity to inspect the product before purchase.

A package should have functionality which enhances the usage experience, as pump packs for convenience, hand grips, easy-to-open flip top lids or smaller flexible packs.\textsuperscript{105}

\textsuperscript{105} Packing Environmental Report, Nielsen Global March 2008
7 Branding

There are several ways to define a brand. The author of Asian Brand Strategy, Martin Roll, defines a brand as:

*A strong brand is able to help a company differentiate itself from its rivals, stand out from the competition, influence a consumer’s purchase decision in the company’s favor, build customer loyalty and boost the company’s financial performance.*

The authors have explored branding in China to describe how Vigour should position them in the Shanghai high-end health nutrition market.

7.1 Brand vision

Brand vision documents the future path and growth of the brand. It clearly lays down the future direction for the brand and the desired role and status that the brand hopes to achieve in the stated time. It defines the strategic and financial objectives of the brand. **Vigour has a Brand vision to be the international leading brand in detoxifying and health bringing supplements.**

7.2 Brand equity

“*Brand equity is the net result of all of the positives and negatives linked to the brand, its name and symbols that add value to, or subtract value from a product.*”

A brand with strong brand equity has more loyal customers that are likely to pay higher price premiums, leading to high profitability. **A research from ACNielsen found that with increasing competition and greater proliferation few companies enjoyed high brand equity. China is no exception, where few companies tend to have lower brand equity than the large multinationals (see**

106 Roll, Asian Brand Strategy  How Asia Builds Strong Brands 2006; xiii
107 Roll, Asian Brand Strategy  How Asia Builds Strong Brands 2006; 96
108 Ronald and Nykiel, Marketing Your Business. 2003;136
109 Trend Watch, ACNielsen
figure under). However local brands may just have the upper hand in the second and third tier markets.\textsuperscript{110} 

![Diagram: In general, foreign brands have stronger equity than local brands in China]

Table 14 Foreign brands VS Local Chinese Brands, Brand Equity\textsuperscript{111}

Foreign brands achieve significantly higher levels of recommendation than local brands.\textsuperscript{112} Advocacy, or word-of-mouth is one of the most effective and best endorsement there is\textsuperscript{113}, but is only achieved when companies have brand equity.

\textsuperscript{110} Trend Watch, ACNielsen
\textsuperscript{111} Trend Watch, ACNielsen
\textsuperscript{112} Trend Watch, ACNielsen
\textsuperscript{113} GoViral www.goviral.com (03.04.2008.13:00)
According to the state of problem, the authors find brand equity relevant where different factors can gain Vigours future brand name and hereby profitability in Shanghai. The authors have decided to emphasize on the following five factors when creating the external brand.

**Extensions:** One way to exploit brand equity is to extend the name to different products. The extensions should fit the brand. The authors believe this is something which can be used in the marketing mix under promotion, where the authors see a possibility for co-marketing with other brands.

**Associations:** Associations are everything mentally linked to the brand, being a point of differentiation, creating positive attitudes and feeling, and serve as the base for extensions. Country of Origin, advertisement, package and even retailer can be some of the most important factors to achieve positive associations.

**Awareness:** Brand awareness creates recall and top of mind recall; the customer recognizes or remembers the product.
Name, symbols and slogan: Name, symbols and slogan (and hereunder packaging) are critical to brand equity and can be enormous assets because they serve as indicators for the brand and thus are central to brand recognition and brand associations. Vigour can benefit from a specialized name, symbol and slogan aimed towards Vigour's Chinese fitness-lifestyle segment. There could be an opportunity for Vigour to have their brand name in Chinese, although the authors have not discussed this deeper as this would concern another research aim.

Loyalty: The core of brand equity is the loyalty of its customer’s base – the degree to which customers are satisfied, like the brand, and are committed. A good brand is an important part in creating loyal customers. A high brand loyalty may increase the chance of a product recommendation to other relatives and friends.  

7.3 Branding in China

Chapter 6, consumer preferences, described the importance of brands in China. Branding is crucial amongst the affluent Chinese, and the more brand names they are exposed to, the more important it is to differentiate Vigour's brand. Your brand can be differentiated by creative ways of selling and retailing. One of the most important things is to reach the target segment where they are, and influence them to associate your brand with these places.

7.4 Country of Origin

“The country in which goods were produced, mined, grown or manufactured.”

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114 Emma Qiu Lecture, Marketing Research Management
115 Interview Emma Qiu
"Country of origin effects refers to the extent to which the place of manufacturing influences products evaluations."

The COO is represented on products by labeling, packaging, logo or advertising which makes a statement or claim about which country the product comes from. Consumers tend to rely on COO when the brand is unknown. On the other hand for international brands that are well known the COO is less important. The Chinese consumers seems to rely very heavily on country-of-origin cues to evaluate products, this despite the huge price gap.

7.4.1 Norway as Country of Origin

During the year the authors spent in Shanghai they have noticed a lack of knowledge about Norway among the Chinese they met. Even though they lack knowledge of Norway, they know about Europe and to a certain degree about Scandinavia. However those who are familiar with Norway have positive associations with this country. Most of them are educated Chinese. According to a recent study conducted by the authors in previous classes at Fudan, the educated Chinese associate Norway with cleanness, snow, pure and healthy environment. The positive association have also been confirmed by interviews related to this research with marketing professor Emma Qiu, and Swedish Trade Council employee Alexander Fransson. COO integrated in the marketing mix might increase Vigour’s image of quality and health.

116 Hill. International business; competing in the global marketplace. 2005;593
118 Interview Emma Qiu
119 Interview Emma Qiu
120 Thesis “Country of Origin”
121 Thesis “Country of Origin”
122 Interview Emma Qiu and Alexander Fransson
Conclusion of findings

As a conclusion of the findings, the authors have found that there is a growing market for both health supplements as well as luxury products. The purchasing power amongst Chinese and Shanghainese are increasing, and open for possibilities in the world’s most populated country.

Shanghai is full of educated and affluent Chinese, and is one of the most preferred places for foreign firms. Shanghai has a higher GDP per capita than the national average, and inhabits a good infrastructure for regional coordination throughout to China and Asia.

The importance of brands is high amongst the affluent Shanghainese consumers, and they will pay premium price for foreign products believed to be of better quality. Education equals health awareness, and Chinese rely on dietary information from television, doctors, healthcare professionals and friends.

Package and design are important. Chinese consumers prefer to study the product before purchase, and will often open the product to take a closer look. Some Shanghainese know about Norway, but most Chinese only know about Europe and Scandinavia. However, those who know about Norway, associate Norway with a clean and fresh environment.
Part. 3 Analysis

8 Analysis

This analysis has been divided into three different sections: External forces, internal forces and a SWOT analysis. The authors have used a PEST analysis and a competitor analysis to explore the external threats and opportunities in the Shanghai health nutrition market. The internal strengths and weaknesses will be evaluated through an ACE model. A combination of the first two sections is concluded in a SWOT analysis, where the strengths and weaknesses are evaluated against the opportunities and threats Vigour might face.

Illustration 2 The analysis process
8.1 External analysis

8.1.1 Pest Analysis

The PEST analysis is used to discuss four different exterior forces which may affect Vigour’s business in the Shanghai market. These are the political, economical, social and technological. The model’s purpose is to gain a macro perspective of the exterior forces in a market.

8.1.1.1 Political

How much the government can and will interfere in the market is important to be aware of, as this can affect the market situation. Moreover, matters such as registration of a product and degree of local government influence are important.

Registration and establishing

Many trade barriers have been lowered after China joined the WTO (2001), something which still increasingly makes it easier for foreign companies to enter the Chinese market. However, prices for establishing a wholly owned foreign enterprise (WOFE) in Shanghai is very expensive.

The registration of a product in China is a long process, but is now less time demanding and more simplified than before. China is continuously making the

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123 www.princeton.edu/~gchow/WTO.pdf (11.11.2007, 13:00)
124 Interview with Shanshan Xu
system more effective, especially in main cities like Beijing and Shanghai. 125
According to Shanshan Xu, lawyer and partner in Haihua Yongtai Law Firm, the
registration of a company will take around 12 – 18 months.126 It is important to
calculate this time in a possible expansion. Vigour will probably be classified as a
food product, which will require an approval by the FDA in addition to
registration.127

**Government intervention**

China is a communist country where the government has high power towards the
day to day life, affecting businesses and private lives. The Chinese government
frequently changes rules and laws to sustain a positive and constant economical
growth.128 This can create an unstable environment for many foreign companies
in China, who often need to adapt to different decisions or laws. The IP telephone
service Skype became temporary banned, about two years ago, because it was
cheaper than the state owned competitor China Telecom. This is an example of
intervention from the Chinese government. Vigour should be aware of this issue
and always be updated on governments interests.

