A Lilleborg adventure in China

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A diploma thesis by
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“This paper is done as a part of the undergraduate program at BI Norwegian School of Management. This does not entail that BI Norwegian School of Management has cleared the methods applied, the results presented, or the conclusions drawn.”
Acknowledgements

This thesis is also a product of valuable contributions from people with long experience within topics of business, marketing, law, economics, cosmetics and personal care.

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Special thanks to Karin Bryntse, our supervisor, for her encouragements and feedbacks throughout the writing of this thesis.

Signed:

Stian Nysæter Gresmo

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Executive Summary

For the past 6 months the authors have in cooperation with Lilleborg AS conducted a comprehensive market research within the middle-high-end Shanghainese Cosmetic and Personal Care market.

The aim of this research has been to find characteristics of the Shanghainese Lip Care market and give guidelines on how Lilleborg AS should develop a strategy to accomplish maximum gain if entering the Shanghainese market.

The Chinese market is predicted a great future of economic prosperity and wealth, and forecasts estimates that the Chinese consumer market will become one of the largest in the world in the future. The opportunities have not passed unnoticed by, and several of the world’s largest providers of consumer goods are already well established in the Chinese market.

Due to heavy competition, limited international experience, limited resources and an internationally unknown brand, it will be difficult for Lilleborg to gain advantages or even enter the Shanghainese market without substantial financial investments.

If Lilleborg is to succeed in the Shanghainese Lip Care market, extensive product development is necessary to adapt to the Shanghainese consumer’s preferences. Lilleborg would also have to select the most suitable entrance strategy depending on their goals and recourses and implement a smart, innovative and relatively inexpensive marketing strategy.

Enjoy Reading!
Postulations

- This thesis will not deal with the question of moving Lilleborg’s production to China. This is due to the fact that Lilleborg wish to keep their production in Norway to protect the Lip-care products formula.

- As Lilleborg will export from Norway, serving the mass market in China is impossible due to a bottleneck in the logistics.

- Export from Norway to China will accrue high logistic costs and export taxes. Therefore a postulation is that Lilleborg would have to take a high price on their Lip care products in China, and consequently focus on the mid-high end consumer or higher.
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<tr>
<td>ACE</td>
<td>Attitudes, Competence, Embodiment</td>
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<td>CEO</td>
<td>Chief executive Officer</td>
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<td>CFS</td>
<td>Critical Factors of Success</td>
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<td>CMR</td>
<td>Chinese Market Research Group</td>
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<td>CRN</td>
<td>China Retail News</td>
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<td>CPOP</td>
<td>Competitive Points-of-Parity</td>
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<td>CSR</td>
<td>Corporate Social Responsibility</td>
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<td>GDP</td>
<td>Gross Domestic Product</td>
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<tr>
<td>HKTDC</td>
<td>Hong Kong Trade Development Council</td>
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<td>HPC</td>
<td>Lilleborg Home and Personal Care</td>
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<tr>
<td>ICEC</td>
<td>International Commodities Export Corporation</td>
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<tr>
<td>ICEC</td>
<td>India China Economic &amp; Cultural Council</td>
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<td>IMF</td>
<td>International Monetary Fund</td>
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<tr>
<td>IPR</td>
<td>Intellectual Property Rights</td>
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<tr>
<td>J&amp;J</td>
<td>Johnson &amp; Johnson</td>
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<tr>
<td>MGI</td>
<td>McKinsey Global Institute</td>
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<tr>
<td>NBS</td>
<td>National Bureau of Statistics in China</td>
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<tr>
<td>OCG</td>
<td>One Child Generation</td>
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<td>OCP</td>
<td>One Child Policy</td>
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<td>POD</td>
<td>Points-of-Differences</td>
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<td>POP</td>
<td>Points-of-Parity</td>
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<tr>
<td>POS</td>
<td>Point of Sale</td>
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<tr>
<td>R&amp;D</td>
<td>Research and Development</td>
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<tr>
<td>RMB</td>
<td>Renminbi (Chinese currency unit)</td>
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<tr>
<td>SLEPT</td>
<td>Social, Legal, Economical, Political, Technological</td>
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<td>SPD</td>
<td>Strategic Problem Definition</td>
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<td>SME</td>
<td>Small and Medium sized Enterprises</td>
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<td>SWOT</td>
<td>Strength, Weaknesses, Opportunities, Threats</td>
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<tr>
<td>VAT</td>
<td>Value Added Tax</td>
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<td>WTO</td>
<td>World Trade Organization</td>
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<td>WOM</td>
<td>Word-of-Mouth</td>
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Part 1: Introduction

This part of the thesis is divided into four chapters: (1) Introduction to the thesis, (2) Company Background, (3) The Chinese Market in Perspective and (4) Chinese Business Culture.

The purpose of this part is to give the reader an elementary understanding of the purpose of this thesis and a brief background to Lilleborg and Chinese market characteristics.

Chapter 1 - Introduction to the Thesis

This thesis is written on behalf of Lilleborg AS and embodies Lilleborg’s Lip Care products. Lilleborg is a leading producer and marketer of personal products and detergents in Norway and is a subsidiary company of the Orkla Group. Orkla is according to “Norges Største Bedrifter’s” web page the sixth largest privately owned corporation in the Norwegian Stock exchange.

Lilleborg is today in a preliminary stage of planning an entrance to the Chinese market. Lilleborg’s newly appointed Export manager, Jan Eskil Hollen, argues for the choice of China because Lilleborg’s sister companies within the Orkla group Borregaard, and Elkem are already located with a sales office in Shanghai. Lilleborg have currently three purchasing agents working at this office responsible for purchasing packaging for the production back in Norway. Further, maximizing production capacity and a saturated home market are additional factors of motivation for considering export.

Lilleborg has currently limited international experience since the company’s own product portfolio is not represented abroad. However, through licensed production cooperation with the major enterprises such as Unilever and Johnson & Johnson, Lilleborg has acquired some experience dealing with international companies.
Jan Eskil Hollen and the authors have in collaboration set the objectives and
ground rules for this bachelor thesis, where the starting point is Lilleborg’s lack of
knowledge in the Shanghainese market.

The aim of this thesis has been to carry out an in-depth research on the
Shanghainese Lip Care market, and develop a strategy that can maximize
Lilleborg’s profit if entering the market. Hollen explicitly underlined his request
for information on the Shanghainese consumer, and how Lilleborg must adjust to
fit his/her needs.

1.1 Statement of the Problem

“What characterize the Chinese market for Lip Care, and how should Lilleborg
shape their strategy to accomplish maximum gain in the Chinese market?”

1.2 Research Aim

Gripsrud, Olsson and Silkoset (2004, 47) write that the Research Aim in a single
sentence formulates the purpose and objectives of a research. The author’s
Research Aim is derived from the thesis’ statement of the problem and reads as
follows:

“The aim of this research is to explore whether there is a sufficient market for
Lilleborg AS’ Lip Care products in China, with focus towards Shanghai, and to
suggest an adjusted Marketing Mix-strategy which fit the Shanghainese market
characteristics”

1.3 Research Questions

In order to reach the research aim the authors have developed five research
questions that have been addressed in the thesis:

1. What is the current competitive situation in the Lip Care market in
   Shanghai?
2. What segment of the Lip Care market should Lilleborg target and what is this segment’s buying behaviour?

3. What adjustments are needed in the components of the Marketing-Mix to adapt to the Shanghainese Market?

4. What market barriers are Lilleborg likely to encounter when introducing their products to the Chinese market, and how can Lilleborg overcome these barriers?

5. What entrance strategy and distribution channels should Lilleborg use to optimize access to the Chinese market?

1.4 Research Limitations

- Due to time and budget limitations the research has been limited to the Lip Care market in Shanghai. Therefore our findings cannot be generalized to Greater China.

- Lip Care is rarely researched exclusively. The authors include findings and trends typical for the related cosmetic industry in this thesis. The Lip Care market is in general regarded as one of several markets under the cosmetic industry definition, and data gathered of the cosmetic industry do thereby not fully represent the situation in the Lip Care market.

- Furthermore, the research budget has limited the opportunity of obtaining the newest research reports on the Chinese and Shanghainese cosmetic- and Lip Care market.

- The language barrier has been a problem when collecting information from customers and shop personnel of Lip Care products.

- Guanxi and hierarchy. The author’s status as students has made it difficult to get in touch with key persons.
Chapter 2 - Company Background

This chapter is dedicated to give a brief introduction of Lilleborg AS, Lilleborg’s Lip Care portfolio and Lilleborg’s operations in China.

2.1 Orkla ASA

Lilleborg AS is today a subsidiary under the investment company Orkla ASA, which is ranked as one of the largest privately owned stock-listed consolidations in Norway. Orkla is divided into 5 business areas: Orkla Brands, Orkla Aluminum Solutions, Orkla Materials, Orkla Associates and Orkla Financial Investments. Lilleborg is a subsidiary of Orkla Brands. Orkla is today doing business in over 40 countries and the subsidiaries currently doing business in China are Sapa, Elkem and Borregaard (www.orkla.no). The diversity of Orkla’s business areas secures the company risk dispersion. According to Dag J. Opedal (2009), CEO of Orkla, Orkla Brands and Orkla Energy are the only business areas not experiencing the gravity of the current financial crisis and delivers satisfying results. This is mainly because their products are commodities and not severely affected by the economic cycle.
2.2 Lilleborg AS

According to www.lilleborg.no, Lilleborg was founded in Oslo in 1833 by Peter Möller and started up as a producer of soap. Today the company has grown into a producer and marketer of branded consumer goods. Many of their oldest brands like Blenda, Lux, Solidox and Lano are now market leaders in their respective Norwegian markets.

![Lilleborg Organizational Map](image)

*Lilleborg Organizational Map. (The Authors’ own model, 2009)*

Lilleborg is divided into the two divisions “Lilleborg Home and Personal Care” (HPC) and “Lilleborg Professional”. Lilleborg HPC is among Norway’s leading producers and marketers for detergents and personal products, employing 503 people. Lilleborg HPC controls 55% of the Norwegian home - and personal care market share and recorded sales of NOK 2, 1 billion in 2008. Of this NOK 2, 1 billion the total revenue was NOK 350 - 400 millions (Interview: Hollen, 2009). “Lilleborg Professional” on the other hand, offer solutions on competence transaction to the Norwegian business market. This includes counseling and coursing (www.lilleborgprofesjonell.no).

2.3 Cooperation with Unilever and Johnson & Johnson

Lilleborg’s export director Jan Eskil Hollen states that Lilleborg today does not export to any countries abroad. However, through a licensed production partnership with the major firms Unilever, Johnson & Johnson and another few minor companies, Lilleborg manufactures some of these companies’ products in Norway for distribution abroad. The Lip Moisturizer “Vaseline”, for instance, is
manufactured in Norway by Lilleborg’s production plants, but distributed and
exported in the United Kingdom by Unilever. This partnership generates an
annual turnover of about NOK 100 million, 5% of Lilleborg’s total turnover of
NOK 2 billion. Further, Lilleborg is entitled to distribute Unilever’s and Johnson
& Johnson’s products in the Norwegian market. Although Lilleborg’s products
are not represented internationally, the cooperation with the two major enterprises
provides Lilleborg with some international experience. The cooperation is
maintained by appointed Key Account Managers located at Lilleborg’s production
plants in Norway (Interview: Hollen, 2009).

2.4 Lilleborg’s Competitive Advantages in Norway

Lilleborg’s success in the Norwegian market and their low cost production on
behalf of Unilever and Johnson & Johnson has been dependant on three major
Critical Factors of Success (Interview: Hollen, 2009):

- **Market Orientation.** Lilleborg is actively observing trends in the
  Norwegian market, adapting marketing strategy and product development
  accordingly.

- **Brand Name.** Lilleborg controls 55% of the market share in Norway,
  which is closely interlinked with the strong brand name Lilleborg has
  built. This allows Lilleborg to charge prices with a comfortable profit
  margin.

- **Value Chain.** As one of the few companies in Norway, Lilleborg controls
  the whole value chain in Norway. This provides them with bargaining
  power, economy of scale and high profit margins.

2.5 Production in Norway

Lilleborg controls three production plants in Norway: two in Kristiansund and one
in Ski. One of the two Kristiansund plants produces Lilleborg’s Lip Care products
and also produces for Lilleborg’s licensed production partnership. Still, the Kristiansund plant has free capacity (Interview: Hollen, 2009).

### 2.6 Product Assortment – Lip Care

Lilleborg’s product assortment for Lip Care in the Norwegian market consists of two primary categories: *Lip Moisturizers* and *Lip Gloss*. These are subcategorized into 8 products with different product specifications meant to satisfy different needs. Below follows a brief introduction to Lilleborg’s Lip Care products.

#### 2.6.1 Product Assortment – Lypsyl (Lip Moisturizer)

According to Lilleborg’s homepage, the “Lypsyl” product line has four different moisturizers, which are designed to protect against dry lips and to make dry lips soft. Lilleborg first introduced the product in 1953 and the Lypsyl product line now consists of four types of products that differ through their ingredients and function: Lypsyl Original\(^1\), Aloe Vera\(^2\), Therapy\(^3\) and Extreme\(^4\).

![Lypsyl Product Assortment](www.lilleborg.no, 2009)

Lilleborg is the rightful owner of the Lypsyl brand name in Norway. In the UK, the company *Novartis* owns the brand name, while the company *Lornamed* owns the Lypsyl brand name in the rest of the world (Interview: Hollen, 2009). This means Lilleborg must change the “Lypsyl” brand name if entering China. For further reference, the authors will define the Lypsyl products as “Lip Moisturizer products”.

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\(^1\) Lypsyl Original
\(^2\) Aloe Vera
\(^3\) Therapy
\(^4\) Extreme
2.6.2 Product Assortment – Kløver Vaseline

Lilleborg’s web page states that *Kløver Vaseline* consists of petroleum jelly and is a 100% natural product extracted through refined earth-oil. Kløver Vaseline is known for its many areas of usage; originally it was used on damaged skin, but today it is also used as a Lip Moisturizer, as shoe impregnation, furniture polish etc. Because of Kløver Vaseline’s healing and functional- rather than decorative effect, the authors will henceforth include Kløver Vaseline in the definition of “Lip Moisturizer products”.

Lilleborg manufactures two types of Vaseline as pictured below: The first is the notorious yellow *Kløver Vaseline*¹ offered in the Norwegian market. The second is the international *Vaseline*², which is a Unilever product manufactured by Lilleborg through the licensed production agreement. Unilever owns the rights to the Vaseline name and product design worldwide, signifying Lilleborg must find another solution for the product if entering China (Interview: Hollen, 2009).

Through an independent agent located in the UK Unilever’s Vaseline products have been distributed to Hong Kong, suggesting there is a market for Lilleborg’s products in the Chinese market (Interview: Yuen, 2009).

![Figure 5: Lilleborg Product assortment Vaseline. (www.lilleborg.no, 2009)](image)

2.6.3 Product Assortment – Lypsyl Kiss in a tube (Lip Gloss)

As stated on Lilleborg’s web page, “Kiss in a Tube by Lypsyl” is a series of Lip-Care products targeting women. The Kiss in a Tube- product line consists of three types of Lip Gloss that differs from each other through function, taste and shine. The three types of *Kiss in a tube* products are: *Cute & Caring*¹, *Golden Glamour*² and *Pouting Pink*³.
The Kiss in a Tube products contain “Shea butter” and “Vitamin E” (both ingredients have a healing function on the lips), and could be defined as Lip Moisturizer products. On the other hand, due to Kiss in a tube’s primary decorative function they will be regarded as cosmetic products and henceforth referred to as “Lip Gloss”. Two of the Lip Gloss products, Golden Glamour and Pouting Pink, contain menthol for the benefit of taste and to give the consumer the impression of more desirable lips when applied.

2.7 Lilleborg in China

Lilleborg currently employs 3 purchasing agents in China, situated at Borregaard - and Elkem’s office in Shanghai. The 3 purchasing agents are responsible for finding suppliers of package design parts from Chinese manufacturers (Interview: Yuen, 2009). Kai Simon Yuen, purchasing manager for Lilleborg in China explain that there is free capacity among the Lilleborg employees in Shanghai.

Jan Eskil Hollen admits that much of the reasoning for choosing China out of the world’s potential cosmetic markets is because of the Borregaard and Elkem office located in Shanghai. Without this office, expansion to China would not be considered. Further, Hollen proposes Internal and External factors behind the motivation for choosing Export and for targeting China. These Internal and External factors can be further divided into proactive and reactive (Interview: Hollen, 2009):
Internal:

- **Proactive Internal Factors**: A) Maximizing production capacity.
- **Reactive Internal Factors**: A) A new market to rely on if Lilleborg should lose license production to the UK. B) Available capacity in the existing Shanghai office.

External:

- **Proactive External Factors**: A) Market opportunity in Shanghai due to a vast and growing middleclass.

**Chapter 3 - The Chinese Market in Perspective**

In this chapter the authors will discuss features of the Chinese middle- and upper class, the Chinese consumption and give a brief introduction to the Chinese Cosmetics market. The purpose is to give the reader a basic understanding of aspects of the Chinese market situation today and market prospects for the future.

**3.1 The Chinese Upper-Middle and High-End Consumers**

Lilleborg’s potential customers in Shanghai are bound to be a higher class consumer compared to the average Shanghainese. Logistics, taxes and distribution through export will raise costs and put a higher final price on the products sold in Shanghai.

Consumer behavior and characteristics on the Upper- middle class consumers will be elaborated later in the thesis. This sub-chapter will merely discuss the economic aspect of the Chinese consumers.

McKinsey Global Institute (2006) divides the Chinese *Middle - and Upper Class* into 4 segments:
The Middle Class consists of:

- The *Lower Aspirant* earning between RMB 25,000 – 40,000.
- The *Upper Aspirants* earning between RMB 40,000 - 100,000.

The Upper Class consists of:

- The *Affluent* earning between RMB100,000 – 200,000.
- The *Global* earning RMB200,000 and above.

According to MGI the “Upper Aspirants”, “Affluent” and the “Global” consumers constituted together almost 18% of the total urban consumption in 2005. MGI further estimate that The “Upper Aspirant” segment will constitute 62 percent of the total urban disposable income in 2025.

Through the author’s in-depth interview with Marcus Lee, author of the book “How to outsmart China”, Lee states that the high-end consumers in Shanghai are not only hard to reach but they also constitute a small segment, counting for only 7 % of the total population in China. The authors therefore feel the Upper- Middle Class is regarded as a more suitable segment for Lilleborg to consider (Interview: Lee, 2009)

The Upper- Middle Class

Following this reasoning, the authors found it reasonable to include what the MGI survey defines as the *Upper Aspirants* and *Affluent* in the Upper Middle Class definition. In other words the authors are regarding those with an annual income of RMB40,000 – RMB 200.000 as potential customers for Lilleborg’s Lip Care products. As Lilleborg have to target a Shanghainese segment with higher income than average, this coincides well with the average disposable income in Shanghai, which according to Hong Kong Trade Development council’s web page, www.hktdc.com, counted for a total of RMB 23 623 in 2007.
3.2 Consumption in China

Kotler, Keller and Lu (2009, 135) propose that the One Child Policy (OCP), introduced by the former Chinese Prime Minister Deng Xiaoping, has created a One Child Generation (OCG) that is breaking away from the traditional Chinese moderate spending culture. In 2010 the first batch of the OCG turned 30 years old. As a result of the OCP it is expected that the One Child Generation will soon be the dominant consumer group in China with characteristics very similar to the modern Western consumer.

Even so, it is interesting to put the Chinese consumption rate today in comparison with other markets. Presented in a report from MGI (2006, 6), the Chinese consumption rate in percentage of GDP has decreased between 1995 and 2005. This means that the annual growth of GDP in China, which is promising, does not necessary reflect the growth of consumption in China. The GDP growth will be discussed in the analysis of the thesis. MGI further state that even though the Chinese population is more than 20 times that of Italy, the total consumption in the two countries are almost equal. It is important to notice the huge difference in income between rural and urban China. Still, many managers are blinded by the potential in the Chinese market and do not regard the Chinese markets current size (Interview: Kristoffersen, 2009).

3.3 Chinese Cosmetic Market

According to Cosmetic News, the official magazine of the “China Beauty Expo” (2008) it is expected a growth rate of 10 % in the Chinese cosmetic market annually in the following 5 – 10 years. These expectations are also shared by Cosmoprof, an international beauty fair in Shanghai (www.cosmoprofshanghai.com). In 2006 the total sales of cosmetics in China counted for RMB 110 billion. By the end of 2007 the total sales of cosmetics reached RMB 125 billion, while sales are expected to reach RMB140 billion by 2010 (Cosmetic News, 2008). Cosmoprof Shanghai further reports that a person’s
annual average spending on beauty products and services in China has increased by 15 -20% the last 5 years, and the growth is estimated to increase 25% annually the next 5 years.

Chapter 4 - Chinese business culture

This chapter discusses the aspects of the Chinese business culture Lilleborg should be aware of prior to a possible entry into China.

There are two iron rules of international business according to Gesterland (2005, 17). The first rule is that the seller is expected to adapt to the buyer and the second is that the visitor is expected to observe local customs. Norway and China is quite different in culture and ways of conducting business. Therefore it is important for Lilleborg to have knowledge about the Chinese business culture to avoid pitfalls and misunderstandings. According to Kristoffersen (2008, 146) a common mistake to make is to ignore the cultural differences that exists, and think that doing business in China is the same as doing business another place in the world. Visiting businessmen will find slightly different behavior across China, but some of the most important characteristics of the Chinese business culture can be generally recognized (Gesterland 2005, 180): Deal focused vs. Relationship focused, the concept of Guanxi, Mianzi and the Meaning of a contract.

4.1 Deal Focused vs. Relationship Focused

“In China first you make a friend, then you make a deal”
- Gesterland (2005, 180)

Having an amicable relationship is important in every culture, but it comes in different variations. Norway can be regarded as having a Deal Focused business culture, signifying the signing of a deal is more important than maintaining relationship with your negotiating counterpart. China, on the other hand, is considered having a Relationship Focused business culture, where friendship with
the partner must set the foundation before any negotiation takes place. For Lilleborg to establish a good Guanxi network and a sound relationship with an intermediary in Shanghai, it requires that Lilleborg carefully follow up their connections. Lilleborg employees should for instance visit their partners in Shanghai from time to time.

4.2 Guanxi

Chief Representative from Lilleborg’s sister company Borregaard, Mr. David Chan, told us that his first year at Borregaard mainly consisted of securing a strong Guanxi network (Interview: Chan, 2009). In relationship focused cultures knowing the right people can be very helpful and in some contexts vital. This brings us to an extremely important phenomenon in China called “Guanxi”. Guanxi literally means “relation” or “relationship” and can be traced back to the traditional Chinese philosophy (Kristoffersen. 2008, 32-33). The importance of social interaction and learning how to treat other people would form an individual’s identity and fulfillment as a person (Gold, Guthrie and Wank 2002, 9-10). Guanxi is based implicitly on mutual interest and benefit. This means that once Guanxi is recognized between two people, each can ask a favour of the other with the expectation that the debt incurred will be repaid sometime in the future. Chinese are often reserved from doing business with strangers, and without the Guanxi network, conducting business in China could be troublesome (Gesterland. 2005, 180).

4.3 Business Mianzi

The phenomenon of Guanxi cannot be fully understood without the phenomenon of Mianzi. The scholar Ho explains Mianzi as “a reputation achieved through getting on in life, through success and ostentation” (Ho 1976, 3). Having a strong Mianzi will increase the possibility to build a strong Guanxi (Kristoffersen 2008, 34). Openly criticizing or being rude to someone in social interactions is considered invasive and destructive to interpersonal reputation and thereby give
bad “Mianzi”. A person’s honor would be “saved” if he and his Guanxi-partner maintained the interpersonal harmony (Ho 1976, 3). If a Chinese business partner agrees to terms in a negotiation but doesn’t fulfill these, he might have tried to save face of both himself and the negotiating counterpart by not turning the offer down directly. In this case, a Chinese negotiator could accept a contract offered by Lilleborg, even though he strongly disagrees with the terms of condition. This can be a frustrating process for foreign companies in China to deal with, which one should make preparations for (Kristoffersen 2008, 32 - 35). This leads the discussion further to the meaning of a contract in China:

4.4 The meaning of a contract

Many Chinese negotiators view the contract as less important than the strength of the relationship between two companies. If circumstances change the Chinese will be quick to want to renegotiate terms and they will do it vigorously. A wise visiting businessman’s opening offer should include a wide margin to make room for bargaining (Gesterland 2005, 183). When a contract is negotiated and both parties are satisfied, it is important to maintain the amicable relationship with the Chinese counterpart through personal visits, telephone calls and correspondence. Neglecting this aspect may ruin future cooperation, even if the first deal proved mutually profitable (Gesterland 2005, 184). In other words, Lilleborg have to maintain the relationship after a contract is signed, and Lilleborg must be aware of the fact that the signing of a contract do not necessary equal that Lilleborg have secured a deal.
Part 2: Methodology and Theories

This part of the thesis is divided into five chapters: (5) Research Methodology, (6) Internal analysis theories, (7) External analysis theories, (8) SWOT theory, (9) Strategy theories.

The purpose of this part is to give the reader an understanding of the methodological approach and the theoretical basis utilized in this thesis.

Chapter 5 - Research Methodology

This chapter presents the research process of the thesis, the different theories and models employed in later stages and the empirical data extracted from the research.

The steps of the research process presented by Gripsrud, Olsson and Silkoset (2004, 53) has been implemented as a guide for the research, illustrated below:

![Figure 7: Steps of the Research Process. (Gripsrud, Olsson and Silkoset, 2004)](image)

A research must employ a research design in accordance with the research questions (Gripsrud, Olsson and Silkoset 2004, 70). This thesis handles the potential market for Shanghainese Lip Care and will be subjectively angled, interpreted and understood, a typical hermeneutic approach. A hermeneutic approach is where the pieces are equally important as the big picture itself. One cannot understand and interpret the big picture without its pieces nor the pieces without the big picture. Due to its nature hermeneutic approaches is characterized
by employing qualitative methods in order to understand - and not explain through rules (Gripsrud, Olsson and Silkoset 2004, 30-32).

5.1 Research Aim and Research Questions

As a matter of form the authors have chosen to repeat the thesis’ Research Aim and Research Question as presented in the thesis’ introduction. This is to remind the reader of how the authors will solve the problem definition.

Gripsrud, Olsson and Silkoset (2004, 48) states that the Research Aim in a single sentence formulates the purpose and objectives of a research. The Research Aim is derived from the thesis’ statement of the problem:

“The aim of this research is to explore whether there is a sufficient market for Lilleborg AS’ Lip Care products in China, with focus towards Shanghai, and how Lilleborg can adjust the Marketing Mix to such a possible market.”

In order to be able to find answers to the research aim there must be supporting questions that need to be answered during the research process.

“No research questions - or poorly formulated research questions - will lead to poor research”

- Bryman and Bell (2007, 83).

Given the research’s limited time and budget, the thesis cannot answer every question relevant to the research aim. To gain focus and depth to the analysis, the research questions must be related to each other as well as the research aim. Following are the research questions found most relevant for the research aim:

1. What is the current competitive situation in the Lip Care market in Shanghai?

2. What segment of the Lip Care market should Lilleborg target and what is this segments buying behaviour?
3. What adjustments are needed in the components of the Marketing-Mix to adapt to the Shanghainese Market?

4. What market barriers are Lilleborg likely to encounter when introducing their products to the Chinese market, and how can Lilleborg overcome these barriers?

5. What entrance strategy and distribution channels should Lilleborg use to optimize access to the Chinese market?

5.2 Research Design

This thesis will have an exploratory research design, as this is best suited when there is little or no prior knowledge on the relevant field (Gripsrud, Olsson and Silkoset 2004, 59). Neither Lilleborg nor the authors have adequate information to be able to generate hypothesis or theories on patterns in the Chinese Lip Care-market. A natural point of departure is thus to gather secondary data from reliable sources and primary data from own efforts for the authors to gain a foundation of knowledge (Gripsrud, Olsson and Silkoset 2004, 59).

Qualitative methods are typical with an explorative research design, and are connected with five research methods: 1) *Ethnography- and participant observation*, 2) *Qualitative interviewing*, 3) *Focus groups*, 4) *Language-based approaches to the collection of qualitative data* and 5) *Documents as sources of data*. Qualitative researches follow an inductive view on how a theory is developed through a research’s findings. Qualitative methods take aim on understanding and explaining in preference to measuring and generalizing. Its strengths lie in finding answers to *why, what and how* when conducting a research (Bryman and Bell 2007, 402-4).

5.3 Data Collection

Data collection consist of both Primary and Secondary data. The former is data collected specifically to answer the research questions. The latter is data collected
by another party for another purpose, but which still can be relevant for the research. Secondary and primary data have been utilized during this research process as both have its distinguishing pros and cons, which will be explained in “5.3.2” and “5.4.4” respectively.

5.3.1 Secondary Data

Gathering secondary data from different sources is a natural initial step when using an experimental research design. According to Gripsrud, Olsson and Silkoset (2004, 80) secondary data can be collected through internal and external sources:

- **Internal Sources** are information gathered internally from one’s own company. This can be a sales figure, information on costs attached to different activities, rapports from customers’ commentaries and complaints.

- **External Sources** are information gathered from outside the company and can be divided into Standardized Researches and Public Sources. The former is information gathered by professional agencies for multiple purposes relevant to multiple companies, while the latter is all other external information available to the public. External sources have in recent years become increasingly important due to the Internets expansion.

Information from Internal sources during this thesis has been collected mainly through our contact person at Lilleborg in Oslo, Jan Eskil Hollen. He has provided us with valuable information on the company itself, its activities, focus areas, figures etc.

Information from External Sources has been gathered mainly through the Internet, consisting of published articles, researches and journals. Professional and up-to-date researches have been unavailable due to a limited budget.
5.3.2 Critical Evaluation of Secondary Data

Gripsrud, Olsson and Silkoset (2004, 79) stress that secondary data’s credibility should not be taken for granted. Even though collecting secondary data is cheap and fast, one must keep in mind that it once has been gathered for another purpose and is subject to the same faults of primary data in addition to that of secondary data. According to Gripsrud, Olsson and Silkoset (2004, 72-79), reliability and validity of secondary data must be evaluated to ensure the quality of a research. Even so, secondary data often contain weaknesses due to former sources of error. These errors cannot be avoided, but by being aware of them and how they influence the research will minimize weaknesses in data utilized for the thesis.

To secure credible sources from the Internet the authors screened most information via The Norwegian School of Management - BI’s “VPN client” giving access to the school’s and its partner’s database. However, all sources could not be retrieved through The Norwegian School of Management -BI’s database. These sources have been independently evaluated as trustworthy and reliable. Following are some important Internet sources that have been utilized in the thesis:

- Hong Kong Trade Department Council (HKTDC)
- International Commodities Export Corporation (ICEC)
- International Monetary Fund (IMF)
- National Bureau of Statistics of China (NBSC)
- Shanghai Daily
- China Retail News (CRN)
- World Trade Organization (WTO)
- Orkla ASA
- Lilleborg AS

Some of the Web Sites, such as OurLady.cn, are in Chinese and have been translated through Google Translate. Google Translate is an online language
translation service that instantly translates text and web pages. Even though the online tool not always translates perfectly, it has high credibility and accuracy.

In order to secure the newest data the authors tried to include data no older than 2005, but due to lack of access to professional reports this was not always feasible.

The authors have utilized one market report on the Chinese cosmetic market from June 2003 from Industry Canada (http://strategis.ic.gc.ca). This report had an expiration date in March 2005, but it is included in the thesis due to its professional insight in the cosmetic market.

5.4 Primary Data

After gathering and analyzing secondary data the authors knew what voids to fill through primary data. Primary data can be gathered through three main channels: 1) Communication with People 2) Observation of People, and 3) Analysis of Documents. This thesis has employed the two former channels, with qualitative methods to match the exploratory research design. With a qualitative method the authors aim to understand and find connections which primarily make for the use of individual in-depth interviews as well as Focus Groups (Gripsrud, Olsson and Silkoset 2004, 97-98).

5.4.1 Observation

Observation is a method commonly used when dealing with a descriptive research design (Gripsrud, Olsson and Silkoset 2004, 63-64). However, to gain a fundamental understanding of the existing Lip Care market the authors used observations as a preliminary tool for the primary exploratory research. During the initial observations the authors ruled out the consumers, and focused on mapping the existing competition in the market, what package design they used, prices and promotion tools in the stores and what distributor each brand use (by looking at the packaging). The second stage of observations was conducted by
observing customers; watching what brands they bought, how long they evaluated brands, their gender, age, what price-range they went for etc. This was recorded in terms of *incidents*, which according to Bryman and Bell (2007, 288) means “waiting for something to happen and then recording what follows from it”.

When choosing locations for the observations the authors viewed the characteristics of the Lip Care market in Norway. As a result an assumption was made to find Lip Care products and their consumers in supermarkets and smaller cosmetic retailers. Observations were therefore conducted at Wall Mart and Carrefour representing supermarkets, while Watson’s and Mannings representing retailers. These are all international companies who offer a wide array of imported international products in addition to some local Chinese products.

*Human Observation* was used during the observation, which simply means that humans observe what happens without the use of any *Technical Equipment*. Further the authors secured a relatively high *Degree of Structure* during the observations, as the authors knew what to look for and what to map, as mentioned above. As the observations were conducted at Wall- Mart, Carrefour, Watson’s and Mannings, a *Natural Context* was used in preference to an *Artificial (laboratory) Context*, as this captures the consumers in their natural setting (Gripsrud, Olsson and Silkoset 2004, 176-180). To ensure some similar and general observations, several observations were conducted at the selected retail chains resulting in 15 observations in total.

Bryman and Bell (2007, 442) says *Participant Observations* is a method where “the observer immerses him- or herself in a group for an extended period of time, observing behavior, listening to conversations (...) and asking questions”. As customer flow to Lip Care products was slow, it was decided to add a quick interview with observed customers. This was to gain a deeper understanding of why the customer acted the way he did, and to make it easier to form questions during the following Focus Groups and In Depth Interviews.
In addition to this the authors also sent a party to attend Shanghai Beauty EXPO 2009, on May 19th. A thorough explanation of this event will follow at a later stage.

5.4.2 In-Depth Interview

Individual in depth interviews are commonly employed when the interview object’s personal experiences, opinions etc. are of significant interest to the research. These interviews demand constant attention of the interviewer, as he must guide the conversation in the correct direction as well as dig deep in the interviewee’s opinions (Gripsrud, Olsson and Silkoset 2004, 108-109). During this thesis the authors interviewed the following persons:

**Face to face interviews:**

- Jan Eskil Hollen – Export Manager for Lilleborg AS
- Kai Simon Eikli Yuen – Purchasing Manager for Lilleborg AS in China
- David Chan – Chief Representative for Borregaard AS
- Dun Ren Zhou – Professor at Fudan University and Deputy Director at Shanghai Pudong Institute for the U.S. Economy
- Geir Sviggum – Chief Representative for Wikborg Rein
- Henning Strandås – Brand Manager for Voss Artesian Waters in China
- Eva Cheng – Marketing Director at Luster Health and Beauty
- Dermatologist at Shanghai Children Hospital
- Manager for Cosmetics Department at Wal Mart
- Freddy Wang – Marketing Manager Cosmetic Department for Carrefour
- Shop Assistants for Nivea and Maybelline at Wal Mart

**E-Mail Interviews:**

- Yu-Sai Kan – Founder of the “Yue-Sai” Cosmetics
- Kari Bjørnås – Consul, Commercial Section at “Innovation Norway”
• Jan Eskil Hollen – Follow-up interview with Export Manager for Lilleborg

Telephone Interviews:

• Henning Kristoffersen – Author of “Det nye Kina”
• Marcus Lee – Author of ”How to Outsmart China”

Consumer Interviews:

• 5 Consumer in-depth interviews
• 3 Focus Groups

View Appendix 1.0 for summaries of the most important In-Depth Interviews.

All of the interviews were based on Bryman and Bell’s (2007, 213) classification of a Semi-structured interview. This denotes that the order of (general) questions could be rearranged during the interview to secure flow, and that an opinion often would be challenged and/or be encouraged to be explained more thoroughly.

Further, every interview was performed by two interviewers – one to guide the interview and one to write down answers. A tape recorder was used for nearly every interview to secure all information. Each respondent was interviewed with a tailor-made set of questions relevant to their field of expertise, and as often as possible the authors tried combining these questions directly up too relevant theory and syllabus.

