Creating Room for Norwegian Quality
- in the Competitive Shanghai Skin Care Market -

BI Norwegian School of Management
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This paper is conducted as a part of the study at the Norwegian School of Management. This does not mean that the Norwegian School of Management approves the method used, the results found or the conclusion that is taken.
In cooperation with

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Executive Summary

This thesis summarizes the work completed on an explorative research study of the Chinese hand cream market. It has been written on behalf of the Norwegian company Lilleborg, with the aim to find a suitable position for the company’s new hand cream in this market. The thesis gives recommendations regarding the Shanghai market as the primary findings, due to limited resources, concerns this city only. The findings are not to be generalized as this is not in the scope of the thesis.

The Shanghai skin care market is growing and it is highly fragmented. The many different players, both foreign and local, are generally positioned as either luxurious; utilizing high-end distribution channels like exclusive specialty stores, pharmacies and department stores, or positioned as medium- to low-end; conveniently placing the products in a broad range of super and hyper markets. Moreover, the competition is fierce and the industry is extremely brand driven.

Chinese young, urban consumers are getting more affluent and constitute the main force of the beauty economy. They are becoming more discerning in their tastes and making greater efforts to understand the heritage of individual brands. Many high-end consumers in Shanghai perceive quality as the most important element regarding hand cream, followed by price and brand. A high price symbolizes high quality, as do a foreign branded product. Additionally, many consumers have a relatively low brand loyalty towards their preferred products.

Lilleborg should enter the Chinese market by establishing a representative office in Shanghai and tie up with a local distribution partner. The main focus should be on brand building by creating a story behind the company and product, based on a Nordic lifestyle and a “made in Norway” signature. Lilleborg should utilize alternative, low-cost media channels and encourage to a positive word of mouth effect.
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Abbreviations

- **B2C**: Business to Consumer
- **BOD**: Board of Directors
- **CCP**: Chinese Communist Party
- **CCTV**: China’s National Television Network
- **CEO**: Chief Executive Officer
- **CFS**: Critical Factors of Success
- **COO**: Country of origin, “Country of origin perceptions are the mental associations and beliefs triggered by a country” (Kotler and Keller, 2006: 686)
- **DNV**: Det Norske Veritas
- **EBITA**: an acronym that refers to a company’s earnings before the deduction of interests, tax, and amortization expenses
- **FDI**: Foreign Direct Investments
- **FESCO**: Foreign Enterprise Service Co.
- **GDP**: Gross Domestic Product
- **HR**: Human Resources
- **IPR**: Intellectual Property Right
- **MNC**: Multinational Company
- **MOFCOM**: Ministry of Commerce
- **POD**: Points of difference, attributes or benefits consumers associate with a brand and find unique to the brand (Kotler and Keller, 2006: 312)
- **POP**: Points of parity, associations the brand may share with other brands (Kotler and Keller, 2006: 313)
- **PRC**: Peoples Republic of China
- **R&D**: Research and development
- **SAIC**: State Administration for Industry and Commerce
- **SSF**: Social Security Fund, China
- **WTO**: World Trade Organization
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“We are not a sales oriented company, but a market oriented company. Every product we develop is based on consumer preferences and needs. Our products can take years to develop.”

Export Manager of Lilleborg,
Jan Eskil Hollen
Chapter 1 – Introduction

1.1 Background to Research

The Norwegian company Lilleborg operates within the branded consumer goods industry, and holds the leading position in their home market. The company is owned by the multinational company Orkla. Lilleborg has years of experience cooperating with multinational firms, one example being their collaboration with Johnson & Johnson regarding licensing of Lilleborg’s patented hand cream formula. Johnson & Johnson utilizes this formula in their hand cream Neutrogena, which is exploited in their marketing by positioning the product as having a “Norwegian formula” as well as displaying the Norwegian flag on the product’s packaging1. Lilleborg’s cooperation regarding Neutrogena dates back to 19502.

Due to the expiration of this patent on the 1st of January 2009 and the termination of the contract with Johnson & Johnson as of April 1st 2009, Lilleborg is now aiming to launch their own hand cream. The cream will contain the same formula which is being used in Neutrogena’s hand cream. Lilleborg is interested in launching the new product in the Chinese market, based on the wish to expand and the belief that there is a preference for Nordic products among Chinese consumers3. Additionally, the decision is based on the fact that Lilleborg already has some employees in Shanghai due to their sourcing activities in this market. The employees are situated at the office of their sister company Borregaard4, which has a strong wish to see Lilleborg in China and are prepared to support them in this matter5.

Lilleborg wishes to collaborate with our bachelor group in order to acquire information about the Chinese skincare market and the Chinese consumer. The company is further interested in our recommendations regarding mode of entry and scope of strategy for distribution and marketing mix.

1 Appendix 1.1, picture of Neutrogena Hand Cream
2 Lilleborg.no; http://lilleborg.no/eway/default.aspx?pid=232&trg=LeftPage_6844&MainPage_6464=6844:0:4,964:1:0:0::0:&LeftPage_6844=3004:22375::1:6846:2::0:0
3 Appendix 2.1, interview with Jan Eskil Hollen, Export manager, Lilleborg
4 Borregaard is owned by Orkla. The company belongs to the business area Orkla Materials.
5 Appendix 3, interview with David Chan, Chief representative, Borregaard
1.2 Research Objective

Our research objective has been developed in cooperation with Lilleborg, and goes as follows:

“The research objective is to find a suitable position for Lilleborg’s hand cream in the Shanghai skin care market by identifying what characterizes this market with regards to competition and consumer preferences”.

1.3 Exploratory Questions

To answer this problem definition in the best way possible, we have developed a set of research questions.

- Who are the main competitors and how are they positioned?
- Who are the most valuable target consumers and what are their preferences regarding hand cream?
- How should Lilleborg enter the Chinese market?
- How should Lilleborg shape the marketing mix in order to gain the most in this market?

1.4 Research Limitations

Due to our time and budget limits, our primary research has been narrowed down to the Shanghai market.

Throughout our studies we experienced some language barriers which put certain limitations on our research. As an example we were stopped during an observation in the high-end specialty store Sephora. We were not able to communicate our purpose for taking notes whilst being in the store and were forced to leave. A second example is our attempt to visit the China Beauty Expo, which turned out to be too much of a challenge as the exhibitors English was barely understandable.

Because of our lacking ability in both reading and speaking Chinese, we faced difficulties in understanding the brand names of several local hand cream brands during our observation sessions.
1.5 Description of company

1.5.1 Orkla

As already mentioned, Lilleborg is owned by the Norwegian multinational company Orkla. Orkla started its operations in 1654 as a mining company. Today it is a diverse group operating in the branded consumer goods, aluminum solutions, materials, renewable energy and financial investment sectors. The group has a turnover of NOK 66 billion and 32,000 employees in more than 40 countries. Furthermore, the company has divided its activities into five business areas, these are; Orkla Financial Investments, Orkla Associates, Orkla Materials, Orkla Aluminum Solutions and Orkla Brands. Lilleborg belongs to the latter business area, more specifically Orkla Brands Nordic. Europe and the USA are Orkla’s main markets, however due to significant growth in Asia, Orkla will be expanding its presence in Asia in the future. Today, Orkla has extensive activities in China through its daughter companies SAPA, Elkem and Borregaard.

1.5.2 Lilleborg

Lilleborg is the leading producer and marketer of detergents and personal care products in Norway, with a market share of 55 percent. They have a wide range of strong brand names within their portfolio. Some examples are Blenda, Zalo, Jif, Lano, Define and Dove. Lilleborg’s history goes all the way back to the 19th century. They were one of the first companies in Norway to start building brands, and their products have been well received by the Norwegian consumers. The company has a particularly high focus on consumer needs and preferences in their product development.

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6 Orkla.com; http://orkla.com/eway/default.aspx?pid=243&trg=Main_7538&Main_7538=7329:0:4,3257:1:0:0::0:0
7 Appendix 1.2, Orkla Organization map
8 Orkla.com; http://orkla.com/eway/default.aspx?pid=243&trg=Content_7329&Main_7538=7329:0:4,3257:1:0:0::0:0
9 Orkla.com; http://orkla.com/eway/default.aspx?pid=243&trg=Content_7329&Main_7538=7329:0:4,3257:1:0:0::0:0
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11 Power Point Presentation provided by Lilleborg
12 Lilleborg.no; http://lilleborg.no/eway/default.aspx?pid=232&trg=MainPage_6464&MainPage_6464=6844:0:4,962:1:0:0::0:0
13 Power Point Presentation provided by Lilleborg.

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Furthermore, Lilleborg is divided into two independent units; Lilleborg home and personal care, and Lilleborg professional

![Figure 1, Lilleborg Organization](image)

Lilleborg is the only company in this business area in Norway operating the entire value chain, including product development, production, sales, and marketing. The company’s headquarter is located in Oslo. In addition, they have three factories in Norway and the company has 525 employees in total\(^\text{14}\).

In order for the company to fully utilize their production capacity it will be beneficial to expand abroad. This is supported by the fact that Lilleborg is a strong player in their home market, and it will be necessary to seek internationally to achieve growth. As of today, does not export any of their own brands to the international market. One exception is Jasparello which is a raw material used in skin care products. However, their factories located in Norway export products to countries in Europe, Asia, Africa and America on the behalf of their partner Unilever\(^\text{15}\). Lilleborg has both local and international brands in their portfolio and the company owns the rights to produce, market, and sell a selection of Unilever’s brands in Norway. For instance, Vaseline Intensive Care and Dove are Unilever-brands\(^\text{16}\), whereas Lano is a brand by Lilleborg. This partnership is providing Lilleborg with valuable know-how in areas such as research and development.

1.5.3 Description of the hand cream product

As mention previously, Johnson & Johnson utilize Lilleborg’s hand cream formula in their product Neutrogena. Despite this, Lilleborg will use the same formula in their new hand cream which still has to be developed. The hand

\(^{14}\text{Lilleborg.no; http://lilleborg.no/eway/default.aspx?pid=232& trg=MainPage}_64\text{464=64=6844:0;4,955:1:0:0::0:0}

\(^{15}\text{Lilleborg.no; http://lilleborg.no/eway/default.aspx?pid=232& trg=LeftPage}_6844\text{=6844:4,964:1:0:0::0;&LeftPage}_6844\text{=3004:22375:1:6846:2::0:0}

\(^{16}\text{Unilever.com; http://unilever.com/brands/personalcarebrands/}\)
cream’s active ingredients are glycerin and jasparello\(^\text{17}\). Jasparello is a raw material used in skin care products which is developed by Lilleborg. Its ingredients and production method is a company secret. However, according to Lilleborg’s export manager the story goes as follows: Once upon a time there was a group of scientists who went to the Southern ocean with Anders Jahre’s\(^{18}\) whaling expedition. The scientists witnessed that the whalers’ put their hands into the whale fat of the dead whale and rubbed their hands with the fat. The fat made the whalers’ hands softer. The name of the raw material Jasparello has its origin from Jahre’s factories and Ello\(^{19}\). These two names combined became Jasparello\(^{20}\).

The hand cream is fast absorbing and instantly moisturizes the hands without any greasy after feeling. The formula is developed in cooperation with dermatologists and intensely moisturizes and nourishes skin, as well as helping repair the skin’s moister barrier to keep hands softer and smoother\(^{21}\).

Lilleborg is interested in positioning the hand cream as a high-end product, with a relatively high price and exclusive design. In addition, Lilleborg would like to know if the “country of origin” will have a positive effect on this positioning. The company has provided us with some drafts regarding possible designs of the product.

Lilleborg’s suggestions on the packaging.

\(^{17}\) Cultbeauty.com; http://www.cultbeauty.co.uk/product83_neutrogena-norwegian-formula-hand-cream.php

\(^{18}\) A Norwegian ship owner in the early 1900’s and founder of Jahres fabrikker AS (http://no.wikipedia.org/wiki/Anders_Jahre)

\(^{19}\) A factory situated in Kristiansund, Norway, which today is owned by Lilleborg

\(^{20}\) Appendix 2.3, interview with Jan Eskil Hollen, Export manager, Lilleborg

\(^{21}\) Neutrogena.com; http://www.neutrogena.com/econsumer/ntg/productdetail.browse?segment=women&catId=5&subCatId=15&productId=12&target=/products/body/norwegian-formula-hand-cream.jsp
Lack of preparation, lack of market investigation and lack of understanding the consumer market in China are the main reasons as to why we failed.

National Sales Director of Jotun China, Zhou Lai Chun
Chapter 2 - Research Methodology

The purpose of this chapter is to inform the reader on which research methods that has been utilized through this thesis. It was essential to gather both secondary and primary data in order to obtain the information needed to identify Lilleborg’s opportunities in the Shanghai market. In this chapter we have used The Research Process Model to explain our research procedure.

2.1 The Research Process

The Research Process Model is according to Gripsrud et al., the most efficient procedure for conducting research.

![Figure 2, the Research Process Model](image)

2.2 Research objectives and exploratory questions

Gripsrud et al. further states that the first step should be to formulate a research objective in one simple sentence. In addition, one should develop several exploratory questions in order to answer the research objective of the intended research. This effort will assist the researchers to stay within a guided research line and avoid them from going off into undesired directions.

In order for Lilleborg to evaluate the attractiveness of an expansion to the Chinese market, we have developed a research objective and exploratory questions presented in the beginning of this thesis.

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22 2004:53
23 Gripsrud, Olsen & Silkoset, 2004:53
24 Gripsrud et al., 2004:47-48
25 Bryman & Bell, 2004:304
2.3 Research design

Gripsrud et al. divide research methodology in three different designs\(^\text{26}\).

![Figure 3, Research Design](image)

"When a decision maker has little knowledge about a research area, the primary goal with the investigation should be to explore the area closer\(^\text{27}\)."

Since our problem definition has a wide focus it will be essential to achieve a greater understanding regarding the Chinese market, consequently our research design will be of the explorative type.

2.3.1 Explorative Research Design

"The main goal by utilizing an explorative research design is usually to explore and understand a phenomenon.\(^\text{28}\)."

A natural approach to an explorative design is firstly to find and assemble information that already has been written about the subject. Furthermore, one should supplement this secondary data with other forms of primary data gathering methods like observations, focus groups and in-depth interviews.

2.3.2 Qualitative research strategy

This research strategy usually emphasizes words rather than numbers\(^\text{29}\). The research method has its strengths when one is seeking the answers to questions like \textit{what}-, \textit{why}-, and \textit{how}, but it will not give answers to questions like \textit{how many}. In other words, qualitative research method evolves more around \textit{understanding} a phenomenon than to \textit{measure} one\(^\text{30}\).

By utilizing an exploratory research design and a qualitative research strategy we will be able to reach our goal on achieving an enhanced understanding of the Chinese skin care market.

\(^{26}\) Gripsrud et al., 2004:58  
\(^{27}\) Gripsrud et al., 2004:59  
\(^{28}\) Gripsrud et al., 2004:59  
\(^{29}\) Bryman & Bell, 2007:402  
\(^{30}\) Gripsrud et al., 2004:98
2.4 Data collection

After the research objective and the exploratory questions have been developed and a research design has been chosen, one can start gathering the data needed for the research. Firstly, one should focus on the collection of second-hand information (secondary data). If the information needed is not available then the research must depend on first-hand sources (primary data)31.

2.4.1 Secondary data collection

Second-hand information is by Bryman & Bell defined as; “information not gathered for the immediate study at hand, but for some other purpose33,” and this type of data can be used for both explorative and descriptive designs. Gripsrud et al. further emphasize on distinguishing between two kinds of secondary data: 1) Internal sources – numbers and figures from the firm or organization, and 2) External sources – information from sources outside the firm or organization which then again is divided between public information and standardized analysis34.

In Lilleborg’s case the internal sources are information they already possess within the company and organization, and this information has been provided to us. Regarding the research for external second-hand information, we have utilized two main sources:

1) Standardized analysis – are often made by professional bureaus, and they cover the needs of different industries and markets.

31 Gripsrud et al., 2004:78
32 Gripsrud et al., 2004:80
33 Bryman & Bell, 2007:162
34 Gripsrud et al., 2004:80
2) **Public information** – available information in for instance literature, news publications, public statistics, scientific articles, and the Internet.

In this thesis we have utilized literature, articles and Internet sources covering relevant aspects. The second-hand information has been collected from both internal and external sources.

Since secondary data first of all is gathered to assist a different purpose than our own, it becomes vital to be critical towards the validity and reliability of the sources. With this in mind, second-hand information will provide us with valuable and relevant background information regarding different aspects of our research. This is especially true due to our time and financial limitations.

### 2.4.2 Primary data collection

Secondary data cannot cover all the aspects we are aiming to explore through this thesis. This is why we have decided to use primary data as the main source of information in our research. Primary data can be defined as; “*data primarily collected to answer our own research objective,*” and it can be collected either through quantitative or qualitative methods\(^{35}\). Primary data is collected through questionnaires, interviews, observations and by analyzing documents\(^ {36}\).

![Figure 5, First-hand information used in this thesis](image)

**2.4.2.1 Observation**

“*By observing you are actually evaluating phenomena of interest without receiving any written or oral information from the people it is concerning*”\(^ {37}\). In order to achieve a greater understanding of the competitive situation in the market for skin care in Shanghai, we have been on field observations in numerous retail

\(^{35}\) Gripsrud et al., 2004:78  
\(^{36}\) Gripsrud et al., 2004:97  
\(^{37}\) Gripsrud et al., 2004:176
shops around the city. Firstly, this method has been used to gain specific knowledge regarding which brands the consumers evaluate and which brands they end up buying. Secondly, it has been of importance to map out the demography of the customers in the different retail shops. Lastly, we have used this method to gain an overview of the different players in the market, regarding location, price, brand, and promotion.

2.4.2.2 Focus group
“The purpose of conducting focus groups is to discover elements in which ordinary questionnaires and surveys fail to determine. The group dynamic is the fundamental factor of a focus group”\(^{38}\). It is regarded as one of the most important qualitative techniques which are used in a market analysis, and it can be evaluated either by qualitative interpretation or quantitative analysis\(^{39}\). The purpose of conducting a focus group was to learn more about the Chinese consumers’ preferences and habits regarding their usage of hand cream. By using focus groups the researcher is able to develop an understanding of why people feel the way they do. In addition, the group dynamics stimulates the participants to give additional answers, which may not have been possible without hearing the opinions of others\(^{40}\).

2.4.2.3 Consumer In-depth Interviews
“Individual in-depth interviews are carried out when the personal experience and opinions of the individual is of importance to the research”\(^{41}\). In order to gain an overview of the Chinese consumers’ preferences and habits regarding their usage of hand cream we have conducted several individual in-depth interviews with middle- to high-end consumers. Although the findings from this research cannot be generalized, it can provide in- depth information that the interviewee may have been unwilling to share in a group situation\(^{42}\).

\(^{38}\) Gripsrud et al., 2004: 99  
\(^{39}\) Gripsrud et al., 2004:102  
\(^{40}\) Gripsrud et al., 2004:101  
\(^{41}\) Gripsrud et al., 2004:108  
\(^{42}\) Gripsrud et al., 2004:109
2.4.2.4 Semi-structured interviews
A semi-structured interview is defined as when “the researcher has a list of questions on fairly specific topics to be covered, often referred to as an interview guide, but the interviewee has a great deal of leeway in how to reply”\(^\text{43}\). The goal with our expert-interviews was to get a deeper understanding of the interviewee’s opinions in addition to obtain solid advises. This method is based on a more flexible approach – giving room for asking questions during the interview that not necessarily was included in the preliminary list of questions. This flexibility also allows the interviewer to vary the order of questions, follow up on leads and clearing up inconsistency in the answers\(^\text{44}\). Another advantage with this approach is that “it gives insight into what the interviewee sees as relevant and important”\(^\text{45}\). We also chose this approach since it, according to Bryman and Bell\(^\text{46}\), is favored when more than one person carries out the field work.

2.4.2.5 E-mail interviews
An e-mail interview is an asynchronous research method which translated designates that you will not receive immediate response from the interviewee\(^\text{47}\). We used e-mail interviews in order to get information from interview subjects that were geographically unavailable to us. In addition, we also used this method when additional information was required after an interview had been carried out.

\(^{43}\) Bryman & Bell, 2007:475
\(^{44}\) Bryman & Bell, 2007:475
\(^{45}\) Bryman & Bell, 2007:476
\(^{46}\) 2007
\(^{47}\) Bryman & Bell, 2007:674
2.4.2.6 Presentation of the interview subjects:
In this section we will give a short introduction of each person we conducted a semi-structured interview with. We will present their area of expertise as well as our objectives behind conducting these specific interviews.

<table>
<thead>
<tr>
<th>Interview Subjects</th>
<th>Title / Area of expertise:</th>
<th>Objective for Interview:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bjørnås, Karin</td>
<td>Manager of Innovation Norway, Shanghai.</td>
<td>To receive advice on how Lilleborg’s strategy should be shaped in order to succeed in China.</td>
</tr>
<tr>
<td>Chan, David</td>
<td>Chief Representative of Borregaard, China.</td>
<td>To gain specific knowledge about what Lilleborg’s sister company could assist Lilleborg with if they were to enter China.</td>
</tr>
<tr>
<td>Dermatologist</td>
<td>Doctor at Shanghai Children’s Hospital.</td>
<td>To learn about the Chinese consumers’ motivation behind using hand cream based on a medical opinion.</td>
</tr>
<tr>
<td>Dunren, Zhou</td>
<td>Professor in Chinese Political Economy.</td>
<td>To obtain knowledge about the political, economic and social factors that influences the business environment in China.</td>
</tr>
<tr>
<td>Gao, Jason</td>
<td>Professor in Entrepreneurship and Innovation China</td>
<td>To find out how Lilleborg could differentiate them self and obtain attention in the Chinese market.</td>
</tr>
<tr>
<td>Hollen, Jan Eskil</td>
<td>Export Manager of Lilleborg.</td>
<td>To obtain critical internal information about Lilleborg in order to analyze Lilleborg’s possibilities in China.</td>
</tr>
<tr>
<td>Kristoffersen, Henning</td>
<td>Anthropologist and China Expert.</td>
<td>To understand the differences between Western and Chinese business culture.</td>
</tr>
<tr>
<td>Kruithof, Laure</td>
<td>Retail and Wholesale Manager of Christofîle, Asia Pacific.</td>
<td>To understand how one should position and promote oneself in order to get attention from the high-end consumers in China.</td>
</tr>
<tr>
<td>Qiu, Emma</td>
<td>Professor in Marketing.</td>
<td>To obtain knowledge on efficient marketing and positioning for Lilleborg in China.</td>
</tr>
<tr>
<td>Strandås, Henning</td>
<td>Brand Manager for VOSS Water in China.</td>
<td>To gain more knowledge about high-end consumers, their behavior and their preferences.</td>
</tr>
<tr>
<td>Ye, Qing / Shanshan, Xu</td>
<td>Legal Expert / Professor in Chinese Law.</td>
<td>To get an overview over the most relevant laws for Lilleborg to consider regarding an expansion to the Chinese market.</td>
</tr>
<tr>
<td>Zhou, Lai Chun / Qing, Chen</td>
<td>National Sales Director / Financial Manager, of Jotun China.</td>
<td>To understand how another Norwegian company entered the Chinese consumer market and how they faced the challenges they met here.</td>
</tr>
</tbody>
</table>

Table 1, Presentation of interview subjects

Page 13
2.4.3 Validity

"The validity of a study is the most important criteria to a research. Validity is concerned with the integrity of the conclusions that are generated from a piece of research"48.

In other words, validity means that one is measuring what one is intended to measure49.

By interviewing subjects that have expertise on their respective fields we have protected the validity of our research. Furthermore, we have developed all the questions in our interviews with consideration to our overall research aim. When developing interview guides we have obtained second-hand information on how to do this in a qualified way. In regards to our expert-interviews each interview has been tailor made for each interviewee. In addition, our consumer in-depth interview was approved and pre-tested by our supervisor, Karin Bryntse.

2.4.4 Reliability

"Reliability is concerned with the question of whether the results of a study are repeatable"50.

When examining if the data is reliable there are three key concepts that should be considered:

1) Stability – to establish whether or not the measure is stable over time.

2) Internal reliability – whether or not the indicators that make up the scale or the index are consistent.

3) Inter-Observer Consistency – whether or not the subjective judgment could hinder the consistency of the research51.

Reliability is concerned with establishing to what degree the results of the research are trustworthy or not. However, if a measure has high reliability it is important to keep in mind that it does not necessarily mean that one is measuring what is intended52.

48 Bryman & Bell, 2007:41
49 Gripsrud et al., 2004:72
50 Bryman & Bell, 2007:40
51 Bryman & Bell, 2007:162-164
52 Gripsrud et al., 2004:72
To preserve the reliability of our research, we have interviewed several experts and consumers regarding similar subjects in order to find consistent and reliable information. In addition, we have used a tape recorder during every interview to avoid misinterpretation. We have also been more than one interviewer in every interview to make sure that no important questions have been left out and to avoid misunderstandings.

### 2.5 Data evaluation

When doing research, whether it is from first-hand or second-hand information, there is always a risk that your sources can be inaccurate which again can reduce the reliability and validity of the conducted research.

#### 2.5.1 Potential errors in the second-hand information

Secondary data is information gathered for a different purpose than your own hence, it should be treated with care\(^{53}\). When utilizing second-hand information it is important to always question the purpose of gathering this information: Where is the data from? Does it cover the correct geographical location? Is it updated? Are the measure units the same? Can the quality of the data be insured? Second-hand information is originally gathered as first-hand information and consequently, the information can consist of the same errors as you get from primary data gathering\(^{54}\).

#### 2.5.1.1 Errors in the literature

We have found several of reports, articles and books on areas regarding the Chinese market, the Chinese skin care market, Chinese consumers and their buying behavior. However, this information does not necessarily regard the Shanghai market and the Shanghai consumer directly. We have taken this into consideration when we have utilized this material in order to avoid generalization. Furthermore, the information available to us is mostly written by Western authors and since we are incapable of reading Chinese literature, a potential danger may be that our ability to fully understand the Chinese situation from a Chinese point of view is somewhat decreased. In addition, China is a fast moving nation which makes it difficult to obtain updated and fresh market information. To secure

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\(^{53}\) Bryman & Bell, 2007:162

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reliable information we have focused on finding the most updated information available, written by credible authors and published by recognized publishers.

2.5.1.2 Errors in the online sources
The Internet has made secondary information more accessible. However, due to the fact that these sources could be biased, censored or altered it is very important to evaluate the credibility of the source and publisher by cross-checking references in order to ensure that the content is as reliable as possible.

2.5.2 Potential errors in the first-hand information
Several errors may occur when gathering primary data. We have used observation, interviews and a focus group as our main source of first-hand information, whereas the two latter methods demands face-to face interactions between the interviewees and the moderator. Communication problems, poorly formulated or leading questions and misunderstandings are all errors that can occur and it is crucial to be aware of these facts since these errors will decrease the validity and reliability of the research55.

2.5.2.1 Errors in the focus groups
An important criticism to our findings from the focus group is our lacking experience as focus group moderators. In addition, due to difficulties in gathering enough participants, we only got the chance to conduct one focus group. Normally one should conduct so many focus group sessions that you can predict the outcome of the interaction, something that usually happens after the 3rd or 4th session56. Furthermore, since we had problems with finding enough participants we had to accept none-English-speakers as group members. Hence, the use of a translator became necessary and as a result we felt that some of the information was lost since we were not able to listen to the discussions first-handedly. These errors could have been avoided if we had more resources. Even though these problems may have weakened the reliability of the session, the findings were consistent with information we retrieved from the consumer in-depth interviews.

54 Gripsrud et al., 2004:79
55 Gripsrud et al., 2004:101
2.5.2.2 Errors in the consumer in-depth interviews
The purpose behind conducting consumer in-depth interviews was to first- handedly learn about the Chinese consumers’ preferences regarding hand cream. Consequently, none of the interviewees were native English speakers and communication problems were noticed. Another important criticism to the in-depth interviews is that ideally there should be conducted between 15- 25 interviews. Because of the same limitations mentioned in the previous section, we only managed to carry out 11 in-depth interviews. Additionally it is important to mention that Chinese have a tendency to want to answer “correctly” during such sessions. This phenomenon is closely related to the Chinese culture of “face”. Since they do not want you to loose face they may answer what they believe you would want to hear, and not necessarily what they really think57. However, the information we retrieved from each interview seems to be consistent on several levels and it has contributed a great deal to our further research and recommendations.

2.5.2.3 Errors in the semi-structured interviews
Most of the semi-structured interviews were carried out in English and none of the interviewees in this category had English as their native language. However, the interviewees spoke English well. Since many of our interview subjects have a tight schedule, it sometimes became necessary to move the interview to a closer date. Consequently, our preparation time became shorter than expected. However, none of these issues have been significant problems in the research process and we have retrieved a lot of vital information by utilizing this method. A weakness however, is that we did not manage to reach a sufficient number of interview subjects with specific knowledge about the Chinese skin care market.

2.5.2.4 Errors in the e-mail interviews
In addition to excluding distance as a problem, this interview method has time and cost advantages58. However, when conducting e-mail interviews the respondent might respond only to the questions he/she finds of relevance and thereby neglect to answer questions he/she finds uninteresting or questions where the respondent

56 Gripsrud et al., 2004:104
57 Kristoffersen, 2008: 33
58 Bryman & Bell, 2007:674
do not believe he/she will be able to give a genuine contribution. Furthermore, this method also loses the advantage that face-to-face interactions may give in an interview session. Nevertheless, the method provides the interviewee with more time to answer the questions and correspondingly the answers given may be more detailed and considered then the answers given during a face-to-face situation. In our e-mail interview with Emma Qiu, we discovered that some of the questions were only answered with a strictly yes/no answer and lacking any further explanation of why. However, we learned from this mistake and developed our questions differently in other e-mail interviews. Besides from this we did not experience any other significant problems in our e-mail interviews.

2.5.3 Conclusion

We have found individual in-depth interviews, semi structured interviews and observations to be the most efficient methods in regards to time consumption and quality of the retrieved information. It was challenging to gather participants for focus groups, and it was also demanding to perceive some of the participants’ opinions due to poor English combined with “intense” discussions. Consequently, in a retro perspective, the authors find in-depth interviews to be a more beneficial method than a focus group when gathering information concerning consumers.
Good marketing is no accident, but a result of careful planning and execution.

Professor in International Marketing, Philip Kotler
Chapter 3 – Theory

The purpose of this chapter is to present and explain to the reader the different theories utilized throughout our thesis. We have chosen the theories on the background of their relevance for answering the different research questions, and they will thereby assist us in realizing the overall research objective.

3.1 Internal analysis theory

The ACE-model and a resource analysis will be utilized in order to determine whether or not Lilleborg has the sufficient attitudes, competence and resources to achieve a successful establishment on the Chinese market, in addition to get an overview of Lilleborg’s strengths and weaknesses in this regard. A more detailed description of these theories will be given in the following paragraphs.

3.1.1 ACE-model

According to Solberg\(^59\), a company’s success in international markets is dependent on several conditions. This success is mainly based on the company’s internal support and commitment to the internationalization process\(^60\). The ACE-model consists of three factors; Attitude, Competence and Embodiment. Successful exporters have proactive attitudes regarding their willingness to take risks, understanding of other cultures and their market orientation. Even though Lilleborg is currently not exporting any of their own brands to the international market, we believe it will be useful to utilize the ACE-model in order to investigate if Lilleborg has the right foundation to achieve a successful market entry into China.

Figure 6, ACE-Model

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\(^{59}\) 2005:144
As we will present in the external analysis, the Chinese market represents a lot of external challenges, however this fact should not necessarily stop Lilleborg from entering this market. Solberg’s research shows that successful exporters do not let external market obstacles be a decisive factor when wanting to penetrate foreign markets. Regarding competence, there are no significant differences separating the successful exporters from the unsuccessful exporters. To be successful it is important to use these competencies in way that they can create value. The company’s attitudes and competence towards internationalization has to be deeply embodied in the organization. It is important that everyone in Lilleborg give their support to the internationalization process. Furthermore, the inexperienced company that wants to export internationally meets many challenges concerning information and knowledge about markets which limits their strategic choices. This will also apply for Lilleborg, who has little knowledge and experience with the Chinese consumer market.

3.1.2 Resource analysis

As we believe that the ACE-model does not illustrate all of Lilleborg’s internal aspects, we have also utilized a resource analysis to cover other important internal issues.

The resource-based view of the company is a theory focusing on a company’s resources whose exploitation may give a company a competitive advantage. By looking at Lilleborg’s resources, one can analyze the company’s strengths and weaknesses, and thereby determine whether or not the company has the resources needed to achieve a successful market entry. In general, a company’s resources are all assets, capabilities, competencies, organizational processes, company attributes, information, knowledge and so on that are controlled by a company and that enable the company to conceive of, and implement strategies that improve its

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60 Solberg, 2005:144
61 Solberg, 2005:141-142
62 Solberg, 2005:142
63 Solberg, 2005:143
64 Solberg, 2005:144
efficiency and effectiveness\textsuperscript{65}. A company’s resources can be divided into tangible and intangible resources\textsuperscript{66}.

![Diagram of Resources](image)

Intangible resources are not visible, consequently they are difficult to evaluate. A company’s reputation, competence and relations are examples of such resources. Intangible resources have two distinctive factors. Firstly, they will not diminish when being used. Secondly, the intangible resources are not owned by the company in the same way as tangible resources. Tangible resources can be production facilities and office supply\textsuperscript{67}.

### 3.2 External analysis theory

The external analysis is used to get an overview of the external environment Lilleborg will be a part of by entering the Chinese market. The PEST analysis is applied in order to provide a better understanding of the macro environment companies find themselves in\textsuperscript{68}. In addition, Porter’s Five Forces will be used to provide Lilleborg with a detailed impression on how the competitive situation is in this market. The two analysis combined will point out the opportunities and threats Lilleborg need to take into consideration when shaping their market entry strategy. A more detailed description of these theories will be given below.