**Guanxi with the local government**

To make the process of registration and future dealings as smooth and easy as
possible, it is important to have the local government on your side.129 Neglecting
the officials is not a good idea as the local and central government has great
influence in China. In Vigour’s case it is a big asset if they find a distributor
which has close relations and contact with the local government in Shanghai.130

125 Interview with Shanshan Xu
126 Interview with Shanshan Xu
127 Interview with Shanshan Xu
128 Zhou Dun Ren lecture, Chinese Political Economy
130 Interview Henning Strandås
8.1.1.2 Economical

Economical macro aspects in a country can affect the markets and businesses being attracted to the country. Examples are economical growth rate and government stimulation of consumption.

Country growth rate

China has had an astonishing growth rate since the reforms implemented by Deng Xiaoping started to take effect in the beginning of the 1980’s. As mentioned in Findings, China has had over 10% annual GDP growth in the last 16 years. This has lead to a large still increasing gap between the rich and the poor. One consequence of this is the increasing amount of affluent millionaires, which have created a rapidly growing luxury segment in China.

Government stimulation of consumption

The Chinese culture has consisted of saving money for hard times as well as for their kids during the last 50 years. The spending has stagnated even though the annual income increased. The Chinese government has worked to stimulate the economy to equal the balance between consumption and income.

The lack of consumption in China has been a factor in the 11th 5 year plan which stretches from 2006 till 2010. During this five year period the government will try to stimulate the consumption rate in order to stimulate the economy. This effort from the government might be good news for Vigour and other foreign companies selling consumption products in China.

131 Lecture “Chinese Political and Economic” Professor Zhou Dun Ren
132 Lecture “Chinese Political and Economic” Professor Zhou Dun Ren
133 Lecture “Chinese Political and Economic” Professor Zhou Dun Ren
8.1.1.3 Social

Social characteristics of a country such as demographics and geographic aspects can help in segmentation and target group selection. Trends and preferences can also be pulled out from the following social aspects.

The “New” Middle class

The middle class in China is increasingly richer and are better educated now than ever before. Some of the reason for this is the effect of the one child policy that was implemented in the end of the 1970’s. The first generation of this policy is now grown up and represents a new type of middle class with a better education and more money. This new class is a result of parents who want to ensure their own future. By giving their children a best possible start to life, the favor can be returned when the parents grow old and need someone to take care of them economically. The middle class however has begun to spend more money on their selves as their annual income increase.135

Geographic’s

China cannot be analyzed as one market, where differences in preferences and purchasing power differ from city to city. In order to achieve a best possible result, it can be important to analyze the differences in the cities towards the type of product your company is selling and the desired segment. A way to separate these different geographical areas has been done by dividing cities into tier 1 and tier 2 cities, as mentioned in the Findings part.

Environmental focus

The environmental focus has increased as pollution became a problem for the average Chinese.136 The dangers of polluted air are a hot topic as Beijing is

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hosting the Olympic Games this year. The Chinese people also get more aware of the hazards they are exposed to every day and the possible effects of these.137

8.1.1.4 Technological
Technological aspects describe the technological influence in a market. How can technology affect Vigours business, and in what way can it be used for an advantage. The technological aspects evolve around the threats and benefits Vigour could encounter related to technology.

Counterfeits and imitations
A well known phenomenon in China is the possibility of counterfeiting, where the victims mainly are popular western designed goods. There is a wide range of counterfeited products, varying from imitations of Gucci clothes to Oreo cookies. These counterfeits are often low quality goods compared to original products. This can affect the consumer trust in the original brand.

Internet
Sales over the internet are becoming more and more popular in China as the technological knowledge increases amongst the people.

8.1.2 Conclusion of PEST Analysis
The importing barriers to China have decreased with the years however the height of the barrier often depends on the product and its content. The government is very involved in business decisions, much due to the fact that China still is a communist country. It is important to always stay on the local government’s good side.

Vigour’s choice of using a distributor has to be considered carefully when they are expanding. This partner should provide Vigour with the knowledge of the legal

environment and help Vigour to overcome any problems involved with all Chinese activities.

A combination of an increasing upper middle class and incredible economical growth in China makes the country attractive to foreign investors. The government stimulation of consumption and the environmental focus in China support Vigours choice of country. However some issues can influence Vigours existence in China in a negative way such as rapid changes in the legal system.
8.1.3 Competitor Analysis
The purpose of this analysis is to assist Vigour with information about the competitor situation, so they can create the most profitable competitive strategy in the Shanghai market. The authors have chosen to evaluate products which currently exist in the Shanghai health nutrition market. The analysis has focused on international brands as Chinese customers prefer foreign products. The main focal point has been on the brands offering similar products as Vigour. Because of the already crowded market the authors have chosen to narrow the analysis down to four key international competitors in the Shanghai market. These four are; Natural Elements, Aurindia, K – Lex, Rich Life.

Illustration 3 Three of the competitors stands at Watssons

Natural Elements
Natural Elements is from the US and is sold in many different outlets in Shanghai including: Pharmacies, Watsons and Wall Mart. Their product line is extensive with health supplements for all ages. Natural Element is not qualified as one of the luxury health nutrition brand. The price on their products

138 Brand preference of the China affluent, MasterCard 1Q2008
varies from 50 to about 150 RMB each month, depending on the type of product and size of the package. The products consist of vitamins and supplements with the purpose to increase life quality. Examples are beta carotene supplements which enhance eye sight and calcium which strengthens teeth and bones. The design of the bottles is standardized; white plastic in a normal shape. At the stand in Watsons there are both a service person representing Natural Elements and pamphlets with descriptions and advices for how to increase your life quality.

Aurindia

Aurindia is a brand under the Australian company Health zone. Health zone produce a high variety of OTC products. The company was established in 1996 and Aurindia specializes in capsule based oil products. They are located in more than 1400 outlets in Shanghai. The authors found this brand in Watsons and pharmacies. According to an interview with the pharmacy management, Aurindia is one of the leading Australian brands in China. The country of origin is clearly presented on the package, making a statement towards the consumers.

K-Lex

This company also has its roots in USA and is one of many other companies who have a market share in the Shanghai health nutrition market.

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139 Interview with ling Liu, pharmacy sales personnel
140 www.healthzone.com.au
141 Interview with ling Liu, pharmacy sales personnel
They are currently in partnership with Watsons, Carrefour, Wall Mart, Sam’s Club, Manning’s, Park Shop and Lotus Center. K–Lex has built a huge marketing network in China. Like Aurindia most of their products consist of fish oil in capsules meant to strengthen the body’s immune system. Design is like all the other products in the shelf, white plastic boxes with a colorful logo and description wrapped around it.

**Rich Life**

Rich life is a health nutrition outlet located inside Carrefour’s building in Gubei. They cooperate with Carrefour and are located in Carrefour’s buildings. The authors found Rich Life at Carrefour Gubei, which is the largest Carrefour’s in China. Compared to other outlets at Carrefour Gubei, Rich life stands out because of their design and store facilities. Their products cost around 200 – 800 each month depending on product and size. Rich Life has a wide variety of products such as protein powder, vitamins, slimming and body purifying products. Rich Life has a unique profile compared with the three other brands. They are not found at the same outlets as the other three competitors.

142 www.K–Lex.com
8.1.3.1 Conclusion of Competitor Analysis

The Shanghai OTC market is crowded with foreign brands. In such a competitive environment it can be difficult for Vigour to cope in the market. Most of the foreign health nutrition brands in Shanghai are from the US and Australia. They have created a COO affect towards the health nutrition products. The Chinese tend to believe health products from the US or Australia inhabits the best quality. This is mostly because of their early arrival into the Chinese market.