In addition to interviews with field experts the authors also conducted In-depth interviews with Lip Care – consumers. This was to substantiate findings from focus groups and to be able to dig deeper in the consumers mind through follow-up questions, which is not available in focus groups. The respondents were selected at “Super Brand Mall” in the Pudong area of Shanghai, as the authors wanted to find consumers who presumably were richer than the average.
A description of the segments will be elaborated in a later stage of the thesis.

*View Appendix 2.0 for summaries of the interviews with Lip Care Consumers.*

### 5.4.3 Focus Groups

Focus Groups are ranked the most important technique when using qualitative methods and its main purpose is to unravel circumstances a questionnaire cannot. The moderator shall incite conversation and discussion within the group, keep the respondents within the predefined topics but his actual participation in the discussion shall be limited. This thesis employed a *phenomenological* approach to the focus group, which means the purpose was to “learn the consumers language” and map consumers needs, satisfaction, use-situations and problems (Gripsrud, Olsson and Silkoset 2004, 99-100).

Before carrying out the focus group the authors designed a Study Guide. This is a document meant to help the moderator steer the conversation in the right direction and make sure all topics are satisfactorily covered.

Suitable for a Phenomenological focus group the groups consisted of 6-8 respondents. Subsequent focus groups should be held until the interviewer can anticipate the course of the discussion, and a total of 3 focus groups were held for this requirement to be fulfilled. The authors used homogenous groups because “a shared perspective cannot be expected to emerge if the people are not similar” (Calder 1977, cited in Gripsrud, Olsson and Silkoset 2004, 105). Each focus group lasted between 1 ½ - 2 hours and was remunerated with snacks, drinks and free Lip Care samples. Of this thesis’ group, one of us was designated moderator, one was designated assistant to the moderator and observer and the two remaining wrote down the information.

*The first focus group* consisted of 6 female MBA-students at Fudan University with age ranging from 26-29. These were chosen primarily because; 1) They
speak English very well, and 2) Being a student at Fudan gives Chinese good prospects for job opportunities and a good salary, and therefore includes them in our upper middle class segment. In addition they naturally used Lip Care products on a regular basis.

The second focus group consisted of 8 female Master-students at Fudan University with age ranging from 23-26. These were chosen for the same reasons as the first group, but included somewhat younger girls to see if there were any significant differences.

The third focus group consisted of 5 female and one male Chinese with various jobs aged 29. These were gathered through a Chinese contact and friend in Shanghai. They were all reasonably skilled in English and all had good jobs with high salaries.

View Appendix 3.0 for summaries of the focus groups.

5.4.4 Critical Evaluation of Primary Data

Collected primary data have been carefully evaluated by its reliability and validity. Considering planning and execution of the Observations, in-depth interviews and focus groups, the authors will raise a few comments on following matters:

Observations – As stated by Gripsrud, Olsson and Silkoset (2004, 177) the authors experienced that collecting valid and reliable background data on observed consumers were hard, and measuring attitudes, comprehensions and opinions even harder. Gripsrud, Olsson and Silkoset (2004, 180) further argue that even though exact information of consumer behavior can be achieved, the method cannot explain motives, judgments and attitudes. The authors also experienced that the observations generated lots of bits of data. In accordance with Bryman and Bell’s statements (2007, 297), the authors found it difficult to link the data together and see the bigger picture from individual’s consumer behavior.
In-depth interviews – As expressed by Gripsrud, Olsson and Silkoset (2004, 109), the authors experienced that the social interaction between the one conducting the interview and the interviewee were a deciding factor for information shared and gained.

Focus groups – Gripsrud, Olsson and Silkoset (2004, 101) argues that a negative aspect of a focus group is that it can be influenced by dominant individuals in the group preventing others from giving their opinion. The authors experienced this challenge in all the 3 focus groups accomplished.

Chapter 6 - Internal Analysis Theories

Chapter 6 presents the internal analysis theory for Lilleborg. In order to analyze Lilleborg’s internal strengths and weaknesses the authors have used the ACE-model. The purpose with this model is to identify whether Lilleborg internally is fit for expanding activities to China or not.

6.1 The ACE-Model

The ACE model is a framework the authors will utilize to analyze Lilleborg’s probability of success in international operations. Lilleborg’s Attitudes,
Competence and the Embodiment of the two former factors will determine the probability of success in China (Solberg 2006, 144).

Chapter 7 - External Analysis Theories

Chapter 7 will present the external analysis theories for Lilleborg. In order to analyze Lilleborg’s opportunities and threats in the Chinese market the authors have found Porter’s five forces and the model of consumer behavior relevant. This chapter will in addition present the entrance strategies and distribution channels relevant for Lilleborg.

7.1 Porter’s Five Forces

Porter’s Five Forces is a tool to analyze the competitive situation in a market (Thompson, Strickland and Gamble 2005, 51). The model will determine the intrinsic long-run profit attractiveness of a market segment. The five forces includes: Competitors, Potential entrants, Substitutes, Buyers and Suppliers (Kotler, Keller and Lu 2009, 227).

7.2 Model of Consumer Behavior

To be able to meet the Shanghainese consumer’s needs and wants, one need to understand their consumer behavior. Consumer behavior studies indicate how
individuals, groups and organizations select, buy, use and dispose goods, services, ideas or experiences to satisfy their needs and wants (Kotler, Keller and Lu 2009, 130).

The Model of Consumer Behavior is a stimulus-response model that is used as a starting point to understand consumer’s buying behavior, which matches with this thesis’ aspiration to understand the Shanghainese consumer better. The Consumer Behavior Model is together with Porter’s Five Forces a tool to analyze Lilleborg’s opportunities and threats in Shanghai which will be used in the SWOT-analysis. Each step of the figure, and how each step shall be analyzed in the External Analysis will be explained below:

**Marketing Stimuli – Marketing Mix**

The first stage in the consumer behavior model; “Marketing Stimuli”, is supposed to give an account of the company’s current Marketing Mix in the market. As Lilleborg is not present in China the authors will exclude this point in the analysis. On the other hand, the authors aim to develop a suitable Marketing Mix to Lilleborg if entering the Shanghainese market.

**Other Stimuli – SLEPT**

The SLEPT-model describes a market’s macro environmental factors and is an acronym for Political, Legal, Economical, Social and Technological (Kotler 1998).

Kotler and Keller (2008, 72) discuss how analysis of the macro environment is vital for “companies to recognize and respond profitably to unmet needs and trends”. It will be of importance to the thesis’ external analysis to find out the trends in the Shanghainese market, focusing on the cosmetic - and personal care market. This is to find the best solutions for Lilleborg’s product portfolio to offer the Shanghainese market.
Consumer Psychology and Consumer Characteristics

To understand how a consumer’s buying behavior can be influenced; the consumer’s characteristics and psychological factors must be analyzed. A consumer’s outer stimuli from the environment influence his or hers characteristics through cultural, social and personal factors. The four psychological processes – motivation, perception, learning and memory will influence the consumer’s responses to marketing stimuli (Kotler, Keller and Lu 2009, 138-145).

The Buying Decision Process

The buying decision process can be seen as a five-stage model that describes different stages a consumer passes through when buying a product. The model starts with 1) Problem Recognition 2) Information Search 3) Evaluation of Alternatives 4) Purchase decision, and 5) Post-Purchase Behavior. By gathering information about the consumers’ buying decision progress, marketers can develop marketing strategies in accordance with the consumer’s buying process (Kotler, Keller and Lu 2009, 146).

Purchase decision

The final stage of the Consumer Buying Behavior Model will sum up all phases and end in the consumers final Product Choice, Brand Choice, Dealer Choice, Purchase Amount, Purchase Timing and Payment Method.

7.3 Entrance Strategy and Distribution Channels

The final part of this chapter will present the different entrance strategies and distribution channels that will be relevant for Lilleborg if entering China.
“An entrance strategy is defined as the way a company wants to be represented in a market“

- Solberg (2006, 184)

Kotler, Keller and Lu (2009, 563) present five possible modes of entering a foreign market: Indirect Export, Direct Export, Licensing, Joint Venture and Direct Investment. Each strategy involves different degrees of commitment, risk, control and profit potential.

**Direct investment:** According to Kotler, Keller and Lu (2009, 563), direct investment is the ultimate form of foreign involvement. This entrance strategy is characterized by a company that buys all- or part of a foreign-based company or manufacturing facility, or builds its own facilities in a foreign market.

**Licensing:** According to Kotabe and Helsen (2008, 293), licensing is a contractual transaction in which a company offers some proprietary assets to a foreign company in exchange for royalty fees. Examples of assets for licensing agreements include trademarks, technology, know-how, production processes and patents. The fact that Lilleborg wish to protect their Lip Care formula excludes this option from the entrance strategy discussion.

**Joint Venture:** Kotler, Keller and Lu (2009, 563) states that a joint venture is a partnership where a foreign and local investor creates a company with shared ownership and control.
Indirect and direct export: According to Kotler and Keller (2006, 675) export can be divided into indirect and direct export.

1) Indirect Export includes domestic-based export merchants who buys the manufacturers products in their domestic market and then sells them abroad.

2) Direct Export is when the manufacturer handles the export themselves.

However there are 5 different distribution channels to utilize in a foreign market when exporting according to (Solberg (2006, 194): 1) Export House 2) Distributor 3) Agent 4) Sales Office and, 5) Export without representation. All accept export house is direct export

Chapter 8 - SWOT Theory

The SWOT analysis is a tool used to analyze a company’s current internal factors, strengths and weaknesses, and external factors, possibilities and threats. By utilizing this framework, Lilleborg will obtain an overview of the company’s current situation as a basis for the marketing strategy decisions (Framnes, Pettersen and Thjømøe 2006, 141-144).

According to Framnes, Pettersen and Thjømøe (2006, 143) the SWOT analysis can be double weighted to make the analysis more advanced and the factor statements presented more empowering. Double weighting the analysis will also ensure that the most important factors for the company and consumers receive the proper attention. The internal strengths and weaknesses are weighted in accordance with their market importance and performance. The possibilities are weighted in accordance with their attractiveness and probability of success, while the threats are weighted in accordance with their probability of occurring and degree of seriousness.
Framnes, Pettersen and Thjømøe (2006, 142-145) states that placing the threats, opportunities, strengths and weaknesses into a threats-, opportunities-, and competence matrix, will ensure that the most important analysis results are extracted and utilized in a strategic problem definition (SPD). Creating an SPD will provide Lilleborg with a foundation for the development of a marketing strategy.

De Witt and Meyer, 1998; Hill and Westbrook, 1997 criticize the SWOT for being too general, outdated and that it oversimplifies a business’ analysis, while Kotabe and Helsen (1998, 276) argues that “…the SWOT tend to persuade companies to compile lists rather than think about what is really important to their business”. The weighted SWOT will neutralize this threat.
Chapter 9 - Strategy Theories

This chapter will present the theories for the strategic analysis relevant for Lilleborg’s Lip Care portfolio in China.

9.1 Positioning

Kotler, Keller and Lu (2009, 218) define positioning “as the act of designing the company’s offerings and image to occupy a distinctive place in the mind of the target market”.

Similarities and differences between brands need to be defined and communicated through positioning. Kotler, Keller and Lu (2009, 219) separates between Points-of-Parity (POP) and Points-of-Difference (POD).

POP is associations that are not unique to a particular brand. This association can be divided into Category and Competitive POP. Category POP is association that the consumer views as essential with a product. Competitive POP is association designed to neutralize the competitor’s POD (Kotler, Keller and Lu 2009, 220).

POD are the benefits closely related to Lilleborg’s products and that cannot be found in a competitive brand (Kotler, Keller and Lu 2009, 219).

9.2 Marketing Mix

A company might seldom use the same marketing mix worldwide. Differences in culture, economic development, competitive conditions, product standards, distributions systems and government regulations might require a tailor made marketing mix for each country. The Marketing Mix consists of the four P’s: Product, Place, Promotion and Price (Hill 2008, 495).
This part of the thesis is divided into three chapters: (10) Internal Analysis of Lilleborg and (11) External Analysis for Lilleborg, and (12) Findings and Conclusions.

The purpose of this part is to give the reader an understanding of the internal and external factors linked up to Lilleborg’s possible entrance into the Chinese market.

Chapter 10 - Internal Analysis of Lilleborg

The Internal analysis will present internal aspects of Lilleborg AS that will be important to improve or maintain if penetrating the Chinese market. This thesis has employed the ACE-model exclusively, as the authors perceive the company’s readiness and motivation for expanding is imperative for success.

10.1 ACE-Model

The ACE model is used to analyze Lilleborg’s probability of success in China through the company’s attitudes, competence and the embodiment of these two. (Solberg 2006, 144)

10.1.1 Attitudes

Solberg (2006, 139) states that the general attitude towards export is dependent on Lilleborg’s willingness to take risks, its market orientation, the company’s attitudes towards other cultures and market obstacles.

Risk Avoidance
When expanding to new international markets there are often a new set of ground rules that must be followed. These can be new governmental restrictions, consumer preferences or ways of conducting business. Lilleborg has bypassed these obstacles as their international activities are restricted to licensed production, mainly on behalf of the major distribution companies such as J & J and Unilever. Although Lilleborg has some international experience through the cooperation, risk avoidance has been fairly high up until this point. Further, purchasing manager for Lilleborg in China, Kai Simon Yuen, states that it is not desirable for Lilleborg to enter the Shanghainese market too heavily, and that the risk involved should be kept as low as possible (Interview: Yuen, 2009).

However, Jan Eskil Hollen has been appointed to the newly created position of export manager for Lilleborg AS, which shows a more pro-active attitude for international commitment. In addition, Hollen is according to Yuen a very ambitious leader who will not be thrown off by the risks involved in a project so long as the potential benefits are present. Lilleborg also has a, despite the financial crisis, financial strongpoint in that their products are not subject to the economic cycle (Orkla’s 1st quarterly, 2009). Further, being part of the Orkla group gives Lilleborg a comforting foundation that allows Lilleborg to take greater risks. The financial strength in Norway makes it easier to neglect risks and focus on the possible benefits. Lastly, Lilleborg’s sister companies present in China, Borregaard, Elkem and SAPA, are possible channels to utilize for risk reduction (Interview: Hollen, 2009).

**Market Orientation**

Lilleborg put great focus on market orientation in Norway; by gathering and using information from the consumers Lilleborg is today a leading brand on the Norwegian market (Interview: Hollen, 2009). As an example Lilleborg present on their web site a consumer service hot line where customers can call and ask for tips for cleaning, to complain or for general inquiries. The market orientation will
be difficult to transfer abroad, as they today have no dedicated sales force working with export. Additionally, as previously stated, Lilleborg is exclusively producing on license for international firms and handle neither distribution nor marketing efforts abroad. As a consequence they have little contact with - and therefore also little knowledge on - international markets. Because of rapid development in the Chinese market, market orientation will probably be essential for success. Yuen stress that Lilleborg’s market orientation in Norway must be transferred and focused upon in China, thus matching Lilleborg’s paramount strategy of close interaction with the consumer (Interview: Yuen, 2009).

**Cultural Awareness & Market Obstacles**

According to Hollen, Lilleborg has good relations with J&J and Unilever. The key account managers situated at the Norwegian factories have responsibility for maintaining these connections. The products Lilleborg manufactures from the licensed production cooperation are distributed to 23 countries worldwide, and although Lilleborg’s interference and control with these projects is limited, these activities go smoothly (Interview: Hollen, 2009).

Hollen emphasize that he acknowledge the existence of cultural differences between Norway and China, and that Lilleborg is ready to accommodate accordingly. Hollen states that through Borregaard’s existing office in Shanghai, Lilleborg can receive valuable information on Chinese business culture and gain access to a badly needed Guanxi network (Interview: Hollen, 2009). This indicates that Lilleborg has sufficient respect for other cultures and is prepared to overcome this as an market obstacle.

**10.1.2 Competence**

“A successful exporter often plays by the book, and general skills and insight are important prerequisites”

- (Solberg 2006, 139)
Skills and Insight

According to Lilleborg’s Web Page, the company has operated successfully and extensively with branded products in the Norwegian market since 1920. Lilleborg controls the entire value chain with regards to personal care and several other products (Interview: Hollen, 2009). Furthermore, Lilleborg has been awarded for its accomplishments and was awarded “Norway’s Best Marketer” through 90 years in 2005 by “Markedsføringsforeningen”. Unquestionably Lilleborg has solid experience, and thus are likely to have skills, knowledge and insight on how to conduct successful marketing. Transferring this competence to China will of course be challenging, but Lilleborg’s understanding and know-how of brand equity will be beneficial also in China.

Marketing

*Product –* In the interview with Hollen the authors are told that Lilleborg is a big supporter of product development. They have an own product development division in their factories in Oslo and Kristiansund, and plans on strengthening the one in Ski. These divisions cooperate closely with marketing divisions that gathers information on shifts in consumer preferences in Norway through focus groups, in-depth interviews and quantitative surveys. Through this process Lilleborg is able to offer a deeper experience for customers purchasing Lilleborg’s products by creating an expanded product. Moreover, through Lilleborg’s cooperation with Unilever and J&J, Lilleborg receive indications on the latest international trend (Interview: Hollen, 2009).

*Price -* As mentioned under “Lilleborg’s Competitive Advantage”, Hollen claims Lilleborg is able to charge a high price because of strong *Market Orientation, Brand Name and Control of the Value Chain* (Interview: Hollen, 2009). For Lilleborg to charge a high price in China they need to communicate with the consumer to build a strong brand name. Chief representative for Borregaard in China, David Chan, states that it is not possible for Lilleborg to control the value
chain in China due to the high investment costs and resources that are required. (Interview: Chan, 2009)

**Promotion** - Key Account Managers handle Lilleborg’s international partners, but they do not interfere on promotional efforts. If expanding activities abroad, Lilleborg will have no designated sales personnel to promote Lilleborg’s products. However, due to the extension of Lilleborg’s mother company Orkla, Hollen states that a daughter company of Orkla could be given responsibility of aiding Lilleborg to promote brands abroad. This is also Hollen’s mentality in Shanghai, where Borregaard’s office may be utilized. The reason why Lilleborg does not have any marketing divisions operating towards international markets is because of the high costs, financial risks attached and Lilleborg’s present international inactivity (Interview: Hollen, 2009).

**Place** - Lilleborg currently have no own activities abroad beyond the licensed production cooperation, and thus there exist no template on how Lilleborg initiate contact with new international partners. This is a critical formality for the success of exporting and should be taken into consideration. Furthermore, besides using Key Account Managers to stimulate the cooperation with Unilever, J&J etc., Lilleborg seldom negotiate terms of a contract themselves. In example, the deal with one of Lilleborg’s suppliers, the American company *Fuchs*, is negotiated solely by Unilever who has a much higher bargaining power than Lilleborg does on its own. In Norway Orkla helps secure large deliveries by accumulating all the subsidiary companies’ delivery requirements (Interview: Hollen, 2009).

As Lilleborg is planning to penetrate the Chinese market using a high price, it is important to find an effective way of distributing their products without losing control. If the intermediary is reckless and dumps prices, Lilleborg’s credibility as high priced merchandise will suffer. Knowledge about the market and managing the intermediary is essential for success abroad, regardless of using agents, sales office etc. Lilleborg does not fulfill these prerequisites today.
10.1.3 Embodiment

The wish for further international engagement is strong in several levels of the Lilleborg organization. Hollen, Lilleborg’s export manager, wants a piece of China’s gigantic market through Borregaard’s office in Shanghai. The factory managers want more volume in their production to reduce fixed costs per unit produced. Administrative Director for Lilleborg and Administrative Director for Orkla Brands Nordic wants higher turnover. Stein Erik Hagen, Orkla’s Chairman, has recently expressed wishes of Lilleborg’s products in “tax-frees” and abroad. However, more resistance is met with the domestic sales manager in Norway, Marketing Manager and the Director of Development. Their hesitation is grounded in fear of losing focus in the thriving Norwegian Market where the company controls a 55% of the market share. Today Lilleborg’s turnover is NOK 2,1 billion annually, with 100 million generated from the licensed production export. This constitutes only 5%, and according to Solberg (2006, 143) a company’s export will not solidify before reaching 15-50%. Nonetheless, Hollen ensures that if Lilleborg see a potential market in China, investments will follow promptly (Interview: Hollen, 2009).

Conclusion of the ACE - model

Seen through the eyes of the ACE-model, Lilleborg have several strong incentives for expanding abroad. Their experience and knowledge in Norway is unmatchable, but this is due to activities that will be difficult to transfer to the Chinese market. However, the extensive knowledge of how to handle branding is an excellent point of departure for Lilleborg, and the focus towards market orientation is exemplary. Lilleborg also have international knowledge and skills, though only as a manufacturer, not as a marketer or distributor. Motivation for entering China is not shared by everybody in the firm, but by those leaders who matter most (e.g. the export manager, chairman of the boards, factory managers etc.). The authors believe Lilleborg is internally ripe for expanding activities to
international markets, but question their motives for choosing China and suspect they are neglecting the huge risks attached to this market.

Chapter 11 - External Analysis for Lilleborg in China

The external analysis chapter presents three models: (11.1) Porter’s Five forces, (11.2) The Stages of the Model of Consumer Buying Behavior, and (11.8) Entrance Strategies and Distribution Channels.

The purpose of this chapter is to make the readers get an understanding of Lilleborg’s external environment when it comes to the Lip Care industry in China and Shanghai as well as the consumer’s buying behavior.

11.1 Porter’s Five Forces

Porter’s five forces present Lilleborg’s threats and opportunities in the Chinese cosmetics and Lip Care market. The cosmetics market is used as a reference market where there is a lack of information available on the Lip Care market. Even so, the cosmetic market reflects the Lip Care market in many areas. Porter’s Five Forces will be used to answer Research Question 1 & 4.

11.1.1 Competitors

The strongest of the five forces is the rivalry within the industry. According to Thompson, Strickland and Gamble (2005, 50) “a market is a competitive battlefield (...) where sellers will employ whatever resources and weapons they have in their business arsenal to improve their market positions and performance”. They also propose the following variables to affect the degree of rivalry (Thompson, Strickland and Gamble 2005, 53-55):

- **Competitors’ number, size and capabilities.** According to Hong Kong Trade Development Council’s homepage, the cosmetics market in China consisted of more than 3500 competitors in 2004. Between 600-700 of these competitors
where foreign enterprises with about 80% market share. The remaining 20% was shared between the 3000 domestic companies of which 90% were small and medium- sized companies accounting for RMB 5,000 million in annual sales. With a high number of competitors, many companies are likely to engage in strategic offensives to enhance their marketing standing. Through this action an increased competition create intensified rivalry. The cosmetics market also consists of many equal competitors in size and capability like L’Oreal, Unilever, P&G, Shiseido, Nivea, Yue-Sai, Revlon, KOSE etc. This makes it hard for firms to gain the upper hand and leads to fierce competition. According to Industry Canada’s web page, there is a fierce competition and international brands are already overrepresented in the Chinese cosmetic market (www.strategis.ic.gc.ca).

- **Product standardization vs. differentiation.** From the author’s observations, the product portfolio of competitors in the cosmetic market often consists of a wide and deep assortment. From skin care to hair care there are adjusted products for every skin type, hair color, allergies and sensitivity. Product differentiation is extremely high and is in many regards necessary within this market. According to HKTDC’s web page, companies such as Mentholatum, Yu Mei and Johnson & Johnson have recently developed cosmetic products designed for a new children segment. With higher product differentiation, the number of competitors within different product categories will reduce along with the rivalry among them. The Lip Care business is also quite differentiated. Nivea has for instance, according to their web page, 10 major product categories. Among these categories are Skin Care, Hair Care, Lip Care, where the latter has 10 different sub brands designed for different consumer needs (www.nivea.com).

- **Brand switching costs.** The large number of sellers within the cosmetic industry makes it easy for buyers to switch between sellers at little or no cost. Lip Care is in addition a low involvement purchase and consumers can easily
change between brands. With a low switching cost among the buyers the rivalry among competitors increase as a result of the competitors’ wish to secure the most profitable buyers. However, following the logic from Loertscher and Schneider (2005) brands like Nivea who offer a wide product assortment somewhat decrease this risk as a switch can be restricted to another sub brand of Nivea, not a competitor.

- **Marketing tactics and product development.** The frequency of marketing tactics and the introduction of new products also indicate a high intensity of rivalry among competitors. Today, heavy advertising is an important mean often used to heighten brand awareness and expand market share. The number of competitors competing on an equal basis makes the frequency of sales promotions, advertising campaigns and rebates high. According to Industry Canada’s web page, many international players have strong product research and development departments and research centers situated in China or in their home markets. According to www.tonke.cn, a Chinese business overview web site, L’Oreal annually spends 3% of sales on research and development. They have research centers around the world for adapting products to local preferences. One of these centers is located in Shenzhen, China, where research is directed towards Chinese skin and hair formulas. From the interview with Yue- Sai Kan, founder of Yue Sai Cosmetics, the authors learned that one of her most rewarding marketing strategies was to test products on Chinese skin, which became a popular Point Of Difference her customers found attractive (Interview: Kan, 2009). This strong focus on product research and development leads to innovation and a continuous introduction of new products and solutions and thus heavy competition.

- **A fast growing market.** The rivalry between competitors is often weaker in fast growing markets. The expanding demand for products stimulates opportunities for all competing companies to grow. According to Cosmetic News (2008) China has already become Asia’s second largest cosmetics
market. Between 2005 and 2007, the total sale of cosmetics has had an 11%-12% growth rate and it was expected that the sales would continue to grow with a pace of 10% in 2008. Lilleborg will in other words be entering a growing market which is not believed to yet be saturated. According to the cosmetic brand “Mary Kay’s” web page, Mary Kay in China has enjoyed a growth rate of 75% year-on-year in 2008 (www.pinktruth.com). As reported from China Retail News’ web page, L’Oreal enjoyed 27.7% year-on-year growth rate in 2008, showing the growth potential for independent companies as well as for the industry as a whole.

- **Industry conditions.** Industry conditions in the market will also affect the rivalry among competitors. Seasonal products, like Lip Moisturizers, makes companies use price cuts or other marketing tactics to keep the unit volumes up and avoid higher fixed costs. As a result, the rivalry is more intense for cosmetic products like Lip Moisturizers during low season in spring and summer time. To deal with this, clever marketing done by Nivea, among others, uses sun block in their products to trigger purchase during summer months. In addition, on Nivea’s web site, they recommend moisturizing products during summer because of the drying effect of air-conditioners. In order for Lilleborg to sell during low-season they must be innovative, especially regarding Lip Moisturizers.

### Conclusion - Competitors

Competitor rivalry in the Cosmetic and Lip Care market can be defined as in between moderate and strong; the market is still in growth, profit margins are still acceptable but a large number of competent competitors combat for market share through costly marketing efforts. Below follows an illustration on the competitive situation in the Chinese cosmetics market.
11.1.2 Threats from New Entrants

The threat for new entrants is dependent on two factors: 1) the size of the pool of potential new entrants, and 2) whether these potential entrants face high or low entry barriers. The authors have observed a large pool of potential new entrants at the Shanghai Beauty Expo, consisting of Chinese and international companies trying to penetrate the Chinese cosmetics market. Thompson, Strickland and Gamble (2005, 56-58) propose the following entry barriers:

- **Economies of scale.** Companies in the cosmetics industry today enjoy cost advantages due to their large scale operations and localized production situated in China. The pharmaceutical company and Lip Care producer Mentholatum states on their web page that they have production facilities in Shanghai (www.mentholatum.com) and so do L’Oreal and several others.
These companies have the possibility of offering products at lower prices than companies that export products from production facilities in the West. According to Kotler, Keller and Lu (2009, 272-273), L’Oreal actually expanded from the internationally overrepresented high-end segment to the low- and middle-end because of their production plants and attached low costs in China.

- **Brand preferences and customer loyalty.** According to Hexter and Woetzel (2007, 58) brand loyalty towards Western brands in preference to Chinese has been a trend for quite some time in China. However, Chinese consumers are increasingly trusting domestic brands, particularly beauty and hair care products. This has several reasons: 1) Increased sense of pride and confidence for China as a result of China’s dramatic increase in wealth and improved lifestyles, 2) Foreign brands have not really penetrated markets outside the big cities; domestic brands dominate these markets, and 3) In 2006, media published negative stories about international brands and urged Chinese to buy domestic brands. Culturally, Chinese are expected to yield to opinions of authority figures, elders and peers.

Hexter and Woetzel (2007, 61) also present a McKinsey-study indicating when Chinese consumers enter a store intending to buy a certain brand, over 65% of them leave with another one. This is one of the reasons why companies use promoters in stores to help educate buyers and influence the brands they buy. The same authors also claim Chinese consumers are generally less brand loyal than buyers in developed markets. This makes it easier for competitors to try and influence consumers’ choice and change brands through marketing (Hexter and Woetzel 2007, 63-64).

The degree of effect on marketing in China can be discussed, but huge sums of money are still spent on it. Educating customers and experimenting with ways to promote products is a costly process that results in lower expected profit margins and higher risk barriers for new entrants. When the “Wahaha” group
introduced their “Future Cola” in 1999, television commercials costs mounted to RMB 33.9 million in the first 3 months. This budget was no higher than any of its competitors used (Kotler, Keller and Lu 2009, 211).

- **Capital requirements.** There is a high investment needed to enter the cosmetics market successfully today. With the large number of financially strong companies in the industry, financing advertising and sales promotion campaigns, establishing a sales network and Chinese taxes and duties are some of the many costly processes for new companies.

- **Access to customers and distribution channels.** A lot of the existing producers in the cosmetics industry already have a strong and well functioning network with retailers through their distribution channels. This makes it hard for newcomers to gain access to the consumers. Normally a network of retail dealers must be set up from scratch and newcomers may have to give retailers and distributors a higher profit margin as well as large advertising and promotion rights. However, according to www.ourlady.cn, a Chinese cosmetic news site, the cosmetics industry’s distribution channels is divided into the *professional line* and *on-line*. The professional line consists of the cosmetic sales outlets while the on-line is the distribution channel through the Internet. The on-line distribution channel avoids the use of a retailer network and can contact the customer directly, reducing the barriers to entering the Chinese cosmetic market considerably.

- **Regulatory policies.** China’s ministry of health and the state food and drug administration limits the entrance of new companies by requiring licenses and permits. In addition to a comprehensive application, Industry Canada states on their web page that the cosmetic products need to pass several tests and obtain certain certificates in order to be sold in China. High import tariffs on cosmetic products in China are also raising the entry barriers for foreign firms (This point is elaborated further in the thesis’ SLEPT-analysis).
Conclusion – Threats from new entrants

Market obstacles preventing cosmetic companies from entering the Chinese market are high. Nonetheless, this is a growing market with a lot of potential profit for those with new and innovative marketing, showing a certain potential for a newcomer like Lilleborg. Threats from new entrants must therefore not be underestimated.

11.1.3 Substitute Products

According to Thompson, Strickland and Gamble (2005, 59) two companies in two similar industries will experience higher competition if buyers view the products of these industries as good substitutes. The authors believe Lilleborg face the following substitutes:

- **Lip Stick** - Can be a substitute for both Lip Moisturizer and Lip Gloss, but because of its beauty enhancing function it is a more relevant substitute for Lip Gloss.

- **Moisturizer Creams** – Although not as effective, any kind of facial skin moisturizer can also be applied on the lips. Substitute primarily for Lilleborg’s Lip Moisturizers.

- **Chinese Medicines** - From the authors’ observations at pharmacies in Shanghai, traditional Chinese Medicines are still widely represented in China. Substitute primarily for Lilleborg’s Lip Moisturizers.

How strong the competitive pressure is from sellers of substitute products depend on three factors (Thompson Jr., Strickland III and Gamble 2005, 59):

1) **Whether substitutes are readily available and attractively priced.** From the author’s observations, the substitutes listed above are all available on the Chinese market in abundance. From the authors observations there were found several lipstick brands, a great number of facial skin cream products and Chinese Medicine available in, supermarkets, small shops and in pharmacies.
The price range is just as varied as Lip Care products and depends on choice of low- or high- end positioning.

2) **Comparison of the Substitutes.** The high availability of Lilleborg’s’ substitute products makes it easy for consumers to test the different products to compare price, performance and other attributes. Ultimately they will choose the substitute that suits their needs best. According to HKTDC’s web page, the Chinese herbal medicine is a growing market. Several participants from customer interviews stated that lipstick is more old-fashioned than Lip Gloss.

3) **How much it costs end- users to switch to substitutes.** In addition to the availability of the substitute products there are little costs involved for the consumer if he wants to try another product. Lip Care is a low- involvement product, but there may be some costs attached to testing new products’ quality and reliability. This was displayed during focus groups and in- depth interviews there does seem to be a certain degree of customer loyalty, which imposes a psychological cost when substituting; severing an old product relationship and establishing a new one. On the other hand, the modern and trendy Chinese are also constantly looking for the newest products. New solutions are very attractive (Kotler, Keller and Lu (2009, 136).

**Conclusion – Substitute Products**

As a conclusion the threat of lipstick being a substitute for Lip Gloss is very high. The two products are quite similar, but lipstick has longer tradition and is more widely used. Threat of substitutes for Lip Moisturizers is on the other hand quite low. Skin Moisturizer Creams does not have the specific function and Chinese Medicine is according to findings often considered old fashioned. A natural point of departure for making customers of these substitutes change to Lilleborg is to decrease swapping costs through special offer prices, product information, free samples etc.
11.1.4 Buyers

Individual consumers seldom have much bargaining power when negotiating price or other terms with the seller. But for larger retailer stores this picture is quite opposite. Because of limited shelf space retailers can only stock a certain amount of competing brands, which makes for tough competition. Below are listed and analyzed the circumstances which affect the degree of the buyer’s bargaining level (Thompson, Strickland and Gamble 2005, 65):

- **Buyer’s cost of switching brands or substitutes.** For retailers like Watson’s or Manning’s the cost of changing the product portfolio is low. Especially when the products of the sellers are identical, the retailers will sell the product that provides them with the highest margins and weed out those who underperform. Lilleborg’s product category, Lip Care, is already heavily represented in the Chinese market, which levels bargaining power with the retailers.

- **Amount of buyers in comparison to the amount of sellers.** The number of retailers selling Lip Care products is very high. However, as Lilleborg is selective towards the upper middle and high-end market the potential number for Lilleborg decreases rapidly, and the remaining number will mostly be highly competitive internationals retailers. Lilleborg will have tough competition from the sellers when negotiating terms with these retailers, and thin profit margins for shelf space is an a probable outcome. According to Desiraju (2001), payment from manufacturers to obtain retailers’ shelf space is a major source of income for retailers today. Marx and Shaffer (2007) suggest that major companies may intentionally bid up the shelf fees in order to drive less powerful competitors of out of the marketplace. It is further expected by the retailers that Lilleborg provide frequent sales offers which Lilleborg must deduct from their own profit margin. According to China Retail News’ web page, in 2008 the Hong Kong retail giant “Mannings” opened its first store in Shanghai, marking its expansion to Chinese mainland...
and further competition with its arch rival Watson’s. Recently, according to the same web site, in February 2009 Mannings also expanded to Beijing signifying there is still room for retailers and hence buyers of Lilleborg’s Lip Care. Some brands, such as Maybelline, L’Oreal, Mentholatum and Nivea are important for retailers who wish to be associated with medium- to high- end products. This gives these brands bargaining power over the retailers which in turn further weaken the bargaining power of Lilleborg’s unknown brand.

• *Rate of buyer demand.* According to Cosmetic News (2008) the demand for Cosmetic products in China is steadily growing. This implies a “seller’s” market giving bargaining power to Lilleborg.

• *Buyer’s knowledge about seller’s products, price and costs.* The more information the retailer have on Lilleborg, the more bargaining power does it have. Lilleborg plans on selling their products expensively in China, but in Norway these products are quite reasonably priced. Through the Internet the buyer can easily find this information and consequently demand a larger cut of the profit margin.

• *Chance of buyer integrating backward into the business of seller.* According to China Retail News web page, Watson’s has developed more than 1,500 own brand products, accounting for more than one-third of their product assortment. Their goal for 2009 is to develop 240 new kinds of brand products. These brands are priced 20-30% lower than competing products, which gives Watson’s higher bargaining power. This appears to be common practice, the authors observations at Mannings revealed that the retail chain sold own made products.