#### 3.2.1 PEST analysis

This external analysis aims to provide an understanding regarding countries’ political, economic, social and technological, factors in order for managers to make sensible decisions. Legislative factors are also external factors to consider, and these are implemented in the political category. When entering new markets, an understanding of the macro environment is necessary to make the right decisions.

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\textsuperscript{65} Barney, 2002:142-143  
\textsuperscript{66} Löwendahl & Wenstop, 2008:182  
\textsuperscript{67} Löwendahl & Wenstop, 2008:182  
\textsuperscript{68} Löwendahl & Wenstop, 2008:229-230.
decisions regarding entry vehicle and strategy. Lilleborg is no exception. They have some export activities already, but in cooperation with other international companies. If the plan to penetrate the Chinese market is realized, Lilleborg will be in a new position where they have to make the decisions and carry the risk themselves. Therefore, informative based decisions are important for future success.

The world is experiencing a financial crisis. Whether or not these factors will influence the skin care market is information Lilleborg will need. China is an emerging market with a one party rule. How this will affect the political stability and the legal environment will be discussed in the analysis along with other relevant political factors.

The economic environment has a large influence on firms’ dealings in a market. High interest rates can make it less lucrative to make investments, an appreciation in the exchange rate makes exported goods more expensive for international trade partners and increased GDP may increase demand for goods and products. For example; domestic demand was of high priority in the 11th 5 year plan implemented in China in 2006, and is likely to increase in importance due to the financial crisis. The impact this has on the possibilities for Lilleborg’s engagement in the Chinese market will be discussed in the analysis.

The social factors refer to demographic variables such as immigration into the cities. Lastly, the technological influences on the market dynamics will be discussed based on the development of e-commerce and e-marketing in China.

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69 Valuebased Management; http://www.valuebasedmanagement.net/methods_PEST_analysis.html
70 Oxford University Press; http://www.oup.com/uk/orc/bin/9780199296378/01student/additional/page_12.htm
71 Oxford University Press; http://www.oup.com/uk/orc/bin/9780199296378/01student/additional/page_12.htm
3.2.2 Porter’s five forces

This model is developed to assess the nature of competition in a given industry. The model consists of five individual competitive forces which all have an impact on the competitive environment within an industry. For Lilleborg it becomes crucial to thoroughly analyze these factors in order to evaluate the attractiveness of the Chinese market.

![Figure 8. Porter’s Five Forces](image)

3.2.2.1 Threat of New Entrants

The threat of new entrants depends on how high or low the entrants- and exit barriers are in a certain industry. These barriers may be influenced by the necessity of investment, economies of scale, access to industry distribution channels and the existing political barriers within the industry\(^72\).

3.2.2.2 Threat of Substitutes

The access to substitutes in a market influences the competitive environment. If there are many available substitutes in a market, this may lower the overall profitability because they often limit the price level. Furthermore, this threat often depends on how attractive the substitutes are to the buyers in form of price, switching costs and product performance\(^73\).

3.2.2.3 Bargaining Power of Suppliers

Situations where the suppliers have high bargaining power the raw material costs increase and the industry attractiveness decreases. The suppliers bargaining power is high when there are many buyers and few suppliers, when there are few substitutes, when the supplied product is an important input, when the cost of switching supplier is high and when the supplier can integrate downstream\(^74\).

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\(^72\) Kotler & Keller, 2006:342

\(^73\) Kotler & Keller, 2006:342

\(^74\) Kotler & Keller, 2006:343
3.2.2.4 Bargaining Power of Buyer
The bargaining power of the buyer is usually affected by the degree of concentration among the buyers. If the product represents a significant fraction of the buyers costs, if the product is undifferentiated, if the buyers switching costs are low, if the buyers are price sensitive or if the buyers can integrate upstream the buyers bargaining power will grow.\(^75\).

3.2.2.5 Intensity of Rivalry
The intensity of rivalry within an industry can be influenced by a number of factors.\(^76\).

- The competitive structure – many/few, big/small?
- The extent of product differentiation
- Buyers switching costs
- Strategic objectives

3.3 SWOT
The SWOT analysis is an overall evaluation of a company’s strengths, weaknesses, opportunities and threats after a thorough examination of the external and internal environment of the company. The purpose of the analysis is to compare the firm’s resources and capabilities to the competitive environment in which it operates. Furthermore, the analysis is of great importance to the company’s future strategy formulation and selection. When a company is aware of the internal and external factors that influence the environment, it can utilize its strengths in order to overcome its weaknesses, seize the opportunities and avoid the threats.\(^77\).

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\(^75\) Kotler & Keller, 2006:343
\(^76\) Kotler & Keller, 2006:343
\(^77\) Kotler & Keller, 2006:52-54
In order to identify the most important areas to consider in Lilleborg’s strategy development, the different factors in the SWOT analysis will be double weighted. By applying a scale from 1-5 (1 is minimal importance and 5 is great importance), we are able to create the internal competence matrix, consisting of strengths and weaknesses. Two matrixes will be developed based on the external analysis where one measures opportunities whilst the other measures threats\textsuperscript{78}. The competence matrix measures Lilleborg’s internal factors and how important they are. The threat matrix measures the degree of seriousness and the probability of occurrence. The last matrix measures opportunities and their attractiveness and possibility of success\textsuperscript{79}. Finally, the SWOT analysis serves as the foundation for the strategic problem definition\textsuperscript{80}.

3.4 **STP**

For any company planning to launch a new product in a new market it will be crucial to segment the market, select the appropriate market target, and develop the offering’s value position\textsuperscript{81}. This process will assist Lilleborg in reaching the consumers in an efficient and successful way. The three steps will be accounted for in the following sections.

3.4.1 **Segmenting**

The marketer’s task is here to identify the different segments in the market in order to develop a marketing mix that addresses specific needs and concerns of

\textsuperscript{78} Framnes, Pettersen & Thjøme, 2006:142-144
\textsuperscript{79} Framnes et al., 2006:143-144
\textsuperscript{80} Framnes et al., 2006:143-144
\textsuperscript{81} Kotler & Keller, 2006: 37
the selected segment. The most commonly used segmentation variables are geographic, demographic, psychographic, and behavioral variables.

### 3.4.2 Targeting

Next step will be to select one or more segments to target, and two factors are important to consider: the segment’s attractiveness in general and the firm’s objectives and resources. The theory presents five different patterns of target market selection, where in this specific situation the most suitable for Lilleborg to apply is **single segment concentration**. This is based on Lilleborg’s decision to launch *one* product and the fact that it is a small company with limited financial resources. Selecting several segments will demand a huge budget regarding research and marketing activities. Moreover, Lilleborg has no experience dealing with Chinese consumers and it may be sensible to concentrate about one segment in order to achieve knowledge and understanding about the Chinese consumer behavior.

### 3.4.3 Positioning

As a final step, the marketer must position its offerings in a way that the target market easily can separate them from the competitors’ offerings. In order to achieve such a unique position, the marketer can develop different points-of-parity (POP) and points-of-difference (POD) associations. The first involves attributes or benefits which consumers do not consider as being unique to the particular brand, whereas the latter concerns attributes or benefits which are associated as being something unique to the particular brand. Moreover, POP can be categorized in two basic forms: *category* (associations regarded as essential to be a legitimate offering) and *competitive* (associations meant to counter competitors’ POD).
3.5 Porter’s Generic Strategies

This model proposes three generic strategies which can provide a company with a good starting point for strategic thinking in a market\(^{82}\).

A company’s *competitive advantage* is determined by whether the company can differentiate their products in any way, or if they can be a low cost producer within the industry they are operating in. The *competitive scope* of the market considers whether a company should target a wide market or if it should focus on a narrow niche market instead\(^{84}\). By evaluating these two factors Lilleborg can identify the most attractive strategy to pursue in China.

Since Lilleborg neither have the necessary expertise in engineering, purchasing, manufacturing and physical distribution in China which is required to pursue an overall cost leadership strategy\(^{85}\), nor the possibility to target a broad part of the Chinese market in the initial stages\(^{86}\), we find it irrelevant to elaborate on the overall cost leadership or the differentiation strategy in this thesis.

3.5.1 Focus Strategy

When a company neither can afford a wide scope cost leadership, nor a wide scope differentiation strategy a focus, or niche, strategy may be more suitable. The company focuses on one or more narrow market segments and by exploring these segments intimately pursue either a cost leadership or differentiation within the

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\(^{82}\) Kotler & Keller, 2006:56  
\(^{83}\) Marketingteacher.com; http://www.marketingteacher.com/Lessons/lesson_generic_strategies.htm  
\(^{84}\) Marketingteacher.com; http://www.marketingteacher.com/Lessons/lesson_generic_strategies.htm  
\(^{85}\) Kotler & Keller, 2006:56
target segment. With a cost focus the company aims to be the lowest cost producer within that niche or segment. With a differentiation focus the company creates competitive advantage through differentiation within that niche or segment

### 3.6 Marketing Mix

It will be an important task for Lilleborg to develop marketing activities and assembly fully integrated marketing programs to create, communicate, and deliver value for the Chinese consumers. The marketing mix is a commonly used term for different marketing tools which can be classified into four broad groups; product, price, place, and promotion- also known as the four p’s of marketing. The marketing mix decisions are made to influence both the trade channels and the final consumers.

![Marketing Mix](image)

#### 3.7 Mode of entry

The theory offers several choices regarding entry mode: indirect exporting, cooperative exporting, direct exporting, licensing, joint ventures and direct investment. It is normal for companies to rely on export in the initial phase of the international expansion as this is an appropriate way to “test the waters” before a possible setup of overseas manufacturing plants. Additionally, Lilleborg have a wish to enter the Chinese market via export and hence, we will in his thesis concentrate on export as the mode of entry.

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86 Kotler & Keller, 2006:56  
87 Kotler & Keller, 2006:56  
88 Kotler & Keller, 2006: 19  
3.7.1 Indirect exporting

With this entry mode the firm uses a middleman situated in the home market to deal with the export activities. Such independent intermediaries could be an export merchant, which is a trading company that buys all of the firm’s goods and resells them in the foreign market. An export agent is another trading company and it deals with the market on the behalf of the exporter, and also in the name of the exporter. Consequently the firm will get one step closer to the market when using an export agent. As it will be beneficial for Lilleborg to control its marketing activities, we believe that this mode of entry is not optimal.

3.7.2 Cooperative exporting

In this case the company enters into an agreement with another company, foreign or local, in which the partner uses its distribution network to sell the exporters goods. This strategy is also known as piggyback exporting and its biggest strength is that the exporting company does not have to make huge investments in distribution and it will also have some control over their foreign operations.

3.7.3 Direct exporting

This entry mode allows the company to deal with the exporting themselves, and in this regard there are several ways in which the company can organize its direct exporting.

- Overseas sales branch/ subsidiary (representative office). The sales branch handles sales and distribution and sometimes warehousing and promotion.
- Traveling export sales representatives. Home-based sales representatives sent abroad to identify business.
- Foreign-based distributors or agents. These may be given exclusive or limited rights to represent the company in that country.

3.8 Distribution strategies

There are three different distribution strategies for a company to employ. These are exclusive, selective and intensive distribution.

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90 Solberg, 2005: 200
91 Kotabe & Helsen, 2008: 292
92 Kotler & Keller, 2006: 675
93 Kotler & Keller, 2006: 480
Exclusive distribution involves a strict limitation on the number of intermediaries, aiming to give the producer better control over the service quality. In this regard it will be crucial to develop greater partnerships between seller and reseller. The limitation on number of intermediaries is less strict when using selective distribution. It involves greater market coverage without having to focus on too many outlets. Intensive distribution has no limitations on the number of intermediaries and the manufacturer here seeks to implement its products in as many outlets as possible.

3.9 Principal-agent theory

If the decision is made to enter the Chinese market it may be necessary for Lilleborg to cooperate with a local Chinese partner. In this regard it will be essential for Lilleborg to be aware of possible complications regarding the principal-agent theory. This theory concerns different aspects that may occur when a company (principal) delegates its operations and authorities to another company (agent).

Pre-contractual opportunism may occur prior to the signing of the contract and involves challenges concerning the agent’s actual qualifications opposed to the principal’s requirements. To reduce such problems the principal can utilize different strategies like screening strategy, signalizing strategy and self selection\(^94\).

Post-contractual opportunism may occur after the contract is signed. The principal may face challenges regarding actual knowledge about the agent’s efforts. This so-called asymmetric information includes opportunistic behavior like poor performance regarding quality level or marketing efforts. Such problems can be solved by using contracts based on results, integrate the agent’s functions in one’s own company in order to use rules, routines and authority, or finally increase the use of control which has high costs\(^95\).

\(^{94}\) Gripsrud & Nygaard, 2005:161
\(^{95}\) Gripsrud & Nygaard, 2005:162
“For a company to develop a brand successfully in China, it is not sufficient to take a short-term outlook. The company should firstly define what its brand is supposed to embody and then work to support that”

Founder and Managing Director of China market research group, Shaun Rein
Chapter 4 – Preliminary Research

In this chapter we will present our findings from research of secondary information on topics we believe are relevant for Lilleborg’s potential entry to the Chinese market. These topics include doing business in China, the Chinese skin care market, the Chinese consumer, country of origin, branding, and marketing communication in China.

4.1 Doing business in China

Western companies may meet many challenges when doing business in China, as for example cultural differences and bureaucratic barriers. Such distinct Chinese characteristics will be discussed further in the external analysis. Due to the fact that Lilleborg already has some experience regarding doing business in China, in addition to the fact that it is easy to access further information on Chinese business etiquette and Chinese negotiation behavior, we do not find it relevant for this thesis to extensively elaborate on this subject. However, we will in the following present the Chinese concepts of guanxi and mianzi, since these two phenomena are referred to in this thesis.

4.1.1 Guanxi

Guanxi can be translated into “relationship”, “connections” or “networking”. The word *guan* literally means “door” or “barrier”, in business terms one may say that by having the right connections doors are opened or barriers conquered. *Xi* on the other hand means to tie up and extend into relationships. Guanxi is said to be a critical mean for companies wanting to do business in China. Guanxi refers to the concept of drawing on connections in order to secure favors in personal relations and contains implicit mutual obligations, assurances, and understanding, and governs Chinese attitudes toward long term social- and business-relationships.

96 Wang, Wang, Ruona & Rojewski, 2005
97 Wang et al., 2005
98 Yadong, 2002
It is argued that guanxi has a fueling effect on corruption, and that it is an obstacle for China on their way to become a modern society based on the rule of law.\(^{99}\) Laws and regulations in China are still somewhat flexible, and guanxi can be a determining factor in how the government officials interpret and enforce the law, and how quickly legal requirements can be solved.\(^{100}\)

In many Western countries, it is common practice to approach a potential business partner and start talking business straight away.\(^{101}\) In China however, it is important to spend time to get to know your business partner, so that a relationship is established before one starts to negotiate. China’s recent economic reforms have helped develop efficient business infrastructures that fundamentally change the role of guanxi in the firm operations. However, guanxi remains important in many aspects.\(^{102}\)

Guanxi is often transferred from the individual level to the corporate level to facilitate inter-firm exchanges.\(^{103}\) Gu, Hung and Tse\(^{104}\) put forward the hypothesis that a firm’s guanxi has a positive effect on its brands market performance. They tested their hypothesis using a survey of senior executives in 282 strategic business units across 48 categories of consumer products in China. Compared to other industries in China, consumer product industries are more open to foreign companies and is regarded as the country’s least regulated market (a free market economy). They found that guanxi has a positive effect on the company’s channel capability. Since China’s fragmented local markets are characterized by ineffective logistic systems and ill-coordinated infrastructures, having a strong channel capability constitutes a core competitive advantage in this market. The company’s responsive capability is also positively affected by guanxi. This capability refers to a company’s ability to obtain market information and respond effectively to market changes. Existing literature on the subject suggest that responsive capability is a key competence in markets where environmental

\(^{99}\) Gold, Guthrie & Wank, 2002
\(^{100}\) Kwan, Yeung & Au, 2003
\(^{101}\) Gesteland, 2005:24-29
\(^{102}\) Gu, Hung & Tse, 2008
\(^{103}\) Gu et al., 2008
\(^{104}\) 2008
uncertainties are high, a characteristic that is typical for transitional economies like China. These two capabilities in turn have been proved to have a positive effect on the brands market performance in China, where market performance refers to the brands market share and sales growth\(^{105}\).

However, the same study also confirms that competitive intensity and technological turbulence can diminish the effects of guanxi. They do not dismiss the notion that as China develops a more open-market infrastructure and institutional mechanisms, guanxi’s effectiveness may be reduced through the country’s evolvement towards a free market economy\(^{106}\). Nevertheless, at this point guanxi should be taken seriously by potential newcomers in the Chinese market.

**4.1.2 Mianzi- the importance of face**

The two concepts guanxi and mianzi are closely connected and in every relationship it is an imperative to maintain each other’s face, and with this achieve and preserve harmony. Hence, face is a key element in the development and maintenance of guanxi. How much face one has depends to some extent on his or her guanxi network. If this network is of good quality and of big size, it will strengthen your face, which again will make it easier to develop one’s guanxi\(^{107}\). In Chinese culture losing, saving and giving face is of great importance\(^{108}\).

Face can also be transferred. When a company wants to enter a particular market that they are neither familiar with nor have status in, they seek assistance from a third part whose connections and status allow him/her to introduce the newcomer to the market. The third party consequently uses face to function as a go-between. It is important for foreign companies to realize that Chinese frequently use this strategy of “borrowing face” to achieve mutual benefit. Face is also an important part of the negotiation with a possible Chinese partner. Saving one’s face and

\(^{105}\)Gu et al., 2008
\(^{106}\)Gu et. al, 2008
\(^{107}\)Kristoffersen, 2008
\(^{108}\)Chinese Hour; http://blog.chinesehour.com/?p=1057
giving face to the partner are effective strategies to enhance communication and future cooperation\textsuperscript{109}.

\section*{4.2 Overview of the Chinese market}

The following information concerns the Chinese market in general and also the Chinese skin care- and high- end market. The information will serve as guidelines for Lilleborg in their efforts to understand the realities in a new market.

China’s enormous population and rapid increase in consumer spending have attracted many multinational corporations (MNCs). As the world’s third biggest economy, China is a country that international consumer brands cannot afford to ignore. However, the misconception of China as a homogeneous market often leads to difficulties in assessing market demand and enacting effective strategies. China is divided into many cities, counties, towns, and townships, and according to a national survey, the consumers from various regions are significantly different from one another in terms of purchasing power, attitudes, lifestyles, media use, and consumption patterns\textsuperscript{110}. Consequently, MNCs need to investigate and conduct thorough research before entering the market.

China’s GDP has remained growing or stable the recent years, with a growth rate more than 13\% in 2007. In the fourth quarter of 2008 this figure dropped to 6.8\%, the lowest the country has experienced in seven years\textsuperscript{111}. Despite this fall the Economist Intelligence Unit expects the domestic demand to remain strong in 2009- 2013 and GDP is expected to remain impressive, averaging 7.8\% in the forecast period. It is also indicated that China is in a better position than almost any other major economy in the world, due to the government’s powerful fiscal position and a banking sector which has escaped relatively unharmed from the global financial crisis\textsuperscript{112}.

\textsuperscript{109} Qiumin & Lee, 2007:205
\textsuperscript{110} Geng & Liu, 2000
\textsuperscript{111} Schuman, 2009
\textsuperscript{112} The Economist; http://www.economist.com/countries/CHINA/profile.cfm?folder=Profile%2DEconomic%20Data
4.2.1 The Chinese skin care market

The sheer size of China has resulted in that no single manufacturer controls the skin care market. According to research made by Datamonitor, distribution problems mean that companies tend to focus on regions rather than the country as a whole. Furthermore it is stated in the report that, the regions where skin care products have been most likely to be successful are around the wealthier metropolitan areas such as Guangzhou, Shanghai and Beijing which are referred to as 1st tire cities\textsuperscript{113}.

Low rural income levels and bad inland distribution networks have been the main reasons as to why China’s booming skincare and cosmetics industry for a long time has been concentrated within a handful of the county’s 1\textsuperscript{st} tire cities. However, as these key markets are becoming increasingly saturated, many firms are starting to look towards Chinese consumers living outside the major cities as their next source of growth. Big international companies like L’Oreal, Procter & Gamble, and Unilever has struck distribution deals with various local retailers in China’s 2\textsuperscript{nd} and 3\textsuperscript{rd} tire cities in order to expand their sales in the Chinese market\textsuperscript{114}.

However, it is further stated that China’s skincare market is less concentrated than other personal product markets. In their report they have identified three leading players, respectively; Shiseido, Unilever and Procter & Gamble who jointly hold a market share of approximately 30\%. The fragmented characteristics of the skincare market in China therefore has resulted in that retailers with their own private-label offerings, as well as some smaller manufacturers, are correspondingly more significant\textsuperscript{115}. These findings are equivalent with the observations made by the authors regarding the hand cream market in Shanghai.

\textsuperscript{113} Datamonitor, 2004, Skin care in China
\textsuperscript{114} The Economist Intelligence Unit, 2007
\textsuperscript{115} Datamonitor, 2008, Skin care in Asia Pacific
4.2.1.1 The positioning of the players

The following information is retrieved from the research article: “How do foreign companies align their supply chains and distribution channels in China?” written by Wu, Wang, Tang, Liu, Gao and Wang\textsuperscript{116}. The research is based on a case study of seven international cosmetic players which all have a foothold in the Chinese market (Avon, Amway, Estee Lauder, L’Oreal, P&G, Revlon and Shiseido), and it gives an overall impression on how the different players have positioned themselves in this market with regards to product classification, price, promotion and distribution strategies.

4.2.1.1.1 Product

According to Wu et al.\textsuperscript{117}, cosmetic products are classified into seven major categories which includes skin care, body care, make up, sun care, men’s grooming, and fragrances. Furthermore, they state that the skin care category represents 37% of the market share within the cosmetic industry. The main reason for skin care holding such a large share is that skin care products have a higher cultural acceptance in China than for instance make up. In addition, these products enjoy higher profit margins as the production technology demanded is simpler and the consumer taxes are lower\textsuperscript{118}.

4.2.1.1.2 Price

The authors explain that most companies use retail price as a way to classify their brands into three major categories: Premium Brands – products sold at retail price above US $40, Mass-Premium Brands – products sold for a retail price from US $20 to US $40, and Mass-Brands – products priced at US $20 and below\textsuperscript{119}.

4.2.1.1.3 Promotion

Premium brands are usually positioned as “symbolic” products that provide a sense of social status or as “experiential” products that provide sensory or cognitive stimulation and they are usually promoted as a fashion items. On the contrary, Mass-Brands are usually considered as “functional” products that provides the customers with some basic benefits\textsuperscript{120}.

\textsuperscript{116} 2008
\textsuperscript{117} 2008
\textsuperscript{118} Wu et al.,2008
\textsuperscript{119} Wu et al.,2008
\textsuperscript{120} Wu et al.,2008
4.2.1.1.4 Place

Wu et al. 121 further explain that a brand’s positioning and promotion strategy in China, is closely related to the distribution strategy the company chooses to pursue. The same authors divide the Chinese distribution channels for skin care into five major channels (Department stores, Specialty stores, Super/Hyper markets, Pharmacies and Direct sales) which each holds differing characteristics, as illustrated in Table 1.

<table>
<thead>
<tr>
<th>Characteristics</th>
<th>Department stores</th>
<th>Specialty stores</th>
<th>Super/Hyper Markets</th>
<th>Pharmacy</th>
<th>Direct Sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>Perceived Brand Image</td>
<td>High</td>
<td>High</td>
<td>Medium/Low</td>
<td>Medium</td>
<td>Medium/Low</td>
</tr>
<tr>
<td>Sales Volume Potential</td>
<td>High</td>
<td>High</td>
<td>Medium/Low</td>
<td>Medium</td>
<td>High</td>
</tr>
<tr>
<td>Distribution Cost</td>
<td>Medium/Low</td>
<td>Medium/Low</td>
<td>High</td>
<td>Medium</td>
<td>High</td>
</tr>
<tr>
<td>Product Assortment</td>
<td>Medium/Low</td>
<td>Medium/Low</td>
<td>High</td>
<td>Medium</td>
<td>High</td>
</tr>
<tr>
<td>Mutual Learning</td>
<td>High</td>
<td>High</td>
<td>Low</td>
<td>Medium</td>
<td>High</td>
</tr>
<tr>
<td>Reach / Convenience</td>
<td>Medium/Low</td>
<td>Medium/Low</td>
<td>High</td>
<td>Medium</td>
<td>High</td>
</tr>
</tbody>
</table>

Table 2, Characteristics of different distribution channels

4.2.2 The Chinese high-end market

“The new philosophy is ‘enjoy life today’ against the old Chinese custom of saving, saving, saving” 122.”

The above statement illustrates the fact that China has, within just a few decades, become the world’s third largest luxury goods market in the world. With a consumption of US $ 8 billion in 2007, China accounted for 3% of the total luxury consumption globally 123. To date, about 80% of world top-brand luxury goods have entered the Chinese market, in which perfume and cosmetics account for 23% 124. Analysts predict that, as China’s average per capita income grows, it will become the world’s second largest purchaser of luxury goods by 2015, and accounting for the sale of 29% of all luxury goods sales worldwide 125.

Although prospects for China’s luxury consumption market are good, it still faces some challenges. The world slowdown may affect luxury sales in China as the wealthy have seen their fortunes shrink due to losses in stocks and other

121 2008
122 Wikinvest.com; http://www.wikinvest.com/concept/Luxury_Consumption_in_China#_note-1
123 Cao, 2009
125 Wikinvest.com; http://www.wikinvest.com/concept/Luxury_Consumption_in_China#_note-1
investments\textsuperscript{126}. Additionally a growing number of factory closures and increasing unemployment are further curbing growth momentum. However, this challenge has been addressed by the government, which has presented a 4-trillion RMB stimulus package to keep the GDP above 8% and maintain economic growth\textsuperscript{127}. Other challenges regarding the Chinese luxury market are according to KPMG location and marketing, which require major investments. Luxury brands are also hurt by counterfeiting, which is said to cost companies billions in lost revenue annually\textsuperscript{128}.

4.3 The Chinese consumer

In order to give a feasible recommendation to Lilleborg, it is of paramount importance to thoroughly investigate the Chinese consumers, as they differ a great deal from the consumers in the West. We will in the following section give a presentation of Chinese consumer’s characteristics and preferences, which in turn will give directions on how to shape the marketing mix in order to best possibly satisfy these consumers’ needs.

4.3.1 Understanding the Chinese consumer

Many marketers look at China as a “just add consumer goods” early-stage version of the US market. But to achieve success in China, it is essential for the marketer to understand exactly how Chinese consumers’ attitudes towards spending are shaped by deep-rooted cultural biases, generational splits, and the different economic conditions of China’s many local markets. In addition it is important to be aware of differences related to shopping habits and how products are being used\textsuperscript{129}. Much can be said about the Chinese consumer, who is neither complacent nor compliant.

According to research, Chinese between 18 and 25 years are the main force for the beauty economy. These are open to Western ideas and products, and many of them will spend an average of 10% to 50% of their monthly income on skincare.

\textsuperscript{126} Elegant, 2008
\textsuperscript{127} Elegant, 2008
\textsuperscript{128} Aplus:http://www.hkicpa.org.hk/APLUS/0710/p24_29.pdf
\textsuperscript{129} Nielsen, 2008
Chinese high-end consumers are not motivated by only one single factor, but rather a diverse set of aspects. Two important needs in this regard are the need for individuality and the need for a rich and indulgent experience. Moreover, exclusivity is an important factor for the Chinese consumers, but they also seek status and recognition among their wider peer group.

Some research implies that brands are powered mostly by functional characteristics in China. These findings confirm the more subjective evidence that Chinese consumers are sensitive to the value of money, and generally have a clear idea of which functional features merit a high price. According to BCG, the affluent consumer pays particular attention to health benefits and high-quality ingredients in the personal care category. On the other hand it is claimed that Chinese consumers want more than just function. This is illustrated with the example of Nokia, which has emphasized fashion over function and consequently the sales in China exceeded its competitors.

4.3.2 The Chinese high-end consumer

It will be in Lilleborg’s interest to aim at the Chinese high-end consumer. In contrast to many Western countries these high-end consumers are to be found within the middle class and up. As a Western company offering a Western product, Lilleborg has both the perceived quality and exclusiveness to charge a high price. And as an exporting company, Lilleborg needs to charge a high price in order to cover all the related costs.

4.3.2.1 Who are the Chinese high-end consumers?

China’s luxury shoppers are young, many of them self-employed or part of a growing professional class. According to McKinsey, 80 percent are below 45 years, compared to 30 percent in the United States. By 2015, China will have more than 4 million households with an annual income above RMB 250,000.
making it the world’s fourth largest country in terms of numbers of households with substantial purchasing power after the US, Japan and Britain\textsuperscript{135}.

\textbf{4.3.2.2 Growing sophistication}
The high-end consumers are increasingly able to travel overseas. This is due to the appreciation of the RMB and the fact that the Chinese high-end consumer is getting more affluent. Hence, they will get more experienced regarding new countries and brands. In addition the Chinese luxury market itself has become measurably more crowded the past two years. Consequently, Chinese consumers are becoming aware of an ever-growing number of luxury brands. They are becoming more discerning in their tastes and making greater efforts to understand the heritage of individual brands. This means that new entrants are experiencing more pressure regarding how to rapidly find their niche and establish their credibility\textsuperscript{136}. Moreover, consumer products that are associated with providing quality of life and meeting physical and mental needs are expected to be in great demand as the Chinese consumer is getting more sophisticated and educated\textsuperscript{137}.

\textbf{4.3.2.3 Brand loyalty and the importance of brands}
The research conducted by McKinsey\textsuperscript{138} suggests that due to the rising inflation, Chinese consumers are getting more price sensitive and less loyal to their preferred brands. In 2008, 37\% of the respondents claimed to base their final purchase decision on promotions and the best deal in the store, whereas this figure was 27\% in 2007. In spite of this, brand development remains essential in China. Another finding from the same research shows that in 2008, 63\% of the shoppers entered a store with a shortlist of favorite brands. Although this number dropped from 73\% in the previous year, it remains essential to get on that shortlist for any consumer product trying to get a foothold in China.

Furthermore, it is a fact in China that many cheaper goods are of poor quality and the consequences of the wrong choice can be drastic. Research\textsuperscript{139} suggests that Chinese consumers are becoming less comfortable buying unfamiliar products.

\textsuperscript{135} Cao, 2009
\textsuperscript{136} KPMG, 2008:3
\textsuperscript{137} EuromonitorInternational;http://www.euromonitor.com/Chinese_consumers_in_2020_A_look_into_the_future
\textsuperscript{138} St- Maurice et al., 2008:1
Across several product categories the consumer is twice as likely to grab those introduced under a familiar brand name than under an entirely new one when trying new products. Once the consumers recognize a brand, it is likely that they assume that it offers better quality and are willing to pay a premium price for it. In average that premium is relatively small, only 2.5 %, whereas among those earning more than RMB 5,000 a month, many are willing to pay a premium price of more than 60% across many product categories\textsuperscript{140}.

Another interesting finding from the KPMG research\textsuperscript{141} shows that for the Shanghai- consumer it is more important that the luxury good is regarded as fashionable (64%, than being regarded as popular and famous (52% agree). This implies that the design is more influential than the popularity of the brand.

\textbf{4.4 Country of origin}

As it may be a possibility for Lilleborg to utilize the country of origin (COO) effect, the following section is comprised by a brief clarification of the term, before our findings regarding the topic are presented.

COO refers to the country location of the corporate headquarters, the country of manufacture or assembly, and the country of product design. Studies have demonstrated that COO can impact consumer attitudes and purchasing intentions towards foreign products and brands\textsuperscript{142}. In general, favorable or unfavorable evaluations of a country associated with a product leads to a corresponding favorable or unfavorable evaluations of the product.

\textsuperscript{139} St- Maurice et al., 2008:2
\textsuperscript{140} St. Maurice et al., 2008:3
\textsuperscript{141} 2008: 7
\textsuperscript{142} Fang, Murphy, Jianyao & Xiangping, 2007
4.4.1 Chinese versus foreign brands

Chinese consumers don’t always have a clear idea about a brand’s nationality\textsuperscript{143}, but according to KPMG’s research\textsuperscript{144} the consumers are becoming increasingly aware of the origin of luxury brands and develop different preferences. As an example, the study demonstrates that respondents from all cities show a preference for European brands over North American brands.

A research conducted by McKinsey\textsuperscript{145} suggests that as Chinese consumers are getting more sophisticated, nationalistic tendencies play a smaller role when they shop. In the biggest cities only 13\% expressed a clear preference for Chinese brands. The same research shows that 63\% of the consumers in the biggest cities have no clear preferences based on a brand’s country of origin\textsuperscript{146}. This is somewhat contradicting with KPMG’s findings presented above, something which illustrates the many conflicting results regarding the subject. McKinsey also presents findings which claim that most consumers trust domestic brands over foreign ones\textsuperscript{147}, but it is unclear whether or not the survey accounts for the tremendous income inequality in China.

The China Market Research Group on the other hand, introduces findings that run counter to McKinsey’s. They found that in light of the quality-control problem in China, the trust that Chinese consumers place in foreign brands is very high and increasing. Nearly 75\% of the consumers said they would prefer a multinational’s product if they could afford it and the product directly affected their health\textsuperscript{148}. It is important to be aware of the fact that such research may be too general in that they often include consumer products ranging from cars to food or without any specifications at all. Additionally, the marketer should know that the respondents in such research do not always match the desired target group’s characteristics.