The three first mentioned brands have a similar profile and target a wide variety of segments. They are usually using the same retailers such as Watssons and Wal-Mart. Rich Life however has a different profile and targets a more upscale segment. Their products are more expensive than the other three previous brands. Rich Life’s design of the products gives a statement of a more innovate product. According to Vigour’s prospect they want to differ themselves with a unique brand and an innovative product. With this in mind, the authors believe Rich Life is a more direct competitor to Vigour.

Illustration 4 K-Lex’s COO

143 Interview Emma Qiu
8.2 Internal Analysis

The authors have in this chapter discussed the internal strengths and weaknesses Vigour currently possesses. The purpose of this chapter is to explore what strengths Vigour can use in their expansion. The authors have also discussed the weaknesses which could hinder Vigour from a successful expansion.

8.2.1 The ACE Model

The authors have used the Ace Model to clarify what kind of attitudes, competence and embodiment Vigour currently has towards expanding to a foreign market. The model is used to describe what qualities Vigour currently posses as well as the qualities they need to expand.

Figure 8.2 The ACE model

8.2.1.1 Attitude

- Market orientation
- Risk assessment
- Culture
- Understanding
- Possibility orientation
The two founders of Vigour both have a bachelor degree in international marketing. The last year of their bachelor program was in Shanghai where they also wrote their final bachelor thesis. This gives Vigour an advantage since they already have some knowledge about the Shanghai market and the Chinese culture. The authors can assume an awareness of market information from Vigour's side as both the founders studied international marketing in Shanghai last year. The company culture in Vigour has impulses from an international arena due to the experience from both founders.

Expansion to a foreign market consists of many risks, especially in Vigour’s case, because of the huge differences compared to Norway in for instance regulations and consumer preferences. However, Vigour has a strong belief in their innovative and unique product. They believe China is a good opportunity because of the growing upper middle class.\textsuperscript{144} In addition the ongoing improvement of the legal framework and infrastructure will ease the process of market penetration.

\textit{8.2.1.2 Competence}

- Market analysis
- Client orientation
- Product politics
- Networking with partners
- International Experience

Vigour have not started an expansion or introduced their products in the home market. Vigour currently does not possess much competence towards expansion and internationalization.

\textsuperscript{144} Vigour Prospect
8.2.1.3 Embodiment

- Top management
- Top board support
- Engagement

The company is founded by two young and energetic entrepreneurs who one truly can say to “love” their business. Spirit and willingness to dedicate all their time and resources to the company is going to ensure that the organization is capable of overcoming any obstacle which may occur. The two founders’ are both active sportsmen and concerned with health and the importance of living a healthy lifestyle.

8.2.2 Conclusion of the ACE model

Solberg defines internationalization as a process which continuously develops the international company culture through development of attitudes, competence and a deeper embodiment from the organization. In other words, newcomers are facing more challenges compared to more experienced and developed companies. Examples of these challenges are information and knowledge. The embodiment provided by the two founders of Vigour could imply that the potential of a “right” company culture is big. However they currently lack international experience, which might decrease their ability to succeed. Successful export companies pay great attention to the market and the consumers.

145 Solberg Internasjonal Markedsføring. 2005
146 Solberg. International Marketsføring. 2005
8.3 SWOT

The authors have summarized the findings and the analysis in a double weighed SWOT analysis. The double weighed SWOT analysis measures external and internal factors in a more detailed overview in three matrixes. The authors created a Strategic Problem Definition as a summary of the external and internal factors, to suggest the most profitable strategy and recommendation.

8.3.1 Competence Matrix

The purpose of this matrix is to compare the level of a weakness or strength with its significance in the potential market. This is done to get an overview of where Vigour’s focus should be.

8.3.1.1 Strengths

**Innovative Product (a)**

An innovative product has a relatively high importance and is a competence Vigour inhabits. A unique product has the possibility to differentiate itself from other products already on the market. It is important to be able to differentiate the product from others through an innovative product, especially in the overcrowded Shanghai health nutrition market. Innovative products do often have a tendency to attract innovative consumers and early adopters, which also later could create a trend.147

**Knowledge about the Shanghai Culture (b)**

The two founders of Vigour possess knowledge about the Shanghai culture after studying there for one year. Consequently, they are aware of some of the culture differences. This might give them an edge when they will enter the Shanghai market and for instance negotiate with a Chinese. However, the authors have not

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147 Interview with Emma Qiu
defined Vigour as a company with deep knowledge of cultural differences. This is because the founders lack business experience in Shanghai, and Vigour as a company does not yet have any international background.

**International attitude and good risk assessment (c)**

An international attitude and a good risk assessment are very important under an expansion. Vigour will target international markets, with a goal of quick expansion worldwide. As previously mentioned in the thesis, the founders of Vigour are internationally focused and their objective is to be a leading brand within food supplements in selected markets and segments.\(^{148}\) The authors have described the founders of Vigour as risk takers with an international orientation based on these facts.

**8.3.1.2 Weaknesses**

**Financial Resources (d)**

Financial resources are crucial and have a high importance for an expansion. The founders of Vigour have indicated a lack of financial resources.

**International Experience (e)**

It is important to have international experience under an expanding. Even though the founders of Vigour have one year experience from Shanghai, the company cannot be defined as having international experience. How long a company has been in international markets is one of the factors used when measuring a company’s international competence.\(^{149}\)

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\(^{148}\) Vigour Prospect
\(^{149}\) Solberg, *Internasjonal Markedsføring 2005*
A new established company (f)

Internationalization often requires experience and personal resources which most companies gain through strong roots in the home market. Vigour should establish a solid hold in the home market before expanding, as it is a new company. As Vigour is a newly established company, it might be a weakness for expansion towards international markets.

Figure 8.3 Competence Matrix

Innovative Product (a)
Knowledge about the Shanghai Culture (b)
International attitude and good risk assessment (c)
Financial Resources (d)
International Experience (e)
A new established company (f)
The competence matrix shows that Vigour’s greatest strengths are their innovative product (a), their international attitude towards expansion and a good risk assessment (c). Both the strengths also have a fairly high importance in the market. They have a relatively good knowledge about the Shanghai culture, but they have a more reduced business experience in the Shanghai Market (b). Vigour has a lack of economic resources (d) and lack international experience as a company (e). These weaknesses have a high importance in the market. They are also a newly established company (f) and have not introduced their products to their home market. Because of this they do not have a steady income to help pay for unexpected costs in a possible expansion.

8.3.2 Opportunity Matrix

The opportunity matrix gathers the external opportunities in a market to classify their importance. There are two aspects of this model; the success probability and attractiveness. The first aspect, success probability, determines in what degree an opportunity will help a company to succeed in a market. The second aspect describes how attractive an opportunity is for Vigour.

8.3.2.1 Opportunities

First mover advantage (g)

“First mover advantage; a sometimes insurmountable advantage gained by the first significant company to move into a new market.”\(^{150}\)

Vigour’s product is unique due to the use of arctic seaweed in concentrated pill form. According to the authors’ findings, this does not exist in the Shanghai market. Vigour might have a of first mover advantage for their unique product in the high end health nutrition market in Shanghai.

\(^{150}\) www.marketingterms.com (20.5.2008, 14.46)
**Increasing demand for health products in Shanghai (h)**

According to the findings chapter, The Asia Pacific region is the global sales leader with $22.6 billion in the dietary supplement market, a market share of 44.2 percent, where China by far is the largest player in the region.\(^{151}\) The health nutrition industry in China is promising and it will grow at a rate of 12 per cent to 15 per cent. By 2010, the gross products of China's nutrition industry are expected to total almost $40 billion. Shanghai is the city in China with the biggest retail pharmaceutical market in Asia\(^{152}\) and can be a big potential market for Vigour.

**An increasing use of internet (i)**

More and more Chinese use the internet, but still they are sceptical to use the internet in order to buy products. This is because of the risks involved in web shopping. However, the authors of this thesis believe web shop market has a big potential in the future. This assumption is based on minimizing all the risk surrounding the use web shop.

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\(^{152}\) World Pharmaceutical Frontiers article
8.3.2 Opportunity Matrix

First mover advantage (g)
Increasing demand for health products in Shanghai (h)
An increasing use of internet (i)

There is an increasing demand for health products in the Shanghai health nutrition market (h) and Vigour have a possible first mover advantage in a niche (g). These opportunities have a high attractiveness in the market and also have the most success probable. Also, there is an increasing use of internet amongst young people (j) but it is difficult to assess the success probability of this opportunity.