**Conclusion - Buyers**

The bargaining power of buyers/retailers in China is extremely high. The vast number of well-established brands makes it difficult to demand anything from the retailers, and a intermediary might help Lilleborg find some way of leveraging this misbalance.
11.1.5 Threats of suppliers

Thompson, Strickland and Gamble (2005, 61) argues that the relationship between supplier and seller can be measured through two factors: 1) *If the supplier can exercise sufficient bargaining power to leverage terms and conditions in their favor*, 2) *the nature and extent of supplier-seller collaboration in the industry*. These two factors can be determined through the following variables:

- *Is the item supplied a commodity and extensively available.* Lilleborg has a partner in Slovakia called *Saturnus* which manufactures the Vaseline-moisturizer. This is made out of tin and petroleum jelly, neither of which is difficult to obtain. However, the price of petroleum jelly follows the oil price, so an increase in oil price will increase the costs of the end product (Interview: Hollen, 2009). According to China Retail News’ web page, due to a price increase in raw materials of 150% to 160% between 2006-2008, Procter & Gamble was forced to raise prices on several of their brands in China. Also Unilever, P&G’s major competitor and Lilleborg’s cooperation partner in Norway, was forced to raise prices of its Lux shampoo and soap by 6%, OMO washing powder by 12% and Zhonghua toothpaste by 20%. Although raw materials in the cosmetic industry are available, prices seem to be rising.

- *Few large suppliers or many smaller.* Lilleborg’s export manager, Jan Eskil Hollen, states that he would like to see more competition for their American based distribution company, *Fuchs*. This would give Lilleborg more bargaining power. However, although Fuchs is a large multinational company, the deal between them and Lilleborg is handled by Unilever, which is a major international player securing deliveries with economy of scale. In Norway the Orkla group secures large quantities when ordering deliveries for its daughter companies, which will be very profitable for the supplier who secures the contract (Interview: Hollen, 2009). Both scenarios are favorable for Lilleborg and provide strong bargaining power.
• **How difficult and costly it is to switch supplier.** Hollen tells us that it will cost Lilleborg NOK 300,000 in tools equipment for breaking the relationship with Saturnus, supplier of the Vaseline packaging, and acquiring a new partner. Additional transaction costs involved in finding a new partner must also be taken into consideration. Lilleborg has considered moving production of the Vaseline packaging to China, but preliminary estimates have shown Chinese partners to be more expensive (Interview: Hollen, 2009).

**Conclusion- Threats of suppliers**

As Lilleborg is part of the Orkla group as well as cooperating with Unilever and Johnson & Johnson, Lilleborg has a very strong position over its suppliers.

**Overall Conclusion – Porters Five Forces**

Rivalry in the market is medium to strong, and although it is a growing market buyer’s bargaining power is additionally strong making it difficult for new entrants through high entrance obstacles. Substitute products pose a significant threat, but mainly towards Lip Gloss. The only favorable part of Porter’s Five Forces for Lilleborg is the company’s bargaining power over suppliers.

![Figure 13: Porters Five Forces. (Thompson, Strickland and Gamble 2005, 51)](image-url)
11.2 Consumer Buying Behavior Model

As mentioned in the theory part the “Consumer Buying Behavior Model” will give detailed information about the consumer by puzzling together the pieces of the model. The pieces are: 1) Marketing Stimuli, 2) Other Stimuli, 3) Consumer Psychology and Consumer Characteristics, 4) Buying Decision Process and 5) Purchase Decision.

11.3 Other Stimuli - the SLEPT analysis

According to Kotler and Keller (2008) the factors in the SLEPT- model could be described separately, but it is the interactions between the factors that are important to analyze. For instance, the booming economy in China (Economical) led to drastic changes in the general Chinese lifestyle (Social). People in the cities can now more easily afford to buy a car. More cars have further increased the total air pollution in China and the Chinese government is thereby forced to implement anti-air-pollution legislation or regulations (Legal).
11.3.1 Social

In this sub-chapter the authors will discuss the importance of the increased urbanization in China and the One Child Policy.

Increased urbanization

McKinsey Global Institute (MGI) estimates in their survey “Preparing for China’s Urban billion” (March 2009) that the urban population in China will increase with 350 million people by 2025. This total urban population will generate more than 90% of the total Chinese GDP compared to 75% today. Consequently, this could lead to an urban GDP growth per capita of 20%. MGI further estimates that the total consumption of the urban Chinese will reach twice the size of the total in Germany within 2025. The urban development of China will be of importance to Lilleborg if entering the Shanghainese market. Not only because of the increased purchasing power to the urban citizens, but also because an increased urbanization will most likely generate air pollution in the urban cities. Lower air quality through increased Black Carbon (Smog) in the air as a product of pollution could lead to decreased humidity in the air (Jacobsen 2002, 340). Increased pollution will be one of China’s main challenges in the future. Although cynical, this could create opportunities to Lilleborg as decreased humidity will most likely increase the demand for personal care and moisturizing products. As a further note, Dunren Zhou, professor in Economics at Fudan, explained that increased pollution would presumably trigger higher environmental awareness among Chinese consumers. Therefore it may be important for Lilleborg to have an environmental approach in a possible Chinese market entry by showing intentions of carrying a sustainable CSR policy. According to Zhou most Chinese are becoming willing to pay extra for a product they know is environmentally safe. Also, this safety is in large applicable when it comes to safety of the products towards the consumer. Many Chinese will never use a product if they believe it is injurious to their health, no matter how luxurious and famous it may be (Interview: Zhou, 2009). This
increased product safety issue may result in policies that give companies guidelines on how to supply products matching these product safety criteria.

**One Child Policy**

The authors discussed the One Child Policy in the introduction, and how this creates a new consumer group and in general new opportunities in China. On the other hand, Kristoffersen (2008, 43-44) writes in “Det nye Kina” that Deng Xiaoping’s One Child - Policy must make China ready for a huge wave of elderly within the next years. Today there are 6 workers per retiree, but soon this number will be reduced to only 2. This may result in greater taxes and more uncertainty with the consumer. An uncertain consumer spends less, and increasingly less on luxury merchandise. In addition, the only child in China together with the spouse often has financial responsibility for 12 persons: two sets of parents, four sets of grandparents in addition to themselves and their child. The Chinese mindset of saving money for the future is very relevant. This potential consequence of an increased number of elderly may lead to a declining increase in sales of Lip Care products, particularly regarding the expensive brands.

**11.3.2 Legal**

In this sub-chapter the authors will discuss the influence of taxes, Intellectual Property Rights (IPR), Corruption and the Hygiene License Application.

**Taxes**

Geir Sviggum, Chief representative for “Wikborg and Rein” in China, states that if a product, in general terms, is produced in Norway and sold through a distributor in China at least 3 different taxes will accrue (Interview: Sviggum, 2009):

1. The first tax is two folded and depends on how the product is brought into China. Firstly, on August 1. 2007, the Chinese government stated that tax on...
luxury cosmetic brands imported by companies now count for 50% of the total import price (www.china.org.cn). The authors have not been able to find any clear definition on what are embraced by the term “luxury cosmetic brands”, but mentioned in the article are world famous brands such as “Clarins”, “Sisley”, “Clinique” and “Bobby Brown”. Secondly, India China Economic & Cultural Council (ICEC) states that luxury consumer goods brought into China by Chinese citizens are imposed a 30% cost price toll (www.icec-council.org).

2. The second tax will be an import VAT (Value Added Tax) at 17% of the total import price, custom tax and the consumption tax.

3. The third will be a consumption tax which the distributor in China pays for. The tax is 30% of the import price.

These 3 taxes do not include the distribution process in China. One way to elude these taxes is to outsource production to the Chinese mainland rather than exporting the products from the domestic market, but as mentioned in this thesis “Prerequisites”, this is not an option for Lilleborg.

According to China’s terms of membership of the WTO agreement (www.wto.org), the terms seems to work as a guideline to a more ideal Chinese market economy on measures such as non discriminatory treatment to all WTO members, no price control to protect domestic industries etc. The terms of agreement give few concrete notions on implementation of lower taxes on import. For instance are the taxes on imported industrial goods bound to range between 0 – 47%. The WTO agreement, in reality, put few restrictions on the Chinese government’s right to enforce high taxation rates on imported products.

According to Shanghai Daily’s web page, more consumers explore the price differences on cosmetics sold in China to the prices on cosmetics sold in Hong Kong. This trend is making it more common to buy cosmetics abroad for a lower price (www.shanghaidaily.com). Another factor that is important in this regard is the search for authentic products. A customer could not be 100% sure whether a product sold in a Chinese outlet is authentic or not. According to their web page,
China Retail News writes that the American giant Johnson & Johnson was recently close to having to remove a baby bath product from the Chinese market after suspicions of the product containing carcinogens (www.chinaretailnews.com.). Products sold in Hong Kong are considered more likely to be authentic in addition to having a lower price. The imposed 30% toll for consumers bringing foreign goods into China is not considered an impending danger. Like a cosmetic consumer express in an interview on India China Economic and Cultural Council’s (ICEC) web page: “...since Chinese customs are not very strict in their law enforcement, the chances of being singled out for random check are not high…”

Hygiene License Application

Figure 15: Hygiene License Application Process (Cosmetic News 2008)
According to Cosmetic News (August, 2008) the license process consists of 6 main steps which has been simplified below:

The entire testing period will originally span from 2 to 8 months. Costs will range between US$ 600 and US$ 4,000 depending on the product type and the degree of complexity. Testing duration for cosmetics for specific use will last from 60 to 180 days.

**Corruption**

The contractual aspect between Lilleborg and a potential intermediary in China is another important legal factor. Sviggum, Chief Representative for the Norwegian law firm “Wikborg & Rein” explained how Norwegian penal-legislation stretch abroad even to China, and that an unethical intermediary can legally influence Lilleborg. Should the intermediary Lilleborg engage in China conduct illegal business in accordance to Norwegian legislation, Lilleborg could be regarded as an involved partner and penalized accordingly. Sviggum further states: as long as Lilleborg follow decent business behavior and “did not know” or “should not know” that a potential intermediary conducted dishonest business, there will be little or no reason to penalize Lilleborg after Norwegian legislation. If Lilleborg is to export their Lip Care products to China it will be of high importance to secure a reliable distributor with matching ethical procedures. What is acceptable business behavior in China is not always acceptable in Norway (Interview: Sviggum, 2009)

Corruption is a rather important issue in a “doing business in China context”. Minxin Pei, director of the China program in Carnegie Endowment, present key findings from his research report *Corruption Threatens China’s Future* (www.carnegieendowment.org). Some of the findings regard topics such as:

- 10 % of government spending could be related to corruption.
- Lack of enforcement and implementation of China’s more than 1,200 laws, rules and directives on corruption
• The corruption scandals are focused on sectors with high state involvement, for instance infrastructure projects.
• Foreign investors have to compete against companies that conduct illegal practices to win business in China.

Since Lilleborg will export products to the Chinese market the corruption will mainly affect Lilleborg through Lilleborg’s intermediaries.

Sviggum mentions that the amount of money paid for the intermediary’s service in China could give a pinpoint on the intermediary’s business behavior. If the intermediary is paid well above average it is most likely that some of the money goes to corruption. It will therefore be important to find estimates on what is a normal price to pay intermediaries in China (Interview: Sviggum, 2009).

**Intellectual Property Rights**

Intellectual Property Rights (IPR) is one of the most serious business problems in China. A research done by KPMG (2004) showed that 82% of the Western companies’ surveyed answered Intellectual Property Right infringement possessed a significant threat to their business in China. If a product sells well, it is likely to be illegally copied in China. According to the research 90% of all products in China are illegally copied through piracy, and 20% of all consumer goods are counterfeit.

Violation of IPR is in other words a common phenomenon in China and it is something that every company doing business in China has to be aware of. The Chinese government present on their English web page, www.english.gov.cn, ever since China joined the WTO in 2001 the Chinese government has amended IPR laws in accordance with WTO standards. Nevertheless, infringements are rampant, and Proctor & Gamble estimates an annual loss of 10-15% of its revenues in China to counterfeit products (Kotabe and Helsen 2008, 44).
According to Geir Sviggum, Chief Representative for Wikborg Rein, the risk from IPR will depend on Lilleborg’s establishment in the Chinese market. There are no clear answers on protection against IPR, but to have written routines on everything, have control on activities being done through reports and have a good strategy on protection against IPR is some of the most importance once (Interview: Sviggum, 2009).

11.3.3 Economical

In this sub-chapter the authors will discuss the Chinese economic-growth and the influence of currency exchange rates.

Economic Growth

According to “Handelsbanken’s Chinese macro forecast presented by Chief Economist Knut Anton Mork (Handelsbanken, 2009), the Chinese economy will experience a growth of 7.5% in 2009 and stabilize at an annual growth rate of approximately 8%. In comparison, the International Monetary Fund (IMF) estimates the growth in China to be 6.7% in 2009 which is more similar to 2009’s first quarter growth of 6.1% (www.english.gov.cn). This figure is significantly lower than China’s average growth rate of 9.8% since 1978 (www.chinadaily.com.cn). Although the recent financial crisis is probably the cause of this decline in growth rate, it can also signify saturation and that the Chinese growth curve is naturally flattening out. Interestingly, a 1% growth in GDP will translate into a 0.9% growth in the beauty industry. In 2004, the beauty industry contributed about US$ 10 billion to China’s GDP, and US$675 million to taxation (Lee, 2007, 181).

Currency Exchange

Another economical aspect of importance to Lilleborg if entering the Chinese market is the Chinese currency exchange rate policy. In a macro research conducted by Handelsbanken (Handelsbanken, 2009) it is referred to the criticism
of Chinese government and their currency manipulation. The Chinese government is accused for depreciating and maintaining a low value of the RMB. If Lilleborg enter the Chinese Lip Care market through export, an artificially low RMB will give Lilleborg a disadvantage in the competition with competing brands with production situated China.

Still, in Capital Markets (2009) it is further stated:

“...Nordic companies that are more focused on China have had higher sales growth than peers, with a profitability in China that has also exceeded the respective company’s median profit margin in the group overall. Thus, China not only has played a vital part in volume growth for companies, but also in terms of profit generation”

11.3.4 Political

In this sub-chapter the authors will discuss the Chinese governments answer to the depression, a free-trade agreement between Norway and China, and China’s five-year plans.

The governments answer to the economic depression

In November 2008 the Chinese government presented a RMB 4 trillion stimulus package to increase domestic demand. As a consequence the National Bureau of Statistics (NBS) in China announced on their web page a year-on-year growth of 10,2% in the per capita disposable income of urban households in the first quarter of 2009 to RMB 4834. In the same period the per capita expenditure on consumption reached RMB 3130, a year-on-year increase of 8, 6 % (www.stats.gov.cn/enGliSH/). Professor at Fudan University, Dun Ren Zhou expressed his concern about the Chinese economy’s dependency of exports and the lack of qualitative investments in social welfare and infrastructure. Increased bank’s credit supply to small and medium sized domestic enterprises (SME) and stabilizing and expanding foreign investments are both important features of the
stimulus package (Interview: Zhou, 2009). By exporting to China, Lilleborg will most likely not create any jobs nor bring high technology into China. It is therefore not likely that the company will gain any exceptional tax related or political favors or disfavors, but rather get the same treatment as most non-high-technological SME’s exporting to China.

Cooperation between Norway and China – free trade-treaty

At the moment this political analysis is conducted there is announced an ongoing dialogue between the Norwegian – and Chinese trade department on the Norwegian Governments web page, www.regjeringen.no. The dialogue aims to develop a free trade-treaty between the two countries on issues such as trade with commodities and services, investments, immaterial rights, an environmental and technological cooperation and in general ease trade between Norway and China. The development and outcome of this dialogue could be of high importance to Lilleborg as it could give Lilleborg priorities in the Chinese market. The fourth negotiation round will be held in June 2009.

China’s five-year plans

Another political aspect that will be of importance to Lilleborg is the Chinese government’s five-year plans. These plans give guidelines on which direction the country is heading. The current is the 11th five year plan and stretches from 2006 to 2010 focusing on topics such as a quality of foreign investments and scientific development of China (www.china.org.cn). If Lilleborg decides to enter the Chinese market it has to accept that laws and restrictions could be changed overnight in accordance with these guidelines. This includes sudden tax changes.

11.3.5 Technological

Compared to the Western world, China is still lagging behind when it comes to technological development. It is clear that high-tech companies who possess technological advantages will be favored not only in China but also the rest of the
world. (Interview: Zhou, 2009) In the authors’ interview with a dermatologist, the dermatologist explained that she would recommend French brands upon request from customers. This because she believes: “France conducts the most advanced research on cosmetics in the world, and their products are generally of high quality”. (Interview: Dermatologist, 2009)

Research from 2005, presented at cosmetic design- Europe’s webpage, shows that cosmetic and personal care companies have the lowest investments in R&D worldwide (www.cosmeticdesign-europe.com). If Lilleborg is to succeed in the Chinese market it will be important to focus on technological development, this to get tax favors and political favors, but also a competitive advantage in the Chinese Lip Care market.

**Conclusion SLEPT**

If exporting products to China almost 100% in taxes will accrue. When conducting business in China, Lilleborg will have to be aware of the risk that comes with corruption and the poor enforcement of the IPR legislation in China. Even though China practices the idea of a free market it could be important to Lilleborg to have a good relationship with the Chinese government.

**11.4 Consumer Characteristics**

This stage of the Consumer Buying Behavior Model shows how Cultural Factors, Social Factors and Personal Factors influence the consumers buying behavior, where the first-mentioned exert the broadest and deepest influence (Kotler, Keller and Lu, 131). This will help the authors answer Research Questions 2 & 4.

**11.4.1 Cultural Factors**

According to Kotler, Keller and Lu (2009, 131), “culture is the most fundamental determinant of a person’s wants and behavior”.

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*Note: The image contains a page number watermark.*
Schütte and Ciarlante (1998) propose the traditional Chinese culture to be a culture where the individual is less important than the welfare of the people. This interpersonal relationship is based on ancient Confucian dogma, and is still visible today.

However, according to the authors’ interview with Dunren Zhou and Henning Kristoffersen, this ancient Chinese collectivistic mentality is withering, making room for a more individualistic culture (Interview: Zhou, 2009 & Kristoffersen, 2009). At the same time Kristoffersen claim the phenomenon of Chinese Guanxi is dwindling as a consequence of the individualistic culture taking shape in China; securing the right employee for a job is increasingly becoming more important than recruiting a person from one’s Guanxi network (Interview: Kristoffersen). Thus, a more competitive culture is forming in China, especially among the One Child Generation, where hedonistic characteristics and “joy of life” are springing to life. As in the United States, a child growing up in China may thus be increasingly exposed to cultural values such as Achievement and Success, Individualism, Material comfort, External comfort etc. (Kotler, Keller and Lu 2009, 135).

By viewing this paradigm shift of the Chinese Culture, and following Schütte and Ciarlante’s (1998, 25) claim that a person’s culture affects behavior such as consumption, Lilleborg should direct marketing tools that fit in with this shift towards individualism. Individualism signifies that the consumer is egoistical; self-centered, is an independent thinker, defies authority figures and is quick to accept challenges (Kotler, Keller and Lu 2009, 135). Lilleborg’s potential brand in Shanghai should thus unearth and match these individualistic feelings.

However, hinting to Chinese traditions through family values and personal relations can still be an effective tool to influence even the Chinese modern consumer (Interview: Kristoffersen, 2009).
11.4.2 Social Factors

Reference Groups. Kotler, Keller and Lu (2009, 132) explain a reference group as a group that has direct (face-to-face) or indirect influence on an individual’s attitudes or behavior. From this thesis’ primary sources reference groups are extremely important for Chinese Lip Care consumers. This fact somewhat clouds the rising individualistic tendency among Chinese presented in the paragraph above. There are three main reference groups:

1. Primary Group. This group consists of people the consumer interacts with frequently and informally. Friends’ and family’s opinions are considered highly influential for an individuals’ buying behavior (Kotler, Keller and Lu (2009, 132). From the thesis’ consumer in-depth interviews and focus groups this was broadly confirmed, although friends seem to have more influence than family considering cosmetics’ and Lip Care’s nature. All participants and respondents claimed a friend’s suggestion to a specific brand was considered a cogent argument. Further, interviewing Henning Strandås, Brand Manager for Voss China, revealed Word-of-Mouth as a phenomenon Chinese rely heavily on. This is much due to Chinese’ reliance on belonging reference groups (Interview: Strandås, 2009). One of Lilleborg’s critical factors for success in Shanghai will be to secure a good and reliable reputation through Word-of-Mouth.

2. Secondary Group. Professional Groups are more formal and “...expose people to new behaviors and lifestyles, influence attitudes and self-concept, and create pressures for conformity that may affect product and brand choice” (Kotler, Keller and Lu 2009, 132). From the interview conducted with a Dermatologist revealed Shanghainese visit doctors if they have problems with chronic Lip problems. The dermatologist explained she recommends foreign well-known brands as she perceives them to be of higher quality (Interview: Dermatologist, 2009). As a skin expert, a dermatologist will have significant
influence on consumer behavior. Thus, securing dermatological approval and recommendation may prove a sound strategy for Lilleborg’s Lip Care brand.

Further, from the thesis’ in-depth interviews and focus groups it was discovered that many Shanghainese are members of on-line communities where the visitor may receive information on the latest trends, product recommendations from experts, receive product samples etc. As these sites are (mostly) objective, they are perceived by many of the thesis’ respondents as highly credible. For Lilleborg to be included in such unbiased web pages will be vital for stirring brand awareness and Word-of-Mouth. Examples of the web pages are www.lafaso.com, www.strawberry.cn, www.taobao.cn and www.alibaba.com.cn, as illustrated below:

![Chinese web sites for Online information and purchase](www.lafaso.com)

3. **Aspirational Group.** These are groups a person hopes to join (Kotler, Keller and Lu 2009, 132). From the interview with Strandås he suggested a good strategy is to make reference from the American market. If a brand is a hit in the U.S., Chinese will probably also want to buy it (Interview: Strandås,
2009). Unfortunately, Lilleborg is not present in America, but by using Norway as reference market this tactic may still have an effect.

Hong Kong and Taiwan are according to Zhou trendsetters for mainland China (Interview: Zhou, 2009). For instance, according to www.monternet.cn the telephone company China Mobile has successfully used the famous Taiwanese singer Jay Zhou to promote their products. From the authors’ consumer in-depth interviews and focus groups it was also noted that many Shanghainese will use the brands that their idol does. Lilleborg should consider linking their brand to one of these aspirational groups. However, associating a celebrity with your brand will also affect the brand negatively if the reputation of the celebrity fails (Interview: Strandås, 2009).

11.4.3 Personal Factors

Age and Stage in the Life Cycle. Kotler, Keller and Lu (2009, 134) propose that people buy different goods and services over a lifetime. From the thesis’ in-depth interviews and focus groups there are indications of Chinese buying cosmetics from early teens and onward until retirement, with a high during the twenties. In example, it was proposed by some respondents, in addition to an interview with a Nivea Sales Person at Carrefour that women in their mid-thirties buy cheaper and care less about brand (Interview: Nivea Sales Person, 2009). This indication match Kotler, Keller and Lu’s (2009, 135) characteristic of the money spending One Child Generation, where a person’s peak consumption is in the late twenties. This also matches Lee’s (2007, 183) definition of the prime force for the beauty economy: Chinese women between the age of 18 and 25.

Occupation and Economic Circumstances. Chinese high end consumers are likely to have a good education and a suitable job where make-up is an important part of keeping up appearances. As these persons are either career women or women that are part of a household with a well above average income, they can afford more expensive cosmetics and willingness to spend is substantial (Interview:
Zhou, 2009). Lee (2007, 183) states that the young and trendy Chinese spend 10%-50% of their monthly income on skincare and cosmetics. Another survey presented on www.chinanews.cn claims average Shanghainese women uses no less than 20 different cosmetics every day, which is the top figure in the world!

**Personality and Self-Concept.** Consumers tend to buy brands that convey the same personality features as they themselves find appealing. One of the respondents from the thesis’ consumer in-depth interviews stated that she preferred brands whose image is in accordance with her personality. Initial studies on brand personality in China reveal five dimensions: *Goodness, Wisdom, Courage, Joy* and *Elegance* (Kotler, Keller and Lu 2009, 137). Branding Lilleborg with one or several of these dimensions as an ulterior motive may prove beneficial for the success of the marketing efforts. As an additional notice, Zhou recommended the authors to use an environmental friendly approach when exposing the brand to the consumer. This is due to increased environmentally friendly personalities and values among the modern Chinese consumer (Interview: Zhou, 2009).

**11.5 Consumer Psychology**

According to Kotler, Keller and Lu (2009, 138) the psychological process consist of *Motivation, Perception, Learning* and *Memory*. These factors have a more fundamental influence on the consumer. In this thesis the Memory stage will be included in the Learning stage.

**11.5.1 Motivation**

Kotler, Keller and Lu (2009, 138) claims that “A need becomes a motive when it is aroused to a sufficient level of intensity. A motive is a need that is sufficiently pressing to drive the person to act.” Finding consumers’ motivation for buying Lip Care products may provide Lilleborg with information on how to effectively position their brand.
Kotler, Keller and Lu (2009, 138) present Herzberg’s two-factor theory “… that distinguishes dissatisfiers (factors that cause dissatisfaction) from satisfiers (factors that cause satisfaction). The absence of dissatisfiers is not enough; satisfiers must be present to motivate a purchase.”

By analyzing data from this thesis’ focus groups and in-depth interviews, the primary function of Lip Moisturizers, which is moisten and healing the lips, can be viewed as a dissatisfier; if absent this will cause dissatisfaction, but if present this will not cause satisfaction in itself. However, if a Lip Moisturizer enhances beauty through pretty and “kissable” lips, this might serve as a satisfier; if absent this will not cause dissatisfaction, but if present this will cause satisfaction.

When viewing Lip Gloss products this picture is quite reversed: Lip Gloss that offers the consumer beauty-enhancing is considered a dissatisfier; it will create dissatisfaction if absent but no satisfaction if present, since it is expected of the product. Contrary, a Lip Gloss product that also heals and moistens the lips is a satisfier; it is not a prerequisite, but will be greatly appreciated if present.

The Chinese phenomenon of Mianzi is relevant to the motivation of Chinese consumers. Kristoffersen claimed during his interview that Chinese will buy famous brands to gain Mianzi in social contexts. How much Mianzi a product yields to a consumer is thus more important than price, and to some degree quality. As a result there exist little restrictions to the high end segment’s spending culture, and urban China is today considered one of the most important markets for luxury products world-wide (Interview: Kristoffersen, 2009).

In accordance with Maslow’s Hierarchy of Needs, the action to purchase Lip Gloss could be translated into an act of pursuing Esteem Needs, which is characterized by earning recognition and status – or in other words gaining Mianzi (Kotler, Keller and Lu 2009, 138). Cosmetics have in recent years become a popular way for Chinese to follow trends from the West to gain Mianzi (Interview: Zhou, 2009).
The purchase of Lip Moisturizers will be farther down in Maslow’s hierarchy, between “Safety Needs” and Social Needs” as the products primary function is to protect and prevent dry lips.

11.5.2 Perception

“*A motivated person is ready to act, yet how that person actually acts is influenced by his or her perception of the situation*” (Kotler, Keller and Lu 2009, 141). Perception can be explained as the process of which an individual selects, organizes and interprets information from its surroundings to piece together a meaningful picture of the world (Kotler, Keller and Lu 2009, 141-2).

*Selective Attention.* Due to heavy daily stimuli from ads, most of these stimuli are screened out unconsciously. Marketers must therefore try reaching people with a stimulus that relate to a current need. For example, Chinese will be more receptive towards Lip Moisturizers during winter or autumn because the weather dries out their lips. Further, the need for Lip Gloss will be higher in business areas of China and Shanghai, where businesswomen are expected to wear make-up to work, according to the opinion of many of this thesis in-depth interviews and focus groups. As career women are often busy it will be especially important to find where their need for Lip Gloss reaches a peak.

*Selective Retention.* People forget much of the information they are exposed to, but will remember stimuli that correlates with their attitudes and beliefs. For instance, during the authors’ focus groups and in-depth interviews a discovery of Chinese’ preference for healthy and natural ingredients in the products was made, a discovery confirmed by Zhou in his interview (Interview: Zhou, 2009). If Lilleborg manages to create an impression of Lilleborg’s products as being healthy and natural this message should be repeated to the consumer repeatedly.
11.5.3 Learning

“Applying learning theory, marketers can build up demand for a product by associating it with strong drives, using motivating cues, and providing positive reinforcement” (Kotler, Keller and Lu 2009, 142).

People learn when they act, and learning involves changes in an individual’s behavior that arise from experience. If a Chinese consumer buy one of L’Oreal’s Lip Gloss products, and is content with the purchase, the consumer will probably learn from this experience and repeat the purchase. In addition, the consumer might believe that L’Oreal also must make high quality Lip Moisturizers and other forms of make-up, skin- or hair care. This indicates that every product of Lilleborg’s product assortment must be of high quality, and that Lilleborg’s general image is only as good as the weakest link in product assortment.

Henning Strandås, brand manager for Voss in China, proposed for the authors the use of brand associations when branding Lilleborg’s products. By “learning” the consumer that Lilleborg is of high quality by placing products in settings where trendy Chinese are, may be a good and reasonably priced strategy (Interview: Strandås, 2009).

An example of this is that many Shanghainese, as discovered from the consumer in-depth interviews and focus groups, have “learned” that the color green represents healthiness and naturalness. Also, Aloe Vera, Honey and Menthol seem to be perceived as natural and wholesome ingredients for Lip Care products.

Schütte and Ciarlante (1998, 61) theorize how the Chinese’ learning and memory are practiced through memorization and associative means. Schutte and Ciarlante further discuss how the Chinese characters or pictures are associated with words and the character’s literally meaning. By following this reasoning, it could be beneficial for Lilleborg to add illustrations on their packages that generate good associations rather than letters to describe the product to the Chinese consumer.
Still, the latter will also be a necessity. Lilleborg could for instance make illustrations on their packages that Chinese consumers associate with something healthy, natural and Norwegian to distinguish the brand. In example, the Lip Care producer “Mentholatum” use illustrations of bees and honey to signal that the contents is natural and healthy (Observations, 2009)

11.6 Buying Decision Process

This part will deal with the five step process describing the consumer’s buying decision process, from learning about a product to making a brand choice, using the product, and even disposing of it.

11.6.1 Problem Recognition

As suggested by Kotler, Keller and Lu (2009, 146), problem recognition is triggered by “Internal” or “External” stimuli. If Lilleborg is aware of what circumstances trigger the need for Lip Care products, this will allow them to develop marketing strategies that aims to arouse this need.

*Internal Stimuli.* If an individual notice his/her lips are getting dry and uncomfortable, an internal need for a Lip Moisturizer has been triggered. From the thesis’ consumer in-depth interviews and focus groups it was quickly established that Lip Moisturizers depend heavily on the season of the year. There seem to be a high season during autumn, and peak season during winter. Knowing this Lilleborg may want to escalate promotional activities (External Stimuli) during these months.

*External Stimuli.* A consumer experience External Stimuli when exposed to advertisement. Knowing that Lip Moisturizers are not considered as necessary during low seasons due to milder weather suggests that Lilleborg must use alternative strategies to trigger the same need. For instance, on their web page Nivea claims in their advertisements that Air-Conditioners used in the hot summer months, have a similar “drying effect” on lips as cold weather does. Further, by
including sunscreen to the product the need for Lip Moisturizers will unfold also during low season.

From the consumer in-depth interviews and focus groups the authors learned that Lip Gloss is commonly consumed throughout the year. However it is applied less frequently than Lip Moisturizers and is reserved for special occasions such as job luncheons/dinners, presentations, dates, parties etc. According to the dermatologist that was interviewed, Chinese prefer natural beauty and thus seldom use color cosmetics such as Lip Gloss (Interview: Dermatologist, 2009). In addition, some respondents from the consumer in-depth interviews and focus groups stated that Lip Gloss products seldom have the healing effect Lip Moisturizers have. They also stressed that Lip Gloss would probably be more frequently used if perceived as perfectly safe, without added chemicals and not having a drying effect on the lips. Due to this, a need for Lip Gloss will seldom be triggered from Internal Stimuli, but rather be a product of external expectations and heavy commercials.

Thus, finding a way to reach a Lip Gloss consumer through external stimuli can be difficult. The authors assume this is partly why commercials for - and access to - cosmetics can be found anywhere.

Shütte and Ciarlante (1998, 113) argue that due to the ancient Chinese mindset of collectivism and the social self as a guide for problem recognition, external stimuli are more common in China. However, the new trends show that the increased individualistic mindset of Chinese drive individuals’ needs to stand out (Interview: Zhou, 2009).

**11.6.2 Information Search**

After a need has been aroused with the consumer, either through internal or external stimuli, Kotler, Keller and Lu (2009) tells us that the consumer will start searching for more information. There are two levels of arousal:
Under the milder state of *Heightened Attention* a person simply becomes more receptive to information on a product, like a consumer will be more receptive to Lip Moisturizers during winter and autumn seasons than during summer or spring. When in the active stage of *Information Search*, the person will talk with friends, search online and visits stores to learn about the product. The most common sources for information are: 1) *Personal Sources*, 2) *Commercial Sources*, 3) *Public Sources* and 4) *Experiential Sources*:

**Personal Sources**

From the customer in-depth interviews and focus groups the authors learned that recommendations from friends are major determining factors for whether a person chooses to buy a product or change to a new brand. High end consumers are relatively loyal, but recommendations from friends or family may sever a relationship.

**Commercial Sources:**

“*Chinese blindly follow commercials and trust that (the brand) deliver what promised*”.

- Interview: Lip Care consumer

*Advertisement.* From the consumer in-depth interviews and focus groups, *advertising* seem to be a double-edged channel in Shanghai; it is not deemed a reliable source, but brands that can afford to spend money on it are often automatically linked to high quality. Dunren Zhou claims that Chinese will be willing to spend more money on a brand if they are charmed by its advertisements (Interview: Zhou, 2009).

*Web Sites.* According to reuters.com, the number of Internet users in China jumped to 298 million by the end of 2008, a year-on-year growth of 42%. Further, Forbes.com claimed Chinese Internet users in 2006 spent nearly two billion hours online *each week*, a figure that is likely to have grown. Biased web sites that
promote brands are increasingly becoming a popular channel for companies to stimulate brand awareness among consumers. It is also a prominent way of gathering information and conduct fresh market researches on the consumer (Kotler, Keller and Lu 2009, 572). Another article from 2008 available at Forbes.com confirms that a larger share of the younger consumers spends more money and more time on Internet shopping. In fact, the article claims that a market research conducted in six cities across China concluded with 80% of the 500 respondents had made an online purchase the last six months. It is argued that Chinese' access to credit cards is the main bottle neck for Internet shopping, but that the share of the population wielding a credit card is rapidly increasing.

Sales Personnel. From the authors’ observations, all the top cosmetics brands in China are represented with a designated salesperson in every store. Also, from interviewing sales personnel representing Nivea and Maybelline the authors learned that salespersons help consumers find colors and styles that match the individual consumer. Although sales personnel are not viewed as a credible source per se, many participants of the consumer in-depth interviews and focus groups agreed that sales personnel are helpful and can provide useful tips. Interviewing Freddy Wang, manager for the cosmetics department at Carrefour, revealed that the sales personnel is paid and recruited by the individual companies, not by Carrefour. Wang stressed that buying a spot for your brand in-store, and have an employee promote your brand, is very expensive and that only the largest companies afford this cost (Interview: Wang, 2009).

Packaging. The customer interviews revealed that packaging is extremely important in China. This is with regards partly due to image and partly due to the safety issue. Listing ingredients and expiry date and clearly illustrating the purpose of the product are important. Lee (2007, 36), states Chinese consumers traditionally are very price sensitive. However, new trends show that using quality packaging may incite the consumer to believe the contents are of equal quality, which defends the high price.
Recipients from the customer interviews explained that gathering unbiased information to compare brands is common in China. As mentioned above, web sites have become a critical way of gathering information. Non-partial web sites are used for gathering make-up tips and finding the most popular brands. The article from Forbes.com also claim that Chinese youth spend 20 hour a week online looking up product reviews, playing online games, reading blogs and buying items.

**Experiential Sources**

Chinese are not known for being the first to try new products, as they have high risk aversion (Schütte and Ciarlante1998, 74). This was confirmed by many from the customer interviews. However, by offering consumers free samples the consumer get a chance to handling, examining and using the product. This was perceived as very beneficial by several of the respondents.