\textsuperscript{143} St. Maurice et al., 2008:4
\textsuperscript{144} 2008:18
\textsuperscript{145} St- Maurice et al., 2008::3
\textsuperscript{146} St.- Maurice et al., 2008:4
\textsuperscript{147} Dyer, 2007
\textsuperscript{148} Rein, 2007
4.5 Branding and marketing communication

Marketing is Lilleborg’s core competency and the company enjoys solid knowledge and experience regarding the concept of branding\textsuperscript{149}. With this in mind we do not find it essential to elaborate on different theories in this regard. We do however, believe it is necessary for the company to obtain an understanding of the meaning and the position that branding holds in the Chinese market. Moreover, it will be vital for Lilleborg to realize how to structure their marketing communication in order for the company to be successful in the Chinese market.

4.5.1 Branding in China

China’s tradition of a planned economy, together with the fact that most Chinese did not have access to different personal care products until the 1980’s, signifies that branding and brand awareness are quite new phenomenon in China. The country is in a phase of development where companies bombard the consumers with drastically more choices than they had even a decade ago\textsuperscript{150}. Consequently, most Chinese consumers switch brands frequently and may even change their mind in the last minute responding to in-store promotions or a salesperson’s suggestion. Brand loyalty does however tend to vary considerably between product categories and also between different segments. Lower-priced products like a hand cream gives room to sample a broader selection of newly available offerings, which encourages experimentation rather than loyalty\textsuperscript{151}.

However, Chinese consumers may be fiercely loyal to brands as long as they suit their needs. An example is Alibaba’s Taobao consumer-to-consumer e-commerce service, which have achieved their success by knowing how to relate to their Chinese consumers. To foster brand loyalty in China, companies should learn from such successful examples and focus on three critical points: define the brand position, understand and relate to the consumer base, and target China’s younger generation- who have the product sophistication and disposable income to be tomorrow’s loyal leaders\textsuperscript{152}.

\textsuperscript{149} Appendix 2.1, interview with Jan Eskil Hollen, Export Manager, Lilleborg
\textsuperscript{150} Rein, 2007
\textsuperscript{151} Lane, St. Maurice & Dyckerhoff, 2006: 37
\textsuperscript{152} Rein, 2007
In order for a company to develop a brand successfully in China, it will not be sufficient to take a short-term outlook. The company should first of all define what its brand is supposed to embody and then work to support that image. Multinationals need to understand that Chinese consumers in 1st tier cities like Shanghai will soon be as brand savvy as consumers in New York, London, or Paris. As for consumers in 2nd tier cities, these will also move with lightning speed to catch up with international trends\textsuperscript{153}.

4.5.2 Marketing communication in China

When the brand is created it obviously needs to be sufficiently communicated to the consumers. As the Chinese market, consumer, and media landscape differ from the Western in many areas, it will be vital to take such differences in to consideration when shaping the marketing communication. Several marketers have failed because their advertisements in China were strongly boycotted due to cultural conflicts. MNC’s like Toyota and Nike used symbols like lions and dragons in a way that made many Chinese feel that their culture was degraded, in addition to feeling humiliated\textsuperscript{154}.

4.5.2.1 Advertising in China

The advertising media in China are conventionally divided into the five categories; newspapers, magazines, radio, television and outdoor advertising\textsuperscript{155}. According to research, television and magazines are the two most influential media channels for influencing purchase of cosmetic products. Consequently this form of media should be the first choice among international companies. However, television advertising is very expensive in China, and will be reserved companies which have sufficient financial resources. Magazine advertising is also highly accepted by consumers and provides relatively high levels of influence. This media is also a lot cheaper than television. Therefore, advertising in magazines could prove to be fruitful during the early stages, when entering the Chinese market and testing consumers initial reactions\textsuperscript{156}.

\textsuperscript{153} Rein, 2007
\textsuperscript{154} Kotler, Keller & Lu, 2009: 445
\textsuperscript{155} Barnes, Kitchen, Spickett-Jones & Qionglei, 2004
\textsuperscript{156} Barnes et al., 2004
4.5.2.2 Sales personnel and in-store promotions
As suggested earlier, the Chinese consumer does not tend to be very brand loyal. While there is a substantial variance by product category, in general companies should consider a greater emphasis on approaches like price-promotions and in-store demonstrations. Promotional staff in selected stores can literally put a product into the hands of a consumer and explain its benefits. A survey conducted by McKinsey show that 65% of the respondents often leave a store with a different brand than they had intended to purchase. The same amount of people said that they buy what is on sale, even if it is not their favourite brand\(^{157}\). It is also said that in some cases the influence of sales people outweigh advice from medical professionals. Due to relatively low labor costs, employing sales personnel is a feasible practice\(^ {158}\).

4.5.2.3 The impact of Word of Mouth (WOM)
WOM from family and friends have a significantly impact on many Chinese consumers’ buying decision. WOM-communication is proven to be so effective because friends and family are perceived as having nothing to gain from their purchase recommendation\(^ {159}\). According to a McKinsey survey\(^ {160}\), the impact of recommendations in China scored the highest on their “impact scale”. During the same survey it was conducted parallel online research in Hong Kong, Japan, South Korea, Taiwan, The United Kingdom, and the United states. The result showed that recommendations are much more important in China than in any of the other markets. Such realities underscore the need for companies to find ways of generating word-of-mouth excitement.

4.5.2.4 Alternative marketing strategies
The growing sophistication of the Chinese consumer is forcing companies to consider alternative marketing strategies, including exhibitions, e-marketing, events, and sponsorships. In 2008 the development of social networking sites was considerable. IWOM (Internet Word of Mouth) is changing how consumers make their purchase decision\(^ {161}\). Research shows that consumers are spending less time

\(^{157}\) Lane et al., 2006
\(^{158}\) Lane et al., 2006: 38
\(^{159}\) Schiffman & Kanuk, 2007:281
\(^{160}\) St- Maurice et al., 2008: 5
\(^{161}\) Slide share; http://www.slideshare.net/CIC_China/iwom-watch-half-year-review-an-overview-of-chinese-iwom-trends-from-july-to-december-2008-presentation
on portal sites and more time on social networking sites. This implies that the customer experience and IWOM are becoming more and more important. Because of the Internet, consumers are able to make highly informed purchase decisions. This means that consumers no longer are willing to pay a higher price for premium brands to resolve uncertainty about the product quality; consequently this creates opportunities for new brands to quickly establish themselves. In addition, the Internet provides highly customized and highly interactive marketing environment for the companies. The companies have the opportunity to fully take advantage of customer information and tailor their marketing effort to each individual consumer\textsuperscript{162}.

The use of endorsements from high-profiled celebrities is also an option, a strategy which has the most significant impact on consumers in Shanghai compared to consumers in the other big cities\textsuperscript{163}. These can be more effective ways to educate the consumers and reinforce certain values, such as heritage and prestige\textsuperscript{164}.

Lastly, it is worth mentioning that China has heavy regulations, strict censorship, and monopolistic or oligopolistic prices. The Communist Party will not allow meaningful liberalization of the media sector\textsuperscript{165}.

\textsuperscript{162} Flemming, 2008
\textsuperscript{163} 2008: 9
\textsuperscript{164} KPMG, 2008: 18
\textsuperscript{165} Doctoroff, 2005: 141
“Norway has good associations in China, but by using the Nordic origin instead of the purely Norwegian you will differentiate yourself from your competitors and make it harder for new Nordic products within this industry to play on the same effect.”

Professor in Entrepreneurship & Innovation, Jason Gao
Chapter 5 – Primary Data Findings

Through in-depth interviews with Chinese consumers, experts, and professors we have collected first hand information regarding topics like the Chinese market and consumer, modes of entry, country of origin, branding, marketing communication and how to do business in China. We have also gained first hand information by conducting a focus group and several in-depth interviews with Chinese consumers, in addition to having been on field observations in different retail shops and pharmacies. The findings will be accounted for in the subsequent sections, which are divided by area of topic.

5.1 The Shanghai hand care market

We have used observations as a tool to get deeper knowledge on the situation regarding the hand cream market in Shanghai. The authors have visited numerous retail shops like Carrefour, E-mart and Wall Mart – which are the main super/hypermarket-chains in Shanghai. In addition, we explored specialty stores like Watsons and Sephora which specializes in skincare products and cosmetics, as well as regular- and more luxurious-pharmacies all located in the central parts of the city. The main objectives for these observations have been to identify the competitive landscape regarding the hand cream business in Shanghai; who are the competitors? How have the different players positioned themselves? Who are the customers? What do they buy? To what use do they buy it and how do they buy? By answering such questions, we will also be able to answer our first research question; “who are the main competitors and how are they positioned?”

We have identified a clear division between the so-called luxurious brands sold through high-end distribution channels like pharmacies, specialty stores and department stores, opposed to the medium- to low-end brands conveniently placed in a broad range of super and hyper markets all over Shanghai.

5.1.1 Medium- to low-end channels for distribution

These channels include super/ hyper markets like Carrefour, E-mart, Wal-Mart and Lotus, as well as specialty stores like Watsons.
5.1.1.1 Super / hyper markets
The super/ hyper markets are filled with numerous brands including both large internationals like Nivea, Shiseido, Neutrogena and Vaselin Intensive Care as well as local Chinese brands like Maxam and Sinoway Herb. The International brands dominate the shelf space in the stores and their exposure is far better maintained than other brands. Regarding the price category within the super/ hyper markets, this can roughly be divided into three main groups: high-, medium- and low price. Neutrogena with the price of 49 RMB per tube containing 50ml is the most expensive hand cream in the super/ hypermarkets in Shanghai. Other international brands like Nivea, Shiseido and Vaselin Intensive Care can be categorized as medium priced hand creams in these channels, with a price variation from 10-25 RMB for a tube containing 40-50 ml. The Chinese brand Maxam can also be placed within this category and is the most expensive Chinese hand cream brand observed in this channel. Other local Chinese brands have a price variation from 2-10 RMB per tube of 40-50 ml and they constitute the low priced category.

5.1.1.2 Specialty store – Watsons
Watsons is a personal products chain store located all over Shanghai. The hand cream assortment in Watsons is quite similar to the assortment offered in the super / hyper markets which are specified above. However, from our understanding the customers that go to Watson are specifically looking for personal products to a higher degree than those who go to super/hyper markets. Furthermore, Watsons has several beauty advisors working on sight which can assist the customers with information, advice and expertise.

“I would buy hand cream in Watsons. They have good sales personnel, they have a broad range of products to choose from, and they are really good in marketing health.”

-April He, Consumer

5.1.2 High-end channels for distribution
The more luxurious stores for hand cream are specialty stores that specialize in skincare products and cosmetics as well as pharmacies. Stores like Sephora, Shanghai nr.1 pharmacy and Hua Mei da Yao Fang are the typical chain stores that fall within this category. In addition, several department stores like Super
Brand Mall and Wanda Plaza have their own floors or areas divided into a range of stands which then again are divided among the different high-end brands. However, there is a clear division between the brands in these two channels as well, which will be accounted for below.

5.1.2.1 High-end Pharmacies
The pharmacies offer products and brands that are clearly positioned on quality and function. The brands offered in this category include the French brands La Roche-Posay, Avene and Vichy, the German brand Eucerin, and the Japanese brand Shiseido. The products have a clean and exclusive look and each brand offers a broad portfolio of skin care products which can cover every inch of your skin from head to toe – Including hand cream. In addition, each brand has its own sales person that can recommend you the best product for your skin. The sales lady working for Avene told us that her customer base mostly consist of high-end women in their thirties. Furthermore she stated that regarding hand cream they are usually searching for products that can help them with skin problems caused by allergies or dry skin.

The price range on hand cream in these high-end pharmacies varies from 70 RMB to 120 RMB for a tube of 75ml. Avene and La Roche Posay are the most expensive with the price of 120 RMB for a tube. Eucerin is the cheapest alternative with the price of 69 RMB. However, the sales person for Avene further stated that 120 RMB was not considered as expensive by her customers.

The dermatologist at Shanghai Children Hospital also informed us that French brands like Avene and La Roche-Posay were the products she usually would recommend to her patients.

“The Western products that we recommend are products that you can get in pharmacies. I usually recommend French products. France is trusted and known by the Chinese to be a country that has a lot of science and development within the skin care industry.”

-Dermatologist, Shanghai Children’s Hospital
5.1.2.2 High-end specialty stores and department stores
Specialty stores like Sephora and cosmetics-areas in department stores carry international well-known brands like Olay, Clarins, Guerlain, Clinique, Biotherm, Estee Lauder among others. These are all well-established brand names within the luxury cosmetics category and their product range consists of makeup, skin care products, and fragrances. The customer base in these channels is observed to be mostly high-end women in their early twenties to their mid-thirties. However, some men buying gifts for their lady friends have also been observed. Customers here seem to be more brand-driven, opposed to the quality- and function-driven characteristics of the customers in pharmacies. The price for a hand cream among these brands varies from 75 RMB to 300 RMB per tube containing 75ml. or more. Price does not seem to be a decisive factor regarding purchase. It seems to us that while the pharmacy customers are willing to pay for the high quality cream, the customers in these channels are eager to pay for the brand name.

5.1.3 Conclusion
The Shanghai hand cream market offers an extensive range of both foreign and local products varying from low-end to luxurious high-end brands. This is illustrated in the table below which shows Nivea’s wide specter of hand cream, all fulfilling different purposes.

<table>
<thead>
<tr>
<th>NIVEA</th>
<th>Function</th>
<th>Size</th>
<th>Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>&quot;Smooth Radiance&quot;</td>
<td>Focus on the smoothness and glow of your hands after applying.</td>
<td>50 ml</td>
<td>15 RMB</td>
</tr>
<tr>
<td>&quot;Anti Age&quot;</td>
<td>Targets the group that want to keep their hands looking young and healthy.</td>
<td>50ml / 100 ml</td>
<td>15 RMB / 22 RMB</td>
</tr>
<tr>
<td>&quot;Pure Moisture&quot;</td>
<td>Focus on leaving your hands soft and moist.</td>
<td>50ml</td>
<td>15 RMB</td>
</tr>
<tr>
<td>&quot;Whitening Hydration&quot;</td>
<td>Gives the hands the hydration they need as it maintains the whiteness of the skin</td>
<td>50ml</td>
<td>15 RMB</td>
</tr>
<tr>
<td>&quot;SOS Hand Cream&quot;</td>
<td>The newest addition to the NIVEA hand cream family. Positioned as a more clinical choice, with a more pharmaceutical look.</td>
<td>50ml</td>
<td>15 RMB</td>
</tr>
</tbody>
</table>

Table 3, Illustration of NIVEA’s hand cream assortment
Most of the hand creams on the market are tubes containing 40-75ml. Some of the brands offer their products in different sizes. Nivea’s “Anti age” is for example

166 Own observations
available in a 100 ml. tube for 22 RMB, in addition to a 50 ml. tube. During our interview with the dermatologist it was stated that:

“Small containers are more attractive to the Chinese consumers. It gives them the ability to try out different products since it keeps the prices lower”.

- Dermatologist, Shanghai Children’s Hospital

It is observed that the competitors within all of the inspected channels offer differing product assortments exceeding hand cream. It is the authors’ belief that it therefore may be a challenge for Lilleborg to obtain the desired visibility since they are only planning to offer hand cream and consequently alternative display methods need to be explored.

5.2 The Chinese consumer- Data analysis of the consumer research

In the following section we will present our findings from eleven in-depth interviews and one focus group with Chinese consumers. The interview subjects used in our in-depth interviews are all women ranging from the age of 20-40. They all use hand cream on a regular basis and they all live in Shanghai. In addition, the interviewees are what we believe to be middle- to high-end consumers. The information provided in these interviews have been examined and categorized into different subjects. Although such research cannot be generalized, we will present the tendencies and the majority answers discovered through our consumer interviews. The findings will assist us in answering our second research question; “who are the most valuable target customers and what are their preferences regarding hand cream?”

5.2.1 Usage and motivations for purchase

Hand cream is frequently used regardless of season. However, it was revealed that it is more frequently used during the winter when the weather is cold. During this season the hands get easily dry, and hand cream products are more promoted in the stores throughout this period. Hand cream is also commonly used after washing ones hands, in addition to being used in the morning and before going to bed in the evening. Hands are of great importance to some Chinese women, and it is important to take care of them. One of the interviewees put it like this:
Furthermore, dry hands and the wish to feel comfortable and fresh are the most common reasons behind the purchase of hand cream, and moister is the number one benefit the consumers seek. Quality, which refers to the ability to keep the hands moist and soft, in addition to price are the two most important elements the consumers consider before buying a specific brand. The frequency of purchase varies between every 2-6 months, depending on the size of the product. The interviewees have differing opinions when it comes to what extent purchase of hand cream is an impulse buy or if it is a planned purchase. Some of the interviewees recognize that they need a hand cream and then go to the store to buy one, others buy it on impulse when in the store. In addition, hand cream is popular as a gift to friends. Several of the respondents mentioned that at least one of the hand cream brands they have tried was a gift. One person also stated that she usually buys hand cream as a gift to friends when having been out travelling. She believes that this is an excellent gift as it is a product her friends will enjoy and always have the use of.

5.2.2 The importance of brand and country of origin

Brand recognition, in regards to hand cream is not very high among the consumers. They only remember the brand name of hand creams they have tried, and between two and six brands are in the consumers’ top of mind. The consumers’ top of mind brands are a mix of local Chinese brands and internationally known brands, however the international brands dominate. The brands mentioned the most are the French brands L’occitane and Lancome, the Japanese brand Shiseido, the German brand Nivea and the American brand Neutrogena. To most of the respondents brand is very important, since many believe that brand ensures the quality of the product.

“For skin care products brand is very important. The product is supposed to take care of my skin; consequently I have to trust the brand. If I do not know the brand I will not trust its function”

- Lili Fang, Consumer
On the other hand the brand is only regarded as the third most important element considered, after quality and price. Furthermore, the consumers tend to buy hand cream from brands they already have experience with. For instance, the consumer regard it as safe to buy a hand cream of a certain brand if they have had positive experiences with other products offered from the same brand. However, the consumers do not seem to be very brand loyal with regards to hand cream. Some of the consumers may have a preferred brand in mind when going to the store, however, the majority of the consumers like to try new brands and thereby consider the different alternatives displayed in the shelves. This is an interesting finding which implies that the consumers are torn between the feeling of the safety a known brand provides, and their curiosity to try new brands. Since the Chinese skin care market is still not matured, the consumers are still in the search of experiencing new brands trying to find their “favorite”.

The consumers’ willingness to try new brands depends on the product benefits and how the product is promoted. The majority mentioned that free samples and the possibility to try the product will have a positive influence on their willingness to buy a new brand.

Regarding preferences to international versus local Chinese brands, the consumers have differing opinions. Some prefer international brands, others do not think this is a decisive issue concerning the purchasing decision. On the other hand, an interesting observation is that the consumers are somewhat contradicting in their statements. About 80% of the interviewees only mention international brands as their top of mind brands. In addition, the majority of the consumers are currently using an international brand. The consumers also mostly mention international brands when asked which hand cream they prefer and what brand they recently have bought. One of the interviewees on the other hand, pointed out that she preferred Asian brands from Japan and Korea because these products are made for Asian skin. This is based on her belief that Western products are developed for Western skin and vice versa.
Concerning country of origin, France is the country mostly associated with hand cream. France is mentioned because they offer many of the most popular skin care brands in China; consequently hand cream is indirectly associated with this country. Australia is also mentioned by some of the respondents. This country is believed to produce good body creams and they use some kind of material from the sheep in their creams. Furthermore, Norway is associated with good quality, salmon, oil, shipping, snow, cold weather, nature, health and the Norwegian forest. The Norwegian forest is a name of a popular song here in China, so many Chinese associate Norway with this song. Moreover, the respondents imply that the country of origin effect has little to none influence on their buying decision. However, 50% of the consumers believe that positioning the brand as a “product of Norway” will have positive influence on their buying decision. Moreover, the remaining 50% of the respondents believe that this positioning will not influence their buying decision in a significant way, mostly because the fact that they do not associate Norway with skin care products.

5.2.3 Place and promotion

Our research shows that most of the consumers’ interviewed prefer to buy their hand cream in specialty stores like Watson’s and Sephora. The reason for this is the store’s wide product range, helpful sales personnel and the convenience. In addition, specialty stores are viewed as experts in the area of skin care, whereas supermarkets do not hold the same recognition. Other reasons for buying skin care products in these stores are related to trust. The consumers trust the products that are offered there. Sephora also offers a membership card and have various promotions which influence the consumer to buy products there. Furthermore, department stores and the Internet were revealed as preferred places to buy hand cream. Some of the consumers mentioned that they like to buy skin care products.
on the Internet site Taobao. They offer a wide range of brands, some not even present on the Chinese market. In addition, one can buy the premium brands for a cheaper price through the Internet. However, one of the respondents pointed out the following:

“One has to be careful when buying skin care products on the Internet, because many of the products offered there are fake. For instance, one of my friends bought some cologne from the Internet. When he tested it he realized it was fake. So, usually I buy hand cream from sites I know and have used for a long time. I know that a lot of my girlfriends do the same thing”

- Jennifer Zhuang, Consumer

Some of the consumers were also asked if they would consider buying hand cream in pharmacies. Normally most of them buy hand cream in pharmacies if they have a skin problem. However, the consumers are not reluctant to buy hand cream in a pharmacy if they were told that a desired brand was sold only through this channel. In addition, they trust the sales personnel to have very good expertise. The respondents reveal that they are subject to a lot of advertisements from different brands. Television advertisements, recommendations from friends, magazines and in-store promotions are regarded as the main sources of their current brand knowledge. As mentioned earlier the possibility to try the product and the friends’ recommendation are important and will influence the consumer to buy the product. On the other hand some of the consumers also revealed that they do not trust the sales personnel’s recommendations.

5.2.4 Product and price

Some respondents mentioned that the product size could be smaller than the sizes currently offered. They would like a small sized hand cream that fits in the ladies’ hand bag. However, others prefer larger bottles of hand cream since they spend most of their time at home or in their office, thus they prefer to have large bottles of hand cream in these locations. In addition, the consumers agree that the design of the product is important. They prefer a tube, because this solution is regarded as most convenient.

Some of the consumers were positive to the fact that product does not have any scent. This way, the scent would not interfere with other scents like perfume.
However, others like to have a little scent on the hand cream, as this gives the feeling of freshness.

Regarding colors, the respondents believe that the design should have a clean look with light and neutral colors. White, blue and green are regarded as the most preferred. The color white is associated with purity and cleanliness, the color blue is mostly associated with the ocean and the color green is associated with nature and health. Even though, blue is a preferred color our research show that the product designs provided by Lilleborg dominated by the color blue are not favored by the consumers. However, according to the respondents the following two product designs have the most desirable look.

Out of these two designs, product design B was most preferred. The consumers especially liked the image of the drop on this product. However, some mentioned that they did not like the silver grey line above the name “Glycinello”. All of our respondents can speak English therefore most of them did not find it very important to have information on the product in Chinese. However, many of them believe that the content information should be provided in Chinese as the majority of the Chinese people do not speak English.

As a hand cream is a low involvement product, the price in general is not the most important issue. The switching costs are not significantly high on this kind of product. Between 50 and 200 RMB is regarded as an acceptable price however, this varies according to the quality and the size of the product. Moreover, a few of the respondents revealed that they are not willing to pay a lot of money on this kind of product, and believe that between 20 and 50 RMB is a reasonable price to pay. Several of the consumers pointed out that the price should not be too low either (under 20RMB), since a low price signals poor quality.
5.3 Mode of entry

There are several ways for Lilleborg to carry out their exporting. By conducting semi-structured interviews with different experts and market specialists, this section presents their recommendations in this regard. The obtained information will support us in answering our third research question: “how should Lilleborg enter the market?”

5.3.1 Agents

The use of agents is something which is strongly opposed. When using an agent one does not have control over the marketing efforts, and branding is very important when introducing a product to the Chinese market. An agent may not give the product enough support with regards to branding167.

5.3.2 Overseas partner

For an unknown company with limited resources and market knowledge, the need for a partner increases. Several of our interview subjects emphasize the need for support in the start-up phase and recommend getting a partner. The local partner should be able to help you with the distribution of the product, whereas Lilleborg should be in control of the brand building168. However, there may be certain difficulties in this regard;

“By being a part of a distributor’s assortment one will easily be regarded as just one in the crowd”

– Henning Strandås, brand manager Voss Water

Moreover, co-branding has been recommended. By partnering up with an already well established brand, it is argued that this strategy could be an effective way to help Lilleborg into the Chinese market. It is important that the potential partner has the required brand image169. This recommendation is however opposed by others, who state that this will not be a feasible long term strategy170. It will be important to take the possible negative aspects of cooperating with a partner in consideration. One should combine the mutual benefits both parties can

167 Appendix 9, interview with Kari Bjørnås, Manager Innovation Norway, Shanghai
168 Appendix 11, interview with Jason Gao, Professor in Entrepreneurship & Innovation, China
169 Appendix 7, interview with Emma Qiu, Professor in Marketing, Fudan University
170 Appendix 11, interview with Jason Gao, Professor in Entrepreneurship & Innovation, China
accomplish through the partnership. It will be central for Lilleborg not to be naive and stay in control of the potential partnership\textsuperscript{171}.

5.3.3 Representative office

Lilleborg may enter the market by establishing a representative office in Shanghai. The company is very good at branding and this entry mode would provide them with better control of the marketing efforts. A recommendation for Lilleborg is to send some of their best people to Shanghai in addition to hiring competent local Chinese people\textsuperscript{172}.

This kind of representation does not allow the employees to conduct active business, such as import and sales\textsuperscript{173}. Hence, the representative office may only engage in non-profit making activities like conducting research, liaising with local and foreign contacts and coordinate the parent company’s activities in China. Representative offices must hire Chinese citizens through offices like FESCO (Foreign Enterprise Service Co.), something which eases the administration and payment of social costs\textsuperscript{174}.

In the start-up phase Lilleborg will have to invest in premises. It is normal to rent office space which needs renovation and decoration. For a small office with 3-4 employees, including furnishings and exclusive IT equipment and media, this cost is estimated to be approximately RMB 50,000. Costs related to the rental of office space are on a good location RMB 122/m\textsuperscript{2}/month. An additional cost is the management fee of RMB 20-24/m\textsuperscript{2}/month per m\textsuperscript{2}. Moreover, representative offices pay a service tax which is 5\% of gross costs. There are also restrictions regarding location and a representative office can only locate themselves in designated buildings; grade A office building. The estimated time for the establishment is roughly 1 month\textsuperscript{175}.

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\textsuperscript{171}Appendix 10, interview with Henning Kristoffersen, Anthropologist & China expert
\textsuperscript{172} Appendix 9.1, interview with Kari Bjørnås, Manager Innovation Norway, Shanghai
\textsuperscript{173} Appendix 9.2, interview with Kari Bjørnås, Manager Innovation Norway, Shanghai
\textsuperscript{174} Appendix 9.1, interview with Kari Bjørnås, Manager Innovation Norway, Shanghai
\textsuperscript{175} Appendix 9.1, interview with Kari Bjørnås, Manager Innovation Norway, Shanghai
5.4 Country of origin

Despite the fact that Chinese consumers proclaim that they are not particularly influenced by the COO- effect, several of the experts we have interviewed believe that this effect is definitely something Lilleborg should take advantage of and exploit in their marketing. Investigations of the COO- effect will have implications on our last research question:”how should Lilleborg shape their marketing mix in order to gain the most in this market?”

According to Professor Zhou, there may be some people that do not know Norway but among those who do, Norway has a very good name. It is a possibility for Lilleborg to use these positive sides in their branding. Many Chinese consumers associate Norway with “wonderful things” like miracles, fairytales, northern lights, and nature. It would be an opportunity for Lilleborg to focus on the image that already is built in the Chinese consumers’ minds.

It is also stated that many Chinese have positive feelings regarding products made in Norway or other Scandinavian countries, and it can be beneficial to position the product as Norwegian. Another alternative is to position the product as being Nordic as these countries, overall speaking, have a very good reputation in China in terms of high quality and luxury goods. This is especially true among the high-end consumers which are the most relevant for Lilleborg. It would therefore not be necessary for Lilleborg to change its place, because in terms of associations the company is in the best place possible in the Chinese people’s mindset. By using the Nordic origin instead of a purely Norwegian origin Lilleborg will differentiate themselves from Neutrogena’s hand cream, at the same time as they will make it harder for new Nordic or Scandinavian products within this industry to play on the same effect. However, it is also indicated that even though the West gives the impression of good quality, this is provided that the brand is known internationally.

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176 Appendix 6, interview with Zhou Dunren, Professor in Chinese Political Economy
177 Appendix 11, interview with Jason Gao, Professor in Entrepreneurship & Innovation, China
178 Appendix 7, interview with Emma Qiu, Professor in Marketing, Fudan University
179 Appendix 11, interview with Jason Gao, Professor in Entrepreneurship & Innovation, China
According to Professor Gao, the fact that there are no known Nordic brands within the industry represents a huge opportunity for Lilleborg. He further states that there is definitely a potential to differentiate the brand on this ground, and that the brand should signal exclusivity and a Nordic life style\textsuperscript{181}.

5.5 Branding and Marketing communication

This section will account for the interview subjects’ opinions and suggestions regarding how Lilleborg should shape their branding, and how they should execute their marketing communication in the Chinese market. This information will also provide important perspectives regarding this report’s last research question on how Lilleborg should shape their marketing mix.

5.5.1 Branding

Due to the fact that Lilleborg does not possess a strong brand name within the Chinese market, the most important issue for the company becomes the brand building in China. It has been recommended not to do co-branding with an already established local brand, as this tend to be more of a short term strategy. According to Prof. Gao the brand name will be one of the main elements that will determine Lilleborg’s success. It should represent something exclusive, high-end but also something Norwegian/Nordic. Professor Gao further states that it is not necessary to enter the Chinese market with a strong brand name. However, the company is dependent on focusing a lot on reputation and branding all the way through as “reputation is your life in the Chinese market”\textsuperscript{182}.

Lilleborg should be careful not to position the brand too close to Neutrogena’s image. By utilizing the COO-effect in the same way, the new brand may be perceived as a copy, which often is associated with bad quality in China. Lilleborg should definitely use the COO-effect, but in a different and better way\textsuperscript{183}.

A fundamental phenomenon in China is that it is not about \textit{what} you use, it is about \textit{whom} else uses it. Lilleborg should make the product exclusive and avoid

\textsuperscript{180} Appendix 9.1, interview with Kari Bjørnås, Manager Innovation Norway, Shanghai

\textsuperscript{181} Appendix 11, interview with Jason Gao, Professor in Entrepreneurship & Innovation, China

\textsuperscript{182} Appendix 11, interview with Jason Gao, Professor in Entrepreneurship & Innovation, China

\textsuperscript{183} Appendix 11, interview with Jason Gao, Professor in Entrepreneurship & Innovation, China
that everybody on the street uses it—using it should give Chinese people “face”. This can be done by targeting high-end consumers, by making the brand purely Nordic, by making the product a bit unavailable and by charging a high price\(^\text{184}\).

5.5.2 Marketing communications

One of Lilleborg’s strengths is the high-quality hand cream formula. Since the company does not possess a strong brand name in China, the consumers will not care if the formula is the best or not, hence such statements in the marketing communication would not be regarded as credible. Consequently, a technology and functional driven marketing campaign will not work in this matter\(^\text{185}\). This is also supported by Professor Qiu who states that if the product is positioned as premium, the quality is not the best selling point. Instead, the emotion and the lifestyle would be a better focus\(^\text{186}\). Appropriate elements to reach the emotional side of the consumer may be the health and the modern element, as well as family values and the COO-effect\(^\text{187}\).

It will be important for Lilleborg not only to inform that they are the best, but rather make the consumers believe, understand and trust such a statement. This can be done by getting a third party to confirm your facts and support your statements, as the words from a third party are more believable than one’s own. In this regard it is important to know that in China most third parties like the media and the government do not have the necessary credibility. It is therefore recommended to use a known international player with a good reputation. It could be a good idea for Lilleborg to cooperate with for example DNV since the company is known to be trusted by the Chinese\(^\text{188}\).

\(^{184}\) Appendix 11, interview with Jason Gao, Professor in Entrepreneurship & Innovation, China
\(^{185}\) Appendix 11, interview with Jason Gao, Professor in Entrepreneurship & Innovation, China
\(^{186}\) Appendix 7, interview with Emma Qiu, Professor in Marketing, Fudan University
\(^{187}\) Appendix 8 & 10, interview with Henning Strandås, Brand Manager Voss and Henning Kristoffersen, Anthropologist and China expert.
\(^{188}\) Appendix 11, interview with Jason Gao, Professor in Entrepreneurship & Innovation, China
5.5.2.1 Media Channels

Which media tools to use depends to a great extent on the financial investments Lilleborg are able to make in this market. By communicating to the Chinese consumer in an uncommon way, you will more easily get their attention. Using different types of event marketing would probably be a better choice than the mass promotional channels since the hand cream will be positioned as a premium product\(^{189}\).

5.5.2.1.1 Magazines

Advertisement in the right fashion and life style magazines may be a very good way for Lilleborg to reach the high-end consumer\(^{190}\). It would also be a good idea for Lilleborg to send product samples to these magazines in order for the consumers to try the hand cream. By arranging workshops inside or outside the store, the customers can try the product and the sales personnel can explain the effects and how to use it. Sending press releases regarding news about the product and making sure the brand gets mentioned in the editorial of the right magazines would be very cheap ways to get attention. The company should create a story behind the brand to make it more interesting and differentiable\(^{191}\).

5.5.2.1.2 Internet

The Internet is becoming increasingly popular in China, a channel which is very cheap and efficient. The Chinese are more and more familiar with searching the web for product information and many international firms establish online “clubs” where the customers can debate the product and get information about the best way to use it. Through this forum you can teach people how they can protect their hands, why they should protect their hands and you can also encourage them to share their experiences in “chat-forums”\(^{192}\).