8.3.3 Threats Matrix
The threat matrix gathers all the external threats in order to classify them. The two aspects in this matrix show how serious a threat is and how probable it is to occur.
8.3.3.1 Threats

Facing large competitors (j)

There are already many brands, both foreign and domestic, in the Shanghai health nutrition market. Many Australian and American companies have already established a positive position among the Chinese consumers. Vigour can risk becoming anonymous in the midst of the competitors already enjoying large market shares. It is highly probable to face large competitors, and this could have a serious consequence for Vigour’s future in the Shanghai health nutrition market.

Entry barriers (k)

Entering the Shanghai market can take time, especially concerning registration. Other barriers could be cultural differences, language barriers and lack of market information. Entry barriers can in some cases be so serious that it affects a company’s probability of success in the respective market.

Counterfeiting (l)

A common problem for foreign brands in China is counterfeiting. It is not unlikely that Vigour’s products will be imitated. This might harm the brand image of the product.

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153 Interview Emma Qiu
Facing large competitors (j)
Entry barriers (k)
Counterfeiting (l)

Figure 8:5 The threat matrix

The threat matrix indicates that the intensity of competitors in the Shanghai health nutrition market (j) is the biggest threat for Vigour. Counterfeiting (l) is a fairly high threat while entry barriers (k) are quite serious, but with much preparation should be able to avoid.
8.4 Conclusion of the SWOT analysis / Strategic problem definition

Based on the findings in the SWOT analysis, the authors have here presented a strategic problem definition which will be the basic framework for further development of the strategy for Vigour. It will be based on Vigour’s most significant internal strengths and weaknesses combined with the most attractive opportunities and the most denunciatory threats.

How can the newly established company Vigour, with no experience in the Chinese health nutrition market and a lack of financial resources, sell their unique and innovative product in a rapid growing market, which is crowded and full of competition, by taking advantage of a possible first mover advantage toward the high end health nutrition market?

It is important to develop critical success factors to determine Vigour’s success probability. These factors are based on the strategic problem definition:

8.4.1 Critical Success Factors

Through the findings and analysis chapter, the authors have found four critical success factors which is crucial for Vigour’s success probability.

- **Acquire financial resources**
  - Expansion to an international market often requires a lot of financial assets, which is secured through a stable income.

- **Differentiation**
  - To avoid becoming invisible amongst the established competitors differentiation is crucial.
• **Find a suitable distribution partner**
  
  o To make up for lack of both knowledge and experience, finding a suitable distribution partner in Shanghai is imperative.

• **Creative promotion**
  
  o Promotion is relatively expensive in Shanghai. Vigour should find alternative ways to promote their product.
Part. 4 Strategy

“Strategy is about understanding what you do, what you want to become, and most importantly, focusing on how you plan to get there”.\textsuperscript{154}

The authors have used this definition of strategy as a foundation for the strategy part. This part includes the strategy and recommendation chapter. The strategy chapter consist of what Vigour does and the important things for Vigour, as well as what they want to become. The recommendation chapter has recommended how they can get where they should be.

9 Strategy

The aim of this thesis was to suggest how and where Vigour could sell their products in the Shanghai high-end market most efficiently.

The authors have developed a detailed short term strategy for Vigour. As Vigour has indicated that there can be some years until an expansion, the authors down prioritized a long term strategy.

9.1 What does Vigour do and what is important for them?

Vigour is a brand in the health nutrition business, and has as a vision to be leading in their niche internationally. They outsource the product development, and focus on the marketing of their products. They see big possibilities in China and want to

\textsuperscript{154} Strategy (2005: xiv)
expands into the Shanghai market in the near future. It is important for Vigour to know about the different aspects related to an expansion to Shanghai. The authors have described the different vital aspects.

### 9.1.1 Financial resources

It is important to have financial resources to support an expansion. The founders of Vigour have indicated a lack of financial resources. Vigour should have a steady profit from their home market before a market expansion to Shanghai. Another way to get access to financial resources is to attract more investors. It is also possible to request subsidiaries from Innovation Norway.

### 9.1.2 Distribution

There are different ways of entering a foreign market. Which one is most suitable for a company depends upon the interior of the company and the exterior forces of the market\(^\text{155}\). However, such new companies as Vigour with low financial resources may find direct exporting as the most suitable entry mode.

With direct exporting, Vigour would sell their product via an intermediary located in the foreign market. However, direct exporting also has a negative aspect. Given the responsibility for the exporting task, the company is responsible for demands on resources, both human and financial. Besides of the marketing mix tasks, these tasks involve choosing target markets, identifying and selecting representatives in the foreign market\(^\text{156}\).

#### 9.1.2.1 Push and Pull

One aspect for Vigour to consider is the Push and Pull strategy. A Push strategy is when a producer promotes the product to the distributor, the distributor promotes

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\(^{155}\) Kotabe and Helsen *Global Marketing Management*. 2004

\(^{156}\) Kotabe and Helsen *Global Marketing Management*. 2004
it to the retailers, and the retailers promote it to the consumers. Personal selling and trade promotions are often the most effective marketing tools for the Push strategy.\textsuperscript{157} A Pull strategy requires high spending on advertising and consumer promotion to increase consumer demand for a product. The purpose is to make the consumer ask retailers for the specific product, the retailers to ask the distributor, and the distributor to ask the producer.\textsuperscript{158}

The Pull strategy requires knowledge about the market and the target segment before influencing their demand for a product. At present time, Vigour does not have enough local knowledge or the financial resource to promote directly towards the consumer.

The most reasonable strategy for Vigour at present time will be a Push – strategy, where Vigour “Push” the product to distributors who have the experience and local knowledge to influence the target segment. Vigour should consider using the Pull strategy when the customer become loyal and believe products from Vigour can offer them something different.

\textbf{9.1.2.2 Choice of distributor}

The selection of distributor is an important task and can affect Vigour’s success probability in a foreign market. The distributor should offer complementary goods and competence Vigour does not have.

\textit{Access to Vigour’s target segment}

Vigour needs a distributor which has access to the high end retailers. This distributor should have a profile matching Vigour; Healthy, fitness oriented and sporty. It is important that even the distributor’s sales personal reflect Vigours desired image as a high end health nutrition company.\textsuperscript{159}

\textit{Have experiences and local knowledge}

\textsuperscript{157} Kotler. \textit{Markedsføringsledelse} 2004
\textsuperscript{158} Kotler. \textit{Markedsføringsledelse} 2004
\textsuperscript{159} Interview Henning Strandås
A local distributor with much knowledge and experience in the potential market will be able to help inexperienced companies like Vigour. Some examples could be entry barriers such as registration and taxation. A distributor can also offer market information for Vigour, such as the customer’s reactions towards new products, and the customers purchasing habits. This should result in more market information which Vigour could use in product development. The choice of distributor is crucial for Vigour in order to make up for their lack of experience in Shanghai and China.

**Marketing support (advertising and promotional support)**

Advertising and promotional support are extremely important for Vigour in the Shanghai health nutrition market. In order to create brand awareness amongst high end consumers, Vigour needs to promote their products. A distributor, who has good relations with potential retailers for Vigour, can offer promotional support. This can be done through influencing the in-store product placement and product education of sales personnel.