By gathering information from these sources, the consumer will narrow down the total number of suppliers to a few strong contenders. It will be imperative for Lilleborg to use some of the above mentioned information channels for the consumer to have access to information about Lilleborg’s product assortment. If succeeded Lilleborg may become the brand that is ultimately chosen.

**11.6.3 Evaluation of Alternatives**

According to Kotler, Keller and Lu (2009, 147), the evaluation process is a concept subject to the following underlying factors: 1) satisfying a need 2) finding benefits from a product solution, and 3) view each product as a bundle of attributes and find which best satisfies the need.

It is important to notice that attributes of interest differ from product to product, and the weighted importance of each attribute differ from consumer to consumer.
From the thesis’ customer interviews it was discovered that Lip Moisturizers have a functional basis, and the performance of these functional attributes determines if the consumer’s needs are being met.

For instance, Lip Moisturizers are expected to have a healing, moisturizing and preventive effect. Choice of ingredients to emphasize the product’s functionality is therefore an important part of the sets of attributes for Lip Moisturizers. Natural raw materials such as honey, menthol, Aloe Vera and vitamins are deemed wholesome ingredients by the participators. However, Lilleborg’s “Lypsyl Therapy” also contains “Salicylic Acid” and “Camphor”, which to the recipients were unknown and thus not considered important. Other attributes that can help a Lip Moisturizer be perceived as good is to make the lips pretty, attractive and help the consumer gain Mianzi through social acceptance.

Lip Gloss satisfies a more advanced need than Lip Moisturizers basic function. It aims to satisfy the consumers’ need for a professional and beautiful look used in special occasions.

11.6.4 Purchase Decision

“In the fourth stage the consumer forms preferences among brands in the choice set and may also form an intention to buy the most preferred brand” (Kotler, Keller and Lu: 2009, 148).

Chinese will listen to friends’ or families’ recommendations before a purchase. The closer this person is and the more the consumer wants to comply with this person’s wishes, the more intervention power does the person have. As Shütte and Ciarlante (1998, 112-113) propose, Asians tend to involve every stage of the purchase decision but that opinions of others and social won’t play a large part. Furthermore, unforeseen factors may ultimately cancel a purchase of a brand. For instance, one respondent from a consumer in-depth interview claimed the Sales
Personnel from *Neutrogena* was too pushy and aggressive, and as a result she never buys this brand.

### 11.6.5 Post Purchase Behavior

The marketer’s job does not end after the purchase is made. Kotler, Keller and Lu (2009, 78) states that through *Dissonance Stemming* the consumer might get wind of another product recommended by friends and choose this during the next purchase. Further, the product delivered must not be poorer than promised from the marketing campaign, as this will cause *cognitive dissonance*. Satisfaction with the consumer implies a repurchase, and as cosmetics are fairly low involvement products, Lilleborg should secure loyal customers to obtain continuous sales. In Norway Lilleborg use service hot lines for stimulating communication with the consumer. Lilleborg should look into taking advantage of this competence and implement similar standards upon entrance into the Chinese Lip Care market.

By keeping in touch with some of the respondents from the consumer in-depth interviews the authors learned from one that she really liked Lilleborg’s Lip Gloss product (every respondent received a free sample as a thank you). She stressed that the Lip Gloss available in the market today lack a moisturizing effect, but that she felt Lilleborg’s Lip Gloss was very effective.

### 11.7 Purchase Decision

The final stage of the Consumer Buying Behavior Model will be used to show how the stages of the model finally affect the consumer’s 1) Product Choice, 2) Brand Choice, 3) Dealer Choice, 4) Purchase Amount, 5) Purchase Timing, and 6) Payment Method, as explained below:

*Product Choice* - Even though Chinese consumers are price sensitive, quality seem to be the most important factor when purchasing Lip Care products. This is with special regards to using safe contents. Consumers value products with natural ingredients that are non-hazardous. Printing the expiration date on the product is
important to remind the consumer that is safe to use. Product design is important and must match with the brand’s image.

**Brand Choice** - Famous brands are automatically preferred, and famous brands are almost exclusively international. The brand should yield “Mianzi-value” to the consumer, signifying that the consumer gain respect through use. Advertisement is not considered a reliable channel it itself, but companies that use advertisement are considered of high quality.

**Dealer Choice** - Common retailers for Mid-end brands are Watson’s, Mannings, Wal- Mart and Carrefour etc. The exclusive retailers are pharmacy retailers such as Sephora, “Huamei da yao fang” and “Shanghai di yi yi yao” (Shanghai No.1 Pharmacy). Using retailers is considered a safe way of buying non-counterfeit products. Online E-Commerce are also increasingly becoming common in China.

**Purchase Amount** - From the consumer in-depth interviews and focus groups it was clear that the respondents bought between 2-4 Lip Moisturizers a year. This interval was between 1-2 regarding the Lip Gloss.

**Purchase Timing** - As Lip Moisturizers are seasonal it is common to purchase them during the cold, dry winter and autumn months. However, because marketers need to sell during summer, promotions and discounts incite consumers to buy also during the summer months. Lip Gloss is not seasonal and is purchased around the year.

**Payment Method** - Most purchases is still cash in retail outlets. However, due to increased Internet usage and more Chinese possess credit cards, payment online is steadily becoming popular.

### 11.8 Entrance strategies and Distribution Channels

The final section of the external analyzes will help answering Research Question 5. The aim is to describe the different entrance strategies and distribution
channels that can be suitable for Lilleborg depending on their 1) Internal recourses and goals, and 2) External market conditions (Solberg 2006, 185).

11.8.1 Entrance strategies

In this sub-chapter, the authors will discuss the following entrance strategies: 1) Direct investments, 2) Joint Venture and 3) Export; and the following distribution channels: 1) Export House, 2) Distributor, 3) Agent, 4) Sales Office, and 5) Export without representation (Solberg. 2006, 195).

“An entrance strategy is defined as the way a company wants to be represented in the market”


Direct Investments. As Lilleborg control the Value Chain in Norway, investments in the Value Chain in China would help Lilleborg not only to gain market knowledge of the Shanghainese Lip care market, but also potentially reduce logistics and distribution costs. Even so, this entrance strategy will be subject to heavy investment costs. The authors do not believe direct investment could be justified considering the limited turnover Lilleborg’s relative small Lip Care assortment will generate.

Joint Venture. For Lilleborg, a JV could be used to get access to distribution and sales networks, expertise on the local environment and contacts with government officials. In return, Lilleborg would have to contribute with their products. Even though the return potential for a JV could be high, there are also high risks with this entrance strategy (Kotler, Keller and Lu 2009, 563). According to our interview with Chief Representative from Wikborg Rein, Geir Sviggum, Lilleborg would be extremely exposed to piracy and theft of know-how through a JV. This is also part of the reason why Lilleborg want to keep production at home.

Export - Kotler and Keller (2005, 675) suggest that export is a common way to get involved in a new foreign market, and this is the entrance strategy with lowest
involvement. Further they divide export into indirect and direct export, which determines whether Lilleborg should handle their own export or not. According to Solberg (2006, 196) the main problems with export are the geographical and cultural distance, and the institutional obstacle that prevent exporters from gaining direct contact with the market. However, by utilizing the distribution channels below, Lilleborg can bypass these problems.

11.8.2 Distribution Channel

“A distribution channel can be defined as the sales link a product has to go through from producer to consumer “

- (Solberg 2006, 194).

Export House. An export house is an indirect form of exporting. In this scenario Lilleborg’s manufactured products will be sold to an export house situated in Norway (Solberg 2006, 198). By using an Export House Lilleborg will have miniscule contact with the market and no learning curve. Lilleborg’s paramount strategy and goal in China is to maintain a market-oriented perspective, which immediately excludes an export house as a relevant entrance strategy option.

Distributor. Solberg (2006, 201) states that a distributor will be situated in the potential foreign market and take control over the products after they have been shipped overseas. The distributor operates in its own name and assumes the financial responsibility and control over the marketing for Lilleborg. However, according to the authors’ interview with Eva Cheng, Marketing Director for Luster Beauty and Health, marketing in China is so expensive that the manufacturer is expected to contribute financially to marketing activities together with the distributor (Interview: Cheng, 2009). A distributor often distributes products within the same industry and adds products into their product portfolio to get a complete assortment (Solberg 2006, 201).
Solberg (2006, 201) states that utilizing a distributor will give little contact with the sales outlets and the end consumers. Even though development of marketing strategies can be through cooperation between the exporter and the distributor, the experience and market insight will be very limited. Should the contract with the distributor be terminated, Lilleborg will have to start from scratch, with little experience and all previous investments been in vain (Solberg 2006, 201). In addition it would be disadvantageous for Lilleborg if the distributor disregards Lilleborg’s preferred image in China (Interview: Chan, 2009). Further, a challenge for Lilleborg would be to find a competent distributor willing to invest in Lilleborg’s Lip Care products. The bargaining power of distributors working in the cosmetics industry in China today is likely to be high with the huge amount of companies wanting to access the cosmetic retail outlets through a distributor. The fact that the Lip Care industry is dominated by large international enterprises further emphasizes this bargaining power.

**Agent.** An agent’s most important task is to carry out sales and inform the exporter about market conditions. An agent may also keep stock. If Lilleborg decides to use an agent, they would have to either perform some of the distribution tasks themselves or hand them over to other intermediaries. An agent would work as a representative for Lilleborg in the Chinese market and arrange sales in Lilleborg’s name and on their behalf. Lilleborg would in this situation get direct contact with the sales outlets, control over the marketing activities and an acceptable learning curve. Lilleborg would gain more knowledge about the Chinese consumer habits, preferences and buying behavior than they would have done through a distributor. According to Sviggum, it is very common for Norwegian companies to utilize an agent in China, and there a several laws that prevents the agent to behave opportunistic (Interview: Sviggum, 2009).

Yuen stated that using an agent is perceived as a very interesting entrance strategy for Lilleborg in China. He reasons for this argument by pointing out Lilleborg’s
two goals if entering China: 1) Gain international experience, and 2) Keep investment costs down to mitigate risk (Interview: Yuen, 2009).

There are also some disadvantages by using an agent. Due to the fact that the agent is remunerated through commission he might prioritize volume rather than maintaining the brands value on a long termed basis. Agents are also generally well protected by laws and regulations, making it difficult to terminate cooperation if the agent fails to deliver the exporters expected results (Solberg 2006, 204).

Sales Office. Operating with a sales office offers the best contact with the market and control of nearly every aspect of the marketing activities. Establishing a sales office also place more focus on the exporters products in contrast with a distributor where Lilleborg’s product would just be a part of a product portfolio (Solberg 2006, 205).

Establishing a sales office includes heavy costs, and does not become advantageous before sales volume is considerably high (Solberg 2006, 205). According to Yuen, a sales office may result in seven figured establishment costs. A sales office also requires several employees with qualifications in accordance with the purpose of the office and high operating costs (Interview: Yuen, 2009). Lee (2007, 214) support this claim and propose that a modest sized “Representative Office” (which is similar to a sales office) will require yearly supporting costs between US$250,000 to US$500,000 in China. The authors believe a sales office will burden Lilleborg with heavy costs and is therefore not beneficial for Lilleborg and their small product assortment.

Export without representation. With this form Lilleborg would have no intermediary, but direct contact with the buyers themselves (Solberg 2006). According to Chan, it would be difficult for Lilleborg to sell directly to retailers. This is because no retailers would take the financial risk and keep stock for Lilleborg’s Lip care products. In addition, the brands on the shelf at sales outlets
today are from companies willing to pay large sums to get there (Interview: Chan, 2009).

12. Findings and Conclusions

This chapter is meant to give short but concise answers to the Research Questions proposed in the beginning of the thesis. The questions have been answered in accordance with all secondary and primary research gathered throughout this thesis. The research questions were as follows:

1. What is the current competitive situation in the Lip Care market in Shanghai?

2. What segment of the Lip Care market should Lilleborg target and what is this segments buying behaviour?

3. What adjustments are needed in the components of the Marketing-Mix to adapt to the Shanghainese Market?

4. What market barriers are Lilleborg likely to encounter when introducing their products to the Chinese market, and how can Lilleborg overcome these barriers?

5. What entrance strategy and distribution channels should Lilleborg use to optimize access to the Chinese market?

12.1 What is the current competitive situation in the Lip Care market in Shanghai?

The competitive situation in the Shanghainese cosmetics market is characterized by many large international companies which through heavy marketing efforts strive for market shares. By moving production facilities to the China mainland international companies have managed to distribute to the mass-market in China, and though not competing on the lowest prices, compete on quality. Research &
Development centers allow companies to tailor make cosmetics to Chinese or Asian skin. Although competition is rough, the market is still in growth and profit margins acceptable.

**12.2 What segment of the Lip Care market should Lilleborg target and what is this segment’s buying behaviour?**

The authors have defined the Upper-middle end segment with an annual income of RMB 40,000 – RMB 200,000. This means that the lowest income included in the segment makes twice the amount of money as the average Shanghainese (RMB 23,623).

The authors have chosen to name the segment “Young Business Woman”, who either are in possession of a well paid job or is a student with good prospects of having a career due to academic prowess. The “Young Business Woman” is between 20-30 years and among the first or second batch of the One Child Generation. They are individual and take care for themselves, have a relatively high brand loyalty but are still affected by old Chinese collectivistic culture and rely on reference groups such as friends, family and opinion leaders. Their cosmetics consumption is high and they are eager to try new and fashionable brands. This is closely interlinked to the phenomenon that famous brands giving Chinese “Face-Value”. However, that the Lip Care products are wholesome and healthy is the number one priority. Most Chinese still prefers natural beauty, and though cosmetics are important, color cosmetics such as Lip Gloss or other color make up is used more seldom. Online shopping is increasing as access to the Internet and access to credit cards is growing. The Young Business Woman will buy Lip Moisturizers 2-4 times a year and Lip Gloss 1-2 times a year. Moisturizers will be commonly used more during winter and autumn due to cold weather. Lip Gloss will be commonly used around the year, but applied mostly during special happenings, such as parties, job interviews, presentations etc.
12.3 What adjustments are needed in the components of the Marketing-Mix to adapt to the Shanghainese Market?

**Place**

Selling directly to retailers seem to be difficult for Lilleborg since few or no retailers will keep stock and take over the financial risk for Lilleborg. Through an intermediary (the intermediary will be discussed in findings related to Research Question 5) Lilleborg will get access to possible retailers. The authors view traditional retailers such as Watson’s, Sephora, Manning’s pharmacies etc. as very difficult to negotiate with for Lilleborg. Shelf fees, expectancy of rebates and shared promotional activities will slice Lilleborg’s profit margins away. Alternative sales outlet is a solution to elude these obstacles. This can be online sales or new and untraditional sales outlets.

**Promotion**

Promotional activities are used extensively in the Chinese market, and though not all techniques are considered credible, those companies who can afford aggressive promotion are often perceived as of high quality. An integral part of promotion in China is the concept of branding, and a good brand name will offer the end consumer *Mianzi value*. Associating a brand to opinion leaders or celebrities have been done with success in the past, but if this persons reputation fails, so will the brand associated to it. Attaining recommendation from a dermatologist may give Lilleborg a professional and safe image. The use of sales personnel is a way of promoting a brand, but it is mostly the big companies who can afford this.

Products from France and Japan are considered to be of high quality, and so are American and South Korean brands. Knowledge about Norway is small, but key associations such as *Green, Cold, Wealthy* and *Beautiful* can give Lilleborg a chance to use Norway for the Country of Origin effect. As Lilleborg has limited financial resources it may be an idea to find alternative ways of promoting the brand. Chinese are always looking for something new.
Price

Chinese consumers are traditionally price sensitive, and the Shanghainese are no exception. At the bottom end for low prices are the Chinese domestic brands. The cheapest brands are however associated with low quality and most modern and wealthy Chinese will prefer international brands that are priced higher. A higher price signals quality, but only to a certain degree.

- Lip Moisturizers signify low quality if priced beneath RMB 20 and overpriced if above RMB 50.
- Lip Gloss signifies low quality if priced beneath RMB 50 and overpriced if above RMB 200.

When introducing a product in China one should price high in the beginning and rather adjust the price down if sales fail. If first charging a low price and then raise it, the consumers will think they are being exploited.

Discounts and coupons are popular ways of increasing sales in China. If a famous brand that originally is priced high offers discounts, many Chinese will think they are doing a great purchase.

Product

The product is very important in China. Product design, shape, flavour, colours, ingredients and packaging are all aspects one need to consider.

Lilleborg’s products were generally not well received by the participants in the thesis’ consumer interviews and focus groups. They were for the most part perceived as low-end and cheap. However, the Lip Gloss was subject to less criticism but this has great improvement potential. The detailed faults will not be listed in this finding, but in the strategy part of the thesis the authors will give examples on how the faults can be improved.
12.4 What market barriers are Lilleborg likely to encounter when introducing their products to the Chinese market, and how can Lilleborg overcome these barriers?

*Competition* - The Chinese cosmetic market consists of thousands of competing brands, where several of the world’s leading brands can be found. Though difficult, it will be important for Lilleborg to develop Points of Difference.

*Guanxi* - To arrange and seal good contracts it will be important to build a Guanxi network. Lilleborg could avoid the Guanxi barrier through utilizing a well-connected intermediary in China as well as utilize Borregaard’s office in Shanghai.

*Intellectual Property Rights (IPR)* – IPR is a major obstacle to all foreign and domestic companies in China. Lilleborg could counteract some of this illegal production by developing advanced packages with special serial numbers, holograms, hidden images or other features that are hard to copy.

*Tax* – Tax is a quite obvious barrier, and it is unavoidable. Taxes up to 100% will accrue by exporting to China. This put limitations on Lilleborg’s segments. This could only be avoided by moving production to China.

*The currency exchange rate* - The currency exchange rate will be a barrier to Lilleborg if the RMB value is manipulated downwards, making export more expensive for Lilleborg. This will make it harder to compete against domestic companies and companies that produce their products in China. Production in China will dissolve this barrier.

*Substitutes* - In the upper-middle market there tend to be preferences leaning toward lipsticks, which is highly substitutable with the Lip-Gloss. Lilleborg have to see to that their products offer more benefits to the consumer than lipstick.
Retailers bargaining power - The most recognized brands are found in the most lucrative retail-stores, thus give the retailers a huge amount of bargaining power towards other brands. One solution to this is to “Piggy-back” into the Shanghainese retail-market with an intermediary that up until now has not carried Lip Care products.

Increasing brand loyalty - The wealthier consumers are becoming increasingly brand loyal. The Chinese consumers are in general not regarded as loyal, but increased loyalty could make it more difficult for new entrants to enter higher market ends. Lilleborg must provide benefits of importance to the consumer that differs from their competitors’.

12.5 What entrance strategy and distribution channels should Lilleborg use to optimize access to the Chinese market?

Direct Export seem to be the most suitable entrance strategy for Lilleborg to penetrate the Shanghainese market. Consequently, the following three distribution channels are relevant:

**Distributor:** By using a distributor as a distribution channel, Lilleborg will not have direct contact with the market as they would with an agent. This does not match Lilleborg’s wish for market contact in China, but is somewhat adjusted due to special practices in China where the manufacturer is expected to contribute to marketing costs.

**Agent:** By using an agent Lilleborg will get direct contact with the market simultaneously as the involved risk is not too great.

**Sales office:** To establish an own sales office would require high investment and resources from Lilleborg. In addition a sales office would first be an advantage when the export is of high volume in order to cover the fixed costs. Therefore this will not be beneficial for Lilleborg when first entering the Chinese market.
Part 4: Strategic Problem Definition

This part of the thesis is divided into four chapters: (13) SWOT, (14) Strategic Problem Definition, (15) Strategic goals, and (16) Critical factors of success.

The purpose of this part is to give the reader an understanding of the foundation for Lilleborg’s further strategy.

Chapter 13. SWOT

“The SWOT analysis is a tool used to analyze a company’s current situation as a basis for strategic decisions”

- Framnes, Pettersen and Thjømøe (2006, 142-3)

This chapter presents Lilleborg’s internal strengths and weaknesses and external opportunities and threats through a weighted SWOT analysis. The findings from the analysis creates a basis for Lilleborg’s Strategic problem definition, a foundation for the company’s marketing strategy (Framnes, Pettersen and Thjømøe 2006, 144).

Competence Matrix

The competence matrix illustrates Lilleborg’s internal strengths and weaknesses and identify where the company should focus its efforts accordingly. (Framnes, Pettersen and Thjømøe 2006, 143-4)
### Lilleborg’s Strengths

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<td>8 Market share in existing market</td>
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Performance: (1) = Major weakness, (3) = Neutral, (5) = Major Strength

Market Importance: (1) = Very low, (5) = Very high

### Lilleborg’s weaknesses

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<td>10 International strategy and goals</td>
<td>4</td>
<td>2</td>
</tr>
<tr>
<td>11 International competence and experience</td>
<td>5</td>
<td>2</td>
</tr>
<tr>
<td>12 Risk aversion</td>
<td>5</td>
<td>2</td>
</tr>
</tbody>
</table>

**Economy**

<p>| | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>13 Financial resources</td>
<td>5</td>
<td>2</td>
</tr>
</tbody>
</table>

Performance: (1) = Major weakness, (3) = Neutral, (5) = Major Strength

Market Importance: (1) = Very low, (5) = Very high
The **Opportunity Matrix** illustrates Lilleborg’s market opportunities and identify where the company should focus its efforts accordingly.

**Lilleborg’s opportunities:**

<table>
<thead>
<tr>
<th>Market development</th>
<th>Attractiveness</th>
<th>Probability of success</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increasing environmental focus</td>
<td>4</td>
<td>3</td>
</tr>
<tr>
<td>Increasing Internet usage</td>
<td>5</td>
<td>3</td>
</tr>
<tr>
<td>Health consciousness</td>
<td>5</td>
<td>4</td>
</tr>
<tr>
<td>Increasing credit card usage</td>
<td>5</td>
<td>4</td>
</tr>
<tr>
<td>High market potential</td>
<td>5</td>
<td>4</td>
</tr>
</tbody>
</table>

*Attractiveness: (1) = Low, (3) = Neutral, (5) = High
Probability of success: (1) = Low, (3) = Neutral, (5) = High*
Threat Matrix

The threat matrix illustrates Lilleborg’s threats and identify where the company should focus its efforts accordingly.
Lilleborg’s threats:

<table>
<thead>
<tr>
<th>Industry</th>
<th>Degree of seriousness</th>
<th>Probability of threat</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Competition</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>2 Retailers’ bargaining power</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>3 Saturation or decreased market share in existing markets</td>
<td>5</td>
<td>4</td>
</tr>
<tr>
<td>4 Corruption</td>
<td>4</td>
<td>3</td>
</tr>
<tr>
<td>5 Intellectual Property Right infringements</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>6 Guanxi and network</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Market development</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7 Marketing costs</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>8 Brand awareness</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>9 Brand loyalty</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Economy</td>
<td></td>
<td></td>
</tr>
<tr>
<td>10 RMB currency manipulation</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Political &amp; Legal factors</td>
<td></td>
<td></td>
</tr>
<tr>
<td>11 Taxes and duties</td>
<td>4</td>
<td>5</td>
</tr>
</tbody>
</table>

Degree of seriousness: (1) = Low, (3) = Neutral, (5) = High
Probability of threat: (1) = Low, (3) = Neutral, (5) = High

Figure 19) Threat Matrix
Summary of SWOT

A summary of the double weighted SWOT analysis illustrates Lilleborg’s major strengths and weaknesses as well as the company’s essential opportunities and threats and identifies where the company should focus its efforts.

<table>
<thead>
<tr>
<th>Lilleborg’s Major Strengths</th>
<th>Market Importance</th>
<th>Performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>1  Branding</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>2  Network</td>
<td>5</td>
<td>4</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Lilleborg’s Major Weaknesses</th>
<th>Market Importance</th>
<th>Performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>1  International competence and experience</td>
<td>5</td>
<td>2</td>
</tr>
<tr>
<td>2  Risk aversion</td>
<td>5</td>
<td>2</td>
</tr>
<tr>
<td>3  Financial resources</td>
<td>5</td>
<td>2</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Lilleborg’s Essential Opportunities</th>
<th>Attractiveness</th>
<th>Probability of success</th>
</tr>
</thead>
<tbody>
<tr>
<td>1  Increasing Internet usage</td>
<td>5</td>
<td>3</td>
</tr>
<tr>
<td>2  Health consciousness</td>
<td>5</td>
<td>4</td>
</tr>
<tr>
<td>3  Increasing credit card usage</td>
<td>5</td>
<td>4</td>
</tr>
<tr>
<td>4  High market potential</td>
<td>5</td>
<td>4</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Lilleborg’s Essential Threats</th>
<th>Degree of seriousness</th>
<th>Probability of threat</th>
</tr>
</thead>
<tbody>
<tr>
<td>1  Competition</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>2  Retailers bargaining power</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>3  Saturation or decreased market share in existing markets</td>
<td>5</td>
<td>4</td>
</tr>
<tr>
<td>4  Intellectual Property Right infringements</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>5  Marketing costs</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>6  Brand awareness</td>
<td>5</td>
<td>5</td>
</tr>
</tbody>
</table>

*Figure 20) Summary of the SWOT-analysis*

Chapter 14. Strategic problem definition

The Strategic Problem Definition is extracted from the strategic analysis and will be the foundation for the development of Lilleborg’s marketing strategy in China.

Lilleborg’s Strategic Problem Definition is as follows:
“How can Lilleborg take part of - and gain competence and experience in - the Shanghainese Lip Care market by making use of their branding competence to communicate Lilleborg as a Norwegian health conscious brand, and to outflank the high market competition and -costs through utilizing the increasing e-commerce potential in China with contribution from Lilleborg’s existing network?”

Chapter 15. Strategic Market Goals

Based on the SWOT analysis and SPD, the authors have developed strategic market goals for Lilleborg’s future strategy. The goals are divided into strategic and operative goals. The operative goals are short termed, ranging from 1-2 years, while the strategic goals are long termed ranging from 5-10 years. A goal hierarchy has been utilized to gain a more structured approach in the goal development process and can be found in appendix nr. The following strategic and operative goals have been developed for Lilleborg:

Operative goals (1-2 years)

For the first two years of Lilleborg’s operations in China, the authors recommend the following operative goals:

1. Identify possible distribution and sales partners through the established sister companies in Shanghai.
2. Attend China Beauty Expo 2010 to identify possible distribution and sales partners.
3. Securing a contract with an intermediary responsible for distribution and sales in China
4. Apply for and pass the product hygiene license application
5. Prepare and execute a product launch event
The economical aspects of Lilleborg’s first two years operating in China will involve high establishment costs in accordance with the operative goals. The authors recommend to create a budget for the first years of operations in China, ensuring Lilleborg’s survival and growth in a short-term perspective.

**Strategic goals (5-10 years)**

The authors recommend the following strategic goals for the next five to ten years of Lilleborg’s operations in China:

1. Be a competitive player in the upper-middle Shanghainese Lip Care market
2. Provide Chinese Lip Care consumer’s with a product profile that emphasize a Norwegian image, innovative, environmental and health conscious products.
3. Redistribute the resources gained from the Norwegian market to make the Shanghainese market Lilleborg’s secondary market
4. Establish an export department to gradually gain more control over the value chain in China and creating stronger brand equity.
5. Operate with lower production and distribution costs by fully utilizing free capacity at home.

The authors believe that the economical goals for the next five to ten years should be to break even after five years and contribute with a positive annual turnover from there on.

*View Appendix 4.0 for a more detailed plan of Lilleborg’s hierarchy of goals.*

**Chapter 16. Critical Factors of Success (CFS)**

Critical Factors of Success (CFS) are vital components necessary to achieve the strategic goals developed above (Framnes, Pettersen and Thjømøe 2001). Based on the Analysis and the Strategic Problem Definition, the authors have created the following CFS to Lilleborg if entering the Shanghainese market:
• Find a distribution channel that provides the most extensive market contact, considering the company’s resources and capacity.
• Building brand equity.
• Product development in accordance with the segments wants and needs.
Part 5: Alternative strategies and Recommendation

This part of the thesis is divided into six chapters: (17) Alternative strategies, (18) Choice of Strategy, (19) Entrance strategies, (20) Positioning, (21) Marketing Mix, and (22) Creative Solutions.

The purpose of this part is to give the reader an understanding of Lilleborg’s possible strategic alternatives for the Shanghainese market and the authors’ choice of strategy and recommendation.

Chapter 17. Alternative Strategies

Based on the internal and external analysis of Lilleborg, the authors will in the following section evaluate 3 possible alternatives for the company’s future strategy towards the Chinese market. After evaluating future alternatives the authors will emphasize one alternative and give recommendations to how a strategy should be implemented and executed for this alternative.

17.1. Alternative 1

“Enter the Shanghainese upper middle end market through cosmetic retailers”

The alternative is based on that Chinese Lip Care consumers generally buy Lip Care products at cosmetic retailers. Through this alternative, Lilleborg will have to acquire a position in Chinese high- and upper- middle retail chains such as Sephora and Watson. As Lilleborg have a small product assortment, it will be imperative to come in contact with distributors that are already represented in the upper middle end retail chains and are accustomed to- and competent with handling branded merchandise. Cooperation with the distributor will be tight, and marketing strategies should be designed jointly for both parties benefit and
expense. Piggy-backing with a distributor that as of today does not carry Lip Care products will provide a win-win situation for Lilleborg, the distributor and the retailer.

However, implementation and execution of this strategy can turn out to be quite hard and costly for Lilleborg. Firstly, distributors and retailers has a high bargaining power in Shanghai due to the large number of competing companies in the cosmetic industry with the same objectives as Lilleborg. With Norway as the only reference market and no previous experience in China, gaining acceptance from a distributor and its retailers will be very hard. The upper middle and high end retailers like Watson’s and Sephora have product portfolios consisting of brands from major international cosmetics manufacturers, and competing for shelf space against these giants will be very costly. Secondly, by utilizing a distributor, contact with the marketing activities and the Chinese Lip Care consumers will be limited.

17.2 Alternative 2

“Enter the Shanghainese upper middle end market through alternative sales channels”

The second alternative is a strategic approach that deals with the high costs and bargaining power attached to the traditional cosmetic sales channels in Shanghai. Lilleborg will in this strategy pursue alternative sales channels to penetrate the Shanghainese market. The potential alternative sales channels will consist of E-commerce and non cosmetic sales outlets like fashion stores. Shanghainese Lip Care consumers are already utilizing E-commerce to acquire Lip Care products, and with the high Internet and credit card user growth, E-commerce seems to be a booming market in China. Non cosmetic sales outlets will limit the costs and avoid buyers bargaining power when penetrating the Shanghainese Lip Care market. Sales through non cosmetic outlets will also make Lilleborg stand out from its many competitors in Shanghai. Lilleborg will need an agent with a good
relationship with potential non cosmetic sales outlets, who can keep stock and perform marketing activities. By utilizing an agent Lilleborg will gain a better control with marketing activities and insight on the consumer’s buying behavior.

This strategy is still costly. The use of an agent requires Lilleborg to contribute to stock costs and be financially responsible for marketing and sales costs. Another obstacle is the fact that an agent lives of commission, and may focus on volume rather than price and profits for Lilleborg. Many competitors are also already utilizing alternative channels like e-commerce for branding and sales purposes and have the advantage of being present in different sales channels to build brand equity and trust.

17.3 Alternative 3

“Do not enter the Shanghainese market”

The third alternative is based on the fact that Lilleborg possess little general international experience and competence, have little knowledge about the Chinese market and limited contacts and networks. Lilleborg also have limited resources compared to the large existing players in the Lip Care market, making it very hard for the Lilleborg to penetrate the Shanghainese market today. Even so, expansion through international markets seems necessary with Lilleborg’s home market showing signs of saturation and the contract with licenses like Unilever and J&J is not everlasting agreements.

Lilleborg seem to consider entering the Chinese market mainly due to its three employees situated at Borregaard and Elkem’s office in Shanghai. As the three employees’ only deals with package design purchasing, Lilleborg possess no knowledge about the Chinese Lip Care market in Shanghai. The export manager argues that the sister company Borregaard could help Lilleborg start up in Shanghai. However, Borregaard has no knowledge or experience with B2C operations in China, and they possess a limited number of contacts for Lilleborg
to utilize. Further, Lilleborg will in China meet some of the largest cosmetic manufacturers in the world, where rapid product development and high marketing costs are typical characteristics. This strategy emphasizes expanding international activities through organic growth, introducing Lilleborg’s products to other international markets. An evaluation of China as a potential market could be conducted at a later stage when Lilleborg have gained international experience, higher international brand equity and positive results through organic growth.

On the other hand, not entering the Chinese market today will also lead to disadvantages. The Chinese cosmetics market is still growing fast and will continuously attract new players and make the rivalry among competitors even harder. Many foreign companies present in Shanghai and China today are losing money on their operations; even so they consider the future potential in the Chinese market to valuable to miss. By building brand equity these companies believe that they over time will become profitable as the market develops. To get Lilleborg’s product into the Chinese market is a time consuming process as well as building brand equity. To not enter the Chinese market now will most likely result in higher market barriers in the future.

Chapter 18. Choice of Strategy

“Strategy involves the future, long termed choices and paramount prioritizing”
- Fjeldstad, Kvalshaugen, Lunnan and Viken (2003, 33)

The authors believe that alternative 3 is the most suitable strategy for Lilleborg at this time. The authors believe it will be vital for companies with international ambitions to take part of China’s emerging market. Yet the authors do not believe that Lilleborg have the capacity or the prerequisites today to perform adequately in the Chinese market. The authors argue that the risks by entering the Chinese market are profound and by far exceed the benefits. Firstly, choosing an international market is by Solberg (2006, 168) defined as “the most vital strategic
choice performed by a company expanding abroad". Lilleborg however has no distinct strategy for choosing to enter China in preference to markets in other countries. Secondly, Solberg (2006, 170-171) states that Lilleborg’s management should define a limited number of vital criteria for choosing a market abroad. The criteria for considering international expansion seems to be a saturated market at home as well as free production capacity at the production facilities which can clearly be justified. The criterion for considering China however is based on the existing employees and cooperation with sister companies present in Shanghai. The authors believe that the criteria for expanding abroad cannot justify the criteria for entering the Chinese market giving its costs and adjustments needed compared to other markets. Thirdly, Solberg (2006, 125) states that Norwegian companies in their initial export phase quickly realize that competitors are both larger and more conscious than in Norway, and that the means of competition are more numerous and tougher. The existing players in the Chinese Lip Care market are mostly large International Corporation operating in several areas of the cosmetics industry. These potential competitors have a long experience in the Chinese market and possess massive resources for marketing research and execution purposes. Competing with these giants will demand tremendous marketing efforts. Nevertheless, by not entering the Chinese market today does not exclude an expansion to China at a later stage. It will still be important to Lilleborg to keep the focus towards international expansion, to gain international experience and competence, and to develop a strong brand name before the company again can direct attention towards the Chinese market.

If Lilleborg, on the other hand, should decide to enter China and the Shanghainese market, the authors recommend implementation and execution of alternative 2 as the strategic approach. The thesis’ following part will therefore give recommendations for execution of Alternative 2 based on the comprehensive analysis of Lilleborg:
“Enter the Shanghainese upper middle end market through alternative sales channels”

Chapter 19. Entrance Strategy

The purpose with this chapter is to present the best strategy for Lilleborg if entering the Chinese market depending on their goals and resources.

“An agent can in an early phase explore the territories of an unknown market”
- Gripsrud and Nygaard (2005, 113)

The authors recommend Lilleborg to use an agent in the company’s initial stage of penetrating the Chinese market. Both a distributor and the establishment of a sales office have been considered, but the former offer Lilleborg too little market control and learning, while the latter involves disproportionate establishing fees and maintenance costs (Solberg (2006, 203) Lee (2007, 114), Interview: Yuen, 2009 & Hollen, 2009).

The authors believe an agent offers a satisfactory balance of risk and financial requirement measured against market control and learning.

Lilleborg will get direct contact with the market by using an agent and will consequently gain more knowledge about the Chinese consumer’s preferences and
buying behavior (Solberg 2006, 203). This is in accordance to Lilleborg’s core vision as being a market oriented company.

19.1 Tracking an Agent

Although Borregaard and Elkem control an office in Shanghai which Lilleborg can use, these companies work in different industries with little contact to the consumer market in Shanghai. Nonetheless, Lilleborg should search through their Guanxi network and seek relevant agents Lilleborg can use in Shanghai. Further, the personnel situated at the office will be helpful for Lilleborg when searching for, negotiating with, aiding and stimulating the relationship with a potential agent.