\(^{189}\) Appendix 7, interview with Emma Qiu, Professor in Marketing, Fudan University
\(^{190}\) Appendix 8, interview with Henning Strandås, Brand Manager Voss
\(^{191}\) Appendix 13, interview with Laure Kruthof, Retail and wholesale manager, Christofle, Asia Pacific
\(^{192}\) Appendix 11, interview with Jason Gao, Professor in Entrepreneurship & Innovation, China
5.5.2.1.3 Endorsement
The use of endorsement has proved to be very successful for companies like L’Oreal. It is critical that the spokesperson is someone the target group can relate to somehow. These people are often popular foreign or local musicians, movie stars, sports heroes, or professionals like a doctor. On the other hand, it might be an idea to use common people in the advertisement. This is something uncommon for the Chinese and thereby it might create more attention.

5.5.2.1.4 Opinion leaders
To access certain clubs and do marketing among these people will also be a good strategy in terms of reaching your target group. China is a hierarchical country within all fields and these exclusive clubs have members that in society are looked upon as opinion leaders. It is also important to think location in this regard, and be aware that the brand will be associated with wherever it is placed.

5.6 Doing Business in China
Contracts and agreements are necessary elements of doing business in China, however on its own, neither a contract nor an agreement is sufficient to work as a guideline for a partnership. In this section we will discuss elements important for Lilleborg considering relations with Chinese partners, and the balance between trust and control in the partnership.

5.6.1 The role of the contract
When doing business in China one should take into consideration that Chinese partners do not always stick to all elements in a written contract, and one should not assume that once a contract is written, it will be followed down to every point. However, Professor Xu points out that in the big cities like Shanghai, to enter an agreement is an effective way to bind parties. If one part breaches the contract a penalty will be imposed on the party according to the agreement. Furthermore, maintaining control over the Chinese partnership will be important in order to achieve success. Many Norwegians are not so found of control and like

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193 Appendix 13, interview Laure Kruithof, Retail and wholesale manager, Christofle, Asia Pacific
194 Appendix 11, interview Jason Gao, Professor in Entrepreneurship & Innovation, China
195 Appendix 11, interview Jason Gao, Professor in Entrepreneurship & Innovation, China
196 Appendix 8, interview Henning Strandås, Brand Manager Voss
197 Appendix 10, interview with Henning Kristoffersen, Anthropologist and China expert
to encourage instead of control. This strategy may prove to be somewhat naive in China. The Chinese are more interested in seeing how their partners follow up the clauses in the contract, then what is actually written in it\textsuperscript{199}.

Control and trust are two important parts of any foreign company’s business in China. Personal relationships for example can be very important considering deals with different retailers, which is a process that often involves many people. Consequently, it is complex to handle. In addition, some situations and arrangements are dealt with under the table in China, and corruption is a factor that increases the complexity of the business process\textsuperscript{200}.

5.6.2 The importance of controlling marketing activities

According to Professor Gao, a local Chinese partner should only help with the distribution of the products. The control over brand building and marketing campaigns should be left to Lilleborg. However, it is also important that once Lilleborg has selected a partner, trust becomes an important part of the relationship.

"Trust and control are not mutually exclusive, it is important to rely on your partner, and at the same time, control the relationship."

- Jason Gao, Professor in Entrepreneurship & Innovation

Moreover, he states that two important elements which determine a brands reputation are brand management and customer relationship management. However, many Chinese companies do not have adequate competencies in these areas hence, Lilleborg should control these activities themselves\textsuperscript{201}.

5.6.3 Potential challenges within the partnership

Another important aspect for Lilleborg to consider is that agents and distributors like most business people are very profit driven, and try to sell the product that gives them the highest profit in the easiest way. Jotun experienced this when they entered China. In negotiations with their distributors Jotun stated that they wished
to increase their sales-volume and received positive reactions to this request. However, words did not lead to actions and nothing happened, which is not an uncommon behavior from Chinese agents\(^{202}\). The problem in this case was that Jotun had failed to conduct adequate initial research before choosing their partner. Additionally, when they chose a partner, they failed to support them in their work, which again led Jotun’s products to be neglected. Jotun did not have a strong brand name in China, which made it harder to encourage distributors or agents to focus on their products. Retailers are often more interested in products that carry a strong brand name as they believe these products increases their sales volume, and through that, their profits\(^{203}\).

\(^{202}\) Appendix 12, interview with Zou Lai, Sales Director and Chen Qing, Finance Manager, Jotun China

\(^{203}\) Appendix 12, interview with Zou Lai, Sales Director and Chen Qing, Finance Manager, Jotun China
“China has the potential of becoming a new US, so there is definitely room for Lilleborg. However, it is important to find the right place.”

Manager of Innovation Norway
Shanghai, Kari Bjørndås
Chapter 6 – Strategic Analysis

6.1 Internal analysis

When analyzing Lilleborg`s internal situation we have used information obtained from interviews with Lilleborg`s export manager, Jan Eskil Hollen, in addition to written information retrieved from the company and the company`s Internet site. The purpose of this analysis is to point out Lilleborg`s strengths and weaknesses and to assess the company`s ability to successfully enter the Chinese market. In this regard we have utilized the ACE- model and performed a resource analysis of the company`s resources.

6.1.1 ACE

In the following sections we will elaborate on Lilleborg`s attitudes, competence and embodiment with regards to export, and thereof determine whether or not the company has a sufficient foundation to achieve a successful entry into the Chinese market.

6.1.1.1 Attitudes

Attitudes refer to what extent the company is market- and opportunity oriented, their willingness to take risks and their cultural knowledge about the Chinese market and consumers\(^{204}\).

6.1.1.1.1 Market- and opportunity orientation

Lilleborg is a marked oriented company. The company has a high focus on consumer needs and preferences, and they are Norway`s most frequent users of market research. Lilleborg also has an in-house department for consumer services where customers can give feedback regarding complaints, opinions and other questions\(^{205}\). To acquire information about consumer preferences they utilize information from external marketing research agencies. In addition, they have internal methods of obtaining consumer information\(^{206}\). According to Mr. Hollen, the company could be more opportunity oriented. The company has a lot of strong

\(^{204}\) Solberg, 2005:145

\(^{205}\) Power Point Presentation provided by Lilleborg
brand names which are very successful in the Norwegian market. Since their current brands are doing so well, the company spends little time on developing new ideas with regards to new product areas. However, Lilleborg has recently employed a new marketing manager, whose main objectives are to look at the possibilities of creating products outside their current business area.\footnote{Appendix 2.1, interview with Jan Eskil Hollen, Export Manager, Lilleborg}

We have already pointed out that Lilleborg is a market oriented company in their domestic market. It is clear that Lilleborg wants to learn more about the Chinese market and their efforts to hire student consultants to do market research before a possible expansion to this market shows signs of market orientation also in their export activities.

6.1.1.1.2 Risk aversion
Lilleborg’s wish to penetrate the Chinese market as their first action with regards to export, gives a positive impression about the company’s willingness to take risks. However, they will not enter the Chinese market if our research finds this to be an unwise move for the company.

6.1.1.1.3 Cultural knowledge
As a result of high production costs, Lilleborg started to outsource their production of lids used on one of their shampoos to China in 2003-2004. Since that time the company has outsourced production of several other product components as well. The employees working with Lilleborg’s sourcing activities in China speak Chinese and are familiar with the culture. Lilleborg’s export manager Jan Eskil Hollen has spent a lot of time in China, however he claims that his knowledge about the Chinese market and the Chinese culture is not adequate. One may say that Lilleborg has some general knowledge of the Chinese market and the Chinese culture. However, this knowledge is very limited.\footnote{Appendix 2.1, interview with Jan Eskil Hollen, Export Manager, Lilleborg}
6.1.1.2 Competencies

Competencies refer to which abilities and skills Lilleborg possess.\textsuperscript{208}

6.1.1.2.1 Core competencies

As mentioned before, Lilleborg is Norway’s leading producer and marketer of detergents and personal care products and marketing is Lilleborg’s core competence. The idea of building brands was born in England in the mid 1880’s, and Lilleborg was one of the first companies in Norway to adopt to this idea.\textsuperscript{209} In addition, Lilleborg is very competent regarding sales. In 2008 the company won the title of best sales unit in Norway.\textsuperscript{210} However, Lilleborg has no experience and knowledge about marketing in China.

6.1.1.2.2 Language and cultural competence

Today, Lilleborg export for over a 100 million NOK and the company has over 20 years of international experience. Most of the products Lilleborg exports on behalf of their partners go to the European market, but some also go to countries in Asia, Africa and America.\textsuperscript{211} Nevertheless, Lilleborg does not export any of their own brands to the international market except from Jasparello, which is a raw material used in skin care products. Consequently, the company has experience with the exporting itself but not with exporting own brands.

As mentioned before, there are four people working for Lilleborg who speak Chinese, and three of these work for Lilleborg in Shanghai. These employees’ main responsibility is sourcing. The company does not have a lot of competence regarding the Chinese culture and language, however the four employees who speak Chinese is a positive aspect of the companies resources which can work in Lilleborg’s favour when entering the Chinese market.

6.1.1.2.3 Cooperation with partners

Lilleborg cooperates with Unilever, a large multinational company which is also present on the Chinese market. Consequently, Lilleborg can take benefit from their partnership with Unilever when they now want to enter the Chinese market.

\textsuperscript{208} Solberg, 2005:145
\textsuperscript{209} Lilleborg.no;http://lilleborg.no/eway/default.aspx?pid=232&trg=MainPage_6464\&MainPage_6464=6844:0:4,962:1:0:0:::0:0
\textsuperscript{210} Appendix 2.1, interview with Jan Eskil Hollen, Export Manager, Lilleborg
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market. However, these benefits will most likely be very limited. As Lilleborg will be introducing their own brand to China, they will be direct competitors with Unilever.

6.1.1.3 Embodiment

Embodiment refers to what extent the attitudes and competencies are embodied in the organization, and to what degree internationalization is supported by the top-management and the BOD (Board of Directors).

Lilleborg’s mother company Orkla states that due to significant growth in Asia, the company will expand its presence in this market in the future. Orkla’s ambition of further growth in Asia is reflected in the BOD decision to make substantial expansion investment’s in Sapa’s plant in Shanghai. In addition, in 2007 Orkla bought India’s largest producer of processed food named MTR. Orkla’s goal is to double MTR’s operations within two to three years, with this Orkla wants to get a better foothold in Asia. According to Orkla’s BOD, the company is willing to invest in other Asian markets as well. The company is considering Vietnam, Malaysia and China. According to Lilleborg’s export manager, the management will support any decision regarding export, as long as there are benefits and good enough arguments to do so. Furthermore, it is likely to believe that the employees working at the production facilities will be positive towards export. Export means more production consequently, this provides higher job security for the employees.

6.1.1.4 Conclusion

For a company to be successful in the Chinese consumer market, the company needs to be market oriented and have a high focus on brand building. As pointed out earlier Lilleborg is a market oriented company and their core

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211 Lilleborg.no; http://lilleborg.no/eway/default.aspx?pid=232&trg=LeftPage_6844&MainPage_64 64=6844:0:4:964:1:0:0::0:0&LeftPage_6844=3004:22375::1:6846:2::0:0
212 Appendix 2.1, interview with Jan Eskil Hollen, Export Manager, Lilleborg
213 Solberg, 2005:145
214 Orkla.com; http://orkla.com/eway/default.aspx?pid=243&trg=Content_7329&Main_7538=7329: 0:4:3257:1:0:0::0:0&Content_7329=7347:0:4:5475:1:0:0::0:0
215 Riise, 2008
216 Appendix 2.1, interview with Jan Eskil Hollen, Export Manager, Lilleborg
217 Appendix 11, interview with Jason Gao, Professor in Entrepreneurship & Innovation, China
competence is marketing and brand building. Therefore Lilleborg has a good foundation if entering China. However, the company has little experience and knowledge with the Chinese market and the consumers, which again can make the market entry in China more challenging.

6.1.2 Resource analysis

In the following paragraphs Lilleborg’s resources will be analyzed in terms of strengths and weaknesses. However, we will only mention the resources that have not been discussed in the ACE-model analysis.

6.1.2.1 Tangible resources

6.1.2.1.1 Physical resources

Lilleborg’s headquarter is located in Oslo, Norway. The company has three production facilities in Norway; one is situated in Ski, whereas the two others are situated in Kristiansund\(^{\text{218}}\). The factory located in Ski is one of the most advanced production facilities for liquid detergents in Europe. The factory has five production lines and an annual production of 30,000 tons of detergents\(^{\text{219}}\). The Kronull factory produces steel wool soap, whereas the Ello factory is Norway’s leading producer of personal care products. Ello is a modern production facility which satisfies international standards and their production is based on eight different technologies: Petroleum jelly, roll-on deodorants, refill bags, creams and lotions, solid soap and fluid products like shampoo, conditioners, shower gel, toothpaste and lip balm. Ello also has their own laboratory which plays an important part in Lilleborg’s innovation processes\(^{\text{220}}\).

6.1.2.1.2 Financial resources

Lilleborg’s mother company Orkla has a turnover of about NOK 66 billion\(^{\text{221}}\). Lilleborg had an operating revenue of NOK 1 475 billion in 2008\(^{\text{222}}\), and approximately NOK 400 million in profits\(^{\text{223}}\). According to Lilleborg’s export

\(^{\text{218}}\) Lilleborg.no; http://lilleborg.no/eway/default.aspx?pid=232&trg=MainPage_6464&MainPage_6464=6844:0:4:964:1:0:0::0:0&LeftPage_6844=3004:22370::1:6846:1::0:0

\(^{\text{219}}\) Lilleborg.no: http://lilleborg.no/eway/default.aspx?pid=232&trg=LeftPage_6844&MainPage_6464=6844:0:4:964:1:0:0::0:0&LeftPage_6844=3004:22370::1:6846:1::0:0

\(^{\text{220}}\) Lilleborg.no: http://lilleborg.no/eway/default.aspx?pid=232&trg=LeftPage_6844&MainPage_6464=6844:0:4:964:1:0:0::0:0&LeftPage_6844=3004:22375::1:6846:2::0:0

\(^{\text{221}}\) Orkla.com; http://orkla.com/eway/default.aspx?pid=243

\(^{\text{222}}\) Orkla.com; http://www.orkla.com/dav/9e6ddb9313.pdf

\(^{\text{223}}\) Appendix 2.1, interview with Jan Eskil Hollen, Export manager, Lilleborg
manager, the company has not been negatively affected by the financial crisis in terms of sales.

“During a financial crisis people will eat less at restaurants and travel less. This means people will spend more time at home. Consequently, they clean more. People cannot afford expensive hairdresser shampoos. Instead people go to the store and buy less expensive shampoo, for instance Define which is one of our products.”

- Jan Eskil Hollen, Export Manager, Lilleborg

This statement is supported by the newspaper Dagens Næringsliv, which claims that Orkla will present an EBITA result of NOK 592,000,000 the first quarter this year. This is only half of what they had same period last year. However, Fondsfinans predicts that branded consumer goods will do better in the time to come. The reason for the improvements is because of higher volumes, increased prices and operative improvements$^{224}$. Moreover, Lilleborg is one of the cash cows within Orkla. Their profit goes to support other companies within Orkla which are not doing so well because of the financial crisis$^{225}$.

6.1.2.1.3 Organizational resources

Orkla consists of five business areas. In February 2008, the business areas Orkla foods and Orkla Brands merged. The new business area Orkla Brands, which Lilleborg belongs to, was divided into four business units. These are; Orkla Foods Nordic, Orkla Brands International, Orkla Food Ingredients and Orkla Brands Nordic. Lilleborg belongs to the latter business unit$^{226}$. Orkla Brands base its organization and activities on a multi-local model. The responsibility for value-creation and decision-making lies at the local level within the individual companies$^{227}$. All the units within Orkla Brands share the same administration. Orkla Brands have high focus on inter-company synergies. These synergies are exploited through the use of shared high-quality, cost-effective support systems and the spread of best practices throughout the organization. Human resource development primarily takes place in the line organisation however, in-house

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$^{224}$TDN Finans, 2009
$^{225}$Appendix 2.1, interview with Jan Eskil Hollen, Export manager, Lilleborg
$^{227}$Orkla.com;http://www.orkla.com/eway/default.aspx?pid=243&trg=Content_7329&Main_7538=7329:0:4,3257:1:0:0::0:0&Content_7329=7347:0:4,4292:1:0:0::0:0
academies have also been established in Orkla and Orkla Brands which cover the main links of the value chain. In addition, Orkla Brands has established common, cost-effective support functions in fields such as marketing and sales, purchasing and food safety\textsuperscript{228}.

6.1.2.2 Intangible resources

6.1.2.2.1 Reputational resources
Lilleborg’s products have a strong position in the Norwegian market, and the products are very well known among the Norwegian consumers. For instance, Lilleborg’s brand Define is the market leader of hair care products in Norway\textsuperscript{229}. However, Lilleborg does not share the same recognition abroad\textsuperscript{230}.

6.1.2.2.2 Connections in the Shanghai market
Lilleborg has close relations with its sister company Borregaard in Shanghai. The three employees working with Lilleborg’s sourcing activities in China are located at Borregaard’s office. According to David Chan, chief representative at Borregaard, the company will be able to help Lilleborg in the initial stage of their market entry to China. They will be able to locate competent employees and also help them search for a potential partner, in addition to help with bureaucratic obstacles\textsuperscript{231}. Lilleborg and Borregaard operate in very different industries. However, Borregaard have some guanxi, and know the Chinese mentality, philosophy and the Chinese consumer behaviour, which can be of great assistance to Lilleborg\textsuperscript{232}.

6.1.2.3 Conclusion
Lilleborg has many strong resources. For instance the company is doing very well financially and has not been severely affected by the financial crisis. Even though Lilleborg is a company owned by Orkla, the company still has the main responsibility of value-creation and decision-making within their company. However, Orkla has a high focus on inter-organizational synergies, which also is beneficial to Lilleborg. In addition, Lilleborg has some connections in the

\textsuperscript{228} Orkla.com;http://www.orkla.com/eway/annualreport/2008/focus-article.aspx
\textsuperscript{229} Orkla.com;http://www.orkla.com/eway/annualreport/2008/focus-article.aspx
\textsuperscript{230} Appendix 2.1, interview with Jan Eskil Hollen, Export Manager, Lilleborg
\textsuperscript{231} Appendix 3, interview with David Chan, Chief Representative, Borregaard
\textsuperscript{232} Appendix 3, interview with David Chan, Chief Representative, Borregaard
Shanghai market. Borregaard is one of these connections and they will be able to help Lilleborg in the initial stage of their market entry with matters like HR, network and search for a potential partner. However, Borregaard and Lilleborg operate in very different industries, so the help Borregaard will be able to provide is somewhat limited. Furthermore, Lilleborg’s products have strong brand names in their domestic market. On the other hand, the company’s products are not known abroad. This will be a challenge for the company when wanting to enter the Chinese market, and is therefore regarded as a weakness.

6.2 External analysis
When analyzing the external environment of Shanghai and China, we have utilized two main analytical models. Firstly, the PEST analyzes is employed in order to highlight the macroeconomic elements which characterizes China. Secondly, we have used Porter’s Five Forces to analyze and explain the competitive environment of the industry in Shanghai. The analyses bring forward important aspects in which Lilleborg needs to be aware of in order to make a successful entry in this market.

6.2.1 PEST analysis
In order to improve the relevance of the analysis we have been selective in which elements to include, and focused on factors considered to be directly linked with the processes Lilleborg faces if they choose to enter China.

6.2.1.1 Political
The people’s republic of China has a one party system (CCP). Over the past 30 years China has experienced an enormous growth and the government has implemented a development strategy which is described as “socialism with Chinese characteristics in combination with a market based economy”\(^{233}\). The uniqueness of China’s political structure increases the importance for Lilleborg to gather information that will influence their potential activities in China.

\(^{233}\) Drew, 1995
6.2.1.1.1 Legal system

The reforms witnessed in China have led institutions, laws and practices to become subject to frequent changes. Consequently, the market is filled with uncertainty and bureaucratic obstacles\(^{234}\). Foreign businesses often try to avoid the courts, which because of the legal and regulatory system, can be inconsistent. Even the implementation of the law can be inconsistent\(^{235}\). In the process of acquiring licenses for products, companies often have to operate in a “grey zone”. “Operating in China requires constantly researching evolving rules and regulations nationwide, so as to keep up with the shifting situation\(^{236}\).”

There are many possibilities for companies in the process of acquiring a license for its product in China, and it is recommended to get some form of assistance. The possibilities varies from professional international law firms to street smart Chinese employees, to free or low cost advice from international chambers of commerce, embassies and business associations\(^{237}\). Lilleborg already has some connections in China willing to help when it comes to human resources\(^{238}\). This means that Lilleborg will have competent help in the initial phase, which will be useful when dealing with the many bureaucratic obstacles that can be found in China.

China has for some time led a dual-tier tax system that offered separate rates for domestic and foreign enterprises. Lower tax for foreign enterprises was a part of the strategy to attract foreign business into China. However, as of January 1\(^{\text{st}}\) 2008, both foreign and domestic enterprises will be subject to a 25% statutory rate\(^{239}\). China is now past the stage where they desperately need foreign investment, and to continue with this dual-tier tax system in favor of the foreign companies would undermine the competitive ability to the domestic enterprises\(^{240}\).

\(^{234}\) Fernandez & Underwood, 2009:147  
\(^{235}\) Business Monitor international, 2008  
\(^{236}\) Fernandez & Underwood, 2009:13  
\(^{237}\) Fernandez & Underwood, 2009:32-33  
\(^{238}\) Appendix 3, interview with David Chan, Chief Representative, Borregaard  
\(^{239}\) Business Monitor international, 2008  
\(^{240}\) Appendix 10, interview with Henning Kristoffersen, Anthropologist and China expert
Since China has a one party rule, the central administration is able to enforce new laws which are often meant to keep the economical growth stable and to reduce its negative aspects

6.2.1.1.2 Intellectual Property Rights

Trademark

The IPR watchdog in China is the State Intellectual Property Office (SIPO). In 2007 China became, for the sixth consecutive year, the country in the world with most trademark applications, and that same year, the courts accepted 17,877 IPR lawsuits. Of these, 3,855 involved trademark infringements\textsuperscript{241}. The trademark law is most relevant law for Lilleborg to consider in IPR issues. This is because Lilleborg will produce the hand cream in Norway which makes it unlikely that someone will be able to reproduce the hand cream itself, but the packaging and brand name is still vulnerable.

Unlike most countries that use a “first to use” system, China implements a “first to file” system. As a result of this, the first party to file an application, not the first party to use a trademark, will have rights over it in China. The PRC is a member of the Paris Convention, which grants trademark protection to well known trademarks if they meet a set of criteria, even if these trademarks are not registered. In Lilleborg’s case, they have not specified the products name or logo yet and if they fail to file a trademark registration application, their rights to the mark in China will not be secured. Foreign companies are therefore advised to register at an early stage and to register with different versions of language and logo\textsuperscript{242}.

Unfair Competition

China’s Anti-unfair Competition Law was issued as late as in 1993. The relatively young law aims to protect the product of a company by prohibiting unfair business methods such as, passing off a registered trademark of another party, unauthorized use of the name or packaging of registered products. This includes the use of a name, packaging or trade dress that is similar to that of well-known

\textsuperscript{241} Gov.cn;http://english.gov.cn/2008-08/14/content_1072059.htm
\textsuperscript{242} Schaub, 2006:316
products which causes confusion amongst other consumers. Although there is an existing law prohibiting these kinds of activities, one may question to what extent they are being upheld. According to a survey conducted in 2005, 15% of the respondents felt that the IPR protection in China was totally ineffective, 65% said it was ineffective while only 20% said it was effective. Some Chinese companies are renowned for imitate other companies’ products, and the most targeted group consist of well known, successful companies with a high profit margin. This is consistent with our observations at the China Beauty Expo. Maybelline New York is a world known cosmetic brand owned by L’Oreal. During our visit to the China Beauty Expo we observed a brand called Maybelieve New York. The logo, name and products are strikingly similar to the original brand Maybelline.

6.2.1.1.3 Protectionism
Government intervention is not uncommon in some markets in China, and the government sometimes act protectionist towards foreign enterprises to limit the competition to the domestic enterprises. Normally the protectionist barriers met in China are within the healthcare-, education- and the financial sectors, but since China is in the process of stimulating domestic demand, and the skin care market is filled with international brands, it is unlikely for Lilleborg to meet any protectionist barriers from the Chinese government.

6.2.1.1.4 Political stability
The financial crisis has not hit China as hard as the West. However, it is expected that the GDP growth will fall dramatically. The political environment will surely be influenced by this development, but in Lilleborg’s case, not necessarily in a negative manner. FDI’s and exports have been central in China’s growth since the opening of the economy 30 years ago. Due to the recession in the world economy such activities are expected to fall. The Chinese government has as a response

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243 Schaub, 2006:318
244 Schaub, 2006:310
245 Fernandez & Underwood, 2009:159-160
246 Own Observations from the China Beauty Expo 2009, Shanghai
247 Wikipedia.com; http://en.wikipedia.org/wiki/Maybelline
248 Appendix 10, interview with Henning Kristoffersen, Anthropologist and China expert
249 Appendix 6, interview with Zhou Dunren, Professor in Chinese Political Economy, Fudan University
250 Sender, 2009
to this development implemented a series of efforts to stimulate domestic demand\textsuperscript{251}, and it is also expected that the accountability within the CCP will improve\textsuperscript{252}. More specific details regarding these efforts will be discussed in the economical section of this analysis.

6.2.1.2 Economical

6.2.1.2.1 Financial Crisis and Domestic demand

As mentioned earlier, the Chinese government has applied measures in order to increase domestic demand. This is not only a response to the financial crisis, but it is integrated in the 11\textsuperscript{th} 5 year plan which was formulated in 2003-2005. At this time China had experienced a period of rapid growth and poverty reduction. However, much of this growth relied heavily on investments and exports at the expense of domestic consumption, and heavy industry dominated over the service industry (services make up 40\% of GDP in China compared to an average 54\% in middle income countries and 70\% in high income countries). China’s industry-led pattern of growth resulted in increased unevenness for the Chinese population with regards to access to basic public services such as education and health care. While serving the economy well in many aspects, it also, due to the lack of social welfare, encouraged the Chinese to save their money in order to protect their future. The 11\textsuperscript{th} 5 year plan is designed to correct these imbalances, and the financial crisis has emphasized the importance of domestic demand\textsuperscript{253}.

China has launched a stimulus package worth 14\% of the 2008 GDP. It is uncertain how much represents new spending, so estimates puts the additional spending at around 1-2.5\% of GDP in 2009- 2010\textsuperscript{254}. Additionally China’s social security fund (SSF) is expected to grow from 90 to 150 billion dollars\textsuperscript{255}. The stimulus package and the pension fund is a part of the PRC’s plan to support domestic consumer demand. This is particularly important to China, because

\textsuperscript{251} Sender, 2009
\textsuperscript{252} The Economist; http://www.economist.com/countries/China/profile.cfm?folder=Profile-Forecast
\textsuperscript{253} The World Bank; http://web.worldbank.org/WBSITE/EXTERNAL/NEWS/0,,contentMDK:22067773~pagePK:64257043~piPK:437376~theSitePK:4607,00.html
\textsuperscript{254} The Economist Intelligence Unit; http://search.ebscohost.com/login.aspx?direct=true&db=bth&AN=36085623&site=bsi-live
\textsuperscript{255} Dai, 2008
FDI’s and export numbers, which has played a big part in China’s economical growth, are decreasing due to recession in the world economy. Another strategy utilized by the Chinese government is to improve loan conditions. Before the financial crisis, these conditions were strictly regulated due to fear of experiencing a real estate bubble.

As discussed above, China has for many years been a saving nation. The lack of social welfare and strict loan conditions has upheld this trend. But the strategies now applied by the government may give the Chinese the chance to spend more money. In the first quarter of 2009 it has been reported that the total retail sales of cosmetics has increased by 18.2%. These factors may indicate a growth in the Chinese skin care market, and the recession in the world economy does not necessarily mean that now will be the wrong time for Lilleborg to enter China.

6.2.1.3 Social

6.2.1.3.1 Demographic
The population pattern in China has changed dramatically the last decades. Many peasants living in the rural areas travel into the cities looking for jobs. From 1980 to 2000, the population in the cities has increased from 19.4 to 36.2 per cent. This movement is mostly targeted in the major cities on the Eastern coastal areas, and this is also where China’s economical growth has been strongest. This development has led the East coast to become the most attractive market for global brands. First tier cities are full of Western brands, and the competition in these markets is intense.

However, the peasants moving into Shanghai are not likely to be the main target regarding Lilleborg’s activities. The important development is that this urbanization and economic growth has lead to a new generation of young people who the Chinese refer to as “xin xin renlei,” which means; the “new” new generation. This includes over 200 million young people, and particularly those

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256 Sender, 2009
257 Appendix 10, interview with Henning Kristoffersen, Anthropologist and China expert
259 Kwan, Yeung & Au, 2003
260 Yu, Chan & Ireland, 2007:8
who live in the urban cities represent attractive segments for international brands. “As young Chinese have come to view what they buy as symbols of their growing prosperity and engagement in modern lifestyles, products, brands, and lifestyles have become the newest signs of correct thinking\(^{261}\).” These young adults are no longer limited to buying generic goods from state owned department stores, and their lifestyles include designer clothing, the latest technology, cars and spas. They have an expansive selection of both domestic and foreign products to choose from and they are very status-conscious\(^{262}\).

Shanghai is a first tier city where this generation of Chinese consumers can be located. Shanghai’s status can also make it a good place to introduce products, because the city is viewed upon by many other cities in China as trendsetting. However, this has also led to a fierce competition in the market where most big international brands are represented\(^{263}\).

6.2.1.3.2 Cultural differences in the business environment; corruption and ethics
In China, managing ethics while guarding against corrupt business practices is a continuous struggle\(^{264}\). There exist an “under the table” corruption culture, which Western companies are reluctant to participate in, at least at first hand. Western companies cannot be associated with corruption, as it would cause major image problems if it became publicly known. Therefore, it is common to receive help from a third party to take care of business with the government\(^{265}\). Being on the right side with the government officials can be the difference between failure and success.

As pointed out earlier, companies in China sometimes operate in a “grey zone.” The business culture in China is according to Gesteland relationship focused whilst Norwegian business culture tends to be more deal focused\(^{266}\). This contributes to a certain blurring of the distinction between personal life and

\(^{261}\) Yu et al., 2007:8
\(^{262}\) Yu et al., 2007
\(^{263}\) Appendix 6, interview with Zhou Dunren, Professor in Chinese Political Economy, Fudan University
\(^{264}\) Fernandez & Underwood, 2009:32-33
\(^{265}\) Appendix 3, interview with David Chan, Chief Representative, Borregaard
\(^{266}\) Gesteland, 2005:22
business life, and the line between corruption and the way business is done, is also blurred. Home country regulations play a part in what Western countries can do in China. U.S. law for example does not allow expatriates to receive or give gifts, which is a disadvantage in China that has an extensive gift giving culture. To indulge in favor swapping and gift giving activities can be described as “grey business areas” and it may create difficult challenges for many foreign companies. It will be important for Lilleborg to uphold the desired ethical profile of the company in this market.

6.2.1.4 Technological

6.2.1.4.1 E-commerce
By the end of 2008 China reached 298 million internet users, in April 2006 the number was 111 million. With this massive growth in online activities e-commerce has become increasingly popular in China. The development is also important for Lilleborg, as cosmetics are some of the more popular items being purchased online in China. By purchasing such products online, Chinese consumers can get a lower price as cosmetic brands are cheaper abroad. Additionally, the financial crisis has resulted in an appreciation of the Yuan which indicates that even more money could be saved for online shoppers.

The development in shopping and technological growth support e-commerce as a factor to consider in China. From 2007 to 2008, the number of online shoppers jumped from 46 to 74 millions. Since the increase of 60 percent is significantly high, e-commerce represents a huge possibility in China. This notion is supported by the increased willingness to pay online. Skepticism regarding the payment systems reliability has led Chinese shoppers to order online, and pay when the package is delivered at the door, which reduces the effectiveness of online shopping. However, from 2007 to 2008 the number of shoppers paying online increased with 57, 6% and reached 52 millions.

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267 Fernandez & Underwood, 2009:147
269 Yu et al. 2007:100
270 Minji, 2009
271 Minji, 2009
6.2.1.4.2 E-marketing
The Internet has become an important vehicle for marketers, and the possibilities and benefits are many on the World Wide Web. Activities on the net are easy to measure, and there are low entry costs. It also provides the opportunity to target very narrow segments, and to track visitor’s activities on the web-site\(^{274}\). TV commercials are very expensive in China\(^{275}\), and Lilleborg will have to compete with large international enterprises in this media. Lilleborg is also interested in applying marketing strategies which is not that cost consuming but yet effective\(^{276}\). E-marketing is an option which should be considered. A good reason for having a web-site to present your company and products is; “your competitors are doing it and your customers expect it”\(^{277}\).

Internet makes it affordable for marketers to incorporate messages, and different kinds of messages, into one advertising vehicle opposed to what traditional media permits\(^{278}\). Through sales or memberships on websites, companies can get a hold of the customers’ information. With this information it is possible to use E-mail and SMS-marketing to coordinate the marketing efforts\(^{279}\).

6.2.1.5 Conclusion
The fact that the total retail sales of consumer goods increased 18.2 percent on a year to year basis in the first quarter of 2009 indicates a market in growth and represents an interesting opportunity for Lilleborg. Additionally, the generation of new and modern consumers increases China’s attractiveness. However, it is important not to neglect the challenges found in the Chinese market. Corruption, counterfeiting, and rules and regulations in constant change are areas in which Lilleborg should pay extra attention.