**Government relations**

The local government has still much influence in business decisions, due to the fact that it is still a communist country. A distributor, who has good relations with the local government, can provide Vigour with more rapid registration and importation of products.\(^{160}\)

**Financial assets**

When Vigour decide upon a distributor, it is important to know the financial situation of the potential distributor. Worst case scenario is when a distributor go bankrupt after Vigour has gone into partnership with them. This can result in both lost money and time for Vigour. A Chinese law firm can run credentials on a potential distributor without too much expense.\(^{161}\)

\(^{160}\) Interview ShanShan Xu

\(^{161}\) Interview ShanShan Xu
9.1.2.3 Principal agent theory

The “Principal – agent” problem arise when a company (the principal) has another person / company (agent) to perform a service on behalf of the principal, and the principal cannot observe or monitor the agents actions. When using a distributor in Shanghai, Vigour have to make sure the distributors have the same interest as Vigour. This can be done by having the right criteria when selecting certain distributors. Vigour should also create the right incentives, in order to influence the agent to act in a desired manner. It problem is called Moral Hazard. 162

Incentive

In order to motivate a distributor to do a best possible job, incentives can be used. Reward should be given when results are achieved, to motivate further results in the future. Incentives can provide signals of which goals that are most important for the partnership. According to Henning Strandås, money is one of the most important invectives in China. However, he indicates that a good relationship with your Chinese counterpart will be the best solution.163

9.1.2.4 Follow up and get closer relations with co-operators

It is important to keep a close relationship with your local partners in China.164 In Vigour’s case, it can strengthen the brand awareness towards the Chinese consumers. It is important to follow up the activities around the products. The lack of control of promotional efforts (made by the distributor) can result in unwanted associations towards the products. Having a close relation to a distributor who understands Vigour’s needs, might result in a distributor who is acting according to Vigour’s interest. Getting sales personnel to inform consumers about Vigour’s unique product can result in increased brand awareness towards Vigour’s products. Vigour should follow the distributor activities closely, to guarantee the “right” desired product quality and image is given.

162 Grisprud and Nygaard. Markedsføringskanaler. 2005
163 Interview Henning Strandås
164 Gold, Guthrie and Wank. Social Connections in China 2002
9.1.3 An Exclusive Distribution Channel

The Shanghai health nutrition market is full of foreign and domestic brands. Vigour should distribute their product through a unique marketing channel to differ from their competitors.

Intensive distribution:
The products are sold in as many places as possible and are widely available for any consumer. An advantage for this strategy is the large market coverage, but requires severe financial resources.\(^{165}\)

Selective distribution:
The types of products sold under selective distribution are the kind of products which has a fairly high price and are sold in a selective amount of retailers. The consumers are willing to spend more time searching and deciding upon the product, and the product information is important.\(^{166}\)

Exclusive distribution:

Exclusive distribution is when a brand is sold through one wholesaler, retailer or distributor in a specific geographical area.\(^{167}\) This distribution strategy gives more opportunities for control on service quality and secures the quality distribution channel. In addition, the strategy might also give an exclusive image by being “one of the few”. This strategy is typical for luxury products.

Based on Vigour’s desired position, the exclusive distribution will be the most suitable strategy for their choice of distribution intensity. The possible retailers for Vigour in the Shanghai market are where the target segment is. According to Angela Wu, one of Vigour’s target consumers, Spas, Gyms and Golf resorts are

\(^{165}\) Kotler. *Markedsføringsledelse* 2004
\(^{166}\) Kotler. *Markedsføringsledelse* 2004
\(^{167}\) Blythe *Marketing* 2006; 107
some the trendy places the upper middle class and high end class likes to be.\textsuperscript{168} There is a possibility to sell a specific product through these retailers. The slimming product might appeal more to women, and could be more suitable in spas than golf resorts. By only distribute the products through high-end outlets, Vigour might gain and secure an image as a luxury brand.\textsuperscript{169}

\section*{9.1.4 A differentiated product}
Vigour should introduce their products as a niche product in Shanghai, differentiated from other brands. Vigour could develop some of their products with diversifications toward a female segment, as Chinese women increasingly consume more.

Chinese consumers prefer information on products,\textsuperscript{170} and tend to interact with new products at point of sale, whether by squeezing, opening or sniffing the product.\textsuperscript{171} Vigour should offer a luxury product which no one would open or squeeze too much.

There might be laws concerning health nutrition packages. Vigour need to be aware of this during development of their product design made for the Shanghai market.

As counterfeiting is a big problem for foreign products, Vigour should develop a way to avoid these problems.

\section*{9.1.5 Promotion}
Promotion is important in differentiating a product from others, creating brand awareness and recognition. It is expensive to be noticed by consumers if you are a new company in a large market like Shanghai. Some of the most common commercial channels in Shanghai are TV and commercial boards in public places.

\textsuperscript{168} Interview Angela Wu
\textsuperscript{169} Grisprud and Nygaard. \textit{Markedsføringskanaler.} 2005
\textsuperscript{170} Interview Emma Qiu
\textsuperscript{171} Packing Environmental Report, Nielsen Global March 2008
like the sub way. The financial situation in Vigour gives reason to believe that they are not able to compete in these traditional commercial channels, and should find alternative ways to promote their products. As presented in Findings, doctors, healthcare experts as well as friends are some of the most important sources for healthcare information. This could be the foundation of a creative promotion strategy to create advocacy (word of mouth). According to the marketing firm GoViral, advocacy is the strongest promotion you can achieve. Vigour aims to sell their products to innovators. Innovators have a tendency to influence early adopter, who again influence early majority. As friends have great influence on Chinese consumers considering products, an innovative product have the possibility to create advocacy amongst consumers.

Environmental and health focus in China is growing constantly. Attention through articles about the effects of sea weed in the body can help Vigour to get attention about their product. Free PR could be a great opportunity for Vigour.

9.1.5.1 Country of origin

Vigour should promote its country of origin as the Chinese who know about Norway and Europe associate these places with quality and innovativeness. The authors believe COO could be a smart way to gain significance as a niche product.

9.1.6 Price

Price is important when a company want to sustain an exclusive image. The price of a product is a sign of high quality in China. The pricing strategy matrix shows how price and quality can determine the position a

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172 Emma Qiu lecture, Marketing research management
173 World Pharmaceutical Frontiers article
174 GoViral www.goviral.com (03.04.2008.13:00)
175 Interview Emma Oiu
product have in a market. The strategy most fitting for Vigour is the premium position. A high price combined with high quality makes a premium product. A high price can also attract affluent consumers willing to spend pay premium price.

9.2 What are Vigours goals?

There are two types of strategic goals; short term and long term. The authors have presented vital points for Vigour, related to entry and distribution in the Shanghai health nutrition market. The authors have here summarized the things that are important for Vigours expanding as Short term goals and Long term goals. Short term goals cover 1 – 5 years ahead, while long term goals stretches from 5 – 10 years ahead in time.

9.2.1 Suggested Short Term Goals 1-5 Years

The authors believe there is a market for Vigours products, and has listed under some short term goals Vigour should consider as a strategy:

- Acquire financial resources
- Find a suitable distributor
- Differentiated themselves through a unique product and a unique high end distribution channel in Shanghai
- Have a profitable sale in the Shanghai Market

9.2.2 Suggested Long Term goals 5-10 years

The authors have not gone deep into a long term suggestion, but have given some slight pointers for future growth.
• Vigour could have full representation in Shanghai, and could use Shanghai as headquarter as Shanghai has a good infrastructure for distribution and regional coordination.\textsuperscript{176}

• Vigour should target second tier cities when they have been in the Shanghai market for a while, as the authors see a rapid growth in these cities.\textsuperscript{177}

\textsuperscript{176} Interview Seumas Graham
\textsuperscript{177} People Daily Online
http://english.people.com.cn/200601/19/eng20060119_236662.html(03.02.2008 15:10)
10 Recommendation

10.1 How can they get there?

In order to provide Vigour with a strategy on how to get there, the authors have focused on the short term goals, as the long term goals are far head in time.

The authors have, throughout this recommendation chapter, given concrete advices for Vigour. The recommendation is based on the short term goals shown through the four P’s in the marketing mix.

Acquire financial resources

The current financial situation Vigour inhabits cannot finance an expansion to Shanghai. Three different recommendations for Vigour are:

- Wait until a profit from their home market can finance an expansion
- Support from subsidiaries (e.g. Innovation Norway)
- Attract investors

Find a suitable distributor

Vigour should find a suitable distributor by visiting possible retailers and ask them for their distributor. The following list of criteria should be considered when selecting a distributor.

Criteria for choice of distributor

- Stable financial assets
- Good government relations
- Marketing support
- Experience and local knowledge

178 Interview Henning Strandås
• Access to Vigour’s target segment
• Carry the same profile as Vigour

Differentiated themselves through a unique product and a unique high end distribution channel in Shanghai

Place

1. High end golf resorts
   • Shanghai Shenshan international golf club
   • Shanghai Metropolitan golf club
   • Shanghai HongQiao golf club
   • Tianman country golf club

2. High end spa’s

3. High end fitness gyms

Vigour should be updated on retailers. Some places can be out of business when Vigour is expanding. It is hard to suggest a specific fitness gym or a spa because of this, and should also be considered when Vigour is choosing retailers. Vigour should also evaluate the future possibilities in spa or fitness gym chains. High end chains located in Shanghai, and possibly other cities, could make it easier for Vigour to expand in China.
**Products**

Vigour has currently three different products in their product line. There are several aspects of the package Vigour can develop in order to differentiate their products.