Attending China Beauty Expo 2010 may be an alternative to find an agent for Lilleborg’s products. Talking with one of the exhibitors from China Expo 2009 showed renting space for the event will cost approximately RMB 40,000 for three days. Expenses for putting together the stand will also accrue.

19.2 Managing the Agent

Securing a competent agent as an intermediary to Lilleborg’s sales outlets is critical for Lilleborg’s success in Shanghai. Gripsrud and Nygaard (2005, 161-2) propose the term “Opportunistic Behavior” as a problem when negotiating with and managing the agent. Without proper control, the agent may decide to neglect the quality, effort or responsibility required of him in the cooperation contract. Should the agent reduce quality on his services to save costs, Lilleborg’s brand and reputation might be damaged as a result (Gripsrud and Nygaard 2005, 168-9).

Solberg (2006, 191) propose using Unilateral or Bilateral managing of the agent to solve Opportunistic Behavior. By employing Bilateral Managing the authors believe Lilleborg should find and establish a reciprocal cooperation with an agent, where the main focus is establishing relations between the parties. This relation will be built on trust, loyalty and solidarity. As the agent will be “included” into
Lilleborg’s organization, the agent will strive to accomplish Lilleborg’s goals because they are integrated with the agent’s own goals.

According to Geir Sviggum, Chief Representative for Wikborg and Rein it will be extremely important for Lilleborg to have control on how the agent is conducting business in China due to the fact that Norwegian penal legislation stretches outside of Norway. If Lilleborg’s agent is doing illegal business according to Norwegian law in China it is likely that Lilleborg have to take some of the blame. Sviggum recommends having clear instructions and written agreements of what the responsibilities of the agent are. Further, if it is suspected that the agent is charging substantially higher price than the market average, one can assume corruption is involved. In order to avoid this Lilleborg can find the standard price in the market and pay thereafter (Interview: Sviggum, 2009).

**Chapter 20. Positioning**

“If a company does an excellent job of positioning, then it can work out the rest of its marketing planning and differentiation from its positioning strategy”

- Kotler, Keller and Lu (2009, 218)

Kotler, Keller and Lu (2009, 220) describe how the first step of positioning is to determine *Category Membership* will be especially important to brands that are newly introduced to a market. In practice this means to inform the Shanghainese consumers what Lilleborg’s brand stands for. The authors recommend Lilleborg to establish and communicated their category membership by “*Announcing Category Benefits*”. This signifying that Lilleborg must use their product benefits to let the consumer know what the function of the product is. For instance communicate Lypsyl’s lip moistening effect. This will reassure consumers that Lilleborg’s brand will deliver on the fundamental purpose of Lip care products. Lilleborg should further communicate their Lip Care products categorization in the Lip Care category through claiming their natural and high quality ingredients.
Once category membership has been established, Points-Of-Difference (POD) and Points-Of-Parity (POP) must be developed. Points-Of-Parity can be divided into Category POP and Competitive POP (Kotler, Keller and Lu 2009, 219).

20.1 - Category Points-Of-Parity (POP)

Category POP is association that the consumer views as essential with a product. (Kotler, Keller and Lu 2009, 219). The authors have arrived at the following category POPs:

- **Lip Protection and Beauty Enhancing.** Lilleborg must be equally good as competitors to prevent dry lips and make dry lips soft through the Lip Moisturizers as well as enhancing beauty through the Lip Gloss.
- **Western Brand.** Being a Western brand in China is by many Chinese perceived as a quality staple.
- **Sunscreen.** Sunscreen is used widely in cosmetics in China because Chinese do not wish to get a tan. Lilleborg should adapt to this trend.
- **Natural Ingredients.** Using natural ingredients is perceived as highly beneficial in China, as chemicals are often perceived as unwholesome. Honey, Menthol and Vitamins are widely used in Lip Care today.

20.2 Competitive Points-Of-Parity (CPOP)

Lilleborg can use Competitive Points-Of-Parity to negate competitors’ PODs (Kotler, Keller and Lu 2009, 219). The authors have arrived at the following Competitive Points-Of-Parity:

- **Product Design.** Variations in product design are extremely wide in the Shanghainese market. Lilleborg will difficulty find a revolutionary new way of designing the products, but should develop this design on a level with competitors.
E-Commerce. Shopping online is increasingly becoming popular in China. Famous brands have started to offer their products cheaper through this channel. Lilleborg should be included with brands associated with E-Commerce.

20.3 Points-Of-Difference (POD)

POD are the benefits closely related to Lilleborg’s products and that cannot be found in a competitive brand (Kotler, Keller and Lu 2009, 219). The authors have arrived at the following PODs:

- **Alternative sales outlets.** By using alternative channels to reach the consumer this may make Lilleborg more exclusive in the eyes of the consumer.
- **Norway as Country Of Origin effect.** From this thesis’ findings Chinese associate Norway with Healthy and Beautiful People, Green nature, cold weather and wealth. There exist no Norwegian Lip Care brands in the Chinese market. Using Norwegian associations in marketing will differ from the current marketing activities in China.
- **Lip Gloss as a moisturizer.** Many respondents view Lip Gloss as a product that dries out the lips and in general are unwholesome. Lilleborg’s Lip Gloss contains healing ingredients, and can thus be positioned as a “two-in-one”-product.
- **Environmental Focus.** Mapping Lilleborg’s products as environmentally friendly may be difficult in the Lip Care industry, but should be strongly considered.

By attuning Lilleborg’s brand to the existing POPs, diversifying the brand through exploiting the PODs, and neutralizing the competitors’ CPOPs may give Lilleborg an opportunity to reserve a special position for their brand in the consumers mind.
Chapter 21 - Marketing Mix

If Lilleborg decides to enter the Shanghainese Lip Care market it will be necessary with significant adjustments to the Shanghainese consumers’ wants and needs. The Marketing Mix is to present guidelines on how the authors suggest Lilleborg should adapt to the Shanghainese Lip-Care market.

21.1 Place

The authors suggest that Lilleborg pursuit an agent as an intermediary to gain access to relevant sales outlets. The following part will thus deal with sales channels the authors perceive to be the most suitable to Lilleborg. In this subchapter the authors will propose how alternative sales outlets like fashion stores/clothing stores and E-commerce are the most suitable sales channels for Lilleborg to utilize to reach the segment, the Young Businesswomen.

21.1.1 Alternative sales outlets

It will be important for Lilleborg to find a sales channel that can communicate and maintain Lilleborg’s profile as an upper-middle end brand. The authors’ decision to rule out traditional sales channels is to pursue a Blue Ocean Strategy in Shanghai. The term Blue Ocean proposes creating uncontested new market space that makes competition irrelevant (Chan and Mauborgne 2005, 4). The authors suggest fashion brands with the same target segment as Lilleborg; the Young Businesswomen. Selling Lilleborg’s Lip Care products through a fashion store will make Lilleborg elude some of the obstacle regarding the heavy competition traditional cosmetic retailers represent in China. Chan and Mauborgne (2005, 12) argue that companies stuck in a Red Ocean follow: “…conventional approaches, racing to beat the competition by building a defensible position within the existing industry order”.
By selling through alternative stores, this would limit competition and give Lilleborg an opportunity to differentiate their brand from the highly competitive Lip-Care market.

### 21.1.2 E-Commerce

"Why Online Marketing? Because your competitors are doing it and your customers are expecting it"

- Annika Bryntse, Lecture at Fudan University, 27.04.09.

According to www.internetworldstats.com, the extension of the Internet has reached 298 million Internet users in China as of December 2008. From the thesis’ consumer in-depth interviews and focus groups the authors have received clear indications on Internet as a source to reliable information on brands, an effective sales channel and a reasonable economic alternative to cosmetic retailers. In addition, 93% of China’s households own a mobile phone, and 10% of these have Mobile Internet access (www.accuracast.com). At the same time, the increased number of young and trendy consumers wielding credit cards contributes to increase online purchasing. The authors suggest Lilleborg to offer their products through two Internet channels:

1) **Selling through Lilleborg’s own website in Shanghai**

Direct contact and consumer response are the advantages of utilizing an own website for E-commerce. By tracking and analyzing consumer’s activity on their website, Lilleborg can continuously adjust and update the website and products to optimize sales, as well as customizing offerings and services. Building a good brand is a time consuming process, which will most likely limit Lilleborg’s online sales in the introduction stage of their e-commerce process.

2) **Selling through an existing e-commerce channel**
Selling through existing Internet retailers is another option for Lilleborg’s e-commerce channel. As mentioned in the analysis, Lafaso.com and Strawberrynet.com are examples of such channels. Utilizing an existing e-commerce channel in China has its advantages; costs and resources demanded for utilizing this channel will probably be lower than utilizing their own retail channel. The disadvantages with this option are the limited contact - and response from customers. By selling through an existing e-commerce channel in China, much learning will be lost.

21.1.3 Balancing E-Commerce with Alternative Channels

The authors have presented E-Commerce and Alternative Channels as favorable for Lilleborg’s activities in Shanghai. However, these two channels must be interlinked, and the authors suggest using Reciprocal Marketing as an incentive for both parties.

"Reciprocal marketing is a practice in which two businesses promote each other in order to gain mutual benefits”.

Annika Bryntse, Lecture at Fudan University 27.04.09.

The primary idea behind this reciprocal marketing for Lilleborg is to create a brand alliance to effectively target the young businesswomen through a unique channel. The authors suggest Lilleborg should promote the fashion brands on Lilleborg’s web site, and the fashion store’s physical boutique should promote Lilleborg’s brand. As Lilleborg initially will enjoy no brand awareness if penetrating the Shanghainese market alone, such a brand alliance will give Lilleborg a chance to avoid financing cumbersome marketing costs alone.

21.2 Product

Consumer behavior is according to Schütte and Ciarlante (1998) a factor that generates the need for product adaption and new product development. Data obtained from Shanghainese Lip Care consumers emphasize the need for product
adaption and development of Lilleborg’s Lip Care products. Product adaption and
development is also an extremely important factor in the cosmetics industry today.
The authors will in this section present guidelines and recommendations on how
Lilleborg should adapt their products to the Shanghainese market.

21.2.1 Lip Moisturizers

Packaging and product design. The authors recommend a more exclusive and
differentiated packaging design that matches consumers’ preferences in the upper-
middle end.

The product designs on the Lypsyl Moisturizers were clearly not in accordance
with the consumer interviews’ preferences. Most recipients found the products
childish and appeared to them as low quality products. Lilleborg is recommended
to improve product design to create a more exclusive look. Chinese are often
looking for ways to stand out, and so should Lilleborg. The authors suggest that
the soft plastic tubes be changed into a metallic or hard plastic material to give the
products a more distinctive view that represents quality. Plastic represents cheap
merchandise. The products should also have a taller and slimmer design, but
increasing the contents is not necessary; many Chinese throw away their Lip
Moisturizer when half is consumed. Secondly, the authors suggest more uniform
but bright and distinguishing colors on the products, similar to the Lypsyl Aloe
Vera. The authors have the impression of the color “green” as a well-received and
preferable color in Shanghai. Lilleborg should offer different contrasts of green
products, which also may work effectively together with using the Country of
Origin effect.

The authors recommend an expiry date to be printed on the packages and the
product.
To distinct Lilleborg’s products from the “French oriented” cosmetics that now dominate the Chinese high-end market, Lilleborg should utilize their Norwegian specialty.

The authors are aware of the costs product developments entail, but it is still vital that the products are developed in accordance with the consumers’ preferences if the products alone should be a factor of success in China.

*Product flavors and content.* Mint, neutral or no flavor seemed to be preferred by several recipients in the thesis’ in-depth interviews and focus groups. Lilleborg’s Lypsyl Original and Lypsyl Therapy are not in accordance with these consumer preferences and should be adjusted. When it comes to the products content, Lip Care consumer’s specified the importance of a safe and healthy product with natural ingredients. This indicates that Lilleborg should emphasize the natural ingredients in their products. *Aloe Vera* should for instance be printed in the Chinese pictorial letters on the Lypsyl Aloe Vera package in addition to their content of vitamins.

*Product name.* Lilleborg only have the right to the brand name “Lypsyl” in Norway and will accordingly have to change it if entering China. The authors suggest that Lilleborg should use a Norwegian name on their Lip Care products that may make Chinese consumers associate with Norway. It was revealed during the author’s focus groups and in-depth interviews that Chinese consumers associate Norway with factors such as ocean, fish, natural, snow and fairytales.

The authors believe that a product name similar to the Lypsyl name would create associations to a counterfeit product or a Chinese brand, as the authors have experienced that several Chinese brands copy western brand names with small variations. Take for instance larger Chinese cosmetic providers such as *Oreal (L’Oreal), Nivichy (Nivea and Vichy)* and *Mybelive New York (Maybelline New York)*. The authors therefore recommend Lilleborg to register trademarks on name and design that can look similar to Lilleborg’s.
The Aloe Vera Moisturizer

The green color and Aloe Vera flavor was generally favored by the respondents from the consumer in-depth interviews and focus groups and should be utilized in the Chinese market. Even so, packaging and product changes are required because the product was perceived as middle end compared to Nivea.

The Extreme Moisturizer

The blue color on the package have been well received in the consumer in-depth interviews and focus groups, but the design was often associated with male rather than females. The authors recommend Lilleborg to change the “Extreme” to a more feminin design if this product should be targeting Chinese women. As Chinese consumers prefer white and healthy skin, sunscreen ingredients should be more emphasized in the products package design.

The Original Moisturizer

The Original was not well received in the Consumer in-dept interviews and focus groups regarding the features package design, colors or flavor. It was associated with glue and low end products and the smell reminded them of old Chinese medicine. In accordance with the negative respos, the authors recommend Lilleborg not to introduce this product in the Chinese Lip Care market.
The Therapy Moisturizer

Therapy was perceived as both negative and positive in the consumer in-depth interviews and focus groups. Although many thought it looked like toothpaste, glue etc., some were very attracted by the product’s unique looking. Due to its associations with pharmaceutical and medicinal products. Still the authors regard this as a product with potential in the market due to its unique design that will distinguish from other Lip Care brands in the Shanghainese Lip Care market. The product tube was perceived as convenient, clean, hygienic and easy to apply and should thus not be changed.

The Vaseline

As this is a Unilever product, changes must be made before introducing Vaseline to Shanghai. The product design was mainly well received by the Chinese Lip Care consumers and should accordingly not be changed more than necessary to differentiate from Unilever’s product. The colors associated with a professional and medicated product should also be utilized. Even so, the Lip Care consumer’s negative preferences to the product’s inconvenient and unsanitary way of use require product changes if the products is considered introduced in the Chinese market. Lilleborg could for instance add a small brush within the product top, which the consumers could use to apply the jelly.

21.2.2 Lip Gloss

This section will give recommendations in order to adapt Lilleborg’s Lip Gloss to the Chinese market.
Packaging and product design. The current package design was associated with low end products in the consumer in-depth interviews and focus groups. The reason for this was among the combination of paper and plastic on the package. The authors therefore recommend to change the packaging to a small paper box instead. As for Lip Moisturizers, Lip Gloss should also focus on a Norwegian product composition in its package and product design, by following indicated assumptions and associations with Norway as a natural and green country.

The Tube. The Lip gloss tube was perceived as similar to existing low priced Lip Gloss products. This was mainly caused by the golden color on the products and screw cap that they viewed as cheap. The authors recommend changing the golden color on the products. Expiration date on the products was viewed as extremely important, and the authors recommend that this is added to the package and the product. Adding a brush to the product for easier, healthier and more convenient usage may be also beneficial.

Product flavors and content. The product’s flavor were generally preferred by Chinese Lip Care consumers and would accordingly not need to be changed. Some of the consumers found the gloss a bit too oily, but the authors do not believe this is of any significance. Healthy and natural ingredients were preferred for the Lip Gloss products, so the Lip gloss natural ingredients like Shea butter and vitamins was perceived positive. The authors therefore find the Lip Gloss content and flavor suitable for the Shanghainese market.

Colors. The most popular Lip gloss in the consumer in-depth interviews and focus groups was the Cute and Carring due to its light and natural color. Pounting Pink was perceived as too pink for many of the participants. The authors recommend to introduce light and natural colors to the shanghainese market instead of strong and dark colors, but this area requires further research.
21.3 Pricing Strategy

Due to restrained information on Lilleborg’s production costs from Lilleborg, in addition to little available information on exporting transportation costs, retailer and agent margins in China, the authors do not feel they are in the position of thoroughly analyzing and defending a final price for Lilleborg’s products in the Chinese Lip Care market.

Therefore, the authors will follow the logic of Kotler, Keller and Lu (2009, 354-355) when costs are difficult to measure:

“When costs are difficult to measure (...) firms adopt the going rate price because it seems to reflect the industry’s collective wisdom.”

- Kotler, Keller and Lu (2009, 355)

This coincides well with Marcus Lee’s, author of the book “How to outsmart China”, suggestion to fix prices according to the local market in China (Interview: Lee, 2009). Since Lilleborg are targeting the upper-middle class, the authors suggest that Lilleborg should not only base their pricing on competitors, but also on the customer’s perceived value. Kotler, Keller and Lu (2009, 354) define this as perceived-value pricing. Lilleborg have to utilize other marketing-mix elements to communicate and enhance this perceived value to the targeting consumers. For Lilleborg to implement a successful pricing strategy based on this method, they must deliver more value than their competitors and prove this to potential customers. Even though Lilleborg adapt their products to fit the upper-middle class in quality and design, promotion activities will also determine the company’s final price. Lilleborg’s limited resources compared to competitors emphasize a lower frequency of promotion activities.

According to Kotler, Keller and Lu (2009, 356) the final price must also be a result of a brands quality and advertising. Brands with average to high product
quality and high relative advertising can normally charge a higher price than brands with low quality and low advertising.

Using going-rate pricing will place Lilleborg’s products alongside with the most expensive products for Lip Care. This price range is not justified by perceived value pricing were the price also must be adjusted to the customer perceived value. Even though Lilleborg adapt their products to fit the upper-middle end segment in quality and design, promotion activities will also determine the company’s final price. Lilleborg’s limited resources compared to competitors emphasize a lower frequency of promotion activities. The price would accordingly have to be reduced to justify the perceived value customers receive from Lilleborg’s products and activities compared to competitors.

The authors recommend using a combination of going-rate and perceived value pricing, and suggest a prize RMB 20-30 higher than Lip Moisturizers for the middle-end segment. This would result in a prize between RMB 60-70 for Lilleborg’s Lip Moisturizers in the Chinese market. Even though this price exceeds the maximum prize the consumers are willing to pay for Lip Moisturizers. The prize can be justified if Lilleborg customize their products in accordance to the consumer preferences and in accordance to Lilleborg’s potential brand equity.

Utilizing a combination of going-rate and perceived value pricing, the authors suggest a prize between 90-100 RMB for Lilleborg’s Lip Gloss products. Lip Care consumers are today willing to spend between 50-100 RMB on Lilleborg’s Lip Gloss products, while 100-200 RMB is the norm for Lip Gloss products. The authors believe that a price between 90-100 RMB can be justified through product adaption in accordance with consumer preferences and Lilleborg’s potential brand equity.

According to David Chan, the price on the product in Shanghai will be close to 3 times that of the price in Norway, this to cover all necessary expenses and the
margins (Interview: Chan, 2009). For instance will 100% taxes that accrue by exporting to China. Jan Eskil Hollen inform that the price on the Lypsyl products in Norway range from NOK 15 – 20,- while the Vaseline costs around NOK 13,- in Great Britain (1 RMB = approx 1 NOK). The Lip Gloss products on the other hand are priced around NOK 60,- in Norway. By following David Chan’s reasoning, the prices on the Lip Gloss products have to exceed the authors’ recommended price. The authors do not believe that a price of 180 RMB on the Lip Gloss products is justified in the Shanghainese upper-middle Lip Care market.

One option to Lilleborg could be to cut the margins on the Lip Gloss products. The authors do on the other hand not recommend cutting the margins, as an entrance into the Shanghainese market involves great risks. Lilleborg should rather consider to not introducing the Lip Gloss products to the Shanghainese market.

21.4 Promotion

*Figure 23) Building Brand Equity for Lilleborg in Shanghai*
Promotion will be vital for Lilleborg to build brand equity in China. Kotler, Keller and Lu (2009, 434) divides promotion channels into eight major modes of communication that can contribute to brand equity by creating brand awareness, brand image, brand responses and brand relationships among the consumers. The modes of communication presented are those the authors believe is relevant for Lilleborg to utilize in the Chinese market.

In their marketing, Lilleborg should emphasize how Norwegian beauty could be transferred to Shanghainese consumers through Lilleborg’s Lip Care products. Norway is associated with a healthy and natural environment, aspects Chinese consumers look for in beauty enhancing products. Another tip to Lilleborg’s potential marketing campaign in Shanghai could be to emphasize how the Norwegian experience with extreme weather helps Lilleborg to superior competence and knowledge on how to protect dry lips. One of the respondents in a focus group stated: “You should know how to make this (Lip care products) as you have experience with all sorts of weather”.

21.4.1 Personal selling

Staff training will be an important mode of communication which Lilleborg should utilize when introducing their Lip Care product to the Shanghainese market, due to the fact that 60% of all customers in store end up buying a different brand than first intended Hexter and Woetzel (2007, 61). It will therefore be important for Lilleborg to train the sales personal in the fashion stores about Lilleborg Lip Care products in order to increase the sales of their products. In addition they can reward the employee who sells the most Lip Care product each month in order to motivate the employees of the fashion store to sell the Lip Care products. There are of course the negative aspects by conducting staff training. For instance does this communication mode require manpower situated in Shanghai. This could be solved by taking advantage of the free capacity of the Lilleborg employees at the Borregaard and Elkem office in Shanghai.
21.4.2 Direct & Internet marketing

According to Lip Care consumers from focus groups and in-depth interviews, Internet seems to be a growing source of information and a more important sales channel in the Chinese lip care market.

Lilleborg should, according to Kotler, Keller and Lu (2009), focus on ease of use and physical attractiveness when creating an international website, as this are factors visitors will judge a site’s performance on.

In addition, the authors suggest that Lilleborg utilize other forms of internet marketing, mainly to support and lead users to the company’s web site. Lilleborg could use search ads or search engine marketing to lead the consumers to their website and convince them on buying their Lip Care products. Lilleborg could also use display ads on blogs, review and information sites leading back to their web site. Sponsoring web sites or special contents on web sites is another opportunity for Lilleborg in internet marketing. For instance sponsoring www.cosmeticnews.com will contribute to build brand equity for Lilleborg and might lead to direct sales through their web portal.

21.4.3 Sales promotion

A sales promotion activity is a promotion channel that Lilleborg can utilize without having to spend the amounts of costs and resources used on advertising.

Cross-promotion is a natural choice of selling and promoting products in alternative stores were Lilleborg’s products are being advertised through another brand. When using this promotion technique it is vital for Lilleborg to find brand partners with the same target groups. The Lip Care products could be attached to the alternative stores products or simply be given out as free and exclusive trials.
21.4.4 Events and experiences

An optional promotion activity is event marketing. At events were the audience matches Lilleborg’s desired target audience; a type of sponsorship could help Lilleborg create the desirable brand equity. Fashion shows, fairs and trade shows like China Beauty Expo are examples of events Lilleborg should utilize if deciding to enter the Chinese market. By offering free samples, prizes, advertising and publicity measures Lilleborg will be able to create brand equity in China with limited costs.

21.4.5 Public Relations (PR) and publicity

Lilleborg should be aware of the importance of Public relations. PR can help Lilleborg to promote and protect its image or individual products. Publishing reports, news, brochures, articles and newsletter is one way of influencing the company’s target segment and could be done through online channels like Lilleborg’s web site or by email. Publicity is a promotion channel that Lilleborg could exploit without having to pay media costs. Many magazines carry articles featuring newsworthy products as well as product test. Lilleborg should try and influence these magazines to print articles about their new products introduced in Shanghai as well as be part of product tests. Being represented in articles, and tests at cosmetic and Lip Care information sites will be an important source of influence to Lilleborg with the user growth rate this channel possess today.

21.4.6 Word-of-Mouth marketing

Chinese Lip Care consumers seem to be greatly influenced by word-of-mouth communication. Recommendations from friends are one of these vital sources of word-of-mouth communication generated from experience and promotion. According to Kotler, Keller and Lu (2009, 502) word-of-mouth marketing can be particularly effective for smaller businesses that customers can feel a more personal relationship to.
The use of opinion leaders will be an important source of word-of-mouth communication to Lilleborg if entering the Shanghainese market. Opinion leaders are widely used in the cosmetics industry in China today, but mainly through advertising. Making opinion leaders use and recommend Lilleborg’s products without having to pay media costs could be an effective way to stand out from competitors and create interest around the brand. Further, implicit advertisement is the activity of placing a product brand in movies, music videos etc. to create brand awareness and linking the brand to celebrities.

Word-of-mouth marketing can also be created through online channels like Web sites and blogs. According to Kotler, Keller and Lu (2009, 504), roughly a third of Internet users read blogs. Many consumers use blogs to examine product information. Lilleborg could create their own blog with updates on new products and features or influence popular blogs about cosmetic products to write or review Lilleborg’s products. At the same time information from corporate web sites or professional review sites may be seen as more trustworthy than blogs and should accordingly be utilized as word-of-mouth channels.

Chapter 22. Creative Solutions

This chapter will give some creative recommendations for Lilleborg’s future activities in China.

Clubs. The authors suggests that Lilleborg can create an exclusive member club in cooperation with the fashion store outlet. Each member in the club has their own member ID and a member Card. A person will be offered membership upon purchase of a Lilleborg product or a product in fashion store. Through this card the members gather member points or credits for every products purchased, participating in market surveys, participate in promotional events etc. A member’s status or position within the club increases proportionally with the level of engagement. The authors stress that spending money should not be a prerequisite
for joining the club, but those that do shall of course be rewarded. After a member have accumulated a certain amount of credit the credit can be spend on Lilleborg’s web page or the fashion store to buy new products, receive discounts etc.

*Mail Order from Norway.* Another exiting option the authors would like to present is the possibility of mail order from Norway. Under the legal factor in the authors’ SLEPT analysis it becomes clear that fewer taxes will accrue if a foreign product is imported by a Chinese citizen rather than exported to China by a foreign enterprise. By offering a mail order function from Norway, the end price will be lower than products in China.

*Cell-phone Market.* As 10 percent of the total population who possesses a cell phone in China is connected to the Internet, this could be an interesting alternative channel for Lilleborg to utilize. For instance, Lilleborg could offer mobile phone functions that allow consumers to purchase Lilleborg’s products from the cell-phone. The authors believe cell-phone marketing in China could be an interesting field to conduct further research on.
Part 6: Reference & Appendix

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Appendix

Appendix 1.0: Summaries of In-Depth Interviews

1.1 Interview with Jan Eskil Hollen

Relevance: Export Manager for Lilleborg AS

Place: Oslo, Norway – 22.02.09

Subjects and objectives: Lilleborg’s intentions for the Chinese market and its goals for the thesis.

Because of its importance, this interview has been translated from its original language, which was Norwegian.

Company background

Lilleborg is a part of Orkla, who also controls companies like Jotun, Borregaard and Elkem. Lilleborg consists of Lilleborg professional and Lilleborg home and personal care, and Jan Eskil Hollen is responsible for the international activity for both departments. The company has 3 factories in Norway. In Norway, Lilleborg is managing the whole value chain themselves and their products can be found in nearly all grocery stores in the country. According to the export manager, the company’s annual turnover is around 2 billion and the profit margin around 300-400 million a year.

Intentions and desires for the Chinese market
Mr. Hollen sees a possible entrance into China as a strategic approach to fully utilize their production capacity at home. Whether Lilleborg is entering China or not is up to the results of the thesis. Mr. Hollen wants the main focus of the thesis to be on the Chinese consumers needs. The thesis should also consider possible distribution channels for Lilleborg.

**Entrance strategy**

Jan Eskil would prefer to enter the Chinese market through internal networks in Orkla, who have offices in China through their subsidiary companies. Using Lilleborg’s sister company Borregaard’s network in China is seen as a potential gateway to possible distributors. Involving any others would not be preferable. Mr. Hollen prefers to continue to produce their Lip Care products in Norway. The reason is simply that Lilleborg is afraid of losing their product formula which can result in copycats. Preferably, the entrance strategy would be to target a high-end segment of the Chinese market.

**The Chinese consumer**

Lilleborg is very dependent on the Chinese consumer’s needs and requests to be able to satisfy them with their products. Jan Eskil states that; “I need to know what the consumers want before I can give them our products. That is your assignment.” All consumer preferences are very valuable to Lilleborg and the export manager. He is using cultural values and the Country of Origin-effect as examples. “Always ask the consumers why they are using Lip Care products”. “With this knowledge you can decide on who and what our segment should be.” The knowledge from an in-depth interview and a focus group may differ, so both techniques could be interesting for Lilleborg. Due to a limited production capacity, the company cannot serve the mass market; they have to target the upper middle class.

**The products**
Lilleborg wants to fully understand the Chinese consumer’s preferences before any changes of their products are to be made. Jan Eskil believes that taste on the Lip Care products would be an interesting preference to consider. The export manager believes that the products must have a high price due to the transportation costs involved in shipping from Norway to China. “In order to have a high quality product, the formula must be right and the packaging must give a signal of high quality. If the product is expensive, so must the packaging be. Lilleborg has a higher value added to their products than their competitors, which is why we make money.”

Promotion

When discussing promotion issues, Mr. Hollen states the importance of branding. The focus should not be on the company, but on the brands. The brand name “Lypsyl” is owned by another company outside Norway, and can therefore not be used. The other product names could be used if preferable. The export manager is very interested in whether the Country of Origin effect could be of importance. He personally believes that it would be important for Lilleborg to show the consumers that their product is made in Norway and not in China. This would also be an incentive to take a higher price for their products in the Chinese market.

1.2 Interview with David Chan

Relevance: Chief Representative for Borregaard AS

Place: Shanghai, China – 26.02.09

Subjects and objectives: Possible distribution channels. Approaching and working with a distributor. Consumer preferences and product adaptation.

Distribution channels

According to Mr. Chan, going straight to possible retailer is not an option due to the fact that they will not keep stock for Lilleborg. “There are so many similar
products that would like to be on the shelf, so everybody is competing on the space” David states. “The products on the shelf are from companies who are willing to pay the money to get on the shelf.” According to David, it will be too costly for Lilleborg to compete here, and that is why they have to go through a distributor willing to invest in their products. There are two kinds of choices here. One option is the foreign companies who have an Asian background. Their distribution system is very local while the management is foreign. The second setup is very local and consists of Chinese to Chinese distribution systems. Here it is a lot to choose from and it is hard to know where to start. It would be preferable for Lilleborg to have one distributor taking care of all possible retailers, and it should not be more than two. The time frame on the whole process, from finding a distributor to Lilleborg’s products is on the Chinese market, will according to David approximately be one and a half year. The reason for this is product tests that will take about a year. In addition, discussion of possible suppliers and the formalities and calculations around a contract takes time.

**Approaching possible distributors**

David’s tip for finding possible distributors is to take a look at the labels of products in stores dealing with more import than the domestic products. If a product is imported it must keep the original label and then put a Chinese sticker on top. The sticker describes who the distributor is, as well as their address and phone number. “I am suggesting that it could be many distributors, who are selling to the retailers and supermarkets in the food business, can food, baby food and in the daily chemicals who has no products like yours in their product portfolio. But they have the connection to these retailers, so they may be interested”. A second option is to search for distributors on the internet. “It is like looking for a drop of water in the ocean. It is very difficult and you don’t know who you can trust”. When approaching possible distributors it is important to look at the situation from both sides. “Why should they put your product on the shelf when they have a lot off suppliers begging them every day to let them into their
distribution system?”. Lilleborg has to come up with a strategy to convince the distributors that doing business with them is profitable. According to David the argument should simply be that from Lilleborg’s experiences there is a selective group of people willing to pay for their products in China, and the company thinks they can double their margins. Lilleborg would also have to present numbers found in the market concerning existing retail prices and possible price options for their products. Some calculations on volume scenarios for different months, the changes of volumes and the profit the distributor can get into is also vital information to be presented to the distributor. “Considering the distributors investment is important. They need to get the product on the shelf, provide the human resources, taking care of advertisement and so on. You have to give them a very good comfortable zone of investing into”. Distributors are usually looking for possible distribution for the whole country. If the distributors are interested in Lilleborg’s products, they would be interested in provinces. In the beginning, they may want to test if the products are good or not by limiting the distribution in certain cities or provinces before they expand to the whole nation.

David was earlier involved in helping Peter Møller to introduce some of their products in China and recommends us to investigate a company called EKHS, a distributor Peter Møller used. EKHS is a Swiss based company and the management is foreign, but in operation they are Chinese and they have their own Chinese network and can distribute through their local contacts. Whether they would be interested in Lilleborg’s products, David does not know.

**Working with a distributor**

The distributors will have their own people approaching the retailers and outlet stores. A distributor can buy from Lilleborg, keep stock and pay them in advance. The distributor takes the financial risks and would prefer a long payment time. They already have the personnel in place and adding another product line would help them to share the costs of this personnel. “I think the aim is to move the products to China at as little cost as possible, get them fast on the boat, get the
money back and launch another one. When the volumes build up, then we can think about setting up our own distribution system.” David states. It is easy for existing distribution companies to utilize their network and get Lilleborg’s products on the market immediately. According to David, Lilleborg should think about setting up an own distribution network at a later stage.

When it comes to marketing, Lilleborg have to combine forces with the distributor. The distributor needs to learn about Lilleborg’s products and their knowledge on marketing in Europe. Lilleborg have to utilize the distributor’s knowledge about the Chinese market and consumer needs. The distributor has a lot of influence on the Chinese consumers and will accordingly know some of their needs.

According to David the risks involved for Lilleborg in this kind of cooperation would be payment and image. Lilleborg have to make sure they are getting paid before producing and exporting their products to China. Secondly, it is important to monitor how and what the distributor are doing in order to ensure the company’s image.

Possible retailers

Lilleborg do not have the capacity to target the mass market and retailers like Carrefour and Wal-Mart. When targeting these kinds of retailers, there will also be a continuous fight with competitors over costs. According to David, Lilleborg cannot be a part of this fight and should target the premium retailers like Watsons, Mannings and selective pharmacies. David also states that Lilleborg’s products should be sold at a higher price with fewer volumes. By doing this, the company can create an image of being exclusive, as their products cannot be found in the supermarkets.

Retailers and distribution channels

Possible retailers like Mannings and Watsons would be more interested in retailing than doing distribution work. They cannot and do not want to keep a lot
of stock, and their warehouses are used more as a transit than anything else. According to David, it would be too difficult and complex for Lilleborg to contact the retailers directly. If Lilleborg is going to do this they have to do the distribution work themselves. First they have to find a warehouse, and secondly it is the money issue. “Chinese retailers will not pay you back until they have money from the customers”. It is possible to get credit from the home office and normally you will have a number of credit days. The problem is that when other goods arrive in China, Lilleborg will immediately have a cash flow problem due to storage fees and sales personnel costs. This would be a risk for Lilleborg and Orkla and it would require too much involvement from Orkla. There are too much people and money involved with the existing distributors. Lilleborg cannot do the distribution work themselves by Orkla’s strength alone.

**Borregaard as a gateway**

When discussing the possibility of using Borregard’s network and awareness to enter China, David stated that “I am willing to offer that. But Borregaard is working with industrial operations. We do not have the consumer products, experience and knowledge. I know where it is, but I don’t know how.” Everyone involved in Borregaard’s operations in China are chemists or marketing people for the chemical areas, accordingly they have no connection or experience with B2C operations. At the same time, David sees himself more like an ambassador for Orkla in China and offers to provide helpful assistance whenever he is needed.

**Lilleborg’s target group**

According to Mr. Chan, Lilleborg’s target group is not the mass market, but a special group of people that are willing to pay extra for a better quality and image. “This is the key; this is not for the ordinary mass. If these products are for the ordinary mass we can forget about this whole project, and I think that this is the purpose of the whole project”.

**Cultural preferences**
When discussing cultural preferences and its possible effects on consumer preferences and buying behavior, David was quite determined. “This has nothing to do with the culture, nothing. Just forget about this. Lilleborg are not in this area.” Lilleborg’s consumers are educated, have the money to spend and want a better quality and image. These consumers will probably have a more Westernized thinking and use Western products.