\(^{274}\) Lecture by Annika Bryntse, Director of media, True North Inc., 2009
\(^{275}\) Appendix 6, interview with Zhou Dunren, Professor in Chinese Political Economy, Fudan University
\(^{276}\) Appendix 2.1, interview with Jan Eskil Hollen, Export Manager, Lilleborg
\(^{277}\) Lecture by Annika Bryntse, Director of media, True North Inc., 2009 27.04.2009
\(^{278}\) Coyle & Gould, 2007:73
6.2.2 Porter’s five forces

Through first and second-hand sources we have obtained the information necessary to analyze the competitive environment within the skin care industry in China. It is crucial for Lilleborg to understand the nature of competition in this market so they can identify the existing threats and opportunities and adapt to these before a possible entry. The competition within the Chinese skin care industry is analyzed through the threat of new entrants, the threat of substitutes, the bargaining power of the buyer, the bargaining power of the supplier and the intensity of rivalry. Lastly the results are presented in a diagram.

6.2.2.1 Threat of new entrants

Although the growing Chinese skin care market is attractive for new entrants, there are several entry barriers that need to be taken into consideration by new potential competitors.\(^\text{280}\) Firstly, these barriers are influenced by a few major players that are enjoying economies of scale. The large international leaders in this market invest heavily in production, product innovation, product development, and in the building of strong brand portfolios.\(^\text{281}\) “The cosmetic giant Elisabeth Arden intends to increase its market share by establishing manufacture facilities in China...This action will help us with localization as well as it will save our cost”\(^\text{282}\)

Economies of scale are an important factor for the players’ margins as skin care products usually are sold in a high volume. Consequently, new entrants face tough competition in this market and the necessity of investment is high. Jotun’s finance manager Chen Qing, emphasizes on the necessity of making heavy investments in the start up phase when entering the Chinese consumer market. “...to succeed in the consumer industries here in China you need to invest a lot. You need to spend a lot of money on advertisement, on recruitment and on other marketing activities

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\(^{279}\) Lecture by Annika Bryntse, Director of media, True North Inc., 2009  
\(^{280}\) Kaye, 2008  
\(^{281}\) Datamonitor, 2008:15, Skincare in China  
\(^{282}\) Datamonitor, 2008, Personal Care Industry update
at the same time as you need to spend a lot of time on building and keeping the relationship with your partners."

Secondly, the access to distribution channels may be influenced by the retailers’ willingness to accept your products over other existing and more established brands. “Major retailers that are aware of their importance in the distribution chain may be unwilling to risk displacing existing and well-established brands for the sake of new ones.” Additional barriers to entry include the cost of compliance with regulations governing matters such as consumer product safety. Although new entrants may be able to start on a small scale as niche companies or by introducing new technologies, these new technologies should offer new solutions to the users in form of giving faster and more visible results. Since the market for skin care in China is expected to have a continued growth over the near future, we consider the threat of new entrants to be moderate to high.

6.2.2.2 Threat of substitutes

Even though retailers are considered as buyers in this market, consumer choice may have a significant pull: when consumers tend to choose substitutes, retailers will not buy as much from the manufacturers. Substitutes for consumer skin care products include traditional solutions, which covers everything from traditional Chinese herbal- and milk-baths, to skin-protecting diets and foods. In addition, homemade products are also regarded as substitutes. However these alternatives are time consuming to obtain and they also require the consumer to have specific knowledge. Specifically regarding hand cream, it was revealed through a consumer interview that body lotion or facial cream were also used as a hand cream when applied. However, for additional need of moisture to the hands during the day hand cream would be used. The substitutes to consumer skin care products, in addition to being time and knowledge consuming to obtain, may only cover the basic requirements (i.e. moisture) and not offer the cosmetic effects that

283 Appendix 12, interview with Chen Qing, Finance Manager & Zhou Lai, Sales Director, Jotun China
284 Datamonitor, 2008:15, Skincare in China
285 Datamonitor, 2008:15, Personal Hygiene in China
286 Grubow, 2006
287 Cosmetic News, 2008
288 Datamonitor, 2008:15, Skin care in Asia-pacific
the mass produced cosmetics fulfills (i.e. repairing). With this in mind, we assess the overall threat of substitutes in this industry as weak.

6.2.2.3 Bargaining power of the supplier

Suppliers in the skin care market include manufacturers of fine chemicals, vegetable oils and other ingredients needed for cosmetic production. According to Datamonitor, as these ingredients must meet specified standards of purity the supplier-power increases. However, it is further stated that there are generally several alternative products within each ingredient category, something that in which reduces the players’ dependence on any particular supplier\(^{289}\). Additional suppliers in this market include manufacturers of plastic, paper, glass and metal which are used to produce the packaging of the product. However, the companies offering these products are generally small in comparison to personal product companies, and their supplier power is correspondingly reduced\(^{290}\). Since the raw material costs are perceived to be relatively low and the attractiveness of this industry is considered to be fairly high we assess the bargaining power of suppliers in this market as relatively low.

6.2.2.4 Bargaining power of the buyer

According to Datamonitor, there are two main characteristics that contribute to increase buyer power on the Chinese skin care market. Firstly, the major retailers have considerable bulk-purchasing power and secondly, many of them carry their own private-label brands which can be viewed as a form of backwards integration\(^{291}\). Correspondingly there are elements which contribute to decrease this power. The report states that unlike the European and the US markets, specialty stores form the main retail channel in China. This is in correspondence with our own observations. For a cosmetic specialty store, skin care products are a significant part of the business, consequently the buyer power is weakened\(^{292}\). Furthermore, the main competitors in this market possess broad portfolios of brands that are targeted at different consumer segments and at different price points. They also invest heavily in R&D to meet the demand of the consumers.

\(^{289}\) Datamonitor, 2008:14, Skincare in Asia-pacific  
\(^{290}\) Datamonitor, 2008:14, Skincare in Asia-pacific  
\(^{291}\) Datamonitor, 2008:15, Skincare in Asia-pacific  
\(^{292}\) Datamonitor, 2008:14, Skincare in Asia-pacific
regarding changes in lifestyle and purchasing power in this increasingly
developing market. These strategies serve to differentiate the manufacturers in this
market which also has a negative impact on the bargaining power of the buyers\(^\text{293}\).
Overall we assess the bargaining power of the buyer as moderate to high.

### 6.2.2.5 Intensity of rivalry

Our observations made in the Shanghai skin care market suggest that the market
consists of many strong players. They target different consumer segments by
differentiating themselves on pricing strategies as well as the level of product
sophistication. International brands have an overall stronger position in the market
and they are higher represented than local brands – although, Asian brands like
Kao and Shiseido are focusing on strengthening their position in the market\(^\text{294}\).
The three leading players in China are respectively; Shiseido, Unilever and
Procter & Gamble, who jointly holds a 30% market share\(^\text{295}\). However, the strong
characteristic of fragmentation in this market creates an increasing opportunity of
success for smaller manufacturers and retailers with their private-label offerings.

“... *The multinationals with their global brands are still leaders in the market although
the smaller domestic players are increasing their position by emphasizing on traditional
Chinese medicine and lower prices*\(^\text{296}\).”

Since the Chinese skin care market is dominated by a number of large
international players all are offering similar products, brand becomes a significant
factor in this industry. “...*you are operating in an extremely brand driven
industry...If you have a strong brand – you are everything*\(^\text{297}\)” However, through
consumer interviews it has been revealed that the switching costs for end-users are
relatively low and the wide range of products in the market encourage
experimentation rather than loyalty. “*Even if consumers consider themselves loyal
to a brand, salespeople can get them to put a different one into their shopping
baskets up to half of the time*\(^\text{298}\).”

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\(^\text{293}\) Datamonitor, 2008:14, Skincare in Asia-pacific

\(^\text{294}\) Datamonitor, 2008, Personal Care Industry Update

\(^\text{295}\) Datamonitor, 2008:15, Skincare in Asia Pacific

\(^\text{296}\) Kaye, 2008

\(^\text{297}\) Appendix 11, interview with Jason Gao, Professor in Entrepreneurship & Innovation, China
The main players invest a lot in building strong brand identities in order to increase this loyalty\(^{299}\). Since Chinese consumers are becoming more responsive towards big brand names\(^{300}\), retailers may be reluctant to switch between market players, as their own customers will seek leading brands. With these elements in mind we consider the intensity of rivalry in this industry as relatively high.

6.2.2.6 Conclusion of Porter’s Five Forces

![Figure 13, Conclusion of Porter’s Five Forces](image)

6.3 Segmentation, targeting and positioning

The aim for this section is to identify segments in the Chinese skincare market which we believe will be attractive for Lilleborg to target, in addition to suggest how the company may develop a distinct image for the product in the mind of the consumer. As it has been difficult to gather second hand information regarding consumption of hand cream in the Chinese market, the following analysis is based on our own primary data findings.

6.3.1 Segmentation

As explained earlier in the report, Lilleborg’s new hand cream will be positioned as a high-end product. Consequently, only consumers with a sufficient income will be able to buy the product. These will be consumers from the middle class and upwards, where the middle-class is defined to have an annual family income of RMB 60,000-200,00. The same figure for the upper-class is RMB 200,000.

\(^{298}\) Lane et al., 2006:38  
\(^{299}\) Datamonitor, 2008:14, Skincare in China  
\(^{300}\) Lane et al., 2006:36
and more\textsuperscript{301}. Moreover, it has earlier been clarified that due to practical reasons we focus on urban consumers living in Shanghai.

6.3.1.1 Identified segments
The segmentation variables utilized are benefit, brand recognition (behavioral), income, age, gender, education, social class, quality concern (demographic), and city (geographic). The segmentation process is based on the behavioral variable, a method many marketers regard as the best starting point for constructing market segments\textsuperscript{302}. By grouping customers into segments based on similar needs and benefits, we find that the potential consumers can be divided into three main clusters presented below.

6.3.1.2 The upcoming rational
These consumers are quite sensitive regarding price, but at the same time they sought after a certain quality. Convenience and a wide product range are appreciated aspects. They do not have a particularly high brand loyalty and consequently, it is very likely that the buying decision is influenced in the store.

6.3.1.3 The wealthy fashionable
For these consumers it is important to signal that they can afford high-end products and they appreciate an appealing design. They have a high level of knowledge regarding luxury brands. As the consumers here are concerned about brands, they may enter the store with a preferred brand in mind. However, they value assistance from the sales personnel who may influence their buying decision. Even though most of them have a higher education it is important to keep in mind that some may have alternative access to money. One example is marrying into wealth.

6.3.1.4 The wealthy quality concerned
Quality is the main concern and they highly appreciate expert advice from sales personnel. The consumers may have specific needs regarding dry hands and allergies. The brand itself is not the most important factor, but rather the function and the class of the product.

\textsuperscript{301} Appendix 7, interview with Emma Qiu, Professor in Marketing, Fudan University

\textsuperscript{302} Kotler & Keller, 2006: 255
### 6.3.2 Targeting

We find the most beneficial target market selection to be the single-segment concentration. By utilizing concentrated marketing Lilleborg will gain strong knowledge of the segment’s needs and also achieve a strong market presence. In addition, the company will accomplish operating economies through specializing its production, distribution and promotion. However, it is important to know that by targeting one segment only, it is easy for the competitors to invade it\(^\text{303}\).

In the evaluation of the different segments presented above, we have taken into account Lilleborg’s objectives and resources, as well as to what extent the segments attractiveness is in accordance with these aspects. Based on such estimations we find the most lucrative target group for Lilleborg to be “The wealthy quality concerned”. Lilleborg will offer a high-quality hand cream and they have the opportunity to utilize Norway as COO. As many Chinese associate Norway with good quality, this may support such a positioning. Lilleborg does not

\(^{303}\) Kotler & Keller, 2006:262
have a strong brand name which also indicates that the emphasis should be on the high-quality.

6.3.3 Positioning

Lilleborg has not yet developed the physical product and the only more or less given part of the product is the cream itself. There are however, indicators that show that the product should be introduced as a high-end product, something which will be necessary given the recommended target group. According to the company’s export manager, it is desirably to investigate the COO effect and whether or not this should be utilized in the marketing.\(^{304}\)

By examining the nature of the competition in the market and also our proposed target market, we have defined possible points of parity (POP) and point of difference (POD) for Lilleborg to make use of.\(^{305}\) According to our primary data findings, quality is ranked as the major concern regarding skin care products. Lilleborg’s hand cream will naturally have a high quality, but it will not necessarily be sufficient to just promote high quality in itself, as this is a benefit basically all products in the Chinese market promise to deliver. The fact that the cream will be produced in Norway, a country with many positive associations including high quality, makes it highly relevant for Lilleborg to utilize the COO effect. As the brand Neutrogena already utilizes Norway as COO, it may be a competitive POP to position the cream as a more exclusive Norwegian high-quality product. It may be beneficial for Lilleborg to “break even” with Neutrogena’s effort to use a Norwegian COO and find other advantages. According to theory, the company which accomplishes this should have their products in a strong- and perhaps unbeatable- competitive position.\(^{306}\)

As to the POD, Lilleborg should organize its marketing mix in a way that the hand cream will achieve strong, favorable, and unique associations. One way of doing this is to further utilize the COO effect and position the cream as having a superior function and effect regarding nurturing the hands. As explained earlier Norway is associated with nature, body, health, cold and snow; aspects which can be

\(^{304}\) Appendix 2.1, interview with Jan Eskil Hollen, Export Manager, Lilleborg

\(^{305}\) Kotler & Keller, 2006:311

\(^{306}\) Kotler & Keller, 2006: 313
exploited in order to achieve the suggested position. Moreover, as Lilleborg is aiming to launch only one product in the Chinese market, this may be beneficial in that the company can profile themselves as “experts” on the area of hand cream. This expertise can be supported by the COO and the fact that Norway is a cold country which has a long history of treating dry and sore hands.

Shortly summarized, it is suggested that Lilleborg position their new hand cream as an exclusive, high-quality product made in Norway with a clean and attractive design.

**6.4 Porter’s Generic Strategies**

As explained in the theory chapter, Porter’s generic strategies is a tool used to provide a company with a good starting point for strategic thinking. By analyzing the competitive advantage and the competitive scope Lilleborg should focus on in this market, we will find the generic strategy believed to be the best for the company to employ in Shanghai.

As Lilleborg is planning to produce the hand cream in Norway, a cost leader approach in the Chinese market will be out of reach. In addition, there are many big multinational companies which operate by pursuing this strategy in China hence, it would be unlikely to believe that Lilleborg could engage in this severe price competition. Another essential factor is, as just mentioned, that Norway is considered by many Chinese to be a country associated with quality.

As Lilleborg is an unknown company on the international arena planning on entering the Chinese market with an unknown brand name, we see it unlikely that the competitive scope of the company can be anything but narrow. Furthermore, by focusing on creating a competitive advantage by differentiating their product through utilizing the country of origin effect, in addition to communicate the quality of the hand cream, Lilleborg may be able to charge a higher price in addition to become the preferred choice in this market.

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307 Appendix 11, interview with Jason Gao, Professor in Entrepreneurship & Innovation, China
By focusing on a narrow segment within the skin care market in China and differentiate the product through the COO, as well as on actual and perceived quality, Lilleborg will be able to build their brand on a small scale in the Shanghai market and still have the possibility to reevaluate and broaden their strategy at a later stage.

### 6.5 SWOT

We will in the following present in brief Lilleborg’s most important strengths and weaknesses. In addition we will present the external threats and opportunities. This information is based on our former analyses and findings, and will be evaluated through a double weighted SWOT. Strengths and weaknesses will be given a score between 1 and 5 where 1 is the lowest and 5 is the highest. Threats and opportunities are evaluated by seriousness and attractiveness and to what degree these scenarios are likely to occur. It is important to point out that we are aware of the limitations this model represents, given that the act of evaluation relies heavily on our subjective opinions.

<table>
<thead>
<tr>
<th>Strengths</th>
<th>Score (1-5)</th>
<th>Importance (1-5)</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. Financial stability</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>B. Core competency:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>marketing/ market oriented</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>C. Connections in the Shanghai market</td>
<td>2</td>
<td>5</td>
</tr>
<tr>
<td>D. Product quality (formula)</td>
<td>4</td>
<td>4</td>
</tr>
</tbody>
</table>
The listed strengths and weaknesses are arranged in a competence matrix which visually presents the degree of importance Lilleborg’s competencies have for the company. The threats are correspondingly arranged in a threat matrix which visualizes the degree of seriousness each threat has in this market tied up to the probability of occurrence. Likewise, the opportunities Lilleborg faces in this market are presented in an opportunity matrix, where the attractiveness of the opportunity is linked up to the probability of success. These matrixes are presented in appendix 1.3 to 1.5.
“The only feature you have is this great formula and I believe that the only place you can successfully take advantage of this element is in the pharmacy category.”

Professor in Entrepreneurship & Innovation, Jason Gao
Chapter 7 – Strategy

7.1 Strategic Problem definition

Based on our findings and the SWOT summary of our analysis, we have formulated a strategic problem definition which goes as follows:

How can Lilleborg utilize their *competence in marketing* by creating a demand for their *unique hand cream*, and despite of their internationally *unknown brand name* and *lack of experience and knowledge* on the Chinese market, take advantage of the *growth potential* this market represents, although the market is characterized by severe *competition*?

7.2 Goals

A company’s goals are dependent on mainly two factors; the *external* market potential, in addition to the company’s *internal* preconditions. In the following we will present our suggestions on which short-term (operative) and long-term (strategic) goals Lilleborg should strive to achieve when entering the Shanghai skin care market.

7.2.1 Operative goals (short-term, 1-2 years)

1) Acquire necessary approvals and licences
2) Product development and brand building
3) Establish a presence in the Shanghai market and lay the foundations for future marketing activities.
   - Conduct market research concerning the culture, the market and the consumers.
   - Employ a competent Chinese subordinate
   - Identify and tie up with a suitable local partner
   - Create a relationship with the partner

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311 Solberg, 2005:385
7.2.2 Strategic goals (long-term, 2-10 years)

1) Penetrate the Shanghai market in cooperation with selected partner (2-4 years)
2) Expand marketing activities, and create brand awareness among the target group (2-4 years)
3) Increase sales and become profitable (4-5 years)
4) Expand to other 1st tire and 2nd tire cities (4-6 years)
5) Nurture the relationship with the local partner (an ongoing goal)

7.3 Critical Factors of Success (CFS)

A CFS is a factor critical to obtain in order to achieve goals for further operations. Based on the SPD and the goals we have developed, it is discovered that the following factors are critical for Lilleborg’s success in the Shanghai market.

1) Obtain knowledge about China, the Chinese consumers, the market and the skin care industry
2) Establish a good relationship with the local partner and supervise the partnership
3) Have full control over the brand building- and marketing activities
4) Build a high- end brand and create brand awareness among the target group

7.4 Alternative future strategies

The following sections will account for our strategic recommendations with regards to realizing the research aim of this thesis. The recommendations are based on a comprehensive analysis which has been summarized in a SWOT, in addition to the goals and the CFS presented above. The authors find that there are various alternative future strategies which may be applicable for Lilleborg to employ. After having thoroughly evaluated the alternative strategies, we will put emphasis on one of the alternatives and give our recommendations on how this strategy should be implemented.

312 Framnes et. al, 2006:145
7.4.1 Alternative 1: Do not enter the Chinese market

According to the Uppsala- School, the internationalization process is based on organic growth. This implies that a firm’s initial export attempt should transpire in the geographical closest markets, based on a gradual increase of gaining knowledge regarding local conditions. By aiming at the Chinese market, which is far both geographical and socio-cultural, Lilleborg may risk facing unexpected obstacles.

Lilleborg’s lack of experience and knowledge concerning the Chinese skin care market is a significant drawback, and requires additional research on areas like consumers, competition, marketing and distribution. The latter area will serve as an obstacle as the distribution system in China is extremely complex and it is challenging to reach solid distribution agreements. In addition, the infrastructure is not yet at a satisfying level and the market itself is very fragmented. The Chinese market is complex, unstable, unique, unpredictable, stiff of competition and a fast moving target where continued change is the only certainty. In other words it is extremely challenging and these facts should not be underestimated.

Moreover, being a relatively small company with limited resources, an entry to the Chinese market could be too risky for Lilleborg. The company would have to invest a huge amount of money in the start-up phase, and it is not rare that companies do not get any return on investment the initial 2-3 years minimum. This is especially true since Lilleborg does not have a brand name in China, something which will be both time consuming and expensive to build. Such investments must be made in order to survive in this extremely brand driven industry. At the same time there is a huge amount of players on the Chinese skin care market today, both local and foreign, which practically offer brands covering all segments. Finding a suitable spot for Lilleborg in this market will be an enormous challenge.

Despite the statement that marketing is Lilleborg core competency, one should not take this for granted as being sufficient for successfully building a brand in China.

313 Solberg, 2005: 127
Although the company has experience and knowledge regarding how to do branding in Norway, this is not necessarily transferrable to the Chinese market. Consequently, Lilleborg should have a long term perspective on their China investments. Given the fierce competition in China and the fact that companies in some cases cannot trust the government, the chase for quick money is great in every sector. Hence, the long term perspective is hard to focus on. These are elements that contribute to make the business environment in China even tougher.

Another weakness for Lilleborg regarding penetrating the Chinese market is the intent to launch simply one product. It will be difficult to find a suitable retailer where it is feasible to enter with one product only. The company does not have the ability to compete on price against the local brands therefore the low-end category should be avoided (hyper- and supermarkets). Neither do Lilleborg have a brand name so this is also a factor the company cannot compete on (high- end specialty stores and department stores).

Lastly, aiming at the high- end consumers and the luxury market puts forward additional challenges related to the market’s growing saturation. It may be complicated for Lilleborg to access high- quality retail space and locations as the largest luxury brands demands the best places. Furthermore, the intensity of competition is felt by companies seeking access to advertising space, whether in print media or external locations\(^{314}\). Lilleborg would also, as a successful high-end brand, be prepared to handle issues regarding counterfeiting. Another important issue that may complicate Lilleborg’s success in the Chinese high- end market, are counterstrokes from the MNC Johnson & Johnson. This company may not be interested in seeing another Norwegian product on the Chinese hand cream market, as the Norwegian COO is being utilized in their hand cream Neutrogena.

\(^{314}\) KPMG, 2008:18
7.4.2 Alternative 2: Enter the Chinese market

Contrasting to the Uppsala- School’s viewpoint of a gradual internationalization process, the economic oriented theory states that the choice of market is very much influenced by the attractiveness (volume) of the market\textsuperscript{315}. This justifies Lilleborg’s desire to enter the Chinese market without applying an organic growth in terms of expanding to the closest markets in the initial phase of exporting.

China is said to be a market which international consumer brands cannot afford to ignore. The country’s GDP has had an impressive growth rate the last seven years, and domestic demand is expected to remain strong despite of the financial crisis. The luxury consumption is expected to increase within the largest cities, where young adults proclaim a willingness to spend an average of 10% to 50% of their monthly income on skincare and cosmetics.

A huge advantage regarding Lilleborg’s expansion to the Chinese market is the fact that the company already has three employees currently situated in Shanghai who all speak Chinese. Through their presence in the market Lilleborg have gained some knowledge and experience regarding the Chinese culture and business environment. Moreover, Lilleborg can expect assistance from their sister company Borregaard in the area of HR and also by getting access to their valuable guanxi network. The latter may be essential in terms of contacting a potential partner and successfully sign a valuable contract. Lilleborg’s mother company Orkla is also attracted by the Asian market and is currently expanding its present both in China and India. Accordingly, Lilleborg can expect a supportive mother company regarding export to China, given the benefits and arguments support such a decision.

Another aspect which makes it less challenging for Lilleborg to enter the Chinese market is the fragmented nature of the Chinese skincare market. The players are many and vary in size, and no single manufacturer controls the market. The market may be very crowded but it is not yet fully matured and there should be

\textsuperscript{315} Solberg, 2005: 129
room for Lilleborg. A huge opportunity in this regard is that, as of today, there are no known high-end Nordic brands on the Chinese hand cream market.

Yet another positive factor for Lilleborg in the same regard is the growing ability for Chinese high-end consumers to travel abroad and therefore becoming more discerning in their taste. The consumers’ growing sophistication results in greater efforts to understand the heritage of individual brands. Many consumers have knowledge about the COO and as pointed out earlier, there is a preference to European over American brands among urban Chinese consumers.

Despite Lilleborg’s weakness regarding a non-existing brand name among Chinese consumers, it is still argued that to enter the Chinese market there are no requirements for the company to have a strong brand name. It will however, be necessary with investments in the marketing efforts but there are alternative ways of doing marketing which can limit such expenses.

Lastly, the Chinese skin care market is not yet matured but within a relatively short period of time this will be the reality. As a result, Lilleborg may meet significantly more challenges and obstacles by postponing the penetration into the Chinese hand cream market. Regardless of all the external challenges represented on the Chinese market, it has been established that successful exporters do not let external obstacles be a decisive factor when wanting to penetrate foreign markets. The final argument for entering the Chinese market is the saying “no risk, no gain”. By not entering the market, Lilleborg might lose out on a significant opportunity for growth.

If the decision is made to enter the Chinese market, Lilleborg will have to decide up on which entry mode to utilize. This choice is mainly based on the company’s internal recourses and goals, in addition to the external market conditions. It has previously in this report been argued that Lilleborg should initiate its China-entry by a type of direct exporting. There are however, different approaches to evaluate in this regard. The following sections present information concerning the

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316 Solberg, 2005: 184
two entry modes the authors find the most appropriate for Lilleborg to employ if choosing to export to China.

### 7.4.2.1 Alternative 2a: Enter the Chinese market by cooperative exporting with an overseas distribution partner

Lilleborg is a relatively small company with limited financial- and human recourses, in addition to having inadequate experience and knowledge about the Chinese market and consumer. Details regarding the size of the factual budget which will be granted Lilleborg’s exporting efforts to China is unknown to the authors. Consequently, we will have to take such circumstances into consideration in our recommendations.

It is a goal for Lilleborg to create a recognized brand in the Chinese hand cream market. Hence, the company must control the marketing efforts themselves. This control is argued to vary according to the representation in the foreign market. For instance, the control will be low when exporting indirectly and higher when using a representative office. On the other hand, it is claimed that the representation is not the critical element in this regard, but rather how the company choose to cooperate with and control its foreign partners.

Given the above information, the authors find it advantageous for Lilleborg to export their products to China by cooperating with an overseas distributor. By tying up with an experienced and well connected distributor, Lilleborg can utilize the distributor’s network to sell their goods in the foreign market. This immediate availability of a sales force structure gives Lilleborg quick and easy access to the Chinese market. Both the financial investments and the logistical and administrational operations will be minimal. Lilleborg may also have the opportunity to exploit the distributor’s market knowledge and experience, as well as their cultural understanding. This should however, not be taken for granted in the Chinese market.

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317 Solberg, 2005: 143
Overall, the risk will be at a minimal by utilizing this entry mode\textsuperscript{318}. This is especially true since the foreign distributor is responsible for payment of the item and they assume financial risk. By limiting the investments in the Chinese market, it will be easier for Lilleborg to pull out of the market if necessary. What is more, Lilleborg can expect assistance in terms of warehousing, support and service for the product\textsuperscript{319}.

7.4.2.2 Alternative 2b: Enter the Chinese market by direct exporting and establish a representative office in Shanghai.

From a theoretical perspective it is important to consider to what extent the company has resources to control issues regarding its marketing mix, and how this control should be carried through\textsuperscript{320}. Such issues may arise when cooperating with an overseas distributor which has a high level of knowledge regarding local conditions. This reflects the problem of asymmetric information and thereof a potential opportunistic behavior. By having a physical presence in the Chinese market, it is argued that Lilleborg will be able to control and supervise a potential partner to a much greater extent than by not having a presence in China. Consequently, Lilleborg will in theory have a greater control on their marketing activities\textsuperscript{321}.

Another great advantage by having a presence in China is the opportunity to collect information and feedback from customers and partners, in addition to observe new trends and the competitive environment. This allows Lilleborg to respond to arising demands and tendencies in a much quicker manner. Being able to meet face to face with prospective partners will strengthen Lilleborg’s possibility to develop guanxi and also to gain trust in the Chinese market. Additionally, the company would experience an evolving learning curve and achieve valuable know-how and understandings regarding how to be successful exporters.

\textsuperscript{318} Eur-export.com; http://www.eur-export.com/anglais/aptheo/marketing/distribution/portagea.htm
\textsuperscript{319} Tradeport; http://www.tradeport.org/tutorial/strategy/index.html
\textsuperscript{320} Solberg, 2005: 188
\textsuperscript{321} Solberg, 2005: 205
An establishment of a representative office in Shanghai would be the most advantageous for Lilleborg in this matter. The demands on resources, both human and financial, are considered to be low compared to the establishment of a Wholly Owned Foreign Enterprise and a joint venture. As is the estimated time of the establishment. Since the representative office may only engage in non-profit making activities, the initial main objectives will be to gain experience and a better understanding of the size and potential of the China market, in addition to search the market for potential partners. It is considered as necessary for Lilleborg to cooperate with a local distribution partner who can handle the import and allocation of the products. Such cooperation would also provide Lilleborg with the benefits presented in alternative 2a.

Furthermore, the establishment of a representative office may be an effective tool for demonstrating to the Chinese partner Lilleborg’s long term commitment to the China market. The office may also present an image to prospective Chinese partners, as the partners may only be able to judge the viability of a company based solely on their operations in China.

7.4.3 Strategic choice

On the background of the above information we believe that alternative 2b holds the most potential for Lilleborg. Despite the crowded skin care market in Shanghai, we consider it possible for Lilleborg to find a spot for their new product. The longer the company waits to penetrate the market, the more challenging it will be due to the increasing saturation. As it should be a goal for Lilleborg to control its own branding and marketing activities in the Chinese market, we find the most suitable representation to be a representative office. This allows the company to continue their characteristic market orientation. Furthermore, Borregaard has experience with establishing such an office in Shanghai, and may be of good assistance in this regard.

Overall, we find that alternative 2b holds the most potential on a long term basis. On the other hand, it is the most demanding alternative in terms of investments and risk. It is also important to bear in mind that it will take some time for this strategy to bring substantial revenue.
7.5 Strategic recommendations

Whereas goals indicate what a company wants to achieve; strategy is the game plan for getting there. We will in the following sections give our strategic recommendations in order for Lilleborg to reach both the strategic and operative goals suggested earlier.

7.5.1 Obtain knowledge

Before penetrating the Chinese skin care market, Lilleborg will need to conduct more research. By establishing a representative office in Shanghai, Lilleborg will be able to handle the market research and all the marketing related activities in a sufficient and cost effective way. As a representative office is not a separate legal entity, this will be the main engagements. It will be vital to gather information regarding the Chinese skin care market, consumers and the Chinese culture. The office may also handle the required approvals and registrations needed in this regard, in addition to search for possible suitable partners. It is recommended that Lilleborg send one of their most competent employees in addition to hiring an experienced local worker.

The application for the establishment of the representative office should be submitted to the Ministry of Commerce (MOFCOM) or its local bureau at the provincial or municipal level. All applications must be submitted through a designated Chinese agent (FESCO) in the place where the office is to be established. The agent must be authorized by MOFCOM to handle the applications. An approval permit is normally issued within one month after submission of application. After receiving the approval, the company must apply

322 Kotler & Keller, 2006:56
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To the provincial State Administration for Industry and commerce (SAIC) for a business registration certificate, as well as complete other post-registration formalities within a specified period of time (usually 30 days). According to SAIC, the representative office must be registered within 6 months of establishing business presence in China.

Another important factor in this regard is the penetration pace. As Lilleborg is new to the market, it is recommended that the penetration pace is slow in the beginning. A lot of traps are put out either by people, the market, or the financial crisis. By moving slowly in the initial face it will also make it easier to retreat if necessary. After a couple of years Lilleborg can move faster, as by that time the company will know how to play the game.

7.5.2 Establish distribution partnership

As a relationship focused society, Lilleborg should avoid using impersonal approaches like mail and advertisement when searching for a potential distributor in China. We recommend utilizing Borregaard’s existing guanxi network, in addition to participating on trade shows and exhibitions. Distributors visit these events to learn about new products, which make this a very efficient source for finding a distribution partner. One example is the annual China Beauty Expo which is the number 1 beauty exhibition in mainland China, presenting skin care, cosmetics, perfumery, nail care, detergents & personal care, spa products, and more. As most of the participants speak little or no English, it will be imperative to bring an interpreter.

The decision involving which distributor to partner up with is extremely critical, especially when there are large exit barriers. In China it may contribute to loss of face towards its customers if the selected partner is replaced. In order to avoid pre-contractual opportunism Lilleborg should conduct a thorough screening of the potential partners by conducting several interviews. It will be important to

324 Appendix 11, interview with Jason Gao, Professor in Entrepreneurship & Innovation, China
325 SUSTA; http://www.susta.org/export/intermediaries.html#piggyback
326 China Beauty Expo; http://www.chinabeautyexpo.biz/
inspect the distributors regarding their seriousness, intentions, growth, solidity, profitability, cooperative willingness, reputation, market position, product range\textsuperscript{328} and experience with international partners\textsuperscript{329}. The brands in the distributors portfolio should not be direct competitors to Lilleborg’s brand. Regarding post-contractual opportunism, Lilleborg should make sure the partner’s performance is according to the contract and its intentions. As an example, this may involve the retail execution. In developed markets companies can rely on their distributors to make sure that the retailers understand the product, get the promised shelf space, and even that the packages on display have been dusted. In China on the other hand, distributors generally do not have the skills or influence needed for it\textsuperscript{330}.

We find it appropriate for Lilleborg to utilize both a \textit{unilateral} control mechanism by rewarding the partner’s performance with bonuses, in addition to a \textit{bilateral} control mechanism by building trust and mutual goals with the partner\textsuperscript{331}. Moreover, it will be important with direct control and ensure that things are being taken care of in a proper manner. Lilleborg must have in mind that the distributor may be regarded as the stronger part and thus, may exploit this power by using force\textsuperscript{332}. A good relationship can be the key to avoid situations where the distributor dictates the conditions for the agreement.