- **Country of Origin**
  
  COO on package, the Norwegian flag can be illustrated, or a map of Europe with a highlighted Norway.  

  ![Illustration 6 Customized product done by the authors. COO](image)

- **Transparency field on the package**
  
  This can be placed on the product so it will be possible for curious Chinese consumers to explore the product content without opening the package.

  ![Illustration 5 Customized product done by the authors. Transparent field](image)

- **Provide product information on the package**

  ![Illustration 6 Customized product done by the authors. COO](image)

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179 Illustrations are enlarged in the Appendix
180 Illustrations are enlarged in the Appendix
• **Counterfeiting**  
Vigour can avoid counterfeiting by having product number inside the package which consumers can check on the internet to identify authenticity.

• **Slogan**  
Vigour should create a Chinese slogan to express the energy and enthusiasm Vigour wants to be associated with.

• **Internet address on the package**  
Vigour could have their internet address on the package for doubtful consumers who want to know more about Vigour products before they buy.

• **Product diversification**  
Vigour can diversify their products towards different groups in their target segment. In effect; the slimming product Figure:Balance can have a slimmer product design and a feminine color. 181

Illustration 7 Customized product done by the authors. Diversification

*Price*

• **Have a high product price which gives a high quality image**

181 Illustrations are enlarged in the Appendix
Have a profitable sale in the Shanghai Market

Promotion

- **PR**
  Vigour should try to get free reviews in health magazines, trend magazines and newspapers.

- **Incentives to sales personnel**
  Use incentives towards sales personnel in order for them to promote Vigour’s products. An example can be an annual internal competition between retailers in Shanghai carrying Vigour’s products. The sales employee who sells the most Vigour products wins a price. A recommendation of a price could be a tour to the arctic areas in Norway.

- **Advocacy**
  To encourage consumers to recommend Vigour, Vigour could promote their products in creative controversial ways. Recommendations of how to do this could be;
  - **Scare tactics**
    To show polluted bodies bowels can create an awareness of how important it is to use detoxifying products.
  - **Statistics**
    Statistics on Vigour’s internet homepage and in leaflets can create an awareness of how important it is to use detoxifying products.
  - **Videos on the internet**
    Encouraging (funny, extreme, controversial) movies about arctic areas, pollution or polluted bodies on Vigours homepage and YouTube could encourage to viral marketing, where friends recommend these movie to another. (Vigour should conduct a research on this to explore the Chinese consumer preferences).
• **Marketing towards doctors and medical experts**
  Create awareness about the effects of arctic seaweed by marketing towards doctors and health experts. This can be done by direct marketing through mail, including empirical product evidence and statistics about pollution.

• **Co-marketing**
  Vigour could co-operate with another company in their marketing. A recommendation could be the pure Norwegian artesian water brand Voss.
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11.3 Interviews

• Henning Strandås, Brand Manager of Voss Water in P.R.C & Korea.
• Alexander Fransson, Associate at Swedish Trade Council in Shanghai.
• Irene Shen, Marketing department at Carrefour in Shanghai.
• Emma Qiu, Ph.D. Assistant Professor, Marketing Department, School of Management, Fudan University
• Shanshan Xu, Partner, Haihua Yongtai Law Firm
• Seumas Graham, The economist
• Sales personnel at local Chinese pharmacy
• Interview with Angela Wu, affluent Shanghainese high end consumer

11.4 Internet


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### 11.5 Lectures

• Emma Qiu Lecture, “Marketing Research Management” at Fudan University in Shanghai

• Youzhen Zhao Lecture, “International Business” at Fudan University in Shanghai

• Zhou DunRen lecture, “Chinese Political Economy” at Fudan University in Shanghai

### 11.6 Thesis

• Thesis “Country of Origin” Marketing research Management, Emma Qui at Fudan autumn 2007
12 Appendix

12.1 Product Illustrations made by the authors

12.1.1 Country of origin on the product
12.1.2 Transparent field on the product
12.1.3 Diversified product
12.2 Interviews

Carrefour

Irene Shen, Marketing department, Carrefour, Shanghai

Date: 16.04.08

Location: Gubei Store

Carrefour is a French supermarket company who are present in many countries all over the world. They entered the Chinese market in ? and their biggest China store is located in Hongqiao lu, gubei lu. It is the best-selling Carrefour in China and has been the most selling in Asia. We went to this Carrefour to observe for ourselves who is present here and to what extent. We had help from Irene from the marketing department through our observation tour where we also considered if Carrefour could be a possible retailer for Vigour. The most popular foreign brands is Australian and American brands.

The outer spaces of the supermarket are divided into different small stores which sell their own products but still use Carrefour as a distributor for their products. We noticed three different stores on our tour:

A specialized health nutrition store called Rich Life

A pharmacy which was inside the store
Health products in a shelf inside the store

**Rich life:**

They sell products with exclusive packaging from 200 – 800 RMB depending on the size the product. Their distribution goes through Carrefour. The store is nice and gives a sense of innovation and freshness. Rich life has a wide product line consisting of health nutrition and vitamins. This store is matching Vigour profile.

**Pharmacy inside the store:**

Here you find cheap American and Australian products ranging from 40 – 150 RMB depending on the size. The layout and design of the shelves looks poor and ugly. The products are very standardized and the design is not very fresh or modern. This does not match Vigour’s profile.

**Health nutrition inside the store**

Inside the store there is a shelf filled with health products from a company named Natural Elements. It is a nice and cheap solution on the shelves but the design on the products themselves is quite standard and boring. 50 – 150 RMB for each product depending again on the size. Mostly vitamins for both young and old which does not match Vigour’s profile.

Irene, who has worked at Carrefour for 4 years, tells us that there are both Chinese and foreign costumers there. Even though the foreign costumer base is only 20 % they still make out 80% of the sales. In the last two years it has been sold more and more health products especially amongst the Chinese who are getting more and more concerned about health and well being.
The health products in the different stores are defined as food and are distributed through Carrefour in all cases. Should Vigour consider Carrefour as a possible retailer or outlet more research needs to be done on this process? A possibility for Vigour is to open a store like Rich life with only their own products.

Interview with Henning Strandås, Brand Manager of Voss Water in P.R.C & Korea.

Date: 16.april 2008

Location: Starbuck at People Park in Shanghai

Henning works for the Norwegian company Voss Water in Shanghai. They sell water through ACS along with fine wines and other similar products. Their strategy in Shanghai and over the rest of the world is using an experience local distributor.

How did you come in contact with your distributor partner? Who is it, a Chinese or foreign company?

When Voss first entered the Shanghai high end water market they got recommendations about different distributors. They got in contact with a company called ASC who was looking to expand their product line. Voss water was not known to ASC before the contact was established. ASCs goal was to sell fine water with fine wine.

According to Henning, there are many distributors in China, both big and small. Some specializes in some types of products others have a whole line of products. They all have one thing in common; the desire to make money. To find a
distributor is not hard, it is finding the ones who will pay that are hard. It is not always easy coming in to a big distribution company who has big customers already. In this situation it is important to be present and try to get some of the attention away from the big customers towards your small company.

Voss got their network started by going to the retailers and asking them about their distributors. Henning thinks that health and nutrition is used mostly as gifts here in Shanghai and he sees a increase in these products being sold in hotels like efficient “wake up” medicine. Maybe it is used to get over jet lags and other travelers illness.

Having a distributor in Shanghai, Henning feels that it is important to have somebody stationed in the area to work side by side with the distributor. It is important to show interest and not let them drop interest in your products. It is also useful to participate personally in sales through distributors.

How many partners do you have? Is one enough?

Voss water currently have only one distribution partner in Shanghai.

What are the biggest advantages/disadvantages of having a distribution partner in Shanghai? What are the difficulties in venturing, contracts and responsibility with a partner?