Norway as a country of origin

“Norway is little known in China. Everybody has heard about Norway as a country from Northern Europe, supposedly green, but that’s it” David states. At the same time, this can be an image Lilleborg can utilize.

Suitable products

We started talking about Lilleborg’s products by discussing what products that would be most suitable for the Chinese market, the Lip Moisturizer or Lip Gloss. David was very determined about the moisturizer by saying that “Of course people would prefer neutral color, because it could fit for everyone”. “Kiss in a tube” would be used for special occasions. It will be easier to enter the market with the neutral lip moisturizers than with the Lip Gloss with color. The “Kiss in a tube” products could be good to have as a sideline to the moisturizers. Introducing only Lip Gloss would according to David be too dangerous.

Product differentiation

According to David, everyone carry about the same chemical formula and the consumer cannot tell the difference. “Everything has to do with whether they are comfortable with paying extra premium because of the skin, that the service looks good, and the fact that they are buying an imported product. It has nothing to do with the contents inside, it has to do with the skin and how you market it”. According to Mr. Chan, this is why Lilleborg is famous for these products at home, because they are doing something their competitors are not doing. David
also claimed that the only reason people think Lip Care with honey or Aloe Vera is better than a natural product is because it is written on the package design. The image of Norway can be utilized to make Lilleborg’s products stand out from the others, like pollution free, ice and snow, green, etc. Lilleborg’s products should not be placed along with everyone else. This leads to confused consumers and copycats. “The key is how Lilleborg can make themselves stand out from the others”, Mr. Chan states. There are two ways differentiating your products from the competitors. Either you have your own outstanding part of a shelf or you offer a complete set of skin care, like Neutrogena or L’Oreal.

Product form and design

David was very determined when it came to the product form. Since Lilleborg is trying to utilize their extra free capacity, they should focus on what they have right now. The company’s job is to create a strategy on how to convince the consumers that what they are paying is worth the money. “It is a mind game and it’s got nothing to do with the product” David says. Even though surveys among Chinese consumers results in different preferences on product form, David would recommend not changing it. This he says, is due to the fact that a survey will only tell you their preferences, but human being buys in the instant and it has nothing to do with scientific research.

“I cannot judge or justify changing the production because our results give us the intension of the consumer. I cannot sell this, only the intension. I can only sell that the time we launch the product and we learn that this packaging is not good, it needs to be changed. Then we have learned a lesson and we change it.” David states. Before this, Lilleborg should make the assumption that, from a production point of view, this is what they can provide. Lilleborg’s principle is to fully utilize the production in Norway, and to do this the fastest and cheapest way, it is not possible to ask for too many changes. The image of the products should be in a way that looks 100 percent imported, otherwise the consumers will not pay a premium price for Lilleborg’s products. According to David the product name and
package should be in English, since the targeting consumers are somewhat educated and the name would give Lilleborg an edge compared to the Chinese named products. David also stated that everything except the form of the product could easily be changed.

**Product requirements**

Skin care products may need a prior safety certificate from the local health authority like food products. If this is the case, Lilleborg have to apply to the ministry of health for a license that also involves product tests at research centers approved by the state. These tests will take about a year in order to find out about possible accumulated toxicity and reactions after use. The requirements for skin care products can be found on the website for the ministry of health. It might take a year to complete all the safety tests and paperwork. It will also require quite a handful of money to get the products tested. Lilleborg will have to utilize an official agency to do this. These agencies have consultants who have worked for the ministry and know the connections, test centers and how to apply for the license and registration. These agencies should be available at the website for the ministry of health. For the consumers and authority it is also required to have some description of the imported product in Chinese. A label is put on the original packaging with the Chinese characters that describe what it is, what it is used for, who the distributor are and their address and phone number. The address and phone number is for the customers in case they have a complaint or would like to contact the distributor for other reasons.

**1.3 Interview with a Dermatologist**

**Relevance:** A Dermatologist is a Skin Expert.

**Place:** Children’s Hospital in Shanghai, China – 09.03.09
Subjects and objectives: By interviewing a dermatologist we wished to explore Chinese relationship with Lip Care – products, their ways of use, times of use and how Lilleborg can differentiate themselves from international competition.

Translator: Gigi Wu.

According to www.wikipedia.org, a dermatologist is a doctor specialized in skin and its diseases, with both medical and surgical aspects. Due to very limited time this interview was very brief, but nonetheless valuable.

The Customer

The doctor tells us that moisturizers to prevent dry lips are today frequently used by Chinese. When experiencing dry lips a typical Chinese will first go to the supermarkets or stores to buy Lip Care products, which usually takes care of their problem. However, in cases where the supermarkets’ products are inadequate, they go to the doctor for help. The hospital produces and sells their own skin care which is also suitable for dry lips.

So the supermarkets offer a wide array of Lip Care – products, and Chinese will only go to doctors if they have allergies, a disease or a severe problem with their lips.

Chinese view of Beauty

Further she tells us that Chinese view of beauty is mainly twofold. Primarily there are those who prefer natural beauty with less color and fragrance who buy neutral cosmetics. Secondly there are those who use color, moist and fragrance as a tool to enhance their beauty. This second group is for the most part young women, and is a far smaller group than the first.

Country of Origin
When inquired what associations the doctor has with Norway and Norwegian products she tells us she only know it is a small country. She would not attach any positive or negative feelings to a product if she knew it was Norwegian. She tells us that she recommends products only if they are of high quality. The country of origin does not matter.

However, when asked what brands she would recommend to a patient, she tells us that it would probably be a French brand. According to her belief, France drive the most advanced research on cosmetics in the world, and their products are generally of high quality. France’ research departments excel in both regular cosmetics and allergic treatments.

Ingredients

When asked what ingredients she prefers to find in a Lip Care-product she simply answers that it should have some sort of healing effect. She can’t tell us any specific ingredients, but agrees when we propose Aloe Vera and honey. She adds that many of her patients like Lip Care – products with apple taste.

Recommendations

When approached by a patient suffering from a lip care problem, she will recommend international products proportional with the patient’s income. The higher the income, the more is the patient willing to spend. The dermatologist will recommend international brands if she can, because she believes these are of higher quality. She also recommends some pharmacies, namely: “Number 1 Pharmacy”.

1.4 Interview with Henning Strandås

Relevance: Brand Manager in Voss Artesian Waters

Time and Place: Café Wagas, Shanghai. 30.03.09
Subject and objective: Branding in China. How Voss has branded their products to signify exclusiveness in the Chinese market.

This interview was conducted in Norwegian. In order to avoid misunderstandings or misinterpretations this summary will remain in its original language.

Branding


Voss bygger opp sin Word of Mouth strategi gjennom innsalg til eksklusive restauranter og hoteller. De bruker ikke penger på markedsføring, men finner de mest eksklusive stedene og selger kun til disse. Etter Madonna serverte Voss i sitt bryllup førte det til en kjempeøkning i USA. Dicovery brand går ut på Word of mouth. For eksempel hvis man har fått servert Voss vann på en event vil dette skape assosiasjoner ved neste anledning Voss vann blir servert. ”Når jeg var der fikk jeg det vannet”. Mennesker i dette segmentet har samme referansepunkt.

Kinesere er veldig dømmende til merkevarer. Hvis et brand blir assosiert med en kjent person i Kina kan merkeverdien stige og synke i samsvar med personens popularitet.

Voss driver B2B markedsføring. Deres største konkurrenter er ”Evian” og "Perregrino", men Voss vil hele tiden ligge litt over konkurrentene i pris, men aldri for mye for da blir det ingen salg. F.eks. 15 til 20RMB mer enn


**Pris**

Det er viktig å ta en prissjekk i markedet hvor man finner ut hvor prissensitivt markedet er. Det er lettere å gå inn med en høy pris og deretter senke den med rabattsystemer enn å gå inn med en lav pris og deretter øke den. De kan eventuelt begynne på 50 og så senke til 43. Kunden vil da tenke at siden produktet kostet 50 før må det være et veldig bra produkt.

Det er viktig å snakke med distributører angående priser og viktig å tenke på hvorfor leppeproduktene til Lilleborg skal være dyrere? Da må det være noe spesielt med disse produktene.

Det er smart å bruke USA som en suksesshistorie og referansepunkt. Da er det også lettere å love distributøren en margin.

**Country of Origin**

som oftest tilfellet blant kretsene Voss selger til. Voss selger på at det er et Calvin Klein design på flasken. Å spille på Country of Origin er en del av marketingen, men det er ikke deres viktigste salgsargument. Det er viktig å informere om at vannet ikke er tappet i Kina for kinesiske produkter forbindes med ”low- end” produkter. Det er i tillegg mye ”fake” vann på markedet, men det finnes måter å kontrollere dette på. For Voss er det viktig at flasken alltid blir åpnet foran kundene slik at de ser forseglingen gå opp. Jo større markedet er, jo større er faren for kopiering. Voss skal ikke bli assosiert med low- end og en utfordring her er at de har fått tilbakemeldinger på at Voss flasken ligner på flasken mange taxi-sjåfører har.

Prisen har mye å si for salget av Voss vann fordi forbrukere må forstå det som eksklusivt. Det er viktig at det er lett for distributøren å selge produktet. Hva med å selge leppepleieprodukter i andre butikker enn Watson’s, Mannings etc. f.eks. klesbutikker?

**Distribusjon**

distributøren til å stole på deg. Guanxi er viktig her. Word of Mouth er viktig fordi de kun ser på sin egen referansegruppe. Også utløpsdato er veldig viktig i Kina!

1.5 Interview with Geir Sviggum

Relevance: Chief Representative for Wikborg Rein

Place: Shanghai, China – 14.03.09


This interview was conducted in Norwegian. In order to avoid misunderstandings or misinterpretations this summary will remain in its original language

Inngangsstrategi i Shanghai


En annen måte å entre Kina på er, i følge Geir, å opprette et representasjonskontor. Dette vil ikke være en selvstendig juridisk enhet, men en forlenget arm av moderselskapet inn i det kinesiske markedet. Geir mener stikkordet for et representasjonskontor er markedsføring. Det er ikke bare distribusjon men også å drive en omfattende form for markedsføring som er viktig ved denne representasjonsformen. Å ha en nordmann som tar hånd om at det rette

Den tredje representasjonsformen er en ”Foreign Owned Enterprice” (FOE) forteller Geir. Dette er en juridisk enhet i Kina med egne ansatte og egne inntekter, som opererer mer eller mindre som et norsk aksjeselskap. Geir sier man kan se på det som et norsk aksjeselskap med et moderselskap i Norge som eier det i Kina.

Den fjerde og siste løsningen i Kina er en Joint Venture forteller Geir. Dersom to parter stifter et aksjeselskap sammen, har man en JV. I følge Geir har JV’s en egen lov i Kina. Det er to former for JV i Kina, en er mer avtalebasert, og en er mer lovlig basert. En JV er neppe interessant for Lilleborg sier Geir. Han mener man er svært utsatt for produktkopiering og tyveri med denne inngangsstrategien. Geir forteller at det i enkelte bransjer er lov pålagt å ha en JV, for eksempel i olje og gass sektoren. I andre tilfeller brukes JV’s til å bruke kontaktnettverket til partneren i markedet når man skal selge.

Helhetlig mente Geir at en av de to første alternativene vil være interessante for Lilleborg, spesielt i oppstartsfasen.

Avtaler og kontraktsforhold med distributører

Et annet punkt Geir mente var vanlig å forhandle frem og som ville være svært viktig for Lilleborg var Intellectual Property Rights (IPR). Hvordan IPR kan beskyttes er det ingen fasit på mente Geir, men dette ville også avhenge av hvilken etableringsform man hadde. Ved å ha skriftelige rutiner på alt, ha en kontroll på det man gjør gjennom rapporteringsrutiner, samt ha en gjennombygd strategi for beskyttelse av IPR mente Geir ville være noen av hovedstikkordene. I følge Geir ville det også være andre avtaler og kontraktsforhold som ville være naturlig å forhandle frem, men de nevnte er de folk flest er opptatt av og som man også burde være mest opptatt av.

**Skatter og avgifter**
Ved etablering i Kina avhenger skatter og avgifter av hvilken økonomisk sone man er i, hvilke former for salg man gjør, og hvordan man gjør det.


**Krav til produkter i Kina**

I følge Geir må et produkt godkjennes i Kina for å kunne selges der. Hvilke godkjennelsesprosedyrer Lilleborg ville måtte i gjennom hadde han ikke oversikt over. I forhold til tidsbruk på en slik prosess mente han en tommelfingerregel ville være at den byråkratiske prosessen vil være to dubbelt av det den er i Norge, og vil ta tidobbelt så lang tid. Et år med produkttesting skal man ikke utelukke forteller Geir. Fra å ha et godkjent produkt vil det, i følge Geir, avhenge av hvor effektiv man er til å finne den rette distributøren og hvor interessert de har til å få produktet ut på markedet. Da produkttestene pågår gjør man klart avtaleverket og spør partneren om de er villige til å inngå en avtale under forutsetning om at produktene blir godkjent.

**Nye rettslige aspekter**

Geir bemerket at majoriteten av de som feiler i Kina, feiler fordi de har kommet i kontakt med feil folk, og blir dermed lurt. I følge Geir er det grundige
forberedelser som er nøkkelen til suksess i Kina. Gjennom sin karriere har han sett mange feller blitt unngått ved gode forberedelser, og katastrofer ved dårlige forberedelser.

1.6 Interview with Kai Simon Yuen

Relevance: Purchasing Manager for Lilleborg AS situated in China.

Place: Fudan University, Shanghai 20.02.2009

Subjects and Objectives: Formålet med dette intervjuet var å finne mer ut om Lilleborg i Kina.


Lilleborg er ikke representert gjennom et kontor i Kina, men har tre ansatte inkludert Kai Simon Yuen gjennom Borregaards kontor i Shanghai. Borregaard fakturerer så Lilleborg for bruk og kostnadene til disse ansatte. De tre ansatte fungerer som en Lilleborg enhet og er registrerte i selskapet i Norge. Ved og officielt sett være Borregaard ansatte i Kina omgår Lilleborg kostnadene ved å etablere et representasjonskontor i Kina. Å etablere et salgskontor medfører høye etableringskostnader som kan komme opp i syvsettinger numre. Disse etableringskostnadene er for formaliteter og kontorlokaler. For å kunne drive markedsføring gjennom dette kontoret er det også et krav til kompetanse hos de ansatte på dette området. Dette vil kreve ansettelse av flere ansatte med den rette kompetansen på området. Salgskontor betyr ikke at man er representert i Kina, for man kan fint drive en forretning ut av sin egen leilighet med andre selskapsformer her. Salgskontor betyr at man har rettighet til å inngå kontrakter, at man er formelt registrert som en forretning i Kina med egen konto etc. Lilleborg trenger ikke dette, for all betaling går gjennom Norge og alle kontrakter signeres av Lilleborg i
Norge. For Lilleborg vil dermed salgskontor være penger ut av vinduet. En "marketing manager" fra hovedkontoret i Norge må da også sette av tid til å styre denne etableringen og driften av kontoret. Da "marketing managers" i Norge allerede er svært opptatt kan dette bli vanskelig. Kontoret vil også kreve høye engangsinvesteringer og ha høye driftskostnader over et par år der både faste og variable kostnader blir høye. Å etablere et representasjonskontor i Shanghai blir med andre ord ressurskrevende samtidig som Lilleborg vet lite om hvor mye de kan tjene på dette.


Kai Simon mener at Lilleborgs smale produktsortiment vil ikke være noe spesiell hindring for at en agent skal klare å få leppe pleie produktene inn til mulige utsalgssteder. Det som er viktig er samlet volum, så dette blir helt avhengig av
inngangsstrategi i de utvalgte kanalene. For å komme inn i kanalene kan man gi rabatter og andre typer fordelaktig behandling og dette er svært vanlig praksis i Norge også. Kai Simon mener fokuset må være på læring og utforsking i begynnelsen, og agent gir bedre forhold for læring en distributør.


Ifølge Kai Simon har Lilleborg svært liten eller ingen kunnskap om det kinesiske konsumer markedet per i dag. Databasene i Norge gir lite eller ingen pålitelige data i et usikkert, diversifisert og lite transparent marked som Kina. Jan Eskil, eksportdirektøren til Lilleborg har tilgang til noen rapporter, og gjennom søsterselskapene i Kina har de ansatte med kjennskap til kinesisk forretningskultur og urelaterte markeder som aluminium og kjemikalier. Men når det gjelder forbrukervarer er innsikten ganske ubetydelig. Lilleborgs søsterselskaper som er tilstede i Kina er Elkem, Borregård og Sapa. Lilleborg og Borregaard har et nært samarbeid som er basert på at Lilleborg kan bruke kontoret til Borregaard i tillegg til administrative funksjoner som utbetaling av lønn etc. Lilleborg faktureres av Borregaard for dette. Lilleborg kan dra nytte av Borregaard og Elkem hvis de skal gå inn i det kinesiske markedet i den forstand at de har lokale ledere med lang erfaring. Dette kan være til hjelp i forhold til å gi Lilleborg innsikt i kinesisk forretningskultur og forhandlinger. De kan også eventuelt være til hjelp ved valg av inngangstrategier i det kinesiske markedet. Lilleborg har flere ikke-kinesiske ansatte i Norge som snakker kinesisk. Utøver dette må man huske at bare det å ha ansatte i Kina gir mye læring for bedriften, selv om dette er innkjøp og ikke marketing. De fleste blir veldig imponert av mulighetene man ser i Kina, og de
fleste lederne i Lilleborg har vært på besøk. Det vil ikke være noe problem for de Lilleborg ansatte i Kina å hjelpe Jan Eskil eller andre med selskapsregistrering, forhandlinger med agent/distributør og søk etter disse etc. Det er heller ikke nødvendig at de ansatte i Kina hjelper til utover oppstartsperioden, for poenget med agent eller distributør er for Lilleborgs del at de ikke trenger å være fysisk tilstede i Kina. For tiden er det bare innkjøpere på kontoret, og dette begrenser hva vi kan gjøre for å hjelpe utover dette.

Ifølge Kai Simon er Jan Eskil Hollen villig til å satse på det han tror på, men ellers er Lilleborg en organisasjon som er lite villig til å ta risiko i nye markeder for tiden dagen. Kai Simon mener det er viktig med tilstrekkelig kunnskap om det kinesiske markedet før de eventuelt skal begynne å selge produktene sine i det kinesiske markedet. Hvordan skaffe seg informasjon om dette og hvilke mulige distribusjonsmåter som finnes er viktig her. Han mener selv at det eneste alternativet er agent hvis de skal inn i Kina med sine produkter. Kai Simon er usikker på hva Lilleborg sin holdning til å forandre lepe pleie produktene er, men det vil medføre en viss risiko i den forstand at det vil medføre endringer i produktlinjen og økte ressurser i forhold til markedsføring prosessen.

Kai Simon mener risikoen ved å drive forretninger i Kina er høy. Risikoen må regnes ut i fra sannsynlighet for tap ganger potensielt tap i kroner. Denne risikoen gjør at desto mer penger Lilleborg spytter inn, desto mer står de i fare for å tape. Siden markedsføring er drevet av informasjon om ting som kundenes behov og hvordan kundene er segmentert vil det uansett være risiko involvert. Gitt at sannsynligheten for gevinst/tap er vanskelig å beregne må Lilleborg heller legge vekt på summen av gevinst/tap i en Kina-satsning.

1.7 Interview with Dunren Zhou

Relevance: Professor at Fudan University

Place: Fudan University, Shanghai. 05.03.09


**Subjects and objectives:** Dr. Zhou has an inexhaustible knowledge of macroeconomic and macro environmental factors, as well as constantly updating himself on world events. We conducted this interview using this thesis’ external analysis as point of departure, mainly the SLEPT-analysis. Although it is not his field of expertise, Dr. Zhou also had some comments about Lilleborg’s entrance to the Chinese market.

**The Chinese Cosmetic Market**

Dr. Zhou immediately told us that the cosmetic market in China today is saturated. There are so many brands out there, and if a Norwegian brand came to China it has to spend a lot of money on advertising. Lilleborg should create a new image, use a famous singer or spokesperson to promote the brand. Maybe from Norway. Use sexy advertising, but don’t make it be all about sex. Use country of origin and choose the right, fresh and new colors on package design as well as the product itself. He thinks there is an available position in the market for Lilleborg’s product if we focus more on the health aspect rather than just sex. Use healthy Norwegian girls in your advertisements; these will stand out from the overly sexy French models used in the French commercials. This can be a way of standing out in the market.

The moisturizing Lip Care is not so important in China, he believes, because the weather is different in China than in Europe. However, Lilleborg can combine both moist and look (color) in its products. Use a fancy international name and not a Chinese. Although the market is saturated, Chinese are always looking for something new and attractive. Just remember the costs of doing business in China. Advertising alone often stand for 15% of a company’s total costs.

**Country of Origin**

For a Chinese to choose between Lilleborg and some Chinese brand is all dependant on the image Lilleborg creates. For example, if you have a hair salon or
Lip Care salon in downtown Shanghai for high class people, use a Norwegian model in the salon to exemplify the healthy and beautiful Norwegian aspects. Chinese will buy that. It is important not to repeat the other brands in the market. Stand out! The Chinese are always looking for something new.

Dr. Zhou believes that using Norway as an image may prove a little difficult, because Norway is slightly too vague for the Chinese consumer. Norway is not necessarily something Chinese would equal to luxury, but to expand the idea to Nordic Beauty might be a good idea. This way Lilleborg can use the Nordic girls, the mountain countries, old famous actors like Ingrid Bergman etc. Show that the product is high class, but not by repeating the existing brands.

Although a lot of people don’t know about Norway it is not a bad name. But Norway does not appear distinctively to people. Using the concept of Nordic or Northern Europe will make the idea easier to digest. Nordic brings associations such as handsome, healthy and also a healthy way of life. A healthy look is very important for Chinese to feel beautiful, especially for those in mid twenties or early thirties. Teenagers are on the other hand blinded by all what’s considered fancy.

**The Middle and Upper Class**

Dr. Zhou tells us that defining these classes are difficult, but there are usually two standards: 1) *Political Orientation or Cultural Attendant*. For example, the middle class should go to the opera at least once a month. The former is the Western idea that any middle class should be independent from the Government and become significant voters. This is not true in China. The middle class in China is not political independent. 2) *Income*. The income depends on the person’s situation. The middle class in Shanghai earns more than the middle class in the slum. In Shanghai you can make something between 6,000 - 20,000 a month per household. More than 20,000 is the upper class. When you measure household income it’s hard to define whether it’s one or two persons make up the earnings.
How people spend their money is also an issue. The modest middle class has money to enjoy a certain level of living standards. For example apartments with two or three rooms. The middle class often own a car and can afford to do some travelling.

**Middle – and Upper class view on Beauty**

Dr. Zhou tells us that these two classes recently have developed a beauty consciousness. This awareness has been shaped by TV commercials and other advertisements, which has not necessarily been quite healthy. The super thin model for instance. The focus towards beauty is no longer an added joy, it is a must. Chinese people spend more money if they are charmed by the advertisement. They will buy a magazine just to show others they can afford it. China is overdoing the Western standards of focusing on beauty; it has all become a hunt for image, not unrelated to the increasing economy of Chinese consumers. It was not like this 20-30 years ago.

**Changes in Lifestyle and Social Trends**

Dr. Zhou tells us that Chinese are blindly following the West, especially those who have a higher income in the big tier cities. It is because of the opening up of China, and Hong Kong and Taiwan were the mediums that brought fashion into China. Dr. Zhou is concerned that China is losing its old self, and that it is difficult to change or hold back trends. One thing that has not changed is the focus towards health. Although Chinese have become more material, they will avoid products that endanger their health in any way.

**Governmental Interference in China**

When asked what regulations are imposed on international businesses in China, Dr. Zhou claims there a lot of them, for example tax policies, labor law, environmental law, trade restrictions etc. Regarding environmental law he says that the notion of Chinese businesses violating the pollution laws is correct.
However, the top ten major foreign businesses also contribute a great deal to the pollution in China. This breach is not, he believes, due to decisions from top management, but rather from middle- and local management. Unemployment and exports are two of the major issues to the Chinese government at the moment. Hence this, some businesses could get tax favors. Zhou does not believe tax is the way to influence the foreign companies, except if they want to continue to write tax to allure or attach foreign businesses into the mid-China and west of China. The trend is that the tax exemptions are stabilizing

Stian og Nicolai: In what degree does the chinese government influence the chinese economy focusing on international business. A few key notes here is tax policy, labor law, environmental law, trade restrictions, political stability etc.

**Prospects of the Chinese economy**

We are told by Dr. Zhou that there are basically three points to note regarding the future of the Chinese economy. 1.) The financial crisis is not having the same severe impact on China as it has in the West. The impact on China was not in a financial area. Chinese banks did suffer, but the losses were limited compared to the huge assets they have. 2.) China was somewhat prepared for the crisis. Due to high inflation and overcapacity China tried restructuring the economy 6 – 2 months prior to crisis’ outburst. Of course the crisis had a negative impact, demand for Chinese export fell overnight and workers lost their jobs. 3.) The third point is to care for two past mistakes for the future development. Housing prices in China are too high, which is preventing people from buying property. This is an important sector which is now standing still. When this sector stands still the cement and steel industry suffers, because housing is such a big player in an emerging economy. Housing prices needs to go down, which also is difficult in an emerging economy. Secondly China has the last decades put too much trust on export. The market does not expect the U.S. and Europe to buy goods in China and continue to expand the capacity. Over-dependence on exports has now leaded
to shrinkage in domestic demand. When export was booming China should have created a safety net from part of the wealth for the workers. The newly unemployed workers in China cause political trouble with the Chinese government. These are the two major mistakes Chinese government has to adjust and change.

Due to heavy investment, though, China might be among the first countries to bounce back. This is much due to the focus towards the heavy domestic investment in China today, building railroads, bridges, subways etc. Also because Chinese banks were not in debt prior to the crisis, which many American banks were. Dr. Zhou believes the economy will be back on tracks within 2010. The question is whether the economy will be sustainable, or if it only helps on a short term.

Dr. Zhou also think the crisis can be advantageous in that China has the chance to change their structure, build up demand, upgrade technology, create more production and reduce pollution. He believes China will do a little better than other countries in the immediate future, but cannot guarantee for the Chinese economy long termed sustainability. To conclude he is short term optimistic and long term uncertain.

**Innovation and Technology Development**

Dr. Zhou feels the technology in Chinese businesses is OK. But the most advanced technology still belongs to the West. In some individual fields, China is already the forerunner, but it is more common that they lag behind. The Government helps China catch up. They spend more and more money upgrading technology, which includes more money for universities, researchers, institutes and businesses that generate new products and solutions. China is also buying technology from Western countries like Germany. Technology in China will steadily become more advanced, but the West is not standing idle. Even though Western businesses hungry for cash sell off their technology because of the crisis,
they may improve this once the crisis is over. Technology in China is (as of yet) not developed as fast as in the West, but one will definitely see a new and great amount of new products originated from China.

**Environmental Focus in China**

Because China is still developing, environmental focus is hard to keep. The bureaucrats say a lot, but are seldom truthfully motivated. Also, the people itself value more immediate gains than environmental protection. But, people have grown more environmentally conscious and China has already made some progress within this field. Because of new technology CO2 and CO levels have all come down. Because of the financial crisis the small factories are forced to shut down, and these are the real polluters, replacing them with larger more efficient ones. It doesn’t solve the problem, but it helps.

The Chinese consumers focus more and more on environmental friendly brands. But they are also very pricing conscious. If the product is 10 – 15% more expensive it could be okay, but not if the price is double. China produces more solar cells. 90% of the produced cells are sold outside China. The electricity generated from solar cells is much more expensive than coal generated electricity.

**Most Valuable Tip**

To hire one or two guys like you to stay here in Shanghai to investigate every aspect of the business. They don’t have to hire expensive consultancy firms; it’s a total waste of money. Find a location, the rent, how do you handle the labor service situation, what people like or not. How to do advertisement on TV, prices on 15 seconds TV advertisement for instance. What does Chinese like etc. All are necessary things. Find out what is actually there. Don’t trust the big consultancy firms.

Always try to be friendly and make people be friendly to you. Even if it means to spend more money, always guard your interests, there are a lot of sharks. The
importance of Guanxi is decreasing. It is something that is changing. A lot more is transparent and the market is more complicated than what Guanxi could handle. The bottom line is what sells and where to make money.

**1.8 Interview with: Freddy Wang**

Relevance: Manager for Cosmetics Department at Carrefour

**Date:** 16/2-09

**Subject and objectives:** Carrefour is a French supermarket chain and an initial potential buyer of Lilleborg’s products. We wanted to know if Carrefour was a good channel for Lilleborg’s products.

**Translator:** Gigi Wu

**Customer**

Mr. Wang told us this Carrefour has no particular demographic segment they actively work towards. Rather they use geographic segmentation, which simply means their primary market is the immediate surroundings, focusing on families. Their line of products is for Shanghai’s middle class, as the prices will be too expensive for Chinese lower on the value chain.

**Suppliers**

Mr. Wang states that it is the main office that decides what products every Carrefour shall offer. Lilleborg must therefore come in touch with the head office if they want their products in Carrefour’s shelves. The first Carrefour in Shanghai, located in “Goubei” is more exclusive than many others, which is illustrated through offering more international products and more fresh food.

**Sales Personnel**

With regards to skin care and cosmetics every company have their own sales manager from the producer which they represent. L’Oreal’s stand in the boutique is provided by L’Oreal itself and the sales assistant is consequently hired through
L’Oreal’s own program. Carrefour therefore has nothing to do with training the staff and also does not pay their wages. Carrefour has responsibility for them and put up their working schedule, but cannot (and will not) interfere any further.

Whether the sales personnel receive provision based on quantum of sale depend on who the sales assistant represents. Some offer provisions to their sales personnel, but Mr. Wang could not tell us who. It is customary for every brand represented in a store to have a representative from the company, but those who haven’t cannot because of the attached costs.

The main office decides who may have the larger stands, who may occupy the best places in the area and who are hidden away. International big brands who can charge higher prices are often awarded the best and most visible spots.

**Moisturizing vs. Lip Gloss**

Moisturizing Lip Care sell more than lip care focusing on colour (Lip Gloss). This is much because Lip Care with color appeals to a much smaller segment, namely young girls. Moisturized Lip Care is used in people in all ages and by both sexes – even though young girls are the primary segment.

Because Carrefour as a supermarket must be viewed as a cheaper option than shopping-centers such as Super Brand Mall or pharmacies, Mr. Wang often prefers Chinese brands. It is easy to keep prices low when selling Chinese brands. Further, even though they distribute many international brands they avoid the most expensive ones who one can normally find at Super Brand Mall etc.

**1.9 Interview with Eva Cheng, Marketing director at Luster Beauty & health.**

Date: 19.05.2009 – China Beauty Expo
During our visit to China Beauty expo in Shanghai the May 19, 2009 we had an interview with Eva Cheng which is the marketing director at Luster Beauty & Health. Luster Beauty & Health Cosmetics is a foreign based company with a Chinese production plant. Their business type is manufacturer, trading company, agent and distributor.

Their products are pure essential Oil, skin care products, shower gel products, hair care products, bath salt etc. They have over 30 year experience in producing health and beauty items.

Eva Cheng recommended Lilleborg to go through a distributor when entering China because of the difficulties when entering the Chinese market. Luster beauty & health has a long and good relationship with Watson. In addition to being the manufacture of Watsons products, they are also selling their own products there. They did not pay anything to Watsons in order to get on the shelf. This was because they had good quality and Watson liked their product. She further tells us if Watsons like the product they don’t require payment to get on the shelf.

Eva Cheng said they might be interested in being the distributor of Lilleborg’s Lip care products but she would like to see their product portfolio first. Cooperation between manufacturer and distributor was very important and the manufacture had to be very supporting. Especially since marketing is so expensive in China. They don’t have lip care in the product assortment.

1.10 Phone - Interview with Henning Kristoffersen

**Relevance:** Author of the book: Det Nye Kina and lecturer at BI and Fudan University

**Place:** Shanghai – Oslo. - 06.03.09
Subjects and objectives: Define and get an impression of the different classes in China, their view on “face-enhancing” products and plausible Marketing Mix – efforts suitable for the Chinese market.

This interview was conducted in Norwegian. In order to avoid misunderstandings or misinterpretations this summary will remain in its original language.

Den Kinesiske Forbruker & Mianzi

Ifølge Kristoffersen er en beskrivelse av den Kinesiske forbruker utrolig omfattende. Skal vi se på den kinesiske forbruker som vi gjør i Norge blir beskrivelsen betydelig mer innskrenket til middelklassen og overklassen. Sett fra norske øyne er de på mange måter som vi forventer de skal være, samtidig som de også ikke er det. Det går mye på ansiktskulturen i Kina (Mianzi/Face). Den er en ganske stor del av forbrukeratferden, i forhold til hvilke produkter de velger å bruke penger på.


Kristoffersen mener man ikke skal undervurdere viktigheten av at et produkt som kjøpes må gi face. Hvis ikke det kjøpte produktet kan vises på en eller annen måte
vil det ikke kunne gi face og dermed bli uinteressant å kjøpes. Da kommer man inn på kvalitet. I Vesten kan man kjøpe et produkt fordi vi vet at kvaliteten bak funksjonen av produktet er viktigst, selv om ingen ser at vi bruker det. Kinesere er villig til å betale mye så lenge det gir face, og face kan derfor regnes som et kvalitetstempel i seg selv. Dersom et produkt ikke gir face vil kinesere enten 1) ikke kjøpe produktkategorien, eller 2) velge det billigste alternativet. Det er lang tradisjon i Kina med å spare penger for å sikre sin egen framtid, barnas utdanning osv. For markedsundersøkelser kan det være viktig å komme inn på hva som gir ansikt, kanskje ikke direkte spørsmål men komme inn på temaet.

Kristoffersen mener face - fenomenet gjelder hele Kina, men at det er sterkere i de byene hvor det har vært størst utvikling. Blant annet i Shanghai, Beijing og ellers hvor det er penger. Her er det mange som har produktene, mennesker ser på hverandre. Skal du være med i ”klubben” må du ha de rette produktene. Kan være et større jag der det er et mer modent marked.

Videre sier Kristoffersen at mekanismene bak face er de samme uansett hvilken sosial klasse man tilhører, men mulighetene er annerledes. Derfor blir det noen forskjeller. De som virkelig har god råd i Kina, de er veldig rike! De vil besøke de dyreste plassene. Middelklassen må være mer selektive på de produktene som er viktig for dem. Hva gir her mest face? Hva syntes mest? osv.

Her blir det personlige preferanser, men også forskjell på klasser.

**Den kinesiske middelklasse**

La oss si at de som stort sett er målgruppen til bedrifter som kommer inn med vestlige produkter, er de som er i den klassen hvor de stort sett kan kjøpe alle dagligdagse produkter like lett som vi kan gjøre i Norge. Det begynner etter hvert å bli ganske mange mennesker som kan dette i Kina. Hvis vi trekker fra bil og leilighet og andre store ting har man igjen forbruksprodukter. Her kan middelklassen være et interessant marked. Når det gjelder overklassen, de virkelig

Likevel må man passe seg for å generalisere. Det er håpløst med Kina å si at sånn og sånn er det, de har mer enn tusen år med en filosofi som sier noe om balanse i livet. Det er ikke bra for sjelen din å ta av i en retning. Du har det aspektet, samtidig som du har det andre aspektet, hvor mye er knyttet til rikdom. Alle ordtak, når de ønsker hverandre godt nyttår osv, sier de at de ønsker deg rikdom. Rikdom og lynne blir satt sammen uten form for ironi. I Norge har vi en greie hvor lynne ikke kan kjøpes for penger, de ekte verdiene ligger i Nordmarka o.l. Den balansetankegangen er i ferd med å forsvinne, noe spesielt de eldre generasjonene syntes er trist, det at kinesere blir i større grad individualister. Det er nok veldig kinesiske, eller asiatiske. Det er kun inntrykk jeg sitter igjen med og det blir veldig generaliserende.

**Country of Origin:**

Henning er enig med oss i at et Vestlig produkt gjenspeiler mer velstand og face. Kinesiske merker sliter med å etterlikne denne brandingen. Det er sjelden kult å kjøpe kinesiske varer, selv om dette er i ferd med å endre seg. Nasjonalismen fikk
en ny gnist under OL i 2008 som gir muligheter for kinesiske merker. Internasjonale produktene blir likevel sett på som av høyere kvalitet, men også mye dyrere.