\textbf{7.5.3 Brand building}

It has already been explained that Lilleborg need to be in charge of the branding and marketing activities. This is sound as marketing is the company’s core competency, and they have years of experience within the field. The tools for Lilleborg to utilize in this regard constitute the marketing mix and are respectively product, place, price, and promotion. This section will have the main focus on recommendations concerning the four P’s. However, we will start by discussing the dilemma of choosing standardization or an adaptation of the marketing mix in

\textsuperscript{327} Solberg, 2005:190
\textsuperscript{328} Gripsrud & Nygaard, 2005: 166
\textsuperscript{329} Appendix 12, interview with Zhou Lai Chun/ Chen Qing, National Sales Director/ Finance Manager, Jotun China
\textsuperscript{330} Lane et al., 2006:38
\textsuperscript{331} Solberg, 2005:191
\textsuperscript{332} Solberg, 2005:193
the Shanghai market. Even though Lilleborg’s hand cream is not yet a fully developed product end thereof non-existing, we still believe it is appropriate to discuss this predicament.

7.5.3.1 Standardization versus Adaption of the Marketing Mix

As stated above, Lilleborg’s core competence is marketing. However, marketing towards Norwegian and Chinese consumers are two different things. Kotler & Keller\(^{333}\) point out that the marketing concept holds that consumers needs vary, and that marketing programs will be more efficient if they are tailor made to each target group within each target market. However, Professor Theodore Levitt challenges this view by supplying the intellectual rationale for global standardization. “The world is becoming a common marketplace in which people – no matter where they live – desire the same products and lifestyles\(^{334}\).” As Carl Arthur Solberg\(^{335}\) states, there truly exists a predicament between the decisions on if one should pursue adaption or standardization in a market.

According to Professor Jason Gao\(^{336}\), the Chinese consumers view the Nordic lifestyle as something exotic and new. He further states that Lilleborg should not focus on localization regarding matters that influence the brand or the communication of the brand to the consumers. By making the brand purely Nordic, Lilleborg will efficiently communicate to their target group that this is something new and different. However, he also expresses that even though the standard of the brand is Nordic, the business part needs to be adapted to Chinese terms in form of finding a Chinese partner, investing your money slowly and monitor and control every single step of the process.

Rather than just assuming that a product can be introduced “as is” in another country, Kotler & Keller\(^{337}\) highlight that a company should evaluate which features of the product that should be standardized and which features should be adapted to the market. In Lilleborg’s case the cost issues regarding localization in

\(^{333}\) Kotler & Keller, 2006:674
\(^{334}\) Kotler & Keller, 2006:674
\(^{335}\) Appendix 11, interview with Jason Gao, Professor in Entrepreneurship & Innovation, China
\(^{337}\) 2006:674
the Chinese market will not be an additional expenditure since the product is not available in any other markets. However, Lilleborg’s position and revenue in the Shanghai market may be decided by how the marketing mix is shaped with regards to the quandary of standardization or adaption. These aspects are reviewed within each category of the marketing mix in the following sections.

7.5.3.2 Place

As explained in the recommendation, Lilleborg should enter China through direct exporting and establish a representative office in Shanghai. By pursuing this strategy Lilleborg will maintain control over the potential distribution partner in addition to obtain valuable knowledge about the market which can be utilized for further engagement. As Lilleborg is aiming to target a high-end consumer group with the focus on quality before price and brand, the choice of intermediary channels need to match this aim.

7.5.3.2.1 Distribution strategy

Deciding on the number of intermediaries to use in a market is the main purpose of a distribution strategy. Since Lilleborg’s hand cream is lacking a known brand name and is also unable to become a price leader in this market, the main element Lilleborg can compete on is the high quality of the hand cream formula. Choosing channels where this element is highly regarded becomes a key action for Lilleborg. From our observations, high-end pharmacies become the most natural channel for Lilleborg to enter and succeed in.

We recommend Lilleborg to choose an exclusive distribution strategy by placing the products in high-end pharmacies, such as Shanghai nr. 1 Pharmacy and Hua Mei da Yao Fang. By doing so, it is our belief that Lilleborg will be able to maintain control over the service level and outputs offered by the resellers in addition to obtain the desired position as a high-end, high-quality manufacturer of hand cream. These pharmacies are situated in key locations in Shanghai such as Huaihai road and Nanjing road, and the product assortment of the competitors covers any skin care need the quality seeking consumers are looking for. Lilleborg may face challenges by only introducing one product and consequently the need

338 Kotler & Keller, 2006:480
of an attractive display becomes vital in order to become visible in these channels. An option could be to display the product in a glass monitor under a spotlight, which will confirm the desired perception of exclusivity in addition to signal specialty and high quality.

7.5.3.2.2 Push or Pull Strategy
In managing its intermediaries the company must decide how much effort to devote to push versus pull marketing. A push strategy involves the manufacturer using its sales force and trade promotion money to encourage intermediaries to carry, promote, and sell the product to the end users. Push strategy is useful where there is low brand loyalty in a category and where brand choice is made in the store. A pull strategy on the other hand, involves the manufacturer using advertising and promotion to persuade consumers to ask intermediaries to order the product, which again will induce intermediaries to order it. This strategy is useful when there is high brand loyalty and high involvement in the category, when people perceive differences between brands, and when people choose the brand before going to the store.\(^{339}\)

The most reasonable strategy for Lilleborg in their initial phase of their market entry to China is to adopt a push strategy. Lilleborg’s hand cream brand is non-existing and therefore is not demanded by the consumers, consequently a pull strategy will be less efficient. By utilizing a push strategy the company should by different means encourage the intermediaries to promote and sell their products to Lilleborg’s target segment.

7.5.3.3 Product
7.5.3.3.1 Packaging and design
A well designed package can create convenience and promotional value.\(^{340}\) It is important to include packaging as a stylish weapon, especially in cosmetics. The packaging is the buyer’s first interaction with the product and can influence the buyers purchase decision.\(^{341}\)

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\(^{339}\) Kotler & Keller, 2006:468  
\(^{340}\) Kotler & Keller, 2006:393  
\(^{341}\) Kotler & Keller, 2006:393
According to our primary research, the package should have a clean look with light and neutral colours. The product design shown here was most preferred by the consumers. They especially liked the little drop of cream displayed on the package and its clean look.

However, some of the consumers mentioned that a plastic container can also look like a cheap solution. An aluminium package is preferred by some, as this package is believed to preserve the quality of the cream. This could serve as a POD, since this solution has not yet been utilized by the other brands located in the pharmacies. Furthermore, the product should be a tube with a flip cap which is a convenient solution.

7.5.3.3.2 Labelling & size
One of the most common mistakes foreign companies do regarding the packaging of the product is offering too large bottles with too much information and too much design. However, specific Chinese labeling is required by the China Entry-Exit Quarantine and Inspection bureau, particularly for imported consumer goods. For cosmetics it is compulsory for the Chinese label to be printed or fixed on the package prior to shipment.

The authors recommend that the hand cream should be offered in an exclusive packing. The Chinese labelling should be fixed on the packing in order to avoid Chinese writing on the hand cream product itself. The packing should also display the address of the company’s web page.

From our research we found that some consumers prefer a small sized hand cream, however, some also like to have bigger bottles in their homes and at their office. We therefore recommend Lilleborg to offer two different sizes of the hand cream – One size being 30 ml, and the other size being 100 ml.

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342 Appendix 4, interview with dermatologist at Shanghai Children’s Hospital
7.5.3.3 Brand name

“A critical detail is your Chinese name and your brand name. People often forget to value details, but your brand name in the Chinese market will be one of the main elements that will determine your success. It should represent something exclusive, high-end but also something Nordic.”

- Jason Gao, Professor in Entrepreneurship & Innovation

The logo and brand name should be in both Chinese and English. The majority of Chinese do not speak English, however, the English language signal quality. Furthermore, a brand name should be translated in Chinese characters that sound similar to the English name and reflect on the product benefit or personality. A famous example is Coca cola which in Chinese is pronounced “ke-kou-ke-le”, which interpreted roughly means “makes mouth happy”\(^\text{344}\). Doctoroff\(^\text{345}\) states that if there is no connection between the Chinese and English name, it will represent a lost opportunity. In addition, Lilleborg should register their product name and logo at an early stage with the State Intellectual Property Office in China. The company should also register different versions of the logo and name.

The Western brand represented in the high-end pharmacies do not display their Chinese name on the product. However, the Chinese name is displayed in their advertisements and on their internet site. We recommend Lilleborg to do the same. They should only display the English name on the package. It is necessary to develop a Chinese name with similar pronunciation as the English name. It would be beneficial to develop a brand which plays on the functionality of the cream or the country of origin.

7.5.3.4 Price

Price is a strong indicator of quality for Chinese consumers\(^\text{346}\) and in the China mainland high-end cosmetic brands are more expensive than in Western markets\(^\text{347}\). Alternative information regarding products’ true quality decreases the

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\(^{344}\) Doctoroff, 2005:200  
\(^{345}\) Doctoroff, 2005:201  
\(^{346}\) Consumer interviews conducted by the authors  
\(^{347}\) Minji, 2007
price’s signal effect however, as the quality of a hand cream is hard for consumers to measure prior to the purchase, it is the authors understanding that price is an important element when customizing the 4p’s.

![Figure 16, The Price Matrix](image)

A logical consequence of the pharmaceutical approach and the quality of the formula, is to regard the quality as ‘high’. Due to the signal effect of the price, this should also be ‘high,’ therefore the ‘premium’ category is most suitable for Lilleborg.

In pharmacies, the price of hand creams ranges from 70-120 RMB for 75ml sized tubes. Earlier we suggested two sizes for Lilleborg’s hand cream; 30- and 100 ml.

**30ml:** The small tube will not have any direct reference points in the pharmacies for consumers to compare the price with. Therefore we suggest a high price to signal quality, but lower than the other tubes due to less content. 70 RMB is similar to the cheapest alternatives in the pharmacies, but with less than half the content, the price is premium.

**100ml:** As the other products have 75ml tubes and a premium price strategy is recommended, this bottle should be among the more expensive creams in the pharmacies. 130 RMB is a price that signals quality, and although this is a higher price than Lilleborg’s potential competitors are charging, it is justified in the extra 25 ml.

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348 Kotler & Keller, 2006
349 Marketing teacher; www.marketingteacher.com/lessons/lesson_pricing.htm
7.5.3.5 Promotion

Lilleborg must find alternative ways to attract the consumers, due to the company’s limitations regarding production capacities and financial resources. We have previously explained the concept of push and pull strategies under the second place. In their promotion Lilleborg should first and foremost apply a push strategy and give the retailers incentives to promote and sell the product to the consumers. However, it is also necessary to adopt a pull strategy to make the consumers aware of the product and in the long run make them become loyal to the brand, consequently make the consumers demand the product from the intermediaries. In the following section we will present our recommendation with regards to promotion of the product.

7.5.3.5.1 Utilize the country of origin and create a story

“Brand image is the perceptions and beliefs held by consumers, as reflected in the associations held in the consumer memory.”

Since there are no known Nordic brands within the skin care industry in China, there is a potential to differentiate the brand on this ground. It will be important to focus on the image that already is built in the Chinese consumers minds. We believe it will be important to create a story behind the brand. In this way the consumers are more likely to acquire emotional feelings to the brand.

Several other foreign skin care brands located in the high-end pharmacies utilize its country of origin. Since many Chinese associate Norway with cold weather, nature and health, Lilleborg should base the product story on these already existing associations. In addition, the company should implement the Nordic lifestyle in their story. For instance emphasize on the fact that Nordic people enjoy living life in harmony with nature and spend a lot of time outdoors;

“The winters up North are cold and snowy. How do the Nordic people manage to keep their hands so soft? The answer is Lilleborg’s special hand cream formula which protects the skin against cold weather and the brutal northern wind.”

350 Appendix 2.1, interview with Jan Eskil Hollen, Export Manager, Lilleborg
351 Kotler & Keller, 2006:286
352 Appendix 11, interview with Jason Gao, Professor in Entrepreneurship & Innovation, China
353 Appendix 13, interview with Laure Kruithof, Retail and Wholesale manager, Christofle, Asia Pacific
354 Story suggestion composed by the authors.
7.5.3.5.2 Communication Channels
Firstly, we recommend Lilleborg to initiate WOM-campaigns to spread a positive word about the product. This can also be done by enlist typical consumers to serve as opinion leaders. Secondly, it will be essential for Lilleborg to promote its hand cream in magazines like for example, the Chinese version of ELLE, Cosmopolitan, and Modern Weekly, since this media channel is a lot cheaper than television advertisements and have a relatively high level of influence. We find it important for Lilleborg to hand out free samples of the product, both in-store and in magazines. Furthermore, PR is a cheap way to obtain brand awareness among the target group. One way is to create a good relationship with the media. By sending free samples to chosen magazines and always providing them with new information about the brand and the company, in addition to make them aware of the story behind the product one may get exposed in editorials or in articles. However, one should have people who are familiar with the media working for the company⁵⁵⁵.

E-marketing will be central for Lilleborg to utilize. The company should establish a Chinese web-page to inform the Chinese consumers of the hand cream and expose its background story. There should also be created a chat forum, where consumers can debate and share their experiences with the hand cream.

Lastly, sales personnel have a great influence on consumers purchase decision. In this case it will be important to have well trained personnel selling the product. Lilleborg should educate the retailers and their employees, as well as give them incentives, like a high profit margin or bonuses to ensure that the products are being sold.

⁵⁵⁵ Appendix 13, interview with Laure Kruithof, Retail and Wholesale manager, Christofle, Asia Pacific
7.6 Future prospects

7.6.1 Opportunities

The growth in the Chinese skin care market represents opportunities for companies in several areas. Lilleborg should investigate such prospecting openings, and in the following sections the authors will elaborate on suggestions regarded as promising opportunities for the company.

7.6.1.1 Product development

By offering products with extra functions and features like nail repairing and smoothing, Lilleborg may differentiate themselves even more from competitors. Another suggestion is to develop different types of hand cream for different occasions. One example is to develop a hand cream for night use with a thicker consistency, functioning like a night mask for the hands. Another idea is to offer a hand cream for party occasions, where the size, design, and scent may be adjusted to support this implication. It may be possible, in the long run, to utilize other retail channels like high-end specialty stores and offer such products there.

7.6.1.2 Expansion

When having established brand equity in the Shanghai market, Lilleborg should expand to other 1st and 2nd tier cities as mentioned earlier. This represents opportunities for further product developments as consumers between different cities and geographical areas vary a great deal in their needs and preferences. It would be wise to partner up with different distributors in different parts of China to divide the risk.356

7.6.1.3 E-commerce

Yet another opportunity for Lilleborg is the increasing e-commerce in China. Taobao.com is China’s largest consumer-to-consumer marketplace, and in 2006 they announced their launch of a business-to-consumer service which includes products provided by major manufacturers and retailers357. This makes it possible for Lilleborg to sell their products on the Chinese market via the Internet.

356 Appendix 11, interview with Jason Gao, Professor in Entrepreneurship and Innovation in China
357 Alibaba.com; http://resources.alibaba.com/article/10059/Taobao_com_Launches_B2C_Services.htm
7.6.2 Reality check

Rising purchasing power, growing product awareness, Westernized culture and changing lifestyles are leading to increased demand for skin care products in the world’s largest economy. The Chinese market for professional skin care grew 15% in 2006, a rate which outpaced both the US and European market. It has also been forecasted annual growth of nearly 15% in China through 2011, compared to just over 9% for the US market. Moreover, the Chinese professional skin care market is younger than the US and European markets, where the novelty has worn off and consumers have already settled on their favorites. Consequently, as the tastes of the fast expanding group in China are evolving, this opens up vast opportunities for skin care products manufacturers in China.

“Globalization along with the increasing propensity of Chinese consumers to travel is closing the gap between China and the Western world. Serious retailers must capture this opportunity and enter into the market early, otherwise they risk falling behind”

-KPMG, 2008

With the above information in mind, the authors find the Chinese skin care market extremely attractive. However, one should not be blinded by such facts and it will be absolutely vital for Lilleborg to view their own basis when evaluating an entry to the Chinese market. Does the company have the needed resources, competency and the “right” motivation for such an expansion? Is the company able and ready to cope with the many challenges this market represents?

“China is not the place to go if you expect to make a lot of money very quickly. If you decide to go in to China, either you go all the way or you should not go in at all.”

-Laure Kruithof, Retail and Wholesale Manager, Christofle

358 PR.com; http://www.pr.com/press-release/81546
359 brands sold in outlets such as spas, dermatologists’ offices, plastic surgery clinics, physicians, retail stores, and other professional channels
Chapter 8

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Appendix 1: Figures and models

1.1 Neutrogena Hand Cream

1.2 Orkla organization
1.3 Competence Matrix

Figure 17, Competence Matrix

1.4 Threat Matrix

Figure 18, Threat Matrix

1.5 Opportunity Matrix

Figure 19, Opportunity Matrix
Appendix 2: Interviews with Jan Eskil Hollen

2.1 Interview with Jan Eskil Hollen, Export manager of Lilleborg

Oslo, 04.02.09

1) Is Lilleborg a market oriented company? What kind of measures does Lilleborg make use of in order to collect market information?

Lilleborg is always market oriented. We are not a sales oriented company, but a market oriented company. Every product we develop is based on consumer preferences and needs. Our products can take years to develop. The company makes use of different methods to gain market information. One method is quest back, which consist of a large company database that Lilleborg has. The customer receives questionnaires on different products. Lilleborg usually get feedback from 15-20% of the people they target with these questionnaires. We use these results as an indicative for further research. The product manager is in charge of in-depth interviews or focus group. We also use external marketing research companies such as; Synnovate and TNS-gallup.

2) To what extent is Lilleborg possibility oriented?

Lilleborg could be more possibility oriented. We are not good enough, mostly because of limited resources. Lilleborg is a big player in some areas, and our core competencies are detergents. The company makes a lot of money on these products and it is important to protect these areas. As a result, the company spends little time on looking into new product areas. However, the company has recently employed a new marketing manager, who is supposed to look at the possibility to develop products within totally new product categories.

3) To what extent have Lilleborg cultural understandings?

Lilleborg has little experience with other cultures. The company’s main market is Norway. It is true that the company exports products, however only for partner companies. And the export goes mostly to Scandinavian countries. Lilleborg cooperate with Unilever, and they have offices in China. Lilleborg can therefore take advantage of their knowledge and experience.

4) What is Lilleborg’s core competence? Do you think you can succeed on the international market against other international competitors?

Marketing is Lilleborg’s core competence. We have a long experience in marketing and it is something that we are good at. In addition, we are very competent regarding sales. In 2008 Lilleborg won the title of best sales unit in Norway. However, Lilleborg can never compete with the large international companies outside of Norway. Mostly because of Lilleborg’s limited production capacity and size. Therefore, it will be most realistic for Lilleborg to go into a niche market. Lilleborg has two types of products (hand cream and lip care) which we believe can be successful on the international market.

5) Would you say that Lilleborg has adequate international experience? When and where was Lilleborg’s first international activity?

Lilleborg has over 20 years of international experience. It started with exports from our production facility in Kristiansund. In 1993-94 Lilleborg started to cooperate with Unilever and we have entered cooperation with other large international companies ever since.

6) Does Lilleborg have any competence within culture and language?

The company has four employees who speak Chinese.

7) Does Lilleborg export products to the international market?
Lilleborg does not export any of their own products as we speak. We only export products we produce for other companies we cooperate with.

8) To what extent is internationalisation supported by the management and the other employees in the company?
Some of my advantage is that the administration listens to what I have to say. So if I have good enough arguments to back up the idea of exporting to China, I will be granted permission to do so. The products we are thinking about exporting will be produced in Norway. Consequently, this will bring more volume to the production facilities, which again will give the employees safer jobs. So I believe that the employees will be positive to this idea.

9) What is your motivation for exporting to China?
Well, one may say that a lot of the decision is based on coincidences. Orkla has an office situated in China. In addition I have spent some time in China, and I believe that there is a preference among the Chinese consumers for Nordic products. I believe that brand recognition and the country of origin effect is something we need to take advantage of in this matter. Moreover, I have a couple of competent employees working in Shanghai which I wish to challenge. So, some of the reason for choosing China is to motivate them. Of course there is also a wish for expansion. I get measured on my export proportion and how much money we gain from exporting. In addition, I get measured on how much profit we get from the products we sell. I believe that a skin care product sold in an exclusive shop in Shanghai will have a relatively high margin, and Lilleborg will gain a lot of profit from this kind of product. Consequently, this will be very positive for me personally. Lastly, the manager of Borregaard in Shanghai has a strong wish to see Lilleborg in China, so there is high support internally to export Lilleborg’s products to China. However, if you find out that there is no potential for our product in China, we will not enter the market.

11) Where is the production of this product going to take place – In Norway or in China?
The production will take place in Norway. The production facilities here are very profitable. Another reason is the fact that copycatting is a known problem in China. However, the coca cola principle could be a possibility in China. The crucial ingredients will be produced in Norway and shipped to China, whereas only the less critical ingredients will be submitted to the formula in a production facility in China.

12) Where in China would you prefer to introduce this product? Why?
The answer to this question is mainly up to you. However, it is easy to believe that the big cities along the East coast are most suitable. In these cities there are middle- class people with high income. There are also divisions within Orkla who are already situated in Shanghai which we can benefit of.

13) How do you believe that you can differentiate the product as the product is already on the market under the brand name Neutrogena?
Our agreement with Neutrogena will be terminated 1st of April this year. If we enter China we will have to go in and fight head to head with Neutrogena. If you look at Neutrogena’s packaging you will see that it does not look very exclusive. So there are many possibilities to make the product look more exclusive and consequently, charge a higher price. It would also be interesting to look into what effect the Norwegian flag has on the consumer. Maybe the Norwegian flag on the packaging can make us charge a higher price.

14) What are Lilleborg’s goals for the future?
Every department and production plant has their goals for the future. On an overall basis Lilleborg follows Orkla’s goals, which focuses on the long term. Orkla has a goal to reach a yearly 4 percent growth. When it comes to Lilleborg and exports, I have a goal to reach a quarter of a billion in turnover within 5 years. That is my personal wish. However, to what extent I will reach my goals are affected by the company’s production capacity. If the company is to reach a turnover of a quarter of a billion within 5 years, Lilleborg would have to expand their production capacity. To do so we will have to make extensive investments into the production facilities, and this subject is affected by each production facility’s goals. Without an expansion within production I will not reach my goal.

15) How is Lilleborg’s financial situation?
Lilleborg has about NOK 1, 6 billion in turnover and about NOK 400 million in profits. Lilleborg is one of the cash cows within Orkla. Our profit goes to support other companies within Orkla which are not doing so well because of the financial crisis. Lilleborg is going very well and will also receive funds for projects that we believe in.

16) To what extent has the financial crisis affected Lilleborg?
Lilleborg is actually affected by the financial crisis in a positive way. During a financial crisis people will eat less at restaurants and travel less. That means that people stay more at home. Consequently, people clean more. Many choose not to buy expensive hairdresser shampoos. Instead people go to the store and buy less expensive shampoo, for instance Define which is one of our products.

17) Does Lilleborg’s products have strong brand names?
Lilleborg’s products have a very strong brand name within Norway. However, our products do not share the same recognition abroad. It is here the problem lies. You have to put a lot of money into marketing to make your brand known abroad. In the end it will not be profitable. Therefore, it is important to find other ways to attract consumers.

18) We have observed that the hand cream brand Vaseline Intensive Care (VIC) already exists in the Shanghai market. Is this one of Lilleborg’s own products or is it Unilever’s product?
Lilleborg only owns the VIC brand name in Norway. If we want to export to China we cannot do it under the VIC name. Unilever has the brand in China.

2.2 E-mail interview with Jan Eskil Hollen, Export manager of Lilleborg
Oslo, 23.03.09

1) What is the reason why Lilleborg established the export manager position?
Lilleborg needs to look abroad because we are very big in Norway, and we have a wish to expand internationally. We also need to utilize available production capacity.

2) How much resource do you believe Lilleborg will be able to use on a possible China entry? Will you get support from Orkla?
Firstly, will I look at the potential, and then I will decide which resources to use. I will consider support from other Orkla companies.

3) Does Lilleborg export any of their own brands? How is the situation with regards to Kløver Vaselin? Is this a Unilever brand?
Today we export products for over NOK 100 million. The export goes to about 23 countries, everything from Brazil to Korea. However most of the export goes to
Europe and Scandinavia. The products we export is Jasparello (a raw material), some Johnson & Johnson products in addition, we also export detergents to Sweden, Comfort to Finland and so on.

Kløver Vaseline is a Unilever brand. This name cannot be used in China.

4) Can you say something about your production capacity? How many of the hand cream do you believe Lilleborg will be able to export?

There are several lines/machines that can produce this product. It is possible to produce about 5 million pieces on one line/machine. If it will be necessary to produce more than this we will be able to set up a new line/machine.

2.3 E-mail interview with Jan Eskil Hollen, Export manager of Lilleborg

Oslo, 29.04.09

1) Could you give us a detailed content description of the hand cream?
   - What does Jasparello consist of?

   I am sorry, but I cannot provide you with that information since the formula is a company secret.

2) We found the following information on a internet site that sell skin care products:

   "Ever notice how soft the hands of Norwegian fishermen are? We didn't either but somebody did and figured out it was all the fish oil. So Neutrogena used the same compound (Jasparello) in their Norwegian formula."

   Is this information true?

   Well, I believe this is a simplified version of the story. The story as I have been told goes as follows.

   Many years ago there was a group of scientists who went to the Southern ocean with Anders Jahre’s whaling expedition. The scientists witnessed that the whalers’ put their hands into the whale fat of the dead whale and rubbed their hands with the fat. The fat made the whalers’ hands softer. However, it is not political correct to kill whales these days, so they have probably change the story to fish oil. The name of the raw material Jasparello has its origin from Jahre’s factories and Ello. These two names combined become Jasparello

3) Why have you decided to name the product Glycinello?

   The product contains glycerine and it is produced at the Ello plant. Glycinello is a combination of these two names.

4) Has Lilleborg been producing the Neutrogena hand cream for Johnson & Johnson or has the formula only been licensed out?

   Lilleborg has produced the hand cream for J&J. The agreement with J&J regarding finished products has expired. We have the last production of the Neutrogena hand cream in May. J&J will move their production of the hand cream to their own production facilities in Europe. However, we are currently negotiating a long term contract about supplying Jasparello to J&J. They have to buy this raw material from us if they still want to use the “Norwegian formula”.
5) **Do you have any other cooperation agreements with any other companies besides Unilever?**
Yes, we do. We are working on a contract with J&J which is mentioned above. We also have an agreement about production to Cederroth in Sweden, and Actavis (flux toothpaste) here in Norway. We produce both hygiene products and liquid detergents for Unilever. This means that the plant located in Ski, in addition to the Ello plant also export products on behalf of Unilever. In this area we also have agreements with Johnson Diversey and Christianes. We also work with some other large companies; however I do not wish to elaborate more on these agreements.

6) **When did Lilleborg start to outsource production to China?**
I believe we started to outsource production in 2003 or 2004. The company had very high costs on the production of lids to our shampoo product Define. So it was decided that this product should be developed in China. We met up with random suppliers that were supplying plastic components on a fair in China. Later, the production of JIF mops and other components has also been outsourced to China.

7) **You have spent a lot of time in China. Do you believe that you have a lot of knowledge about the Chinese culture and the Chinese market?**
I have some knowledge; however this is very limited and absolutely not adequate.

**Appendix 3: Interview with David Chan**

*Chief Representative, Borregaard*

Shanghai, 26.02.09

1) **How long has Orkla been in china?**
Legally speaking, they have not been here – only Borregaard and Elkem. Orkla does not have a representative office, or brand office in China. Legally, they are not here.

- **In what context are Borregaard and Elkem here?**
Elkem has production in China. They also do import and export. Borregaard used to have the same, but now the production is shut down.

2) **Why?**
The market has changed; the product does not meet with the market demand and we are losing money.
Borregaard is quite independent, operating as the affiliate company of Orkla with more than 15 years of establishment in china. I have worked here all along.

3) **How close are your ties to Orkla back in Norway?**
We are an independent unit. In the Orkla portfolio, Borregaard is not a key operation. The key business is the consumer products under Orkla brands. They are interested in the Asian market however, they are only big in Scandinavia.

4) **How did Borregaard enter the market when they came to china?**
To answer that question I need to tell a story from before 1994. Borregaard had a joint venture with an Italian company. Borregaard acquired the Italian operation, because they had a joint venture in China. Through this, Borregaard had access to the Chinese market. I worked for this Italian operation. My first task was to set up the representative office here in Shanghai. Second task was to look after Borregaard’s first JV in china. By
acquiring they got experience in the Chinese market because they kept a lot of the expertise already in the company, and they started production, and then looked towards other options. The core business for Borregaard is the raw material used in textile fabric. Borregaard has made some mistakes, but have learned from them, and are ready to help Lilleborg.

5) Which resources does Borregaard possess that Lilleborg can take advantage of?
Human Resources. Of course in the beginning we would not have them in the office, but I would have to search for them, through agencies. We do however have three people in the office who are dictated for Lilleborg’s purpose.

6) You mentioned earlier that Borregaard has done some testing and failing: do you think Borregaard may help Lilleborg avoid some traps when they are entering the Chinese market?
I think that is the reason why Lilleborg want the companies together. There are other Orkla affiliated companies in China, but they chose Borregaard for a reason. Lilleborg should know that to compete on the cost side would be hopeless. Norway is not cheap. Compete on the brand management, which Orkla is famous for. Select some brands that we think can be a hit in china.

7) To enter the Chinese market guanxi can be very important. Do you think Borregaard may provide this for Lilleborg, in what extent?
The products of Lilleborg and Borregaard are very different, we cannot use Borregaard’s experience on the industrial side to help Lilleborg in that department. Lilleborg’s products are B2C. But we do have some guanxi and we know the Chinese mentality and philosophy. I’ve seen similar products fail in China; they were not persistent in their thinking and too short term. It doesn’t work that way here. I want Lilleborg to think long term. The management is very important; they need to believe that there is a market here.

8) There are a lot of taxes involved when exporting to china, and also a lot of other legal frameworks that Lilleborg has to relate to. Does Borregaard have a lot of experience in this field?
On the legal procedures there should not be any problems as long as we follow what the government is asking. The distribution costs in China are very high. It is a key to choose the right distributors. Lilleborg should also know the market and the distribution system before they make their choice. There is also some corruption in China. Sometimes it is necessary to give money to people in the right positions to get approvals. This is something that foreign companies usually hire a third party to do, as they cannot be directly involved in bribery.

9) How can Lilleborg’s china entry benefit Borregaard?
They are good on different areas, and Borregaard can utilize their strengths. Compared with the other affiliate companies Orkla has in china, I think Borregaard are quite open minded and focused, but at the same time flexible and ready to face challenges. We are not narrow minded and only concerned about Borregaard. We want to give more if Orkla gives the go ahead.

10) In which phases in Lilleborg’s activities in china do you think Borregaard will be involved in?
At the beginning of their entry process into China; premarketing launch. There is no need for Borregaard after this, it a distributor business and the pieces will fall into place.

11) From your perspective, would you recommend Lilleborg to enter China and why?
I’ve been pushing it for ten years. I believe there is a possibility for Lilleborg’s products here. The products are expensive, but they have a very unique packaging which is very appealing to the consumers, they look at it and know it comes from Norway. Norway has a clean image in China and I think there is a market for Lilleborg in China.

**Appendix 4: Interview with dermatologist**

*Shanghai Children’s Hospital in Beijing Xi Lu*

Shanghai, 09.03.09

1) **How is the industry organized, and where are the products sold?**

Different products are sold in different channels. We sell our own produced products here at the hospital, but you can also get good products in pharmacies and in supermarkets.

2) **How is the division between international and Chinese products?**

Chinese products are normally cheaper than the imported products. However, the imported products are usually more specialized in regard to allergies and they offer a better treatment to irritations and skin problems than the Chinese brands.

3) **How are the Chinese consumers’ preferences? Do they usually prefer Chinese or Western brands?**

Elderly Chinese usually prefer Chinese brands, both because of the price and because of tradition. In addition, they rarely know about the Western brands and they stick with what they usually buy.

4) **What decides whether a product is dermatological recommended or not?**

Quality and known effect is usually important to get this kind of recommendation, but most products in this category needs a certain certificate or approval to be allowed into the Chinese market.

5) **How important is it to the consumer that a product is dermatological approved?**

I believe that this is of great importance to the consumers. However, our customers are mostly patients that need a pharmaceutical product to solve a skin problem and we only recommend dermatological approved products as well as the products we produce here at the hospital.

6) **How does a product get this kind of recommendation?**

It really depends on what type of hand cream it is and what the ingredients are. If it is more medicine based the process is longer than if it is a product that is only meant to soften your hands. Proved effect and quality is again important elements.

7) **What are the main reasons as to why a patient visits a dermatologist?**

Allergies are the most common cause, but skin problems such as chopped hands and dryness are also common reasons.

8) **Which products are usually recommended and why?**

We usually recommend the products that are produced here at the hospital. These products are developed for skin diseases and they are approved by doctors within the area. The prices are also cheaper because the government subsidy the products so that it becomes cheaper for Chinese patients.

Western products that we recommend are products sold in pharmacies. I usually recommend French products. France is known by the Chinese consumers as a country that has a lot of science and development within the skin care industry. Brands like Avene and La Roche-Posay are the products that I usually recommend.
9) How should a new product be launched in the Chinese market to satisfy the Chinese consumer’s needs?
That the product is a quality product and that the quality is insured by people within the field is extremely important. Furthermore, price is of high importance – It should not be above 50 RMB for a tube. Regarding the packaging of the product a usual mistake made by Western companies is offering too large bottles with too much information and too much design. In my opinion it should be simple and clean, but it is necessary that the product provides a small space with usage and effect explanation in Chinese for the Chinese consumer. Another important element is that the tube should be small. It makes it easier for the Chinese to try out the product at the same time as the price goes down.