One of the most demanding things about having a Chinese distribution partner is that one must always be there and keep the Chinese on their toes. Always remind them that they also have your product in stock, Henning says.
**How is responsible for payment of taxes and tolls on import of products? Are there any additional costs for import of water in China?**

Who pays what concerning taxes and costs, Voss have all the cost until the shipment hits the docks in Shanghai. After this it is all ASC. It cost a lot of money to establish a representative office in Shanghai. Even then you cannot sell anything. For that you need a sales office which is even more expensive than a rep office. Henning works in the offices of ASC. Though ASC handles all the taxes and costs, it is good to know how much should be paid so they don’t take more money than they should. Henning also says that the Chinese does not take lightly on criticism so watch out and not be to strict even though things seem to be moving very slow. Patience!

**Who has most influence over the retailers? Is it the importer or the distributor?**

To influence the retailers, a good means in Shanghai is money. Everybody wants some RMB. It is not allowed however, to give cash incentives directly to a seller. Only when selling bigger quantities like a box of bottles can one give some cash incentives

**Which other possible ways of distribution did you consider? Any other creative solution or ways of using COO to create attention towards the product?**

Voss has a strategy all over the world which includes the use of distributors to get them into the high end places in the markets. The country of origin factor is not used to its full potential by Voss, however Henning recommends Vigour to pull out all the potential COO factors from Norway in a market communication; freshness and cleanliness from Norway
**Is Voss sold in gyms or other types of retailers?**

Voss is mostly sold at high end hotels, restaurants and bars. There is one gym at the Carlton Ritz hotel that has Voss and they are thinking about selling it in a upscale gym called Cantine.

**What are the most important lessons you have learned that you can advise other companies that has the same type of segment as you?**

In the end Henning provided us with some recommendations: Check potential retailers and ask them about their distributors. In Shanghai it could be a good idea to think a little bit outside of the box, following the money trail could quickly lead you to the high end markets.

Working with the bigger distributors companies it is easier to be in more places at ones while using a smaller and more specific distributor more visible but less places where it is sold.

Criteria for choice of distributor:

Infrastructure, credit check, Voss was lucky in their search.

**Interview with Emma Qiu, Ph.D. Assistant Professor, Marketing Department, School of Management, Fudan University**

**Date: 05.mai.2008**
Location: Emma’s Office in Shanghai

Before the interview the authors informed the interviewee about the Vigour Company and this thesis’s problem statement.

According to COO, what kind of perceptions, if any, does Chinese have towards Norway?

Actually I don’t think that people have very clear idea about Norway. Very few people have heard about it, probably because it is geographically far away and have a very small population compared to other countries Chinese know about. Most ordinary people don’t know too much, although they may know that it’s cold and north in Europe. However, those who know about Norway, tend to have a positive feeling of this country.

Do you think Vigour should use COO in their marketing strategy?

There are positive and negative things with COO. It really depends on which product. I don’t think that Vigour should use COO mainly because the Chinese consumers lack of knowledge about Norway, and also the good relation Chinese have towards American and Australian health nutrition products. Chinese are already educated that Australian and American products are quite good, but since your targeted segment is high-end consumers your chances are better. The high-class are often more aware of things in Europe. They might know more about the country, or just small things that can help a COO profile. In effect this could be that they know about the clear sky and the clean environment which automatically
Does the Chinese often use health nutrition or other health products?

Traditional Chinese products or more foreign products? What is the trend?

More and more Chinese people prefer pills. Originally people think we should eat nutritious food, but now people are changing and rely more on pills. All age. Heavy pressure from work and more stress in their everyday situation create a demand for them to take some stress preventing nutrition like vitamins. It is also worth mentioning that parents often give their children health products, i.e. vitamins. Chinese consumers prefer foreign health nutrition brands.

Are you familiar to other brands in China? What does people look for in these kinds of brands?

Most families buy a lot of health nutrition, although they rarely care about the brand. The most important thing is that they know where it is from. If it is from Australia or America, they would rely on this rather than the brand. Even if they are informed that there are differences in the brand, they don’t care.

What other sales channels do you think is possible?

There is an increasing trend for “web consumers” in the urban cities of China, who buy things on the internet to a cheaper price than the retail price. Although the young and technological experienced consumers prefer internet as a cheaper way to their desired products, many Chinese prefer face-to-face interaction. Online shopping is relatively modest compared to the international average, and some Chinese are sceptical to pay by card over internet. Online shopping is relatively modest compared to the international average, and some Chinese are sceptical to pay by card over internet.
Which challenges is there related to other brands?

Most of the local competitors can provide cheaper goods. The most important thing for Vigour is their Point-Of-Difference (P-O-D). What has Vigours products that Chinese (and also foreign products) does not?

Which challenges do you think Vigour will meet in China? And do you have any good idea to overcome the challenges?

As we mentioned earlier, the American and the Australian health product have already got they position in China. Therefore it may be hard for Vigour to compete with these competitors. The most important thing for Vigour is their Point-Of-Difference (P-O-D). What has Vigours products that Chinese and also foreign products does not? I.e. most of the local brand has low price as their competitor strategy. Meanwhile the Australian brands got the quality image and the trust from the Chinese consumers. Vigour should choose a different competitor strategy to attract the consumers; maybe the unique ingredients in their product.

What changes do you see where people get more aware of pollution problems?

Air pollution reminds people that you must eat healthy, especially in the urban areas. They need to balance their health. The people in the urban areas get more sophisticated and more aware of these kinds of products and the trend is promising for nutrition companies. Their consumption is changing towards vitamin and pills away from the traditional medicine.
Branding in Shanghai

Vigour will have to use POD clearly. What are the advantages besides that it is made in Norway? COO could also help towards your niche. It will be easier to focus to the high-end as this product will be expensive and as high-end are more sophisticated and travel more. Also, Innovative products do often have a tendency to attract innovate consumers and early adopters, which also later could create a trend.

I like the idea with using the different channels, as spa`s and fitness gyms. The gym centre and spa has several things in common with your products and has the same “profile”. Branding through market channels is a good idea.

Interview with Alexander Fransson, associate at Swedish Trade Council in Shanghai.

Date: 04.04.2008

Location: Starbucks at LinPing lu.
Alexander works for the Swedish Trade Council in Shanghai. His job is to help companies to enter the Chinese market and has worked with both small and big companies for one and a half years.

Before the interview the authors informed the interviewee about the Vigour Company and this thesis’s problem statement.

**According to COO, what kind of perceptions, in any, does Chinese have towards Norway? Do you think Vigour should use COO in their marketing strategy?**

More and more Chinese people know about Scandinavia. And most of them, actually every who are familiar with the countries in Scandinavia has positive images toward the countries from this side of the world. I think Vigour will benefit when using the COO when promoting the products.

**How to select the right distributor?**

Vigour has to make a criteria list when selecting the distributor. This list has to match their brand image. The first and most important element will be the distributor and Vigour has the same segment.

More over it is important to have a connection between distributor’s products and Vigour’s products. It will be easier for the consumer to open their mind for Vigour’s product and trust the product.
**It there any entry barriers related to distribution in Shanghai market, such as Laws and regulations towards foreign the health nutrition products?**

When it comes to laws and regulations, the first step for Vigour is figure out in which category does their product belong to, because different industry has to follow different regulations? In Vigours case, it will be either medicine or food category.

One regulation related to health nutrition products is the package. All health nutrition have to be packed in plastics.

**Are there any Laws and regulations related to internet distribution?**

It depends where the products are sending from. When selling the product from Internet will they be directly coming from Norway or does the company have a warehouse here in Shanghai. It will be more regulations and tax when sending directly from Norway. For example when ordering the products, we will have the exchange currency issue and import tax for each order.

**Can counterfeiting be a problem for Vigour?**

Since Vigour is going to attract consumer in this high-end marked, the counterfeiting will not be a big problem. First of all the copies find hard to be at the same place where Vigour is. Secondly most Chinese people tend to care about where the products are from. Therefore even some Chinese company copy products from Vigour, they will not get Vigours customer and will not directly be Vigour competitor.
Do you have any recommendations for Vigour related to their distribution channels? 