Kristoffersen tror kinesere assosierer Norge med tre ord: rent, vakkert og rikt. Norge er perifert for en kineser, men likevel er det overraskende mange som har en viss kjennskap til det. Som Kristoffersen sier kjenner selv taxisjåfører til Norge, og ca hvor det ligger. De har hørt at i Norge landet er det stor velstand og renhet. I forhold til størrelsen vår vet kinesere mer om oss enn hva vi fortjener.


**Guanxi i framtiden**

Kristoffersen tror at det også i kinesiske bedrifter, spesielt i vestlige bedrifter i Kina, vil det bli viktigere og viktigere å plukke ut mennesker med de riktige kunnskapene, uavhengig av Guanxi. De nåværende inngrodde mekanismene ved guanxi forsvinner ikke til i morgen, men når det gjelder bedriftskultur, forfremmelse i bedrifter, det å leve i bedrifter, er konkurranse så sterk og blir bare tydeligere. Skal kinesiske selskaper lykkes i det kinesiske markedet, blir bedriftene tvunget til å velge mennesker etter kvalifikasjoner og ikke etter hvem man kjenner. Det er klart at det er en så tøff konkurranse i Kina, så hvis man kan velge mellom flere, tar man personen man har et Guanxi forhold til.

**Utfordringer for Lilleborg i Kina**

Det kinesiske markedet må ikke undervurderes. Det er knalltøft å selge produkter i Kina, her må bedriften ha en klar strategi. Tenke nøye gjennom brandingen og
hvilke segment man skal inn i. Ta en posisjon som ikke lett blir utkonkurrert av kinesiske selskaper. Posisjonere seg som et Vestlig selskap. Her kommer vi inn på statlige reguleringer, hva er det Kina trenger fremover? Se på finanskrisen og føringer staten legger i forhold til sustainability, miljø etc. Er det enorme summer som skal brukes på forskjellige typer prosjekter og her trengs det ekspertise. Ekspertise fra vesten. Her er mange vestlige selskaper inne for å selge sine tjenester. Her er det viktig at de vestlige selskapene posisjonerer seg at de blir sittende igjen og ikke forsvinner om 3 år. Der kinesiske selskaper kan levere den samme tjenesten. Hvilke føringer myndighetene kommer med og hvordan du selv skal posisjonere deg i forhold til marked, konkurrenter osv. Tenke langsiktig i forhold til strategisk posisjon er viktig.

**Generelle tips til Lilleborg**


Smart markedsføring betyr å plassere pengene der de har virkning. Det kan være reklame med humor og familieverdier. Det som samler familien har slått gjennom tidligere.

Rådet blir å tenke nøye gjennom om de virkelig vil til Kina, for da må det satses. Det er et vanskelig marked å gå inn i. Se på Peppe’s Pizza hvordan det er å komme inn i en grusom situasjon hvis det ikke satses. Et norsk firma som investerer 10 til 60 millioner er jo peanuts i forhold til de kinesiske bedriftene. Skal du ta en markedsandel fra kinesere, er dette lite, men det vil svi for norske selskaper. Kristoffersen råder Lilleborg til å tenke seg nøye om hvorvidt dette er noe de vil.

1.11 Phone- Interview with Dr. Marcus Lee

**Relevance:** Author of the book “How to outsmart China”

**Place:** Shanghai

**Subjects and objectives:** We wanted to utilize Dr. Lee’s knowledge on the Chinese consumer to map the high- end consumer and ask how to adjust product and price to this segment.

_Prior to this interview we sent pictures of Lilleborg’s products and their belonging price to Dr. Lee by e-mail. Even though we wanted information on both Lip Moisturizers and Lip Gloss, Dr. Lee seemed to only answer regarding our Lip Moisturizing products. Dr. Lee is a very busy man, so the interview was conducted in just 7 minutes._

**Price**

Dr. Lee’s initial reaction to our products was the high price. He said a price of RMB70-100 for Lip Moisturizers rules out a big part of the consumers. He offered us two alternatives to fixing our price: 1) fix price according to the local production in Norway, or 2) fix price according to the local market in China. Lip Moisturizers average in retail price of about RMB35. Dr. Lee recommends us to localize Lilleborg’s products to the local market pricing.

**High- end consumer & Country of Origin**
If Lilleborg wants to sell Lip Moisturizers for RMB70 the market is very small. In addition Lip Moisturizers are used seasonal, and a product priced much more than another is not necessarily perceived as of higher quality. The high-end consumer in Shanghai is only 7%, but this segment will not buy a product simply because it is expensive but because it is famous. Norwegian products are not famous for them. even though the products might be famous in Norway, they don’t care about that.

**Distribution Channels**

Dr. Lee states that the choice of retailer is important for choosing a segment. Supermarkets are for the low priced mass-market. Manning is actually an average market supplier, not high end. Watson’s is a little higher, but still only mid-high end. High-end products are the cosmetics they sell at “Parksons”. But no one will buy Lip Moisturizer from a cosmetic section. Even though Lilleborg wants to sell their products at a higher price, the product is not a luxury item.

**Product Adjustment**

Dr. Lee believes both men and women buy Lip Care, but recommends one package for men and one package for women. One package for younger ladies and one for older. When we told Dr. Lee that our initial thoughts of the segment would range from 15-30, Dr. Lee tells us there is a BIG gap in this group. Lip Care is normally targeted the younger generation, so the product design should be adjusted to their wants. Dr. Lee finish by saying he cannot give any recommendations on product design.

**General Recommendation**

First it is important to do the homework and find all the prices on Lip Care in China, not only Shanghai. Lilleborg should look in the market and check the local pricing. Do more research and when you find the average pricing then you should go on the trading market. Companies like “Shiseido” had to localize their products...
and product price in the Chinese market. So are Lilleborg’s products better than Shiseido?

Appendix 2.0: Summaries of E-mail Interviews

2.1 Follow up- E-Mail Interview with Jan Eskil Hollen

Relevance: Export manager for Lilleborg AS

Place: E-mail interview, Oslo, Norway – 16.03.09


This interview was conducted in Norwegian. In order to avoid misunderstandings or misinterpretations this summary will remain in its original language.

Markedsorientering

Jan Eskil kunne fortelle at Lilleborg har en ekstremt markedsorientert ledelsesfilosofi der markedsføringsavdelingen er kjernen i alle lanseringer selskapet gjør i Norge. Med et svært begrenset salg internasjonalt har ikke Lilleborg noen markedsføringsavdeling som jobber mot utlandet da det ville blitt ekstremt kostbart å sette seg inn i forbruker trendene til alle land som man opererer i. Dette er også grunnen til at Lilleborg ønsker å lansere noen av sine egne merkevarer i utlandet ved å benytte andre Orkla selskaper eller agenter forteller Jan Eskil.

I følge eksportsjefen har Lilleborg også svært sterk kompetanse innen produktutvikling i forhold til kundenes ønsker. De har en egen produktutviklingsavdeling i Oslo, samt på sin fabrikk i Kristiansund. Markedsføringsavdelingen har en tett dialog med forbrukerne gjennom dybdeintervjuer, fokusgrupper samt kvantitative og kvalitative undersøkelser.

Ledelsens eksportmotiv
Fabrikkdirektørene ønsker seg mer volum slik at de faste kostnadene reduseres forteller Jan Eskil. Dette er også administrerende direktør for Lilleborg og administrerende direktør for Orkla Brands Nordic sitt ønske. I følge eksportsjefen utalte også Orklas styreformann, Stein Erik Hagen, at han ønsket å se mer av Lilleborgs produkter i tax- free samt i utlandet. Jan Eskil forteller at det kanskje møtes litt mer motstand hos salgsdirektør for innland, markedsdirektøren og produktutviklingsdirektøren. Grunnlaget for denne motstanden er faren med et fokus på utland, som kan gjøre at man mister fokuset på hjemmemarkedet der Lilleborg har 55% markedsandel forteller Jan Eskil.

Kontakt med utemarkedene

Jan Eskil forklarte at han har ansvaret for eksport, men at flere Key- Account Managers jobber for å ha direkte kontakt med kundene i utlandet. Jan Eskil mener erfaringene med utenlandspartnerne er gode, og at de gjennomfører kundeundersøkelser mot sine samarbeidspartnere.

Jan Eskil sier at Lilleborg ikke har noen standard prosedyre om hvordan de kommer i kontakt med og vedlikeholder sine distribusjonskanaler. Det er ikke satt restriksjoner på hvordan utenlandspartnere håndterer Lilleborgs produkter.

Eksport i dag


Motivasjon og mål bak Kina

Fra et teoretisk perspektiv mener Jan Eskil det også er en del tilfeldigheter som gjør at man begynner å eksportere til et bestemt marked, noe han mener også delvis gjelder for Lilleborg. Han forteller at det også er interne og eksterne proaktive og reaktive faktorer som begrunner valget for Lilleborgs eksport til Kina. Proaktive interne faktorer mener han eksempelvis kan være storskalafordeler. Reaktive interne faktorer eksemplifiserer han som et ekstra ben å stå på dersom de skulle miste eksport til UK samt tilgjengelig kapasitet på kontoret i Shanghai. Proaktive eksterne årsaker sier han kan være markedsmuligheter i Shanghai. De reaktive eksterne årsakene ser han på som et lite hjemmemarked for Vaseline, og en nedgang i dagens marked.

Når det gjelder hvilke mål Lilleborg har med eksporten i Kina, mener eksportsjefen at dette ville avhenge av hva vi finner ut i oppgaven. Han er fortsatt usikker på om Lilleborg vil gjøre noe i Kina, og mener det er avhengig av hvilke anbefalinger vi kommer med. Han presiserer også at det er viktig at vi er ærlige med anbefalinger med anbefalinger til Lilleborg uansett hva vi kommer frem til i oppgaven.

**Satsning i Kina**
Eksportsjefen sier at omfanget av investeringer vil avhenge av potensialet i markedet og at vi her må være analytiske. Han mener det er mange spørsmål som kan stilles her. Hvor stort er totalmarkedet på leppepleie i Shanghai, hvor stor andel er realistisk å oppnå for Lilleborg, hvorfor skal forbrukerne kjøpe Lilleborgs produkter, er det enkelt å komme inn på markedet for nye aktører. Han avslutter med å poengtere at dersom potensialet er stort nok vil Lilleborg putte penger i det.

**Produksjons- og Leveringskostnader til Kina**


Eksportsjefen fortalte at de i dag produserer over 20 millioner enheter med leppepleie. Dette gjøres på 2 skift. Ved å øke til 3 skift ville produksjonen kunne økes vesentlig og senke faste kostnader per enhet.

I følge eksportsjefen opererer ikke Lilleborg med datostempling på produktene i dag, men han mener dette ikke ville være noe produksjonsmessig problem å få til dersom dette skulle være ønskelig.

**Leverandører**

Vaselinboksen blir produsert i Slovakia av en bedrift som heter *Saturnus*. Dette har vært et langvarig samarbeid. Lilleborg har sjekket markedet for produksjon og leveranse av vaselinboksen i og fra Kina, men prisen har foreløpig vist seg å være for høy. Et eventuelt brudd på samarbeidet med Saturnus vil resultere i 300000kr verktøyskostnader for å bygge nytt produksjonsverktøy et annet sted.
Leverandøren Lilleborg bruker i dag hovedsakelig Fuchs, et Amerikanskbasert firma. Hollen sier at det finnes alternativer til Fuchs, men også at han gjerne skulle sett sterkere konkurranse på denne arenaen. Fuchs er en del av Lilleborg’s Unilever kontrakt, så det er sistnevnte firma som tar seg av forhandlingene. Dette kommer Lilleborg til gode mht. Unilevers sterke forhandlingsmakt gjennom skalaførtrinn.

Ettersom både Tinn og Vaselin blir påvirket av finanskrisen kan disse materialene anses som en knapp ressurs. Vaselin blir spesielt påvirket av oljeprisen.

Generelt har Lilleborg stor forhandlingsmakt over leverandørene sine. Dette er grunnet store, attraktive kvanta som Lilleborg går sammen med sine søsterselskaper om å bestille.

### 2.2 E-Mail Interview with Yue-Sai Kan

**Relevance:** Founder of “Yue-Sai Cosmetics”, a Chinese cosmetic brand.

**Subjects and objectives:** Yue-Sai Kai’s experiences when starting her own cosmetic company in China.

**Place:** Shanghai, 17.02.2009

Yue-Sai Kan is a very busy woman, and we were allowed only 3 questions in our E-mail. The answers we received were also very short, but nonetheless interesting.

*Yue-Sai Kan Cosmetics Ltd. was founded in 1992 and was China's first major cosmetic company. In 2004 the company was sold to L'Oreal.*

Among the biggest challenges Yue-Sai Kan met when she started her own cosmetic company in China was firstly the intense competition among the already existing cosmetic brand on the market. Secondly the Chinese are very moderate in the use of make-up. They prefer a more natural look, so a challenge for Yue-Sai Kan was to educate the Chinese in the benefits of make-up and make them accustomed to it.
Yue-Sai Kan’s target group was very wide: from 24-60 years. In order for Yue-
Sai Kan to identify and collect information about this target group they conducted
focus groups to map their preferences. Yue-Sai Kan cosmetics differentiated from
other cosmetics brand through formulating their cosmetics especially for Chinese
skin, something the other international brands lacked. In order to do that they only
tested their products on Chinese skin, which also had a strong marketing effect.
Yue-Sai Kan cosmetics took advantage of the fact that other brands sell formula
and products for everyone over the world. By specializing cosmetics to Asian
skin, Yue-Sai Kan found their Point-of-Difference.

Today the Chinese consumer has even more choices within the cosmetic industry,
so competition has, probably, gotten even tougher.

2.3 E-Mail Interview with Kari Bjørnaas

Relevance: Consul, Commercial section at Innovation Norway

Place: E-mail interview, Shanghai, China – 19.03.09

Subjects and objectives: Norway as a country of origin, Entrance strategies, The
market today and Lilleborg’s competitiveness.

One of Innovation Norway’s purposes is to offer services and programmes to
promote innovation and profile Norwegian industries worldwide. Their services
are valuable and demanding, and require financing. Accordingly, this interview is
limited to basic and general information from Innovation Norway.

This interview was conducted in Norwegian. In order to avoid misunderstandings
or misinterpretations this summary will remain in its original language

Norge som opprinnelsesland

Vi startet intervjuet med en diskusjon rundt Norge som opprinnelsesland og
kjennskapen til Norge i Kina og Shanghai. Fra våre observasjoner og erfaringer
virker det som kineserne har lite kunnskap til Norge og vi spurte derfor Kari hvilke erfaringer de hadde fått fra kinesere om Norge som opprinnelsesland, og hvordan Lilleborg burde jobbe for å øke denne kjennskapen.

I følge Kari associeres Norge med høy kvalitet, gode livsvilkår og sunne og gode produkter. Dette kan bli forsterket av ytterligere markeds Kommunikasjon, men at Lilleborg skulle kunne gjennomføre et omdømme prosjekt alene mente hun virket for ambisiøst. Norske myndigheter er aktivt opptatt av omdømme bygging og tar gjerne imot innspill fra bedrifter på hva de offentlige kan være med på å understøtte.

**Konkurransearena i dag og Lilleborgs konkurranseevne**

Merker som Lancome, Chanel, Shisheido vil, i følge Kari, ligge i toppsegmentet for leppepleieprodukter med en detaljist pris på rundt 100 RMB per enhet. I mellom sjiktet finner man merker som Nivea og Mentholatum, som Kari mener vil være de direkte konkurrentene til Lypsyl, og selges for rundt 20 RMB per enhet. I et lavere prissjikt finner man et stort utvalg lokale merker. For å kunne tilby en markedsriktig pris produseres mange av disse produktene her i Kina gjennom JV’s. I Shanghai er utenlandske merker relativt populære, noe som er annerledes i mindre byer, derfor vil tydelig segmentering og ”targeting” av riktig marked være viktig mener Kari. Profilering av det norske anses som hensiktsmessig, eksempelvis Neutrogenas ”Norwegian Formula”, som vurderes som et godt salgsargument. Siden promosjon i Kina er dyrt, kan man vurdere å støtte seg på det merkenavnet Norge allerede er. Konsulen ser allikevel på en nærmere analyse som et viktig verktøy før det spilles på Norge som opprinnelsesland. Hun ser på kreativitet, spisset bruk av markeds kanaler, målrettet utvelgelse, tett samarbeid med en etablert distributør og innsats på varepresentasjon i butikkhyllene blant elementene i en vellykket strategi. Igjen presiserer hun at det må gjøres grundig kartelgings- og analysearbeid av det eksisterende marked før pålitelige påstander kan fremsettes. Selv om Lilleborg er små i internasjonal sammenheng, mente Kari
at firmaet har liten grunn til å fortvile med sin solide kompetanse med markedsføring og merkevarebygging.

**Inngangsstrategi og distribusjonskanaler**

Denne informasjonen kunne Kari dessverre ikke dele med oss, da dette krever en del arbeid og ville dermed ikke kunne blitt gjort gratis.

**De største utfordringene for Lilleborg i Kina**

Kari mente den intense konkurransen og evnen til å tilby lav nok pris være den største utfordringen for Lilleborg. I toppmarkeds segmenter vil prissensitiviteten være mindre enn i mellom segmentet. Dette mente hun også ville kreve nærmere kartlegging.

**Forberedelser før lansering av produkter på det kinesiske markedet**

Interview with Eva Cheng, Marketing director at Luster Beauty & health.

Date: 19.05.2009 – China Beauty Expo

During our visit to China Beauty expo in Shanghai the May 19, 2009 we had an interview with Eva Cheng which is the marketing director at Luster Beauty & Health. Luster Beauty & Health Cosmetics is a foreign based company with a Chinese production plant. Their business type is manufacturer, trading company, agent and distributor.

Their products are pure essential Oil, skin care products, shower gel products, hair care products, bath salt etc. They have over 30 year experience in producing health and beauty items.

Eva Cheng recommended Lilleborg to go through a distributor when entering China because of the difficulties when entering the Chinese market. Luster beauty & health has a long and good relationship with Watson. In addition to being the manufacture of Watsons products, they are also selling their own products there. They did not pay anything to Watsons in order to get on the shelf. This was because they had good quality and Watson liked their product. She further tells us if Watsons like the product they don’t require payment to get on the shelf.

Eva Cheng said they might be interested in being the distributor of Lilleborg’s Lip care products but she would like to see their product portfolio first. Cooperation between manufacturer and distributor was very important and the manufacture had to be very supporting. Especially since marketing is so expensive in China. They don’t have lip care in the product assortment.

Appendix 3.0: Summary of Customer Observations:

Place: Wal Mart, Watson’s, Mannings & Carrefour.
Age segment & brand preference

As suspected, almost every customer of Lip Care-products is young girls between the ages of 20-30. The Lip Care customers seem to buy either Mentholatum or Nivea, which both are international brands from America and Germany respectively.

With too few observations we cannot say much about the Lip Gloss-customer. However Maybelline seems to be a popular brand.

Promotion

Customers seem to think quality is a major trigger when choosing brand. What they define as quality is on the other hand quite diffuse. Commercials and promotion efforts signifies quality according to many interviewees. We assume that this is probably because a brand successful enough to spend money on promotional efforts must possess this money because of good prior sales - and good prior sales means satisfied customers who probably buy repeatedly. International brands are known for using more money on branding and promotion than their Chinese competitors, but this also allows them to charge a higher price. International brands are consequently more expensive than local Chinese.

Price is actually another trigger when choosing brand, but most customers still choose international brands whose prices are normally higher than the local Chinese ones. So although price is important, RMB20-30 per product seems to be a reasonable price in the eyes of the customer.

Customers seem to get information about different Lip-Care products through different kinds of media, for example television, posters and the Internet.

Influence from friends
Many customers have been influenced by friends prior to purchase. Recommendations from friends are therefore probably an important factor when choosing brands - especially during a customer’s first purchase. And if a customer is satisfied with his first purchase, there is a good chance he will become loyal to it.

**Influence from shop-assistants**

Contrary to what we initially believed, shop assistants play a small role in affecting customers buying behavior. Most customers know which brands to buy either from previous experience or from recommendations from friends. But regarding Lip Gloss-products, the shop assistants seem to play a much larger role and the customer will often ask what color suits her.

**Access**

When asking why the customers buy their Lip Care-products where we interviewed them, they tend to answer because this is where they usually shop. Many customers believe Watson’s have the advantage in that it has a wide array of products within the cosmetics industry centered in one space and that it is easy accessible.

**Areas of Use**

Lip Care seem to be used for UV-protection, to moist lips, for the good taste (some products have chocolate, honey, fruit-flavors), the color and general care of the lips. Lip Care products seem to be a commodity in the young Chinese market, and though Lip Care is applied on a daily basis, the cold weather during winter seasons results in higher demand.

It seems that Lip Gloss is applied by a smaller segment. Function of use is also more focused on kissable, pretty and colorful lips than on merely moisture.
Appendix 4.0: Summaries of Interviews with Sales Personnel

4.1 Interview with: Zhû Miáo Miáo

Location: Wal Mart (13.02.09)

Job Title: Shop Assistant representing Maybelline’s Lip Gloss

Translator: Huang Ke

Zhû Miáo Miáo confirmed that the typical customers are young women between 15-25 years old. They buy a new product every 2-3 month, and each lip gloss costs about 70 kuai. She told us that she sells lip gloss worth about 300 kuai each day. If each lip gloss is priced at 70 kuai, this means that during one business day she only sells 4-5 items.

She gets some questions from customers regarding what colors will fit them, and general information about the product. She tells us that the costumers doesn’t seem to be bothered by the respective prices, and as most customers are middle-class, they can afford it. She does little to promote her products, but will always offer information if the customer asks or seem uncertain of which product to buy.

4.2 Interview with: Nivea Sales-Assistant

Location: Carrefour (19.02.09)

Job title: Sales Assistant for Nivea representing Lip Moisturizer and Lip Gloss

Translator: Gigi Wu

According to the sales assistant, both moisturizing lip care and lip gloss with color is categorized as Lip Care-products, but moisturizing Lip Care without color sells best.

The customer is mainly girls between 20-40 years old. Boys buy much more seldom, and when they do they often buy to their family, girlfriend etc.
This sales assistant gets few requests from customer for help, and they pick their products mostly by themselves.

Nivea offers Lip Care-products with different price levels. This means Nivea tries to reach both the middle- and low-end of the Lip Care market. According to the sales assistant this is done because there are many women over 30 who buys Lip Care, but they tend to buy cheaper brands.

On a whole quality is prioritized over price. However Chinese are also quite price conscious. She tells us that especially Shanghainese are known for being price-conscious even though they have a higher income than much of the rest of the population. Shanghainese are known for being smart consumers, and one should not pay more than an item is worth. Despite this quality is the most important factor.

4.3 Interview with: Manager for Cosmetics at Wal Mart

**Location:** Wal Mart (13.02.09)

**Job title:** Manager for Cosmetics Department at Wal Mart.

**Translator:** Huang Ke

The manager told us that Nivea and Mentholatum are the most popular brands represented in Wal Mart. These are international brands and are also at a higher price level than Chinese brands. “Doctor Li” and “Dongyong Zhi” are popular Chinese brands, but operate on the low-end market with prices even lower than 10 kuai. She adds that Lip Care-products with taste sells better than those which are tasteless. Honey, mint and fruit are the most popular regarding taste.

The typical customer represents China’s middle class and go for middle- or high-end products. They are very often students between 15-25 years old. Those who purchase Lip Care over the age of 30 often purchase cheaper Chinese brands.

Most customers are regular and know which brand they wish to purchase. That is
why new products often will require sales people and promotion in order to attract new customers. Promotions during holidays and other special occasions are common, e.g. Chinese New Year, Valentine’s day etc. Coupons are offered to the customer in order to stimulate sales, offering a discount to people spending more than a certain amount of money (for example buy for more than RMB25 and knock off RMB5).

She further tells us that most customers don’t care about price when purchasing Lip Care, and that the price of RMB20-30 is considered acceptable (notice the contradiction between the customers disregard of price and the store’s promotion technique of discount coupons)

Although she can only speak for this specific Wal Mart she further tells us that international brands are somewhat more popular than Chinese. She believes this is because international brands use more commercials, and that this is viewed as a quality-sign with the consumer.

October to December is considered the best season for Lip Care-products because of the cold weather. Consequently, Lip Care emphasizing moisture sells best during this time.

4.4 Interview with Sales Assistant Chèn Lán

**Location:** Wal Mart (13.02.09)

**Job title:** Sales Assistant for Cosmetics Department.

**Translator:** Huang Ke

Chèn Lán tells us that Nivea and Mentholatum are the two most popular brands. Most customers are young girls between 15-30 years old and Nivea is slightly more popular. Boys represent a much smaller segment, but prefer products from Mentholatum and supposedly mint-flavoring. She says these brands are the most popular because of their dominant advertising in the market. Advertising is viewed upon as a sign of quality.
She continues by telling us that even though the typical customer is between 15-30, all ages purchase Lip Care-products. Evidently, they do not care whether or not the brand is international or Chinese, as long as it is well-known.

Price doesn’t seem to be an important factor when buying Lip-Care as long as they get the specific brand they want.

Appendix 5.0 Costumer in-Depth Interviews

5.1 Interview with Fang Xueqin

Age: 23

Place: Super Brand Mall, Shanghai (24.03.09)

Subjects and objectives: To identify the preferences of the Lip Care customer.

Lip beauty and Lip use

The respondent says small lips are beautiful lips, and they must at all times be moist. If lips look dry or are cracked this is not appealing. She uses Lip Gloss when she goes to a party or if dating. Further she uses it in formal situations such as business lunches or other formal situations. She doesn’t use make up every day, maybe 2-3 days a week when something special happens. She uses Lip Moisturizers almost every day but more often during winter and autumn seasons.

Country of Origin

She knows nothing about Norway or Norwegian products. But she associates lip care products with China and America. Chinese, however, are often of not very good quality. American brands are more trustworthy and she believes these have higher quality.
Price Elasticity

She buys moisturizers approximately every two months and is willing to spend between 20-50RMB on it. She purchase Lip Gloss more seldom, only once every 6 months, but is on the other hand willing to spend up to 100RMB on it. When asked how much price matters when buying a lip care product she says it doesn’t matter very much. Quality is more important than price and she tells us that higher the price is this signifies higher quality.

Consumer Behaviour

She buys most of her cosmetics in Watson’s and supermarkets (when asked what supermarkets she can’t remember the English name). Last time she bougth a Lip Moisturizer she thinks it was Mentholatum. She tells us that the appearance of this product is good, and that the product design is important. Advertisements also influences her, and this is mainly through television commercials.

Last time she bought Lip Glass she chose Maybelline. This is because the advertisments on TV are very good, they look ”beautiful and lovely”. Also, Maybelline performs well regarding the function of Lip Gloss products – to make lips shiny and watery.

Friends and family has an important influence on her decision when buying Lip Care. If they buy a brand and recommend it, she will probably buy and try it for herself. Also, television commercials and commercials in newspapers are good. What makes her not buy a certain brand is if it has recieved bad comments of if someone disrecommends it.

Branding

Her favorite Lip Care brand is Maybelline because this is what she is used to. She likes commercials when they have a good story, funny and in a special way attract her.
Lilleborg’s products

A. **The Moisturizers**

She likes the design of Therapy and Extreme best. Therapy because it looks unusual and Extreme because it looks “cool”. Also, these products have the best choice of colors and looks more special. Vaseline doesn’t look very convenient because she wouldn’t like putting her fingers in the jar as they quickly get dirty. In addition, she has long fingernails which makes this process even less convenient.

She likes the colors of Therapy and Extreme best, and she dislikes the color of Original because it looks cheap.

She says the tube is a little short. She would not buy Aloe Vera because it looks too regular. But the tube in itself is good, much better than using a jar.

She would have tried Extreme and/or Therapy because these are new and different products. She always wants the newest products.

B. **Lip Gloss**

She likes Cute and Caring best, which is the one with the least color. She likes make-up with not too strong colors. She doesn’t like Pouting Pink because the color is too strong. She likes the product form (the tube) and it is convenient to bring around. She likes the smell of the products, but can’t give any specific recommendations as to what other fragrances she likes.

She would have bought Cute and Caring. She likes the color and the taste of this product.

**5.2 Interview with Zhang Gua**

Age: 29

**Place:** Shanghai, China – 24.03.09
Subjects and objectives: To identify the preferences of the lip care customer

Lip beauty and lip use

The respondent stated that beautiful lips are moisturized lips. Since the weather in Shanghai is more humid compared to Scandinavia, she applies a moisturizer most in the winter and some times in the spring and in the autumn. In the winter she commonly used a moisturizer every day, while the moisturizer is applied maybe twice a week in the spring and autumn.

Lip gloss on the other hand is applied in a work context daily. She tells us that it is common to use lip gloss in a work context. It is mainly applied because it is something “everyone does.” She also uses it when she is in a social context and together with friends.

Country of origin

She did not know any Norwegian products of any kind. She had heard about Norwegian products salmon. When it comes to Norway, she told us that she knew it is a northern country that lies close to Sweden and Denmark.

She associated Lip Care products with Germany, France and Japan. She also remembered the brands Shiseido, Chanel, Yve Rouche, Garnier and Nivea from these countries. All the supermarkets offer these products and she also mentioned that she once had lived in France.

She stated that it is common to buy international brands in China, but she didn’t have any particular preferences when it comes to country of origin and where the product is from. She used “P&G” as an example by saying that it is an international company but their products are still produced in China.

Price elasticity
The respondent bought moisturizer twice a year, one for the whole winter and one for the autumn and spring. She told us that she had one product from Shiseido last year which costed 160 RMB. We suspect that she mixed the lip gloss - and moisturizer products and the Shiseido was a lip gloss she bought rather than a moisturizer. She emphasized the importance of price when we ask what moisturizer she bought last time and what criteria she did look for. She bought a Mentholatum last time she bought a moisturizer.

She stated that she buys lip gloss four or five times a year. Dior is her favorite brand and every purchased product costs between 200 - 300 RMB. She thinks it’s a little expensive.

**Consumer behavior**

She buys Dior mainly because her mom is a member of the company. When she looks for colorful products she buys Maybelline. She also mentions shine as important beside color and price. Chocolate taste is her favorite taste along with Vanilla and Lavant. When it comes to lip gloss she highlights the colors and shine as important. She likes when it’s pink or no color or shine. To find the right product she buys several products and evaluate them to find the product with the best quality.

She is influenced to buy Lip Care by special offers such as buy 3 products for the price of 2 etc. She finds the special offers on the internet, from member clubs etc. She explains that she is member of Clairns club Beaute. By being a member she gathers point she can use to buy products later, much like the member cards at Coop back in Norway. She further states that her friends give her recommendations and she is also influenced by subway - and TV commercials etc. She continues to say that commercials have to differentiate or be of a special character if it is to get her attention.

**Lilleborg’s products**
A. The Moisturizers

She liked the Aloe Vera and Extreme package design best because the green color applied to her. She neither liked to squeeze the moisture from the tube and neither to use her fingers to apply it to her lips since the fingers is getting dirty. She also liked the Aloe Vera Plant and the taste/smell of the two products. She also stated that she prefer the Lypsyl Moisturizers compared to the Vaseline, since it’s more practical. She also highlighted that she think the Lypsyl Extreme package is beautiful and that she like the transparent cup on the product.

The respondent did not like strong flavor on the moisturizers, like the Lypsyl Original. If she could choose one of the products she would have chosen the Aloe Vera. She also thinks the Lypsyl Original is to normal, and that it looks like it is for men. She would probably be willing to pay around 30 RMB for the products, maximum would be 50 RMB. If she were to chose a color on the products she would have chosen typical girl colors such as pink, light yellow or purple. She do not prefer the Vaseline since she have to use her fingers and they could be dirty.

B. Kiss in a tube

The Kiss in a tube products should come with some sort of brush, like the once of Maybelline. She didn’t think the products would be very nice after they’ve been used for some time. She does not think it’s very practical to have a soft tube in the bag, but it could be better if the tubes were hard. She liked the smell of all the products and a personal opinion is that she prefer bright or light colors. The colors are something she particularly liked with the Kiss in a tube products. And she could be willing to pay from 70 to 100 RMB for the products.

In the end of the interview she told us that she think most or all of the products in the Chinese lip care market are to similar, and price would be an important indicator to her when choosing a product.
5.3 Interview with Lydia Xu

**Age:** 29

**Place:** Shanghai, China – 03.04.09

**Subjects and objectives:** To identify the preferences of the Lip Care customer.

**Lip beauty and lip use**

Lydia stated that beautiful lips for her would be thick and moisturized with a little bit shine. It was also important for her that the lips looked natural. She normally uses Lip Moisturizer in the winter and autumn, and during these periods she would apply it twice a day. She used lip gloss when she was going to a party, date, sometimes for work or other special occasions. She also added that the lip gloss made her look older. She buys lip gloss once a year and use it 1-2 times a month. According to Lydia the lip gloss made her lips very dry after 2-3 hours and she was reluctant to use it if she did not have to. She mentioned Opera, Red Earth, Mentholatum and Sephora as lip gloss brands that would make the lips dry.

**Country of origin**

The first thing that came to her mind about Norway was fish and snow. She also mentioned that there was a famous Japanese novel about the Norwegian forest.

Lydia associated Japan with Lip Care products, and mentioned that they had a lot of products at Watsons which made her think they were of good quality. Lydia also told us that Chinese prefer to use Japanese and Korean products since their appearance and skin type is very similar. Accordingly, the Chinese thinks their products are more suitable for them. Lydia thinks the western products are too expensive and not very suitable for Asian skin. Due to different skin types, Lydia thinks the formula should be different for western and Asian products. Lydia felt that western products were too expensive. She also had some political reasons for not choosing western products. These reasons were mainly a result of influence.
from news on TV, were some ingredients from western products had been considered dangerous.

**Consumer behavior**

Lydia usually buys her Lip Care products at Watsons. It could also be a department store and sometimes pharmacies that carry brands that cannot be found elsewhere. When buying a product, the brand should be familiar to her and that the image of the brand should be in accordance with her. Secondly, she mentioned sales personnel as an important source of influence, as she often talks to the sales personnel and get recommendations from them. She could also get free samples of products from sales personnel. With product samples she could get personal experience from the products, which she felt was an important factor before a decision of purchase was to be made. Promotions in magazines would also be an important source of influence to her as well as websites recommending and testing these kinds of products. The sales personnel and price would be the two most important reasons that could influence her not to buy a certain product. Lydia also mentioned that she hated Neutrogena because their sales personnel were always so aggressive. On the contrary she felt that sales personnel for the Japanese brands were really helpful and caring.

Lydia prefer promotion in magazines as well as big posters in department stores. She did not like TV advertisement because it seemed fake to her and she did not trust them. What she did trust was internet sites with experts who tested different products and wrote reviews. On these sites, she could also find videos of celebrities who tried on personal care products and gave recommendations. Lydia recommended a site called Lafaso.com that she used a lot to review and get tips on personal care products.

**Price elasticity**

For lip moisturizer the price was not so important, but it should be over 30 RMB to ensure some type of quality. The price on lip gloss was of more importance. It could not be under 50 RMB due to quality issues, and a price of over 200 RMB
was too expensive. Lydia stated that she bought 1-2 Lip Moisturizers a year during winter and autumn and she was willing to spend about 100 RMB if it was really good. She explained that by really good she meant that the product quality felt good after trying it, or that some experts had tried and recommended the product.

**Branding**

Lydia told us that she did not have any favorites because she always switched between different ones. Even so, she mentioned Shiseido, Decleor and Fanco as 3 brands she would prefer. The last moisturizer she bought was Decleor last year, and the reason that she bought it was because of a special offer were she got a free skin care product with it. According to the sales personnel the brand was famous and used in many beauty salons. The prize was 250 RMB and she bought it at Sephora. The last lip gloss she bought was Red Earth last summer. She bought it because of a promotion offer that gave her a 50 % discount and the fact that she had used the product before. The criteria she had looked for when buying it was the light red color on the product, that she felt was very suitable for her.