10) Do you believe that the usage of hand cream among the Chinese consumers is mainly because of skin problems?
During the winter it becomes more normal for the Chinese to use hand cream because the cold weather causes dry hands, but I believe that hand cream is used mostly to get moisture and to feel fresh. Anti aging is an increasing reason to use it as well.

11) How do you believe the Chinese view Norway?
Hmmm…. Norway? A very small country.

Appendix 5: Interview with Qing Ye/ Xu Shanshan

Legal Expert / Professor in Chinese Law

Shanghai, 06.03.09

1) What are the most important areas a foreign company needs to take into consideration when establishing themselves in Shanghai?
For the purpose of navigating foreign investment, the government issues Catalogue for the Guidance of Foreign Investment Industry to instruct the administration procedure for approval of foreign investment’s entry. So, the first issue is what kind of business the company want to conduct in China, whether the industry the company want to enter is controlled by government, and to what extent it is controlled. The next issue need to consider is what kind of vehicles the company wants and has the capability to set up and which forms the company would like to invest, money, IP right or goods.

2) What would be the most suitable entry vehicle when wanting to export to Shanghai?
- Benefits regarding the different strategies
In China, there are several vehicles a foreign investment can utilize, e.g. wholly owned foreign company, joint venture Company, and representative office. The related laws you can referred to are, but not limited to, Company Law, Law of the People's Republic of China on Foreign-Capital Enter-Prizes, Law of The People's Republic of China on Chinese-Foreign Equity Joint Ventures.

3) What type of costs (i.e. taxes) can one expect to face when entering this market?
From my experience, there are three types of expenses when establishing a company in China: commercial expenses, governmental expenses and consultant expenses.

4) Is this type of product (hand cream) subject to any forms of government approvals and licenses? Are there any guidelines for retailers (dealers) wanting to sell this product in China?
I am not sure whether the company would like to establish a factory in China to produce the hand cream or the company would like to set up a trading company and import hand cream from abroad. Different types of companies subject to different authorities and
procedures for approval or license. For example, if the company would like to produce hand cream in China, an Approval for Production is necessary.

5) When wanting to enter the skincare market in Shanghai, to what extent is guanxi a necessity to accomplish success?
This is a really localized question. To be honest, guanxi is not invented by Chinese and I would like to call it as “network”. Guanxi functions just like the network works in western countries.

6) Would you say that Lilleborg has an advantage being a Norwegian company?
One of the important issues a foreign company concerned is what kind of treatment it can enjoy in China. Both Norway and China are members of WTO, under WTO framework; Norway can enjoy the most-favoured treatment when doing business in China. I suggest you to make research on conventions, entities and memos entered by China and Norway.

7) What kind of precautions should Lilleborg take into consideration concerning IPR in China?
Since I am not good at IP law, I cannot give you advice on this topic.

8) What can you tell us about competition policies in China?
About China’s competition policies, please refer to the Anti-monopoly Law.

9) What are the most important legal factors to consider when making an agreement with a local distributor (i.e. retail stores)?
All terms in an agreement are important. Which legal factors a company shall pay attention to depends on different situations, such as the parties’ business mode, the distributor’s size and the parties’ trust between each other. As to the implement of the agreement, at least in big cities like Shanghai, to enter into an agreement is an effective way to bind parties. If one party breaches the agreement penalty will be imposed on parties according to the agreement.

Appendix 6: Interview with Dr. Zhou Dunren

Professor in Chinese Political Economy

Shanghai, 19.03.09

1) Is the business environment in China stable or is it subject to a lot of changes?
The environment in China has not changed much. If there has been any change it is not from China but from businesses themselves. This is based on recent surveys by the American chamber of commerce.

2) The hand cream has been tested and proven to be of high quality. Should we apply this in our marketing, is this important for the consumers?
These things are necessary. Lilleborg needs to come up with more, something simple and easy, easy to see and easy to remember. The cream comes from Nordic countries, and you need to communicate that Nordic people have very good skin, and we have been using the cream with very good results. Use Norwegian or Nordic as your selling point. Especially here in Shanghai we need to convince people that this is something special. TV is the most direct commercial, but very expensive. If you have natural ingredients you should use that.

3) Do you think that Norway has a strong COO effect in China? Do you believe Chinese people know the country?
Some people may not know Norway, but among those who do Norway has a good name. Many people know about the salmon. Use the positive sides of Norway in our brands.

4) We are thinking about a high-end target group. In Shanghai this segment is getting quite big, do you know any second tier cities who show any similar development towards a larger high end market?
If you already have good contacts and good friends in second tier cities go ahead. Otherwise starts here in Shanghai. Other cities look to Shanghai, it has a good effect that a product is used in Shanghai.
The Chinese consumers are not so independent in their thinking, and decisions are based on the judgment of others. They need some trendsetters to follow.

5) Are there any significant trade barriers when importing to China, like import tariffs or quota regulations regarding foreign consumer goods, or did this disappear when China entered the WTO?
I’m not sure cause I have not looked into this now, but my guess is that the import barriers are not very meaningful, because they often come as a defense for some domestic product, but in the cosmetics market the foreign producers are already here, dominating the market.

Appendix 7: Interview with Emma Qiu

Assistant Professor in Marketing.

Shanghai, 16.03.09

1) Which cities are characterized as 2nd tier cities?
   - Which of these would be the most attractive market for this new hand cream and why?
There are different ways to classify the tiers of city, such as GDP, population, personal income and so on. Since hand cream is not a necessity, the disposable income may be a critical index to determine which group could be targeted. Besides, I think geographic factor is also a very important issue, for example the north could be a more attractive market segment than the south in terms of the dry and cold weather.

2) What can you tell us about 2nd tier cities and the skincare market in such cities?
   - What do you believe are the main differences in the skincare market between 1st and 2nd tier cities?
Competitive level should be different in 1st and 2nd tier cities. In the skincare market, the multinational brands and the big national brands almost dominate the market while in the 2nd tier cities you can find quite a lot of regional skincare brand still can get certain market shares.

3) What would be the best distribution channels in the 1st and 2nd tier cities, as our product most likely will be positioned as a high-end product?
   - What possible implications can Lilleborg expect to meet in this regard?
Apparently supermarket and other ordinary channels are not the best choice for Lilleborg if it wants to position itself as a premium brand. Co-marketing could be a potential choice, just as the example you illustrated in the next point.
   - Do you think it would be a good idea to sell the product in spa’s, massage/beauty parlors and similar places?
Yes. It is a very smart and creative suggestion.
4) Which strategy would you recommend regarding entrance vehicles?
   - Would you recommend the same strategy for both 1st and 2nd tire cities, why/why not?
   Assumed that Lilleborg provide only one product, which is the hand cream, cross-marketing strategy could be an effective way to help Lilleborg enter into the markets of both 1st and 2nd tier. The partner that Lilleborg choose to do the cross-marketing should be very important, since the brand image of the partner can lead the potential consumer have the same feeling to your brand. As a premium hand cream brand, the spa/beauty parlor should also be the premium one.

5) Who do you believe is the potential target group for Lilleborg and its hand cream?
   Young to middle aged female, well-educated, middle class or up

6) How would you classify Chinese consumers with regards to income?
   Affluent group: family annual income is +200,000RMB
   Middle group: family annual income is 60,000—200,000RMB
   Lower group: family annual income is -60,000RMB

7) As our product will be positioned as a high-end product, do you think the target group should be within the upper class or should we also include the upper middle class?
   - Could targeting the upper middle class have a negative effect on the exclusiveness of the product?
   I think you can target both the groups, but may choose different channels to target different groups

8) How would you describe Norway’s CO-effect among Chinese consumers with regards to the skin care market?
   - Do you think it would be beneficial to position the hand cream as Norwegian?
   I think Chinese consumer have very positive feeling to products made in Norway or other Scandinavia countries, so definitely it can be beneficial to position the product as Norwegian.

9) What should characterize the marketing efforts?
   - What would be the most effective marketing channels?
   - What would be good selling points for the hand cream? (quality, emotions, lifestyle, status, etc)
   If positioned premium, the quality is not a good selling point. Instead, the emotion and the lifestyle could be a better focus.

10) To what extend do you believe it is important for Lilleborg to prioritize in shop promotions and education of sales staff?
   - Or do you believe it would be more important to use other marketing channels like TV etc, why/why not?
   Since it is positioned premium, I think event marketing is a better choice than the mass promotional channel.
11) The Chinese hand cream market is full of different local and foreign players. How would you recommend Lilleborg to shape their communication strategies to create brand awareness and loyalty?

- How can Lilleborg distinguish their hand cream and find a unique position in the head of the Chinese consumers?

Most of the competitors have not focused their brands to provide a unique lifestyle to the consumer, so this could be a marketing chance for Lilleborg to promote its brand as an elite brand with lifestyle.

**Appendix 8: Interview with Henning Strands**

*Brand Manager, Voss Water.*

Shanghai, 25.03.09

1) How will you describe the people constituting the high-end segment in Shanghai?
The high-end segment in Shanghai consists of people who have high incomes, or are married to a person with a high income. So you have the ones who work and those who spend their time shopping, doing manicure etc. In addition this segment consists of people with a lower income, who might save an entire monthly salary just to be able to buy the latest Louis Vuitton purse or a Porsche.

The high-end segment often buys products as a symbol of status, and it is important that the product is recognized by their closest group of friends. Whereas the Western people might use a lot of money on their homes, many Chinese spend their money on things “outside” of their homes like expensive cars, clothes, accessories etc.

2) Are you familiar with how the buying decision works within this segment?

This is difficult to answer, but I have experienced that the more money a person has, the shorter is the buying decision process. The middle class tend to save more, and their purchases are often more thoroughly planned.

3) What is your experience with the Shanghainese consumers and the adoption process?
The adaption process is different in an Asian context as most consumers here are not prepared to take a social risk by being an innovator and be the first one to try a new product. The groups of innovators and laggards are smaller than the “normal adaption curve”, and the left tail is longer because of the hesitation towards buying new products. The curve will also change more frequently as consumers are more willing to switch brands in accordance to their reference group.

4) How do you successfully build brands in Shanghai?

a. What are the most important elements to consider when building brands in Shanghai?

It is important to think location, and consider the fact that the product will be associated with where ever it is presented.

b. How do you get attention from the segment?

Voss has successfully reached its target group by using event marketing. It is efficient to be present and create attention in places where the target group is, and places where the target group may have positive associations towards. It is imperative to do it in a way that one distinguishes the brand from its competitors. Samplings may be a good solution in this regard.

c. Which elements should one pursue to reach the emotional side of the consumer?
The Chinese high-end consumer is very much concerned about health and the concept of yin & yang. It may be a good idea to use the country of origin effect, as Norway often is associated with a clean environment, wild nature and little pollution.

5) How do you believe the Shanghainese high-end consumers view Norway?
   a. What are their associations to Norway in your opinion?
   The associations are believed to be as mentioned earlier, in addition to fish and especially salmon and also the exotic to some extent as Norway is a small country in the outskirts of Europe
   
   b. Do you believe Lilleborg should utilize the COO effect, and how in such case?
   As Neutrogena already utilizes the Norwegian country of origin effect, it can be perceived as a copy (which is often associated with bad quality in China) if the new hand cream looks too much of alike the Neutrogena hand cream. It may be a good idea to focus on “made in Norway” instead of Neutrogena’s “Norwegian formula”, and maybe not display the Norwegian flag which is very distinct on Neutrogena’s packages.

6) What can you tell us about opinion leaders in the high-end segment in Shanghai?
   These are often celebrities from Taiwan and Hong Kong such as soap opera- and movie actors and musicians. Additionally the closest friends who knows many people and are regarded as the most “admired”, hold the position as opinion leaders. Western people are aspired towards, but usually there has to be a link between the Western and its own group of friends. It is not necessarily “enough” to put a product in the hands of any Western person, and expect Chinese people to embrace the product.

7) Which promotion strategy has had the best effect for VOSS in the Shanghainese market?
   a. Why?
   Giving incentives to sales personnel has worked with great success in China. An example is to give bonuses when goals regarding sales figures have been reached. It is illegal to give cash, but discounts and bonuses are good alternatives.
   
   b. As a brand new luxury product in this market, which promotion strategy would you recommend?
   This will depend on the budget to a great extent. Commercial and ads in the right magazines may be a good way to reach high-end consumers. In this regard it is important to be aware of the fact that such magazines may claim to sell more than they actually do, and hence the advertisement is significantly overpriced. Also, it is important to be aware of the importance of the word-of-mouth (WOM) effect in China. Information spread a lot faster through WOM in China than in the West.
   Building a brand in China is often very time consuming.
   
   c. You have used a lot of event marketing in your promotion strategy. What is important to consider in regard to this type of marketing in Shanghai?
   It is important that the event company has an understanding of your product. Furthermore, as there are a lot of unserious companies it will be important to check their references, seriousness and previous partners. Additionally one must take in to consideration the different Chinese national holidays which often differs to the ones in the West.

8) How do you set up a distribution deal in Shanghai?
   a. What are the distributors’ areas of responsibility?
   This is a normal negotiating process where areas like volume, marketing effort, and settlement on disagreements are decided upon. VOSS will use Norwegian law in potential disagreements, something which is accepted by the Chinese partners since the local
Chinese tend to lose in Chinese court. It is normal that the distributor handles required approvals, clearance, and testing.

b. What is it important to consider when entering / negotiating these deals?

It is important to clarify the ownership and responsibility regarding the products, as well as the division of different responsibilities in general (warehouse, transportation, clearance, etc). Laws and regulations change extremely frequently in China, and they often differ from the Western laws and standards. It will be necessary to categorize the product, something which can be challenging as much of the necessary information in this regard is in Chinese only.

c. Are you experiencing more problems in regard to control and trust in Shanghai compared to in other markets?

Personal relationships are very important regarding purchases in different retailers. This process often involves many people and different gatekeepers must be passed. It is a common thing that different arrangements and situations are being dealt with “under the table” in China, and corruption is a part of the reality in a much bigger extent in China than in the West.

9) Have you experienced problems in regard to retailer’s loyalty to other brands in this market?

Being a part of a distributor’s assortment one will easily be regarded as just one in the crowd. In convincing the distributor to prioritize your product, the challenge lays in getting the distributor to recognize the value of your own product. There is a lot of give and take in this regard, and things are slow compared to utilizing one’s own channels and network.

10) What would you recommend as an applicable mode of entry for Lilleborg?

For starters it may be a good idea to differentiate the brand from Neutrogena’s, and maybe seek a more narrow niche for the new brand. Lilleborg should be capable of establishing themselves in the Chinese market, maybe by setting up a representative office which provides better control than by setting up a warehouse. Since the company already has some employees in Shanghai this will be a strength in this matter.

Appendix 9: Interviews with Kari Bjørnås

9.1 Interview with Kari Bjørnås, Manager Innovation Norway, Shanghai

Shanghai, 27.03.09

1) What entry mode would you recommend Lilleborg to use when entering the Chinese market?

Mapping out how these kinds of products are distributed in China is a useful approach. One option is to go directly to the distributor and get the product on the market that way, or I would believe that getting this product into one of the major retail chains will be a good choice when entering this market. Furthermore, I would not recommend the use of an agent. When using an agent one does not have control over the marketing efforts, and branding is very important when introducing this product to China. An agent will not give the product sufficient support with regards to branding. I would recommend Lilleborg to set up a representative office here. Lilleborg is very good at branding; it is probably one of their core competencies. They should send some of their best people to Shanghai; in addition they should hire some competent local Chinese people.

Thorough market research is very important before introducing this product to China. It is important to map out the market. What do the competitors do? However, one may do something different than what the competitors are doing. It is also important to get an overview over the consumers. Who buys this kind of product? To segment the market is
very important, not only the consumers, but also the products. What are the consumer preferences? How loyal are the Chinese consumers? What kinds of media channels are efficient? If Lilleborg does not obtain information they may risk wasting a lot of money. “Market research is expensive; however getting it wrong is even more expensive” Another important issue to consider is how Neutrogena will react if Lilleborg introduce this hand cream to China. Neutrogena is a well known international brand with a lot of resources…

2) We are thinking about targeting the premium segment. Do you believe this is a good target?
The Chinese high-end consumers are very well informed about brands and products, so building a brand from scratch in China can be very difficult. I believe that going against other internationally well known luxury brands can be a bit risky. This can be a big challenge for Lilleborg. Their product is not a well known international brand. I would believe that it would be better to position their product on the same price range as Neutrogena.

However, there is a high development in China, and in ten years there are going to be even more products present on this market. China has a potential of becoming a new US. So, there is definitely room for Lilleborg. However, it is important to find the right place.

3) We are also thinking about the possibility of selling this product in beauty parlours and spas, what do you think of this idea?
It is a good idea. However it is important that these retailers have a price range that fits your product’s price range. And there is another problem. Since your product is not an internationally known brand, the retailers will try to make your product into their own brand.

4) What do you believe Chinese high-end consumers associate with Norway?
A product produced in Norway gives a signal of good quality and luxury when it comes to industry; however I am more uncertain about the profile of Norway on consumer goods. However, the West does give the impression of quality provided that the brand is known internationally.

5) How would you describe the political environment in China?
The political environment in China is very stable. However, the consumer market is subject to a lot of changes regarding players, marketing channels and consumers. For instance is e-marketing is becoming more and more popular.

6) If Lilleborg decide to export to China, what types of approvals does Lilleborg need to obtain in order to export their hand cream to Shanghai?
Lilleborg would have to obtain an import licence and a quality certificate. They would most likely test the product in China. All the reports and documentations will have to be in Chinese. So Lilleborg would have to hire a government approved lab to do the work.

7) What kind of taxes would exporting of such a product be a subject to?
Lilleborg would have to pay an import tax to get their product into China. The VAT is about 17.5%.
- are these taxes a subject to a lot of change?
Because of the financial crisis the taxes are subject to adjustments. They might become higher in the nearest future. The government’s policy is used as an instrument to generate situations which are more beneficial to China. However, China is a member of the WTO this puts restrictions on what China is allowed to do in this regard. The hand cream is most likely not affected by this situation.
9.2 E-mail interview with Kari Bjørnås, Manager Innovation Norway, Shanghai
Shanghai, 15.05.09

1) How much should Lilleborg expect to invest when/if they establish a representative office in Shanghai?
This kind of representation does not allow the employees to conduct active business, such as import and sales. For these types of activities you need a trading company. This company structure is categorized under the main group; WOFE (Wholly Owned Foreign Enterprise) and comes with a demand for capital investments. The demand regarding the size of the investment has decreased the last years; our last case on this subject invested a total of 25,000 Euro. However, this is a matter of negotiation between the company and the relative authorities. Companies in China are generally established after one has applied for government approval. The size of the investment may therefore deviate significantly from what was implied above, which is the lowest we have encountered.

Costs related to the rental of office space are on a good location RMB 122/m²/mnd. You will need more space than in Norway since parts of the common ground is included. An Additional cost is the management fee of RMB 20-24/m², this covers cleaning personnel, toilet facilities, water etc. WOFE’s are usually able to get a better price, since Rep. Offices can only locate themselves in designated buildings; Grade A office building.

It is common to rent unfurnished office space which of course needs to be decorated. For a small office with 3-4 employees the price is estimated to around RMB 50,000, excluding all IT and media equipment.

A high speed internet connection is about RMB 3000/month.

The largest single cost is the employees’ wages. We cannot comment on this based on the information we have at hand, but social costs represent a significant part of the total costs, especially on salaries under RMB 10,000.

2) How long time should Lilleborg expect to use in the establishment of a representative office in Shanghai?
To establish a representative office should take about a month. For WOFE’s we calculate three months.

3) In order to hire Chinese personnel, is it required to deal with FESCO (Foreign Enterprise Service Co.)?
Representative offices hire Chinese citizens through offices like FESCO. A WOFE however is allowed to hire directly, but for small operations we recommend the use of FESCO which eases the administration and payment of social costs.

4) What kind of taxes are representative offices subject to?
Representative offices pay a service tax which is 5% of gross costs. WOFE’s pays regular taxes based on profits, (as profits are defined in accordance with Chinese GAP).
Appendix 10: Interview with Henning Kristoffersen

Anthropologist and China expert

Shanghai, 18.04.09

1) The Chinese government has a goal to increase domestic demand. Do you know if any specific changes have been made that may affect Lilleborg?

There has been a high focus on improving the loan-conditions for the Chinese people. Before the financial crisis these conditions were strictly regulated within the private sector mostly because of the fear of the “real-estate bubble”. However, after the crisis these conditions have been improved, and are still being improved in order to stimulate the private economy.

A challenge in China is to stimulate people to spend money. This is mainly because of the poor social support that is offered in the Chinese society. Consequently, the government is now starting to put more money into public services such as healthcare and education – by supporting society in social matters the Chinese people will be able to spend their money elsewhere and the domestic demand will increase. However, China still has a long way to go regarding this matter.

2) Before 2008 China offered tax reliefs to international companies in order to stimulate FDI. Do you know of any similar strategies that China is currently utilizing?

The situation in China today is that they are past that period where they were desperate for Western capital. That is also why they have moved away from giving international companies reliefs in different ways. Moreover, to move away from the nation’s need of FDI has been the goal for China all along in order to make domestic companies competitive against the international ones. Capital is actually something that China has more of than most nations at this time and it is therefore not the element they need in order to boost their economy further, however, what they do seek is technology and environment saving solutions.

3) The skin care market in Shanghai is filled with many international competitors and therefore our belief has been that there exist few protectionist barriers in this industry – what is your view on this matter? What would you regard as the most obvious barriers for Lilleborg in China?

Normally the protectionist barriers you meet in China are within the healthcare-, education- and the financial sectors. After my opinion I would be surprised if Lilleborg would meet any governmental protectionist barriers within this industry since they are only talking about exporting a highly commercial product to the Chinese market. I think the barriers Lilleborg will meet in this market will be more business related.

4) It is a known fact that the Chinese government “have a good eye” to those who bring something into the country that will contribute to the Chinese development. Lilleborg will not be doing that – do you believe that may influence the treatment they will receive from the government if they enter?

As I mentioned before, the two main elements that China is currently seeking are technology that they need in order to develop the nation further and western industry that does not pollute. If you try to enter the Chinese market today with heavy production that pollutes you are just too late – China does not want that anymore. So in Lilleborg’s case you are not bringing in the worst of the worst, but on the other side you are not bringing in something that will directly help the Chinese nation to evolve in any way. My guess is that this is just a neutral commercial product and you will not face any governmental obstacles.
5) Regarding negotiations with potential Chinese partners and customers, what are the most important facts to consider?
To spend a lot of time on writing waterproof contracts is not a waste of time. Although Chinese partners in many cases are known for not always over holding all the elements in a written contract it still gives out a positive and professional signal when you take the process seriously. It is naive to believe that a Chinese partner will follow a written contract down to every point. But by not taking the process by writing contracts or by thoroughly following up you relations seriously the signal you send will be hopeless. By following strict protocols within every sector you send the signal that you are serious and professional and it will be easier for you to follow up on your engagements. The Chinese are more interested in what you do then in what you write – the contract is just the starting point to your engagements and it is extremely important to them that you are serious about following the contract through then by actually writing it. After the contract is written you therefore need to show them that at least you are willing to follow through with the demands you have made. Norwegians are not too fond of control – we are a bit naive and our belief is that we should rather encourage people than control people. That becomes too naive when doing business in China. To succeed here you need to stop being naive and be open for that everything can happen. In addition, it is crucial that you establish incentives for your Chinese partner to stay with you. This is a highly competitive market and the Chinese will easily turn if a better offer is available.

6) There is an enormous focus on network building here in China, how do you regard this matter?
By building strong networks you can make things easier for yourself in this market on a much higher scale than in other markets. Through strongly established networks it will also be easier for you to control your surroundings. The positive effect of Chinese networking is that you actually get to establish strong relations that will help you on your way and strengthen you control. On the other side it is extremely time consuming.

7) To what degree does China have a fixed currency?
It is not flexible – it is put up against a set of currencies, but it is not as fixed as it used to be. They are trying to make it more flexible however the government is still in control of it. This is a never-ending discussion that China has been having on the international arena for many years.

8) What are the main differences between Chinese and Norwegian business culture?
Trust is definitely one of the biggest differences. Trust between companies in China is almost non-existing. Chinese companies are much tougher in regard to controlling each other than in any other market. All the elements that automatically work in Norway will not work here. Respect for laws and regulations are not withheld and companies can’t even trust the government.
Furthermore, the competition in this market can hardly be compared to any market. The need for capital both on the individual and on the business level is much greater her than at home. Although you hear about Chinas long term plans etc, the chase for quick money is great in every sector. When you can’t even trust your own government the long term perspective has been hard to focus on and people have developed a kind of short-term-profit-mind-set. These are all elements that contribute to make the business environment in China even tougher.
Another important difference is that business is almost always mixed with “pleasure” in China. Because of the lack of trust in the social systems networking has become an important instrument of gaining trust in other settings. When you can’t trust the system you need to trust each other so therefore enormous amounts of time is invested in networking on a social basis.
9) What do you regard to be the most important cultural elements that Lilleborg should be aware of when exporting to China?
To succeed with the brand building in China will be a huge barrier for Lilleborg. The value of brand in this country is enormous and the Chinese buying behavior is very different from in Norway. To understand this aspect before entering becomes vital regarding their success rate.
The Chinese business culture with emphasis on negotiations and networking mentioned before will also become an important element. To reach distribution agreements in order to be able to get the product into the stores is another important element and if you get that far you need to worry about sales and profits.
The biggest challenge for Lilleborg is to sell the products. Everything we have talked about up until now is controllable elements. For instance, if you decide to produce something in China it is controllable, but to actually sell it afterwards is the true challenge. Lilleborg needs to focus on what they as a Norwegian company should do in order to get this product out, attractive and known among the Chinese consumers. They need to consider the COO effect – will it support their product and the brand or not? Should they focus on the Norwegian element or the best product element? The Chinese mind works in another way then the Norwegian mind and this need to be considered. An opportunity that I can see for this product is to play on the Norwegian element – Norway is unique in the Chinese mind. Most Chinese do not know much about Norway, but then again what they know is just positive things. It is not many countries they only regard in a positive way. It therefore becomes up to you to decide if this element is sellable. The only opportunity I see is to then play on this element together with a lot of marketing.

10) Which bureaucratic barriers are important for Lilleborg to consider regarding a possible expansion to the Chinese market?
Since this is a neutral and commercial product it is my belief that the bureaucratic barriers will not be too high, however you never know how much red tape there is in China. From my experience these procedures are moving faster and faster, but networks are always preferable when it comes to getting things done in this country.

11) When you have China’s reputation in mind regarding opportunistic behavior, which export strategy would you recommend Lilleborg to apply?
Within some industries in China you need a Chinese partner to even be able to enter the market – I do not know if that applies in your industry. Depending on your knowledge and your contacts in this market you must also decide if a Chinese partner will be preferable or not. If distribution, logistics, laws and regulations and contact with buyers and retailers becomes too much a normal conclusion is to enter into partnership with a Chinese company. Furthermore, Lilleborg might need expertise regarding their brand building as well. Although they have experience and knowledge in Norway it does not necessarily mean that it is transferable to China. External consultation firms might be needed in this regard. In addition, when a company is not known and it does not possess the necessary resources to succeed the need for a local partner grows. Then again the negative aspects of cooperating with a Chinese partner needs to be taken into consideration. The key is to combine the mutual benefits both parties can get out of the partnership with as a Norwegian company not to be naïve and stay in control. I find it difficult to see that Lilleborg will succeed in the Chinese market with exporting and not having a Chinese partner.
You need to decide if Lilleborg should follow the book or take another approach. The unique thing about China is that it is outside the book – China is moving so fast that you cannot afford to take it slow if you want to succeed, but that is also the reason why so many fail.
12) What are the main differences between Norwegian and Chinese consumers?
The “face-factor” in China is extremely important and the Chinese are willing to pay a lot
for their “face” in the right settings. The dilemma the Chinese are driven between is that
they on one side have a huge focus on saving money both for the future and to support
their family mainly because of the poor social support in society. On the other side you
have the face-factor that shows success and prestige. In Norway this factor would be
regarded as high maintenance although it exists within certain areas, in China however, it
has more of a practical function and it is an important part of the business culture. If you
are able to turn your product into a must have gadget you will succeed.

13) How do you think Lilleborg most effectively can reach the Chinese consumers
through marketing? Which elements should they play on?
I think the elements that are mostly used are the modern element, the family values
element and the health element. If you want to make it big you need to go through
television.

14) If you could give Lilleborg three pieces of advice…
- Do not be naïve.
- Seriously consider to not enter
- If you do choose to enter then focus – China is an enormous market. Use a lot of energy
  on defining where you can succeed.

Appendix 11: Interview with Jason Gao

Professor in Entrepreneurship and Innovation in China
Shanghai, 25.04.09

1) Since Lilleborg has little knowledge about the Chinese market, what would you
consider to be the best entry-strategy for the company – and why?
To answer this question it is important to consider what resources the company possesses
at home. You need to analyze these resources and see if they “fit” with the market you are
thinking about entering. Whatever you find that does not “fit” with the market the
company clearly needs help at to be able to succeed here. In your case, you have the
technology – the formula, but you do not have the brand name. However, it is my belief
that to enter the Chinese market you do not need a brand name. Take Nokia and Sony
Ericsson for example. They entered the Chinese mobile phone market with their branded
phones and it did not take them long before the sales curve started to increase rapidly.
However, the local Chinese brands learned from them and after a while they replaced
these big international brands and the sales curve changed its course and started falling
dramatically. The reason behind this is that the Chinese consumers only look at the
appearances of the mobile instead of looking at the functionality – this is strongly related
to the culture of face here in China.

What I am trying to say is that the most important issue for Lilleborg in this market
becomes the brand building here in China. Since the hand cream does not have a brand
name consumers will not care if the formula is best or not – they will not believe you. A
technology driven marketing campaign will therefore not work in this market. As an
example, I think it was HP or Phillips, their slogan used to be “we do it better”. When
they entered the Chinese market they changed it to “you will experience it better”. The
reason behind this is that Chinese consumers do not care if the technology is better, they
will not believe you anyway because they have no way of finding out– this is strongly
related to the different views western and Chinese people have on trust. The new slogan
regards something that is measureable for the consumer – their experience will be better!
This is something they can find out on their own and therefore something they care about. I am taking the Norwegian approach right now and I will give it to you straight: I honestly believe that the consumers will not care about your formula no matter how great it is. To have the best formula is not good enough to succeed here. I have seen so many cases where international companies with the best technologies do not make it in this market– Google, eBay, American online, msn Messenger and I-phone are all companies with the best technologies and they all failed in China.

This company will be operating in an extremely brand driven industry here in China, so they need to consider how strong they are internally in regard to the brand building matters and by that judge how they should enter the market. If you have brand you have everything and if you do not have brand the best way is to leverage of some other company. Unfortunately here in China, Chinese brands do not have a good tradition in building sustainable brand names. Instead they focus on short term and profit. So if you use co-branding and choose to hide behind another brand you will also die one day.

If I was the CEO of this company my entering strategy would be to partner up with a local player – I would not do this on my own. I would find a partner where I had total control over my brand and the marketing of my brand myself. I would not consider co-branding – that is just an easy way to gain a short time of success. If you go for this strategy the condition is that you do have a lot of knowledge on marketing and that you use the best people to make it happen, but if you are a purely R&D company this strategy would not be feasible.

2) If Lilleborg were to cooperate with a local partner, what kind of company should it be?
Your local partner should only be a partner that can help you with the distribution of your products and you should be in full control of your brand building, your brand name and you’re marketing campaigns yourself. Do also remember to not just partner up with one – Choose different partners in different parts of China. For example one distribution partner in the North of China, one in the great Shanghai area, one in the South of China and one in the West of China. By doing this you divide your risk – if you fail in Beijing you will still have business in Shanghai. Focus on the main cities first – this is where your target group is living and this is where you have to build your brand.

3) What would Lilleborg have to be aware of if they were to partner up with a Chinese company?
First of all they need to keep their technology safe. There is a big risk in China when it comes to bringing new technology and innovative products into the market. Take your precautions and be aware of this danger. Secondly, they need to control the money and the cash flow. Demand to see real money, not only numbers. However, I need to emphasize on trust. Before you decide a partner you need to make a very careful selection, but once you decide you need to rely on trust. Trust and control are not mutually exclusive – you have to trust in order to keep the relationship, but at the same time you have to control the relationship. Pay close attention to two things – Branding management and customer relationship management. These two elements are the driving factors of your brand reputation and unfortunately these are elements that Chinese companies are not good at handling at all. Make sure that these two factors are handled by yourself or by capable people that you trust.

Another important factor is to go very slowly in the beginning. Your penetration pace should be slow – you are new to this market and there are a lot of traps put out there either by people, by the market or even by the financial crisis. By moving slowly in the beginning it will also make it easier to retreat if that is necessary. The goal for the first two years should be to get your foot in the market, to build a fundament and to establish
yourself in the main cities. When this is done you can move faster because at that time you will know how to play the game.

The corporate governance or the ownership structure of this partnership can either be a JV or strictly a distribution partner that Lilleborg export their products to. Of course then you have to think about tariff/customs, but I do not believe that it would be a significant amount when it comes to this kind of product. To find a partner the first thing you should do is to hire some people that you can trust through the network you have available. These people should have knowledge about the industry and the market – preferably people that have worked within this industry for 10+ years. Talk to these people and use their networks at the same time as you search for potential partners that have skin care experience on the internet or through your networks. Narrow down your choice and choose a partner that has experience within your industry and that also has experience with working with international companies. You can also look up and attend relevant conferences in China and build networks there.