Well, I think to use a local distributor will a god ideal. Because they can help Vigour when is comes tax, registrations. And the most important aspect will be to get closer to the customers, especially the Chinese customers. However it depend how god relationship Vigour and this or those distributors have. God relationship takes time to develop. It is not something which happens over night. In the beginning it will be quite hard to find the right distributor. Once you find the right distributor, it is harder to make them to accept the product. My recommendation in this situation will to be use incentive. What can the distributor get when accepting your product? In shanghai money is quite power as an incentive tool.

Interview with Alexander Fransson, associate at Swedish Trade Council in Shanghai.

Date: 14 April 2008
Location: Starbucks at LinPing lu.

Alexander works for the Swedish Trade Council in Shanghai. His job is to help companies to enter the Chinese market and has worked with both small and big companies for one and a half years.

Before the interview the authors informed the interviewee about the Vigour Company and this thesis’s problem statement.
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More over it is important to have a connection between distributor’s products and Vigour’s products. It will be easier for the consumer to open their mind for Vigour’s product and trust the product.

It there any entry barriers related to distribution in Shanghai market, such as Laws and regulations towards foreign the health nutrition products?

When it comes to laws and regulations, the first step for Vigour is figure out in which category does their product belong to, because different industry has to follow different regulations? In Vigours case, it will be either medicine or food category.

One regulation related to health nutrition products is the package. All health nutrition have to be packed in plastics.
**Are there any Laws and regulations related to internet distribution?**

It depends where the products are sending from. When selling the product from Internet will they be directly coming from Norway or does the company have a warehouse here in Shanghai. It will be more regulations and tax when sending directly from Norway. For example when ordering the products, we will have the exchange currency issue and import tax for each order.

**Can counterfeiting be a problem for Vigour?**

Since Vigour is going to attract consumer in this high-end marked, the counterfeiting will not be a big problem. First of all the copies find hard to be at the same place where Vigour is. Secondly most Chinese people tend to care about where the products are from. Therefore even some Chinese company copy products from Vigour, they will not get Vigours customer and will not directly be Vigour competitor.

**Do you have any recommendations for Vigour related to their distribution channels??**

Well, I think to use a local distributor will a god ideal. Because they can help Vigour when is comes tax, registrations. And the most important aspect will be to get closer to the customers, especially the Chinese customers. However it depend how god relationship Vigour and this or those distributors have. God relationship takes time to develop. It is not something which happens over night. In the beginning it will be quite hard to find the right distributor. Once you find the right distributor, it is harder to make them to accept the product. My recommendation
in this situation will be use incentive. What can the distributor get when accepting your product? In shanghai money is quite power as an incentive tool.

Interview with Ling Liu at local Chinese pharmacy

Date: 10. April 2008

Location: Wu Jiao Chang

Ling has worked at the pharmacy at Wu Jiao Chang for 8 years. It was not easy to get in contact with the sales personnel there. When we took pictures and asked about the products they became very suspicious. Luckily, Ling came over to us and recognized us. This is because she has helped us many times before when we had stomach problems. We took the opportunity and conducted an interview with her. The interviewee was our Chinese group member.

How many health nutrition brands do this pharmacy currently sell?

Two brands, one from the US called B & H and one Chinese developed by the Pharmaceutical University in China.

What is the price, segment and product line of these products?

B & H have a wide line of products which include vitamins, fish oil, cleansing products and diet products. Vitamins include beta-carotene, which is good for eyesight and calcium which strengthen teeth and bones. Since they offer many different products they attract a large group of segments, basically products for the whole family. It is difficult to give a general price level because it depends on the product and the product size. For a general product from this B&H the price will be around 50 – 60 RMB per month.
The Chinese brand from the pharmaceutical University in China also has a wide product line is the same as B&H but in addition they also have protein powder. The products are tailored to appeal to a Chinese segment. The general price is about 50 RMB for a month.

**What do you think the competitor strategy is for the two companies?**

Both of the brands try to differentiate themselves on price. They want to reach out to the ordinary middle class people. That is also what our pharmacy stands for. The products sold at the pharmacies are generally not expensive because it is meant to be for the people.

**When you say the people, what kind of class are you referring to?**

I would have to say the middle class in China. To be more specific I would say the practical oriented people who are focused on price.

**How can B&H brand offer the products for the same price as the Chinese brand? Importing products to China costs money.**

B&H conduct their research and development in the US but their production and packaging are located in China. This is how they can compete on price on the same level as the Chinese products.

**Interview with Shan Shan Xu, Partner, Haihua Yongtai Law Firm**

**Date: May 11, 2008**

**Location: Starbucks at Wu Jiao Chang**
ShanShan Xu is a partner at a Chinese Law firm. She has much knowledge about political aspects concerning establishment of foreign companies in China.

**What are the initial steps that need to be taken by a foreign company wanting to establish themselves in China (Shanghai)?**

To export a product into China requires customs and border protection customs approval. Also, in Vigours case, they need a certificate from the food and drug agency (FDA). Last, a product needs to go through costumes like tariff and consumption taxes. Registration of a product takes about 12 – 18 months. After the China joined the WTO, the entry barriers have decreased.

**What are the costs of opening a wholly foreign enterprise in China?**

If a company choose to open a represent office, one is not allowed to conduct sales in China. A sales office in China is expensive, especially in Shanghai. The exact numbers depends upon many factors.

**Are there any special taxes for Vigour’s products and what are they?**

Vigour’s products are not tax free. They would need a certificate of origin and also pay the tariff tax which currently is in China for a food product.

**What possible advantages through importing can Vigour get from choosing a local distributor in Shanghai?**

Vigour should find a distributor before they start to import products. In this way, the distributor can go to the local government, and use their possible Gunaxi to help Vigour to easier get their products into Shanghai.
Is there any advantage for Vigour because they are from Norway?

China and Norway have very good relations. A trade agreement between Norway and China is in the works. This is done to lower entry barriers for Norwegian companies expanding to China. An export incentive from Norway to China is the low exchange rate at the moment.

What are the most important legal factors one should consider before going into partnership with a local distributor?

It is important to check that the distributor has a valid license and also if they are not just another middle man in a bigger operation. A possibility is to hire a local Chinese law firm to check up on the distributor. This will not be very expensive.
Is Shanghai a good testing ground for new products to China/Asia and why/why not?

This depends on the product. For imported supplements, Shanghai could be good as it represents a much higher income level within China. Cultural differences will however play a big part in the question of whether what succeeds in Shanghai will succeed in the rest of China and Asia.

I have heard that foreign companies use Shanghai as a "ramp" for their future expanding in Asia, why is this?

Shanghai is fast becoming many MNCs' regional headquarters (RHQ). Companies want to be in the China market, and there is a large pool of educated people here and good infrastructure for distribution and regional coordination.

How is Shanghai differed from the rest of China concerning investments, market growth, spending habit etc?

The China market is usually split along city tiers. Shanghai is similar to other Tier 1 cities (BJ, GZ, SZ). The Tier 2 cities are fast catching up, and many companies are focusing their efforts there now as the Tier 1 city markets are often considered "sewn up".

Interview with Angela Wu, Shanghainese high end consumer

Date: May 15, 2008

Location: Starbucks at Lin Ping Lu
Angela is a friend of us. She got a Ferrari car and a BMW car. She works out three times a week. Besides of the gym, she also plays tennis and golf. Based on this we will qualify her as an active, sporty and not to mention wealthy consumer. Additionally, she is also a well informed and educated person. The authors see her as a potential customer for Vigour. Therefore this interview is done in order to get to know the trends among potential Vigour consumers in Shanghai.

Since she is one of our friends, we did not implement this interview formal. This interview was done more informal as a friend chat.

Angela says a more and more trendy place for high end consumers is golf resorts. She also claims that high end spas and fitness gyms can be possible retailers for Vigour, if they want to reach out to high end consumers in Shanghai. Playing golf cost much money, entry fees are usually over hundred thousand RMB. This depends on how exclusive the golf resort is. She claims that the trends in Shanghai switch fast. Four years ago there were not a lot of Chinese people who used fitness gyms. Now, you will find fitness gyms everywhere in Shanghai. It seems like Chinese consumers adopt western trends quite slow, but when they first adopt a trend, it goes fast. When a western trend is adopted by Chinese high end consumers, they are willing to spend plenty of money to be a part of the trend wave.