**Lilleborg’s products**

A. **The Moisturizers**

She stated that she liked the Therapy best. She felt that the Therapy looked professional and that it represented a good quality product. Her second opinion was that the other moisturizers looked more like products for teenagers, and that the Aloe Vera and Extreme looked cheap. The Original was okay because it looked a bit more professional than the former ones. Lydia was also positive to the Vaseline design because it was what she called easy. Even so, she stated that the design should be cuter with some pictures or flavors. Today’s design made her think about Nivea. She preferred the dark blue color on the Original and Vaseline. She also suggested that the colors on the Vaseline could be changed into pink or warm yellow.
Lydia preferred the product form on the Vaseline. She felt it was funny to use and it reminded her of a product she had used before called M.A.C. The form of this product was a little smaller and it contained about 16 grams. M.A.C. had some color and the price was about 160 RMB.

Lydia did not like the flavor on the Original Lypsyl. The flavor of the Therapy Lypsyl was no good either. Next she examined the Extreme and Vaseline that she did not think smelled anything at all. The only flavor Lydia liked was the Aloe Vera flavor. She also stated that she did not prefer any flavors in lip moisturizer products. If a flavor were to be added she would like it to be a candy or a fruit flavor.

Lydia stated that Lilleborg’s Lip Moisturizer in general looks to cheap and to similar to other products, and therefore she would not have bought them. She suggested changing the product packaging from its original design and into paper boxes. This made her feel it was a quality product.

Lydia stated that the flavor on the Pouting pink was a bit strong, but other than that she really liked all the flavors as well as the taste. She might have tried the
Lip Gloss products if the price was around a 100 RMB and the product packaging was changed.

**Lip care products in general**

We started asking if it was any qualities the existing lip care products lack in the Chinese market today. For lip moisturizer, Lydia would prefer a product that did not wear off when drinking hot drinks, which are very common in the autumn and winter. For lip gloss, the packaging should be small, and she stated that the Kiss in a tube products were too large.

Next we wanted to know if there were any ingredients she would prefer or not prefer in the lip care products. She replied that she would use whatever ingredients that she heard was good, and that she did not know any bad ingredients, but that she knew the brands with bad ingredients.

Lastly, we asked Lydia if she thought any of our products were not suitable on the Chinese market. She stated that the qualities on the products are fine, but that the product packaging had to be changed.

**5.4 Interview with Honggui Wang**

**Age:** 26

**Place:** Shanghai, China (25.04.09)

**Subjects and objectives:** To identify the preferences of the lip care customer.

**Lip beauty and Lip use**

The respondent stated that beautiful lips are sexy and shiny as well as rich. She did not use lip gloss because she felt it made her to feminine. It was also very inconvenient to use while eating. When the weather is dry, she use Lip Moisturizer in the morning and in the evening. The respondent usually use
moisturizer in the spring and autumn. In these peak seasons she applies it 3 times
a day.

**Country of origin**

The first thing she associates with Norway is shipping, as well as ocean and fish. She states that Norway is a good place for travelling and that there is a lot of snow there in the winter. The respondent also associates Norway with a very beautiful nature and the fact that it is not so many people living there. She does not know of any Norwegian products, but associate lip care products with South Korea. Products from South Korea are, according to the respondent, more fit for Chinese needs due to their producer’s knowledge of the Chinese consumers. She stated that the quality on the Chinese products differs a lot. The ingredients in the Chinese products are often artificial, and she would prefer natural products and ingredients that were good for her health. She stated that she would prefer to use an international product in preference to a Chinese product. The respondent associated Japan, USA, Korea and France with cosmetic and personal care products. She mentioned Olay, Red Earth, Maybelline, Loreal and Olive as international brands.

**Price elasticity**

The respondent buys Lip Moisturizer every third month. For daily use, a Lip Moisturizer around 50 RMB is a good price but it should not be higher. If she is at a party she uses a more expensive product from 100-200 RMB. The respondent also uses products with different functions for different seasons. She buys lip gloss about once a year for 200 RMB. The more expensive ones are more healthy and posses a better quality.

**Consumer behavior**

The respondent usually buys her Lip Care products in department stores and not in the supermarket. In Shanghai she buys Lip Care at Pacific and Rough City.
Rough City is located inside peoples square. The location is good, and they have a lot of brands to choose from. The department store also has a lot of sales promotion.

Last time she bought a Lip Moisturizer, she focused on the quality. Even so, it was a friend who introduced the product to her and influenced her to buy it. She is usually influenced by her friends and word of mouth when buying a Lip Care product. She finds it hard to trust advertisement and commercial, but magazines have a certain influence. She doesn’t have much time to watch TV, but she states that the television ads are not very trustworthy anymore. Especially after recent incidents like the milk scandal. The respondent states that if one person, like a superstar, says that a product is good it is not trustworthy. If a group of persons say that they like a product, it is easier to trust.

**Branding**

Maybelline is her favorite Lip Care brand because of their affordable prices and large product portfolio. She is currently using a product from Maybelline from a series of 10 different product variations in terms of color and taste.

**Lilleborg’s products**

A. **The Moisturizers**

The respondent states that she likes the packaging of the Lypsyl Therapy best, and the red and white color has a healthy and professional appearance. The white color reminds her of medical products while the red color looks a bit passionate. She does not like the Original Lypsyl because the blue color makes it look very common. The color on the Lypsyl Aloe Vera reminds her of mint flavor which she dislikes.

The respondent thinks the tubes are very short and hard to find if you carry them in a purse. Even the Lypsyl Therapy is a bit short, and she thinks it looks a bit like
toothpaste. In general she says that the quality on the tubes looks like they have bad quality. She states that the Vaseline looks like hand cream and that it is not good to use a finger to moist the lips, since she have to wash her hands each time she moist the lips. Even so, the package looks healthy since it looks like a medical product and she had never seen a product like it in China before.

She states that the flavor on the Original smells like medicine and is a bit strong. Extreme flavor remind her of toothpaste and is not very preferable. The Aloe Vera flavor is a bit sweet and ok. She states that the Theraphy smells like perfume and that it has a too strong flavor. It is also not preferable when you are kissing someone.

B. Kiss in a tube

Her first response to the Lip Gloss products is that it reminds her of a product from Olay with the same package and product design. The respondent thinks the packaging of all the Lip Gloss products looks cheap. It is the combination of paper and plastic that makes it look cheap. She suggests that the Lip Gloss can be wrapped with the same material as the Vaseline. She also states that the brand name should be more clear and larger on the package. The package should also give some information that makes it obvious that the product is foreign. A lot of Chinese products have English text, so the package has to stand out from these products. She states that the top of the products are a bit big and that it is hard to get something out of the tubes. She likes the fruit flavor on the Golden Glamour, but too much flavor is not good. She thinks that 40 RMB is an ok price on these products as they are now.

All products
In general she states that using a brush with the Lip Care products are not good because the brush becomes dry if it is not used for a while. The brush also brings too much of the content from the products.

She states that she would prefer natural ingredients in Lip Care products, like fruit flavors. Chemical ingredients are not good or too much fragrance in a product, then it seems fake she states.

The respondent thinks that Lip Care products should have an international name. Even though many consumers can not pronounce it, they will still remember it. It would be better with one name, than a sentence as a name, like kiss in a tube. She says that the name Lyspyl makes Lilleborg’s moisturizers look foreign.

Lastly she states that Lilleborg should focus on a niche market like university students. Mass distributions of these products are pointless.

5.5 Interview with Mao Mao

Age: 26

Place: Fudan University, Shanghai (27.04.09)

Subjects and objectives: To identify the preferences of the Lip Care customer.

Lip Beauty and Lip use

Mao Mao told us that pretty lips are slightly red or pink. Not too dark and not too pale. Wrinkles on the lips are a bad sign. Also they must be watery, moist and not dry. She uses moisturizers seasonally during winter and some during spring. She applies it when she feels her lips are getting dry, maybe 1-2 times a day. She says her friends apply more often because it has become a force of habit.

She uses Lip Gloss almost never, but sometimes during special events such as job interviews.
Country of Origin

The respondent knows almost nothing about Norwegian products. What she associate with Norway being is rich country, small population and lots of resources to make the country rich.

She associate Lip Care products with Japan, America and Germany.

She says Chinese products are often very cheap, of poor quality and you may have an allergic reaction. There are some Chinese brands that have high price, but they use too much chemicals in their products instead of natural plants.

Among different international products she favors Japanese products because they have experience with a yellow skin tone and therefore really works. American and other international brands like to use French models and show European white skin. She claims Chinese uses American and European brands for skin treatment and Korean for make-up. Negative aspects of international brands are the price, much because of the high taxes, and that the product must be stored chilled to preserve the quality.

Price Elasticity

Mao Mao says she buys moisturizers once every six months. She will spend between RMB30-40. Although the average is RMB20 she is willing to spend a little extra for quality.

She never buys Lip Gloss products. She only uses it if someone gives it to her. If she would buy it she believes she would spend about RMB60, which she knows Maybelline’s Lip Gloss is priced at.

She says price is important when choosing brand, but the function comes first.

Consumer behavior
She buys her Lip Care products from Watson’s, as they have a lot to choose from. Last time she bought a moisturizer was Mentholatum in December. Her first priority was a product offering moisture to her lips. Also, there was a two-for-one promotion and she really likes the mint flavor. The taste of the product is very important, and she definitely prefers mint.

She hasn’t bought any Lip Gloss yet. But if she would the color would be important. Not too strong. How durable and long-lasting the color is and whether it leaves a mark if, for example, drinking from a glass.

Friends influence her to buy a certain product. The advertisement from Maybelline is using famous stars but this doesn’t influence her. The package design should be cute and attractive.

She says if a friend advise against a brand she will not buy it. Also if the price is higher than what it’s actually worth, or if it’s bad for the health.

**Branding**

She like Shiseido the best. Because it is Japanese and because her friends use it. Mentholatum is also very good and the most popular. More popular than Nivea and you can find the products everywhere.

She likes the advertisement of Lancome, Clinique and Kose. Combine good advertisement with a recommendation and she will probably buy it.

**Lilleborg’s products**

A. **The Moisturizers**

She likes the Extreme product, but not the package design – too much blue. She likes Original’s and Aloe Vera’s blue & white and green & white respectively better because they are brighter. She does not like Therapy’s package design,
although the tube in itself has a better solution and is more convenient. Vaseline she doesn’t like and adds it looks very inconvenient.

She would probably buy Aloe Vera as the colors are nice and remind her of summer. Original is nice but a little plain. Can be more suitable for boys.

She likes the taste of Therapy especially. Aloe Vera is also good, while Extreme is little tame. She dislikes Original because it smells like old Chinese medicine. Vaseline has no taste, which she thinks is okay.

After looking at the package she would buy Extreme. After smelling the products she would buy Therapy.

B. Lip Gloss

She prefers Cute & Caring best because the color is light. She says the product form (tube) is good, but also very common. The Lip Gloss with a container and belonging brush is also widely used. In general she likes the package designs. The product names are okay, but she doesn’t really care. Packaging is more important. The tastes are good, and she prefers Pouting Pink. The difference is not big however.

As she prefers natural products she would like Lip Gloss with natural ingredients and vitamins.

Finally Mao Mao recommends us that if we want to target Chinese young women we should use the Lip Gloss product shape for the Lip Moisturizers.

Appendix 6.0 Summaries of Focus Groups

6.1 Focus group nr. 1:

Date: 23.04.2009
Participants: 6
Age: 26-29
Occupation: MBA- students at Fudan University

Beauty

Beauty is confidence and appearance, but the most important is good skin. Good health and look, beautiful face, and a slim body are also being mentioned as beauty.

To enhance their beauty they use cosmetics, do exercises, drink a lot of water and eat fresh food. They also say that sleep good is important. Chinese girls keep their skin as white as possible because this signifies beautiful skin. They use cosmetics in the morning and evening.

It depends on the salary how much time they use to care about their beauty every day. Some of the girls go for spa once a week. When it comes to skin care they use around 10 minutes every day and when they use make up as well they use up to 30 minutes every day. They say if they are busy they use less time on make-up and vice versa. One of the girls said that she used around 40 - 50 minutes on skin cleaning every day, but some seemed surprised by this statement. It depend on the situation how much time they spend on makeup. Some of the girls use makeup when they go to interviews because some jobs require that they use make up on work to look more formal.

Everyone agrees that healthy skin is white and no wrinkles. In addition is smooth skin important. It is important that they have healthy white skin because white itself is not associated with healthiness.

Country of Origin

They don’t have many associations with Norway as a country. Some of the girls know it is a rich country and there are many luxury goods from the country. Some of the girls say Norway is associated with a good environment. Norway is a very peaceful place and Norwegians has a relaxed life. Norwegian is average tall and good looking. In addition Norway has salmon, fresh fish, expensive country, good
economy things that are being mentioned. One of the girls knows a song about the Norwegian forests.

Korea, Japan and France are countries they associate with cosmetics. Korea has a low price but middle class products. American brands are very cheap but they have some big brands. The price is different from Chinese brands and international brands. For some of the participants are price the most important factor when buying cosmetics, but for some there is the quality. If they have money they will use international brands. Brands in China is very important. They don’t know of any Chinese Lip Care brands. They feel that they take a risk when choosing a Chinese brand because of the low quality. This is because they feel there is low technology regarding Chinese products. Some of the girls say that Chinese brands are not famous in China and they only want to recommend good brands to friends. Chinese will not be the first to try anything so the brands have to be tried in other markets before selling in the Chinese market. It’s hard to try to reach a higher segment if your brand already has a low level of status.

**Price elasticity**

30-50 RMB is a reasonable price for Lip Care products. As it is a seasonal product, some only use Lip Care during winter. Maybelline is popular because it has a low price at the supermarkets. They said that students normally use Maybelline and L’Oreal. Price comes second after quality when they choose a brand. It’s common to compare the Chinese price with prices in Europe. It is expected that the price in China is not much higher. It is popular to travel to Hong Kong to buy cosmetics because it is cheaper there. Buying online is also cheaper.

**Preferences**

The participants in the focus group buy Lip Care products because they want to be beautiful, they have dry lips or simply for the color. They like light colors, such as
light red. They buy lip care products at the shopping mall or supermarkets such as Carrefour and Wall Mart

**Lilleborgs products:**

The products that stood out in the focus group were Aloe Vera and Extreme. Lypsyl Extreme had an acceptable smell with little mint. The other Lip Moisturizers were too normal and similar to other Lip Care products. They did not like the white packaging on “Therapy” because it reminded them of toothpaste. Lypsyl original was not popular by most of the participants. They thought it smelled cheap and it reminded them of low-end products. The participants had never heard about Aloe Vera. Some preferred that the Lip Care products had taste and some did not. Mint was okay for some of them, but they felt fruit taste was too much.

They said the design on the Vaseline product represented a good content and it looked much like a medicine product. Most participants preferred the Vaseline the most, but it had disadvantages such as being unhygienic because they had to put their finger into it to use it. The Vaseline box was also hard to open according to one of the participants. After trying the Vaseline on their skin they said it was too oily and that it did not absorb to easy.

They thought that younger people would like the kiss in a tube better, but they thought the taste was a bit too strong. The smell from the products has to be light instead of strong.

Some participants did not think any of the products had a good design because it did not stick out from other products already in the market. “Mentholatum” is the most popular brand among the participants and like the design on this one.

Some of the participants thought Lilleborg’s products looked childish and cheap. The plastic on the Lypsyl moisturizers seemed fake. They thought the Vaseline
box was cool, but some thought the box was a bit too big. It seemed like they preferred simple colors instead of fancy colors.

They said that an international name is definitely preferable on the product. A Chinese name could be ok, but only if it sounds international in Chinese as well. In their opinion “Vaseline” is probably the most suitable in the high-end market because the packaging is not very common in the Chinese market. Some of the “Kiss in a tube product” might be suitable for the Chinese high end market as well. Some of the participant said that none of Lilleborg’s products are suitable in the Chinese market.

When asking them what Lilleborg could do to improve their products one of the participant suggested metal packages instead as this could be more cool. The products have to stick out.

They were more interested when they heard it was sunscreen in one of the products. It was important to be specific about what function the different product had and the function had to stick out as well. For some participants, how moisturizing the product was important. Some people preferred oily but not too sticky products. One of the persons liked the Lypsyl therapy package because the colors were very clean and it had a pharmacy look.

Attractive commercials are important and it has to be very special so they remember it. TV-commercials on the internet and professional commercial on websites have influence. Some said that it is important that products had promotion when there is a special offer.

6.2 Focus Group nr. 2

Date: 26.04.2009
Participants: 8 women
Age: 23-26
Occupation: Bachelor students at Fudan University
Beauty

Angelina Jolie’s bright and beautiful lips are considered beautiful among the participants. Beautiful lips are also healthy lips. Too much color is not beautiful. O’lay had some problems with their lip sticks because they found some ingredients in the lip stick that could cause cancer. They say it is important that the Lip Care product is good for their health. The color on the lips should fit the rest of the makeup. Different color target different markets.

Country of Origin

When asking them what they knew about Norway they answered that it was very cold there and that people in Norway was skiing a lot. Some of the participants also mentioned fairytale and tourism.

They associate Lip Care with France, Korea, Japan and China. When China was mentioned everyone started laughing. Some of them said that Chinese brands are of bad quality and have weak advertising. Salaries of those who buy Chinese Lip Care brands are usually lower than ordinary. Another girl said that Chinese Lip Care products last for a long time and are cheap. She’s not afraid of dangerous ingredients in the Chinese lip care products. They said that international brands are much more expensive than Chinese brands. Chinese brands has lower price, lower quality, weaker advertising than international brand.

Price Elasticity

Some of the participants buy moisturizer every one or two months. Other participants buy it once or twice a year. One of the participants says she buys one or two moisturizers a month in the high season (winter time). She only uses half of it before she throws it away. This is because she thinks it is unhygienic to use it over a long period of time. Another says she only uses Lip Care products once a month. Price is very important when they are students with no income and their parents pay everything. One of the participants only care about the price and not
the quality when she buys Lip Care products. Another waits for promotions before she decides to buy Lip Moisturizers.

Appearance of the products is important according to one of the participants. She cares about the design, but also price. She prefers a small container because she uses the product so seldom. If it is big it will get dirty.

Some say that they are willing to spend around 20 – 100 RMB on Lip Care products and some would be willing to spend around 30 – 50 RMB. It seemed like the respondents tried to exceed each other in how much they are willing to spend on Lip Care products, so the highest numbers might not be accurate. They also said that they easily switch to another Lip Care brand if they are not satisfied. The participants in the group buy Lip Gloss once a year.

**Consumer behaviour- preferences**

The participants usually buy Lip Care products in department stores, supermarkets, Watson or online. They use moisturizers mostly during the winter and autumn but also during the spring. Today (March) most of them use it every day because the weather is so cold. They apply it 2-3 times each day. One of the participants does not use it at all because it is too sticky. They use Lip Gloss when going to parties or interviewing for a job. Since they are students they don’t use it too often because of lack of occasions. When they start working they think they will use it more.

The Lip Care brand they bought last time was Nivea, Red Earth, Dr. Lee and Mentholatum. Criteria they were looking for when they decided what to buy was the design, color, smell and brand. It was also important that the product was healthy and that it contained sun block. When it comes to Lip Gloss they bought Maybelline and Shisheido last time. A criterion that was important was color and shine. In addition it was important to choose a color that matched the skin, was waterproof or had been recommended by friends. They did NOT believe the sales
personal promoting the brand. Some thought the packaging should be pretty, but some said they did not care.

The participants said that advertisements, friends, fashion magazines, TV commericals and articles that recommend Lip Care could influence them to buy Lip Care products.

Some of the participants suggested adding some materials that was healthy to the. One suggestion was Chinese medicine. This could specifically target pregnant women because they were very focused on being healthy during their pregnancy.

The brand was not that important. Factors that were important were the smell, taste, price, design, appearance and function. The size on the product was also important because it had to be small and good for carrying around.

In addition we asked if anything could influence them to not buy a certain product and then they answered that they would not buy it if it was unhealthy. The price could also influence them to not buy a product. This could be if the price was too high or if it was too low. Too high price was higher than 50 RMB for Lip Moisturizer and higher than 200 RMB for Lip Gloss. Too low price was beneath 10-20 RMB for moisturizers and lower than 30RMB for gloss.

Most of the participant said that they liked the brand “Mentholatum”. They thought Maybelline had good commercials because they were sexy and shiny and that they use celebrities in the commercials. By using celebrities this indicates that the product is related to fashion and signal high quality. Celebrities strengthen the brand. It is almost only Maybelline who have commercials on television in China for Lip Gloss. It is not usual to see advertising on moisturizing products because it is hard to make commercials focusing on function rather than beauty. The participants said it is hard to trust commercial that only focus on the quality.
Lilleborg’s product

First we showed the participants the moisturizers and asked them what package they liked best and why.

Some said the green one Aloe Vera because it was bright and seemed healthy. They also liked the green color best because it looked like a plant, but they have never heard of a plant called Aloe Vera. Extreme looked like the ocean so they thought this was maybe more suitable for men. One of the participants did not like any of them because they weren’t fashionable. Some stated that all the products looked like low-end Chinese products. They did not think it was anything special about the package so this has to be improved.

They thought Vaseline and Therapy looked like medicine. One girl said that she would be embarrassed to use Lypsyl Therapy because people might think she was sick if she used it. Some said that Lypsyl original seemed like a Chinese cheap brand and some said it looked like glue.

They said that they might try the products just because they are from Norway, so it was important we emphasized this point. The weather in Norway is dry and cold so Norwegians should therefore know how to make Lip Care products. One suggested adding something that was unique in Norway that could not be bought in China. In addition they would probably try it because it was new. The participant would not use Vaseline on their lips when they had to use their finger to apply it. In was also important that it had no smell since they had to use their finger to apply it.

Some of the participants said that the Vaseline package looked terrible. It was too big and obsolete. The Vaseline name and product are well known among the
participant because they have seen it in the store before. Vaseline reminded them about an old product and it was something they used when they were kids. In addition it reminded them of their parents so they thought old people would buy it. They suggested that it should be white and black or pink and white instead of white and blue. Office ladies would probably like this because it was more elegant.

The majority of the focus group did not like that the moisturizing package design was made of plastic transparent. This made the products look cheap and of bad quality. However, some participants preferred it to be transparent because then they could see what’s inside them. They said the moisturizing tubes had to be improved. Lilleborg should make it more elegant so it looked more expensive. In addition they thought the tube was to fat and short. It should be longer, thinner and smooth.

If the products should cost 50-70 RMB Lilleborg must change the containers so the products would look more expensive. Some suggested adding something that was unique in Norway. Maybe use some characters from Norway in the advertising. It was important that Lilleborg made their products different from the low quality Chinese products.

What they liked about “Therapy” was that it looked clean and hygienic and did not get easily polluted. They also liked that it was suitable to their lip shape and could be easily applied.

When asking them about flavor they answered that Aloe Vera smelled good and was the best. They thought that the flavor on Lypsyl Original was too strong and unpleasant. They suggested that Lilleborg could change the flavor to fruit, but mint flavor was the best. They said that Vaseline had no smell and this could be positive because they already know the product and that’s quality. There are some similar Chinese products to cure headaches.
Lip gloss - Kiss in a tube

They did not like the gold color on the package because it was associated with “hard”. It should be associated with “soft” instead. But they thought these products looked more like high-end than the moisturizer, but some still think it is low-end products. The cork could be improved by making it shorter. “Pouting Pink” was popular because it was pink and shiny. If it was not shiny it would look more professional. It looked suitable for party girls. Nobody liked “Golden Glamour” because they thought it was for elder people. The red Lip Gloss looked like meat and not very natural. The smell from “Cute and Caring” is okay. Some of the girls say they want to eat it. It is better with no smell than bad smell.

When asking them about the product form they said it was very common and not different from other products. Some liked the plastic and some did not, but it was most common to use plastic, even among the high end products. Some suggested changing the tube.

They said that Lilleborg’s products were more suitable for girls, while Mentholatum were more suitable for ladies. Maybelline’s design was very cool but it looked like nail polish.

They thought the name Kiss in a tube sounded romantic and suitable for girls below 22 years. They do not think the name is so important. It is the color and the product which is important.

They thought Lilleborg’s products should have an international name, but it could have a Chinese as well. They thought Kiss in a tube were more suitable than the moisturizers on the Chinese market, especially if we wanted high-end price. The moisturizer could be suitable if they are improved. One suggestion is to make the Lypsyl Therapy more transparent because now it looks too medicated. Lilleborg should advertise themselves as more healthy and with extra moisturizing. The
expiration date was extremely important for the participants. There were no expiration date on Lilleborg’s products and this made the very skeptical to receive free products from us. They told us that Chinese people care a lot about the expiration date. If they cannot find this date they will not use it.

When offered a free sample, 9 out of 10 participants choose the “Kiss in a tube product”.

6.3 Focus Group nr. 3

**Date:** 28.04.2009  
**Participants:** 1 man, 6 women*  
**Age:** 29 years  
**Occupation:** Working

*One of the women was a male transsexual. Although he was physically a boy, he dressed, acted and purchased products as a girl, which is why we have included him as a female.

**Beautiful lips**

The participants said that big lips are beautiful. The lips have to have a clear line and form. The lips have to be very fresh and have no old skin. The color has to be a bit pink or something similar. They do not like pale lips. No color on the lips can signal that the person is not healthy. In addition, color on the lips should match your clothing.

**Ways of use**

A. **Lip gloss:**

One of the participants use Lip Gloss every day, another keep it in her bag every day, but only applies it when she goes out on business dinner, parties etc. They said they only used it when she “had” to. Another participant uses it many times a
day. The safety issue is very important because the product has to be good for the skin and not poisonous. They would use the Lip Care product more often if it was safe. If they don’t know whether the product is safe they only apply it when necessary to be on the safe side. When used they put the gloss on before the business dinner and then once more after dinner.

B. Lip moisturizer

The boy in the focus group never used Lip Moisturizers. Another used it when the lips were dry. One said she use it only when she has problems with her lips. Another said that it’s common to use the product on a seasonal basis, especially in the winter and autumn. It’s not very common in the summer but it’s used then as well. One said that she apply it after breakfast, lunch and supper. They use Lip Gloss more than moisturizers because moisturizer is applied seasonal.

Country of Origin

When asking them about Norway as country of origin they start talking about a Chinese song called Norwegian forest. A Norwegian surrealistic film is also mentioned. Some said Norwegians is down to earth and pure. They associate Norway with a natural culture so they do not think Norwegian products are related to chemical issues, but rather to natural products. Non-chemical and non-poisonous products are mentioned by several of the participants. Another impression is that because of the natural side and not high tech products Norwegian products ingredients cannot be as good as American products.

Countries that they associate with Lip Care products are France, America and Japan. One states that a big concern is regarding the safety issue with these products because it is so close to the mouth. In Korea they also have a lot of Lip Care products but they are all rubbish. Everyone starts laughing after this statement from one of the participants.

Price Elasticity
A. Lip moisturizer:

When asking them how often they buy moisturizer the one “woman” answered once a month. “She” buys a new one even though she does not finish it every time because of the safety and health issue. The others buy 2 – 4 moisturizers a year. How much they are willing to spend on moisturizers depend on the brand and quality, but they would not pay over 200 RMB and not below 30 RMB. They are not likely to pay a high price for moisturizers. The majority of the group said that they would not pay more than 50 RMB.

B. Lip gloss:

Some use Lip Gloss as a substitute for lipstick. However lipstick is often more used and more preferred than Lip Gloss. One girl says this is because she does not prefer the liquid in the Lip Gloss. Lipstick is a product they can wear every day. One tells us that she use moisturizer as a basis before she put on color. One has switched recently from lipstick to Lip Gloss because it looked shinier than lipstick. Some of the participants buy it once a year and several mentioned half a year. The shelf life is mentioned as a factor to why it is bought once a year. They are willing to pay more for Lip Gloss than moisturizers due to the fact that lip gloss adds color to the lips. They will not buy Lip Gloss at low price because of the safety issue.

Consumer behaviour

They buy Lip Care at high class stores, shopping malls, department stores and online. Lip Gloss is mostly bought in big shopping centers, but moisturizers are bought more occasionally in more random stores like convenience store such as Wal mart and Carrefour. www.strawberry.com is mentioned as a popular web page where you can buy Lip Care. One said she never buys online. Pharmacies andWatsons are also being mentioned.
Mentholatum is mentioned as that moisturizer they bought last time of everyone but one. She bought Mary Kay last time. They are satisfied with Mentholatum and it has a good reputation. In addition Mentholatum has good advertising so they trust them more and the price is reasonable. They compare the different prices and the quality when they select what lip product to buy. The brands reputation is also important. They feel that advertisement ensure the quality and make the products more trustworthy.

The Lip Gloss brand they bought last time was Mary Kay, Este lauder, Chanel, Dior and Revlon. One of the participants showed us the package on Revlon. She liked this package very much because she had to put a small brush into the gloss and then put it on her lips. When we asked what made them buy the particular brand several of them said a friend had recommended it. They said that recommendations from friends are an important source to their buying behavior. If they like the brand they would continue to buy it. Information on internet and price was also something that influenced them to buy a particular brand. One of the participants said she like to try the products out in the department stores first and then decide what to buy. Fashion magazines are also being mentioned, because they have different recommendations on products every month. Word of mouth and recommendation from staff are also being mentioned as a reason.

When we asked if it was something that could influence them not to buy a certain brand many answered if the product were chemical. They did not buy Japanese or Korean brands since they had more chemicals in their products. One of the participant’s first choice was European and American brands. Procter & Gamble’s SKII was busted of using dangerous chemicals, and would not buy the product. Chinese people like to follow the mainstream one of them says.

**Branding**

Some mentioned Mentholatum as their favorite brand as moisturizer. One has Mary Kay as their favorite brand and one has a Chinese brand. Lancôme, Este
Lauder and Dior are more common for older people because the ingredients focus on elder people. But not necessarily high end. Older people is defined as persons over 40-45.

Why these are their favorite brands have different reasons. One said that the brand had the right product and color. One mentions brand loyalty to a product they used. The first time they try a product decides a lot. If it has a good reputation and you can see other people use this product it can influence. People have different perceptions, but no one knows for sure which products that is safe to use. This is not common knowledge. Then they have to blindly trust commercials, friends etc. They have little own opinion on what brand to choose. They could change brand if it’s proven that another product is better for the skin.

There are few commercials regarding lip care, but Maybelline has a commercial that sticks out. There are also some commercial in fashion magazines like Elle and Vogue.

Lilleborg’s products

A. Lip Moisturizer

Some of the participants prefer the Extreme and Aloe Vera because of the color on the packaging. They also said that this is cool and more fashionable than the others. Some liked Therapy, Aloe Vera and Extreme best. They associate the Lypsyl Original with another product/another brand they have seen before. One said the Lypsyl Original and Therapy looked like products from the country side and this was not good. They said that the first impression is very important.

Flavor

Lypsyl “Original”

One reacted with a laugh when she smelled the Lypsyl Original. Some said the smell was not good, although one disagreed. They thought Lypsyl Original
smelled similar a sort of cream they used when they were younger. One said that the smell on Lypsyl Original would be a bit hard to launch in the market.

**Lypsyl “Aloe Vera” and “Extreme”**

One of the participant thought Lypsyl Aloe Vera smelled best, followed by Extreme. They thought the smell on the Aloe Vera and Extreme smelled fresh and similar to green tea. This is positive because Green Tea is good for the skin. They thought the green color looked natural, cool and fashionable.

**Vaseline**

They thought Vaseline was not very hygienic and none of the respondents seemed to prefer the package because it was old fashioned. It’s not good when you have to use your fingers, but it’s easy to use. They would have bought the product if friends told them it was good. They mentioned 20-40 RMB as a suitable price. The Vaseline brand is familiar for some.

**B. Kiss in a tube**

The color on Golden glamour is beautiful. The color on Pouting Pink is not well appreciated because it looked like a “countryside” color. Countryside is mentioned several times as something negative. The color on the Cute and Caring is the most appreciated among the three. They thought the packages looked like high class package and some thought 70-100 RMB was a suitable price for these products. One said that new products should be less than 50 RMB, but some disagree that this is too low.

They thought the product form was not hygienic and the ingredients were a bit thick and oily compared to what they use. The minute they put the product on it’s a bit oily, but after a little while it’s ok some of them said. They think the smell of the products is okay, but mint is mentioned as a great taste on Lip Care products.
All products

Qualities the existing Lip Care market lacked today are more hygienic products. One suggested that part of the tube could be thrown away after use so it became more hygienic to use. More color choices would be nice.

Seminar with McKinsey Global Institute.

Date: 04.03.2009

Topic: “Preparing for China’s Urban Billion”

Not all areas in this seminar were relevant for our thesis. We have therefore concentrated on how China will go through an urbanization the next 20 years and migrations from rural to urban cities will be the driving force of this. The urban China will increase with 350 million people in the next 20 years.

By 2025, two thirds of Chinas citizens will live in the cities and this signifies more than 1 billion people. More than 200 hundred cities in China will have more than 1 million habitants. China is to become the third largest consumer marked in the world. The rapid urbanization creates big challenges. Where are they going to live is one of them. Beijing is going to become the biggest inhabitants and go pass Shanghai. Today Beijing has 14.7 inhabitants but by 2025 the inhabitants will increase to 26.8 million. Shanghai has today 17.1 habitants and will by 2025 have 25.1 million habitants.

The middleclass in China will represent two thirds of the urban population and almost 80% of the urban consumption by 2025. Their definition of the middleclass is they with an average income. They are going to have a social structure in the future. Saving will increase as well as income increases. The GDP is going to triple by 2025.

Appendix 4.0: Hierarchy of Goals
<table>
<thead>
<tr>
<th>Goal levels</th>
<th>Content</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Objective</td>
<td>Provide Norwegian Lip Care brands to the Shanghai Lip Care market.</td>
<td>Offer an alternative to the French dominated upper-middle Lip Care market in Shanghai.</td>
</tr>
<tr>
<td>Economic goals</td>
<td><strong>Short-term (1-2 years)</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>within two years</strong></td>
<td>Create a budget for the short-term operations, ensuring Lilleborg's survival and growth in the initial years of its international expansion into the Chinese market.</td>
</tr>
<tr>
<td></td>
<td><strong>Long-term (5-10 years)</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>within five to ten years</strong></td>
<td>A positive contribution to the annual revenue. Lilleborg reaches break even after 5 years.</td>
</tr>
<tr>
<td>Operative goals</td>
<td><strong>Short-term (1-2 years)</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td>1 - Establish a distribution and sales network in Shanghai through existing sister companies</td>
<td>Utilize Borregaard and Illeman's network in Shanghai to build a foundation for Lilleborg's further expansion into the Shanghai Lip Care market.</td>
</tr>
<tr>
<td></td>
<td>2 - Attend China Beauty Expo 2010</td>
<td>Attending the largest cosmetic expo in China to identify possible partners for distribution and sales purposes.</td>
</tr>
<tr>
<td></td>
<td>3 - Secure a contract with an intermediary responsible for distribution and sales in Shanghai</td>
<td>Securing partners to gain access to the Shanghai Lip Care market.</td>
</tr>
<tr>
<td></td>
<td>4 - Apply for and pass the Product Hygiene Licence Application.</td>
<td>Achieve a certificate to be able to sell the products in China.</td>
</tr>
<tr>
<td></td>
<td>5 - Prepare and execute a product launch event</td>
<td>Introduction of Lilleborg's products for the Shanghai Lip Care market.</td>
</tr>
<tr>
<td>Strategic goals</td>
<td><strong>Long-term (5-10 years)</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>Primary Market</strong></td>
<td>Norwegian Home Market</td>
</tr>
<tr>
<td></td>
<td><strong>Secondary Market</strong></td>
<td>Export market in China and licensed production for Unilever and Johnson &amp; Johnson.</td>
</tr>
<tr>
<td></td>
<td><strong>Product profile</strong></td>
<td>A Norwegian image, higher price, innovative, environmental, health conscious.</td>
</tr>
<tr>
<td></td>
<td><strong>Technology</strong></td>
<td>Low operation costs, low logistic costs, natural ingredients, low distribution costs</td>
</tr>
<tr>
<td></td>
<td><strong>Level of competence</strong></td>
<td>Establish a export department, gain brand equity, gain more control over the value chain in China.</td>
</tr>
<tr>
<td></td>
<td><strong>Market role</strong></td>
<td>Be a competitive player in the upper-middle Shanghai Lip Care market.</td>
</tr>
</tbody>
</table>
"Lilleborg shall create and develop brands which provide consumers with a supreme sensation of cleanliness, beauty and well-being - both towards themselves and their environment. Lilleborg will continually seek to improve the ability of our brands to clean, care for and beautify, thus making it ever easier for our consumers to attain that good feeling of PURE WELL-BEING."