4) How can Lilleborg, as a small Norwegian company, differentiate their product and obtain attention in the highly competitive Chinese market?

A huge opportunity for Lilleborg is that there are no known Nordic brands within this industry so there is definitely a potential to differentiate the brand on this ground. In addition, the Nordic lifestyle is from the Chinese mind looked upon as something exotic and new - especially among the high end group that you are considering to target. Furthermore, a lot of Chinese when they think about Norway they think about miracles and fairytales – northern lights, nature and all of these wonderful things. Focus on the image that already is built in the Chinese minds.

In addition, trust is important. Every single product has two types of characteristics – visible and invisible. Usually in a high trust society like Norway, the invisible features get a lot of attention. Take water for example, in China water is very cheap because the consumers do not believe that one water brand is better than the other – it looks the same and it tastes the same, consequently the visible features prevail. In Norway however, when through marketing one is told that this water is better people tend to believe it – the invisible features prevails. The invisible features are the most critical features because you cannot just tell you have to convince the consumers of them and in China this job is a lot harder to do than in Norway. For you to use your technology in your marketing campaign it is not enough just to inform that you are the best, you need to make them believe, understand and last but not least TRUST that you are the best. A good way to do this is if you get a third party to confirm your facts and support your statements. The words from a third party are always more believable than what you say, but in China the situation is that the most of third parties does not have reputation and neither their words are believable – sometimes you cannot trust the media, sometimes you cannot trust the government and so on. In order to successfully use the words of a third party the third party should be a known international player with good reputation. I would recommend DNV in your case – they are trusted by the Chinese.

A critical detail is your Chinese name and your brand name. People often forget to value details, but your brand name in the Chinese market will be one of the main elements that will determine your success. It should represent something exclusive, high-end but also something Nordic.

To access certain clubs and do marketing among these people will be a good strategy in terms of reaching your target group. China is a hierarchical country within all fields and these exclusive clubs have members that in society are looked upon as opinion leaders. They are all respective leaders in their respective organizations and again I cannot emphasize it enough: “It is not what you use, but who else use it” that matters. By getting people with interesting backgrounds to promote your product within these groups of
opinion leaders you will easier succeed in reaching the target group in this market. Use clubs and networking events to promote your product to the right people and when you get them on board you have your opinion leaders that will influence the rest of the market. The strategy should be that everyone wants it, but only a few can get it.

The technology or the formula that Lilleborg holds will first of all be their strength and because they need to build a brand I would choose to target the high-end people. Overall speaking, the Nordic countries have a very good reputation in China in terms of high quality and luxurious goods. You therefore don’t have to change your place because in terms of association you are in the best place you can be in the Chinese people’s mindset. You can charge high price, sell less and still earn more. Take this mobile phone for example (he shows me his Giorgio Armani mobile), this company only has less than 3% of the Chinese market share – 20 million users. In China you don’t have to sell that much to do well – If you target the right group of people and you get them to buy your product you will succeed. A fundamental phenomenon in China is that it is not about what you use, it is about whom else use it! If everybody on the street uses it that is not the place you want to be – you want to make it exclusive, it should give the Chinese people “face” to use it. By targeting high end consumers, by making the brand purely Nordic, by making the product a bit unavailable and by charging a high price you can make it.

5) How can a hand cream give added value to the customer?
In this industry in China there is not an issue of adding value yet. The basic value is not yet provided. Women in China spend a lot of money on skin care and they try out new brands and products all the time, but none of the consumers are really loyal to any of them. Why? – Because they don’t know which one is the best, they don’t know which one they can trust and that is your market opportunity! One example I have is the “Lao Bai Jing” which is the most popular health product in China today. Basically everyone knows that this product really does not do anything to your health but no matter so they buy it because through the company’s marketing campaign they have convinced us that this is the best present to give to your parents. The company’s marketing strategy is therefore formed to “fit” the Chinese gift-giving-culture and that is the main reason for their success. However, this success might only be short term because they do not fill the basic value of what the product is supposed to give the buyer. I think a lot of companies that operate in China forget to include the fulfillment of the basic value, so if you can successfully communicate to the consumers that you do protect their hands they will not be paying for “nothing”. If you make them trust that this product will protect their hands better than any other product you have gotten yourself an advantage and you will have made it in this market.

This is not the American market, this is not the European market – you do not have to do something “extra”! I would advise you to focus on the basic value and make sure that it is provided and communicated to the Chinese consumer. Another form of added value that you could focus on is mainly supporting services, I think the academic marketing word for it is “user generated content”. It is not just the company pushing the consumers to think this and that, it is the consumers themselves who generate the information and therefore it is considered to be the best value-added-service possible. The Chinese are more and more familiar with searching the web for product information and many international firms establish online “clubs” where the customers can debate the product and get information about the best way to use it. Through this forum you can teach people how they can protect their hands, why they should protect their hands and you can also encourage them to share their experiences in “chat-forums”. Nokia has this community in China and it works very well. When the customer is willing to create something for themselves they will never be dissatisfied with what they have created and you don’t have to pay them money to do it – you will save costs in marketing and you will increase customer satisfaction.
6) How should Lilleborg position them self and where should they distribute their products?
The pharmacy category is definitely the one you should go for. You do not have the ability to compete on price against the local brands therefore you should avoid the low-end category. You do not have a brand name so you cannot compete on that factor either. The only feature you have is this great formula (technology) and I believe that the only place you can successfully take advantage of this element is in the pharmacy category. I would also avoid to distribute the products in spa’s and manicure places. The reason behind this is that these places are known for overpricing their products and they will always try to get the customers to buy the most expensive brand instead of actually helping them with their needs. The fact that you have the best hand cream is an invisible feature and I really do not think that the store owners would spend their time on communicate and convincing their customers of this. If they did I do not believe that the customers would believe them either because they think that they only want to take money from them.

You can’t just think “where to place”, but also “who else is there”. The people that go to the high-end cosmetics category are people that go purely for name – and you do not yet have a name here in China. The people that go to the supermarkets mostly go there for price – and you cannot compete on price. The people that go to the pharmacies go there for function and quality – and these are the only features you have to compete on at this point. You therefore have to find the place where you can leverage your technology as your strength at the same time as you are taken seriously without a brand name. What determines your quality in this industry? It is determined purely by technology. What determines the price? It is purely determined by you name. If you use the value curve which divides the quality by the price, you will find the value of a product. Visually speaking I would think that you have comparatively low price and high quality which then again gives you high value – You got to remember that it is not a question about how much you pay, but what you actually buy. When this is the case the customers will easily get a good image about your product and this will lead to good reputation. Of course, to gain this position in the consumers mind you have to be perceived as the best alternative out there – the keyword is branding. If you are able to build the brand in the pharmaceutical category and make your customers believe that you are the best alternative, then you can later on move into the high-end cosmetics category because then you will have the brand name and the known technology to work with.

7) How should Lilleborg use the “Country of origin effect” to their advantage in this market?
You should be careful about positioning yourself too close to the other brand (Neutrogena) by utilizing the effect in the same way. You should definitely use it, but in a different and better way. Norway has good association here in China, but by using the Nordic origin instead of the purely Norwegian origin you will differentiate yourself from your competitor at the same time as you will make it harder for new Nordic or Scandinavian products within this industry to play on the same effect. Your marketing vision could for example be to promote: “a Nordic concept of lifestyle, from Norway”. It is not only Norway, it is a Nordic concept, but it is from Norway and it is made in Norway. It is bigger than Neutrogena, but it is smaller than international brands, which is a good place to be – if you claim you are everything, you are nothing. The Nordic lifestyle is viewed as something new and exotic in China. If you manage to mix the Nordic lifestyle with the Chinese culture of gift and promote your product in this way at the same time as you convince the consumers of your quality you are defiantly going somewhere.
8) If you could give Lilleborg some good advice what would it be?
1. Reputation is your life. Focus a lot on reputation and branding all the way through. Use your best people.
2. The country manager should be Norwegian and live in China for at least 8 months. It should be a market orientated person who has contact with the market all the time and goes out to see for himself who the customers are, what they buy and why through the whole process. In that way it is easier to change if something is not working. To purely rely on strategy never works. The head of the team should also live here for the first 1-2 years and this person should understand and be able to speak Chinese.
3. Brand it in a Nordic way, but do it in a Chinese way – what I mean about this is that you have to position your brand, promote your brand and design your brand in a pure Nordic/Norwegian concept. Do not think about localization in this matter. You want to communicate to the Chinese people that this is something new – something they have not had before, something far away that you are so lucky to get here and now. However, do the business part in a Chinese way. Partner up with a Chinese player, invest your money slowly and monitor and control every single step.
4. You should try to communicate to the Chinese people in an uncommon way. By doing this they will immediately know that this is something new and you will get their attention. I like the Norwegian way of advertising. You use common people/models to sell these kinds of product. That is very un-Chinese – do the same here!
5. During the first two years do not think about bottom line too much. Do not think about your market share in terms of financial figures, but think about your market share in terms of people’s mindsets. In this industry it is all about who you are and what your name stands for and what your name implies – it is all about your name. So, the first two years do not think about money, go slowly and make sure that you support you brand and make it solid. When you are established you can move fast. That’s how we drive!
That was maybe a bit too detailed, but in China it is the details that make the difference.

Appendix 12: Interview with Zhou Lai Chun/ Chen Qing

National Sales Director/ Finance Manager, Jotun China

Shanghai, 04.05.09

1) When did Jotun first enter the Chinese market?
   In 1982 they set up a company in Hong Kong and through this Hong Kong office they started to export their products to the China mainland. Then after several years when we had established the sales channels and gotten to know the market better, we went into a JV with a local company in China- this was first in 1993.

2) Since we are operating on the B2C market, our questions will mainly regard Jotun’s decorative paint division. With this division in mind, what kind of partnership did you enter into?
   We used and are still using agents in this market. The decorative paint division in China was mainly introduced as an experiment. However, after several years, we are still not successful in this division. The agents and the dealers we have been using are not good enough.
   They do not understand our product and they do not see why our product is better than the competitors’, so they tend to sell and promote other products then ours. This is a problem that we are spending a lot of time to look into at this point.

3) How did you find partners in China?
   What you should do when you are looking for partners or distributors in China, and what Jotun did not do within the decorative paints division, is to search the
market and carefully decide who handles your products. The dealer you choose should be big enough and it should also have experience in the market and experience with working for international companies. The dealers should be qualified and thoroughly educated about your product so they can promote you in the best way.

4) How did you research the market before entering?
As we have mentioned before, we did not go through this process thoroughly enough. We hardly spent any time on researching the market, we did not research the dealers we chose well enough and we had too limited financial resources in regard to marketing. We truly lacked the initial investigation. Because of the limited resources we did not manage to do any advertisement or any marketing activities to promote our products – which are all very crucial elements when it comes to promoting consumer goods. When you have consumer products in China without any promotion and without any good dealers you will not have success. We probably need to do what you are doing now all over again to be able to succeed. We need to spend a long time researching the market thoroughly, find our own selling point and target the customers. Actually at that time, the people working for on deco and marine was working together, so the focus was mainly on the marine division because it was seen as an area of greater potential. Lack of preparation, lack of market investigation and lack of understanding the consumer market in China are the main reasons as to why we failed in this division.

5) What kind of challenges did you face when you entered China?
Agents and distributors are just as profit seeking as any other business people. They always sell what is the easiest to sell and what will give them the highest profit. Furthermore we had a big problem in communicating with them. We express that we wanted increased sales and they would say “yes no problem”, and nothing would happen – which is very typical Chinese behavior. Because we neglected to find the most competent dealers to handle our products and we neglected to support them in their work our products have been neglected by them. When the dealers do not know your product well enough they will not promote your products and the customers will not buy the product if they do not know it either. To find good and competent dealers has been a big challenge for us, but mostly because we did not do the research well enough from the start. For over eight years we have been in the deco market and we are still not close to successful. We are losing money in this market every year and if we had taken the approach, like Lilleborg is doing now before we entered, then maybe the story would have had a different ending. In addition, when you operate with agents and distributors you need to offer them support and keep the relationship maintained. We depended on them to sell our products but we neglected to see that they needed our support as well. Now we are focusing more on giving them the support they need by having round table meetings were they can express their needs and we can meet these needs in order to get the sales up. Lack of resources contributed by the organization, lack of pre-entry research on the market and choosing dealers on limited grounds are the main elements as to why we are not successful in deco here in China yet.

6) Do you believe that these challenges do still exist in the Chinese market today and do you believe that they will affect Lilleborg in the same way?
Since your focus is where it should be – on researching the market, targeting the customers and developing your market strategy, I do not believe that you will face the same difficulties. In addition, you will only introduce one brand to the market which is meant for the high-end customers only. We had so many
different brands covering everything from low-end to high-end so we forgot to focus. You have chosen a clear position and know which way to go so as long as you choose your partners carefully (choose the best dealers out there) I believe that you will be alright. I think it also will be easier for you to find competitors and copy their distribution strategy in this market because there are so many similar international companies with different products which all are sold in the same places.

7) Did you meet any problems in regard to reaching the Chinese consumers in this market and how did you approach this challenge?
The problem we have had is that our position in the market is not clear. We have low, medium and high end products, but without any marketing activities it has been difficult to communicate this to the end-users. A very important element to you is that you position yourself very clearly. If you target the high-end you need to focus on staying with the high end so you don’t destroy your position. Furthermore, something you need to think about and something we are currently being more aware of is that to succeed in the consumer industries here in China you need to invest a lot. You need to spend a lot of money on advertisement, on recruitment and on marketing at the same time as you need to spend a lot of time on building and keeping the relationship with your partners.

8) If you would give Lilleborg any advice regarding their expansion to China, what would it be?
1. Use a lot of time to find the right people to cooperate with in this market, invest a lot of money on branding your product and on marketing activities. The initial cost (the investment) needs to be big.
2. Target the premium consumers and position yourself clearly and stick with your position. To accomplish this you need to find the best distributor, you need to have the best market activities, you need to watch how other luxury brands do it and learn from them at the same time as you differentiate yourself.
3. Do not think about costs in the beginning.
4. Recruit good local people and cooperate with local dealers that can help you to develop your brand and help you to obtain the best distribution strategy to match your image – and it is very important that you TRUST these people. Just using the foreigners are not enough. To make it in China local people are the key and you need to trust that they can do their job. On the luxury side maybe 15 years ago, the Chinese did not have enough competence, but the Chinese people has developed in the same pace as China and this is not a problem anymore.
5. You can open a representation office with limited people and by adopting the Norwegian business culture to the China office you will make an environment that the Chinese will be happy to stay in and be loyal in. The French, the Italian and the American business cultures are not known to be attractive to the Chinese people – they usually have too many foreign people working in their China offices and they don’t delegate enough to the Chinese employees. Because of this and because of lacking the ability to succeed internally the Chinese people tend to not be loyal to these companies. However, the Scandinavian business culture is very attractive to the Chinese – they are empowered, trusted and they have the possibility to grow internally.
6. Local people are key – the dealers are Chinese and they do not like to deal directly with the foreigners all the time. It makes them feel controlled and not trusted.
7. Do your preparations thoroughly.
8. First move should be Hong Kong. This place is very important to the Chinese high-end consumer market. It is in Hong Kong the new trends and products are released first, so you should go here first.
9. Have a clear business model on how to enter this market and how you are planning to do your business here.

Appendix 13: Interview with Laure Kruithof

Retail and Wholesale Manager, Christofle Asia Pacific

Shanghai, 05.05.09

1) **Do you believe Lilleborg should position the product as a “product of Norway”?**

China is a very competitive market. All the big brands are present on this market, so it is important to differentiate one self. I would say that it is important to play on the fact that this product is from Norway. For instance, L’occitane is a quite expensive brand here in China. It is a French product and they position themselves as a very natural product and the products are produced in a small factory in France. You have to create a story behind the product, and play on emotions. I think Norway has good associations in China and people may think of the country as pure and natural.

2) **How do you believe Lilleborg should market this product?**

They should as I mentioned before create a story behind the product. It seems like Lilleborg has limited resources to spend on marketing. Television advertisements are very expensive here in china, therefore Lilleborg should use other means to reach their target group. Lilleborg should invite the media to Norway and show them the factory where the product is made, and show them what kind of ingredients the product has. In addition, you should send samples of the product to the fashion magazines and the life style magazines. For example, Vogue, Cosmopolitan and Modern Weekly. I know that the cosmetic brand Bobbi Brown did something like this when they entered China. They did not pay a lot of money for advertisement in these magazines; however they got a lot of attention in the magazines anyway, because they were written about in the editorial. And also send press releases about the product, if there is something new going on with the product. However, it is important to have someone on the team that is familiar with the media and how to handle them. You could also arrange for workshops where the customers get to try the product, where you also can explain the effect of the product and how to use it. The internet is also becoming more and more popular here in China. This is a very cheap an effective marketing channel. Many brands use local spokespersons in their successful marketing campaign, L’Oreal being one of them. The endorser may be an actress, musician, movie star, sports hero or professionals like a doctor. If this person should be local or foreigner is something I cannot say for sure.

3) **Where do you believe would be the best location for Lilleborg to sell their hand cream?**

Well, if it is positioned as a high-end hand cream you cannot sell the product in super markets or at Watson’s. High-end pharmacies would be a good idea. For instance Avene is a pharmaceutical product. They positioned themselves in pharmacies, and I believe they are quite successful.

4) **If you could give Lilleborg some advice what would it be?**
They should be well prepared when entering this market. Many brands have failed before. China is a very specific market, and going in here is a long time investment. It is important to have in mind that China is not that cheap as people would believe. In the largest cities like Shanghai the rental is very expensive and the salary is rising. China is not the place to go if you expect to make a lot of money very quickly. If you decided to go into China, either you go all the way or you should not go in at all.

You should create a network within this industry and have a relationship with the media.
Appendix 14: Consumer in-depth Interviews

Appendix 14.1 – April He

In-depth interview with April He, Shanghai, 01.04.09

Name: April He  Age: 31
Gender: Female  Occupation: Working

The hand cream market in general:

1) Associations – Can you list up the hand cream brands you know?
Nivea, Olay, Neutrogena, in Chinese it is called “man shiou laiden” it is a British brand but I don’t remember the English name of it, Hemp – a Chinese brand. There are many hand creams that I know of and have used but I can’t remember the brand names.

2) Which hand cream brands do you use and why?
I have tried and used all of these brands and more. I usually pick the brands that give my hands moisture and have a nail repairing function because my nails are not that strong. This is a new function and not so many hand creams have it so I am still searching for one that I will be satisfied with.

3) Which hand cream brands do you prefer and why?
I do not really have any favorite brands. Usually I would buy the hand cream if the skin care brand has a body lotion or something that I have been satisfied with before. Like Nivea for example, I use their body lotion and I like it so it is easier for me to buy their hand cream as well.

4) Have you bought hand cream recently? Where and what brand?
The last hand cream I bought was the British one I mentioned before, but I can’t remember how much I paid for it, but I think I bought it in Watsons. I was given a hand cream from a friend of mine not so long ago. It was an Australian brand and we can’t get it here in China. It was really good.

5) In which occasions do you usually buy hand cream?
   a. You were just in the store….
   b. You were planning to buy hand cream… etc.
Hand cream is not something I just buy. I usually know that I need it and then I go to the store.

6) Did you know which brand you were going to buy before you went to the store?
Usually I would know, but I would be interested in trying something else if a new hand cream would cover my needs. New functions are always fun to try and new smells, but they should not be too strong. Light fruit smells is what I like the most.

7) How often do you buy hand cream?
Every 3. month.

8) How often do you use hand cream?
Every morning, every night before I go to bed – I usually moisture my hands every time I moisture my face. And of course, every time after I have washed my hands. Oh, that is pretty often isn’t it!

Consumer behavior:

1) Motivation:
   a. For what purpose do you buy hand cream?

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<tbody>
<tr>
<td>Allergies</td>
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<tr>
<td>Dry hands</td>
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<tr>
<td>To feel comfortable and fresh</td>
<td>X</td>
</tr>
<tr>
<td>Chopped hands</td>
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<tr>
<td>Other reasons</td>
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</tbody>
</table>
b. Does the purpose of buying hand cream vary during the year?  
i. Why / Why not?  
During the winter I always use more hand cream. It is colder and my hands are dryer. At the same time this goes for a lot of Chinese women so there is a lot more advertisement on hand cream during the winter. It sort of reminds you to buy it!

c. What is most important element to you when you buy hand cream – why?  

<table>
<thead>
<tr>
<th>Element</th>
<th>Rating</th>
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</thead>
<tbody>
<tr>
<td>Quality</td>
<td>X</td>
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<tr>
<td>Price</td>
<td></td>
</tr>
<tr>
<td>Brand</td>
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<td>Design</td>
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<td>Size</td>
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<td>Other</td>
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</tbody>
</table>

Quality always comes first. It is important to me that the hand cream absorbs quickly so that my hands do not feel greasy. At the same time the functions it is supposed to cover should be covered. That would make me buy it again.

d. Which benefit do you seek in a hand cream – why?  

<table>
<thead>
<tr>
<th>Benefit</th>
<th>Rating</th>
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<tbody>
<tr>
<td>Anti Age</td>
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<tr>
<td>Whitening</td>
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<tr>
<td>Sun block</td>
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<tr>
<td>Moisture</td>
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<tr>
<td>Repairing</td>
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<td>Others</td>
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</table>

Moisture is the most important element that a hand cream gives. I also like sun block during the summer, and anti aging I might start to use when I get older. Multifunction’s are always good.

2) Brand:  
a. On a scale from 1 to 5, where 1 = not important and 5 = very important.  
   How important is brand to you when you buy hand cream?


1 2 3 4 5

To some degree it is important because I would not buy a brand that I would consider to be too cheap. (Under 20RMB) That would to me mean that the quality is poor, so I only choose within certain brands. That the brand offers assortment is also important – If I like the face cream or body lotion of a brand I would buy the hand cream as well. Other than that brand is not really important.

b. If you saw a new brand in the store, would you be willing to try it?  
Yes! If the brand offered nail protection functions I would always try it because it is a problem I have. An on the other side I am Chinese and we always like to try new things and new brands because we like to stay up to date.
c. **What would make you willing to try it?**
   If I was able to try it in the store before I bought it that would be very
good. If it was advertised a lot I would also like to try it.

d. **Do you prefer international or local brands? Why?**
   I definitively prefer international brands. Because I believe they have more
experience with skin and they also offer more choices and different
functions.

3) **Country of Origin:**

   a. **On a scale from 1 to 5, where 1 = would not influence and 5 = would
   influence a lot,**
   To what degree do you believe that the nationality of a product
would influence your buying decision?

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<tr>
<th>1</th>
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<th>4</th>
<th>5</th>
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</thead>
</table>
| It would not influence it at all! I really would not care if I bought a
hand cream from France or a hand cream from Africa as long as I
like it.

b. **Which countries do you associate with hand cream? Why?**
   Australia – I believe they produce good body creams and they use some
material from the sheep in it or something.

c. **What do you associate with Norway? Why?**
   Good quality. It is a small country with limited resources so they have to
produce good quality – like Japan. Fish, oil, body and health are other
things I associate with Norway.

d. **If you were offered a hand cream and you were told that this hand
cream is from Norway, would this information influence your buying
decision in a:**
   i. Positive way
   ii. Negative way
   iii. Neutral way – it would not matter

**Marketing mix:**

1) **Place:**

   a. **Where do you prefer to buy hand cream? – Elaborate…**

<table>
<thead>
<tr>
<th>Super / Hyper markets</th>
<th>Specialty Stores</th>
<th>Pharmacies</th>
<th>Other</th>
</tr>
</thead>
</table>

First of all I would buy hand cream in Watsons. They have good sales
personnel and they have a broad range to choose from. Pharmacies
usually have a limited assortment of brands. I like to go around and look
and read on many different products.
b. Why do you prefer to buy hand cream there?
   i. Convenience – where I buy my ex. Groceries
   ii. They have my brand
   iii. Atmosphere
   iv. Assortment
   v. Sales personnel
   vi. Other

Watsons is good in their marketing and they market health better than pharmacies.

2) Promotion:
   a. Where did you get the knowledge of the hand cream brands that you mentioned before? – elaborate…

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<th>X</th>
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</thead>
<tbody>
<tr>
<td>Television</td>
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<tr>
<td>Posters</td>
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<tr>
<td>Magazines</td>
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<tr>
<td>In the store (promotions / sales personnel)</td>
<td></td>
</tr>
<tr>
<td>Recommended by friend or family</td>
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<tr>
<td>Other</td>
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</tbody>
</table>

The Chinese brands I know of because my mom has used them forever. As I started to get older I started to use more international brands.
Television commercials and in store promotions are the main reasons for my knowledge.

b. In your opinion, which kind of commercial promotion has the most influence on your buying decision?
Television.

c. What in the store can influence you to buy a specific product?
The ability to try the product is important. Good sales personnel are also important.

d. Who has the most influence on your buying decision? – Why?

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<tbody>
<tr>
<td>Friends</td>
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<tr>
<td>Family</td>
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<tr>
<td>Sales personnel</td>
<td></td>
</tr>
<tr>
<td>Promotions (ex. In store discounts)</td>
<td></td>
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<tr>
<td>Experts (doctors, dermatologists…)</td>
<td></td>
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<tr>
<td>Other</td>
<td></td>
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</tbody>
</table>

Myself! I choose what I want to buy.

3) Product:
   a. If you could choose the size of the hand cream tube what size should it be?
Small - 50ml or less. It should be easy to put in any bag so you can use it all day.

b. If you could choose the shape of the hand cream, should it be:
   i. A tube - Convenient
   ii. A jar
   iii. Other
c. On a scale from 1-5 where 1=not important and 5=very important, How important is it for you that information on the product is available in Chinese?

Even though I am fairly good in English it should be in Chinese as well. It makes it easy to understand and it will avoid confusion. Chinese people also feel that they are more “taken care of” if the information is available in Chinese. It shows that even the international brands care to understand that the Chinese language is an important factor in the Chinese society.

d. On a scale from 1-5 where 1=not important and 5=very important, How important is the design of the product when you are buying hand cream?


e. In your opinion, how should the design on a hand cream be?

<table>
<thead>
<tr>
<th>Colorful</th>
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<tbody>
<tr>
<td>Clean</td>
<td>X</td>
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<tr>
<td>Pharmaceutics</td>
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<tr>
<td>Luxurious</td>
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<td>Elegant</td>
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<tr>
<td>Informative</td>
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<td>Other</td>
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</tbody>
</table>

f. Association:
   What do you associate with the color:
   - Blue – sea, comfort, clean/feeling clean
   - Red – Hot, attractive, love
   - Yellow – Friendly, Shining
   - Green – Nature, natural, health
   - White – Pure, innocent
   - Gold – Elegant, fashion
   - Silver – Outstanding

g. What colors would you regard to be most desirable to have on a hand cream?
   GOLD! You should make a party hand cream! A must have item for all young and vibrant Chinese women!

4) Price:
a. How important is price when you consider buying hand cream?
   i. It should be low
   ii. It does not matter – But if it is over 200RMB it is too expensive.
   iii. It can be high

b. What do you consider to be a low price for a hand cream?
   I would never buy a hand cream under 20RMB, so suppose 20RMB would be the lowest price.

c. What do you consider to be a high price for a hand cream?
   Over 200RMB and I would not consider buying it.

d. What do you consider to be a reasonable price for a hand cream?
   Between 50 – 150. It depends on size and quality.
Appendix 14.2 – Lydia Xu
In-depth Interview with Lydia Xu, Shanghai, 03.04.09

Name: Lydia Xu    Age: 29
Gender: Female    Occupation: Teacher

The hand cream market in general:
1) **Associations** – Can you list up the hand cream brands you know?
   Fancl (Chinese), Sephora, L’occitane (French), Meijiajing (Chinese)
2) **Which hand cream brands do you use and why?**
   I normally use Asian brands and now I use Meijiajing and L’occitane. I use the
   French brand because of its small size, as I like to have a small hand ream in my
   purse. The Chinese brand offers bigger bottles which I have in my office.
   Another reason for having the Chinese brand in my office is that my colleges
   often borrow hand cream, and hence it would be too expensive to have a high-
   end Western product there.
3) **Which hand cream brands do you prefer and why?**
   I prefer Fancl since I use their facial cream and I am very satisfied with that. It is
   safe to use their hand cream since I have some knowledge and experience with
   some of the brand’s other products.
4) **Have you bought hand cream recently? Where and what brand?**
   Yes, I recently bought a hand cream in Sephora. The reason I bought it there is
   that I get points as I shop there and I needed some points to get a free gift from
   Sephora. So the number of points I needed was similar to a hand cream. Also,
   the reason why I chose a hand cream is that it is something I know I will use in
   the nearest future.
5) **In which occasions do you usually buy hand cream?**
   a. You were just in the store….
   b. You were planning to buy hand cream… etc.
   Alternative a. It is not normally something I plan to buy, but I rather by on
   impulse when being in the store.
6) **Did you know which brand you were going to buy before you went to the store?**
   No. The brand does not really matter that much. I’m inspired by the alternatives
   in the shop and choose between the ones that are there.
7) **How often do you buy hand cream?**
   Once or twice a year, normally in the autumn or winter.
8) **How often do you use hand cream?**
   Every day after washing my hands.

Consumer behavior:
1) **Motivation:**
   a. **For what purpose do you buy hand cream?**
      | Purpose                     |          |
      |-----------------------------|----------|
      | Allergies                   |          |
      | Dry hands                   | 1        |
      | To feel comfortable and fresh | 2        |
      | Chopped hands               |          |
      | Other reasons               |          |
   b. **Does the purpose of buying hand cream vary during the year?**
      i. **Why / Why not?**
      I do not need to moisture my hands so much in the summer, so I normally
      use more hand cream during autumn and winter.
c. What is most important element to you when you buy hand cream – why?

<table>
<thead>
<tr>
<th>Element</th>
<th>Rank</th>
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<tbody>
<tr>
<td>Quality</td>
<td>1</td>
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<tr>
<td>Price</td>
<td>2</td>
</tr>
<tr>
<td>Brand</td>
<td></td>
</tr>
<tr>
<td>Design</td>
<td>3 Like when it is easy to use, prefer a “flip” to a screw cap</td>
</tr>
<tr>
<td>Size</td>
<td>4 Small ones are easy to carry</td>
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<tr>
<td>Other</td>
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</table>

d. Which benefit do you seek in a hand cream – why?

<table>
<thead>
<tr>
<th>Benefit</th>
<th>Rank</th>
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<tbody>
<tr>
<td>Anti Age</td>
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<tr>
<td>Whitening</td>
<td></td>
</tr>
<tr>
<td>Sun block</td>
<td></td>
</tr>
<tr>
<td>Moisture</td>
<td>1</td>
</tr>
<tr>
<td>Repairing</td>
<td>2 Like nail repairing functions</td>
</tr>
<tr>
<td>Others</td>
<td></td>
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</table>

2) Brand:

a. On a scale from 1 to 5, where 1 = not important and 5 = very important,
   How important is brand to you when you buy hand cream?

   ![Scale](image)

b. If you saw a new brand in the store, would you be willing to try it?
   I am really curious about new products so yes I would try it, especially if they had appealing functions like also treating your nails.

c. What would make you willing to try it?
   In store promotion like free samples and discounts.

d. Do you prefer international or local brands? Why?
   I like and use both, but as explained earlier I use Chinese brands at my office since I often share it with my colleges and it would be too expensive to offer them Western brands. For my own personal use I like the international brands which offer small packages.

3) Country of Origin:

a. On a scale from 1 to 5, where 1 = would not influence and 5 = would influence a lot,
   To what degree do you believe that the nationality of a product would influence your buying decision?

   ![Scale](image)
b. Which countries do you associate with hand cream? Why?
Maybe France, since they have so many top brands for the face and body.

c. What do you associate with Norway? Why?
Fish, cold, snow

d. If you were offered a hand cream and you were told that this hand cream is from Norway, would this information influence your buying decision in a:
   i. Positive way
   ii. Negative way
   iii. Neutral way – it would not matter Since I do not know the country very well

Marketing mix:
1) Place:
   a. Where do you prefer to buy hand cream? – Elaborate…

<table>
<thead>
<tr>
<th>Place</th>
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<tbody>
<tr>
<td>Super / Hyper markets</td>
<td></td>
</tr>
<tr>
<td>Specialty Stores</td>
<td>1 Watson, Sephora</td>
</tr>
<tr>
<td>Pharmacies</td>
<td>2 Normally buy facial cream here since it feels more safe.</td>
</tr>
<tr>
<td>Other</td>
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</tbody>
</table>

b. Why do you prefer to buy hand cream there?
   i. Convenience – where I buy my ex. Groceries
   ii. They have my brand
   iii. Atmosphere
   iv. Assortment
   v. Sales personnel
   vi. Other
   I like specialty stores because they are more “specialists” when it comes to skin care than the supermarkets like É- Mart.

2) Promotion:
   a. Where did you get the knowledge of the hand cream brands that you mentioned before? – elaborate…

<table>
<thead>
<tr>
<th>Source</th>
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<tbody>
<tr>
<td>Television</td>
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<tr>
<td>Posters</td>
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<td>Magazines</td>
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<tr>
<td>In the store (promotions / sales personnel)</td>
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<tr>
<td>Recommended by friend or family</td>
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<td>Other</td>
<td>Radio</td>
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</table>

b. In your opinion, which kind of commercial promotion has the most influence on your buying decision?
Magazines as I have not watched much TV lately.

c. What in the store can influence you to buy? (Ability to try, discounts, sales personnel)
The image and appearance of the brand is important. Also the service and the knowledge of the sales personnel is important. I feel comfortable with the brand if I can get professional and accurate answers regarding use and contents.
d. **Who has the most influence on your buying decision? – Why?**

<table>
<thead>
<tr>
<th>Influence Source</th>
<th>Why?</th>
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<tbody>
<tr>
<td>Friends</td>
<td></td>
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<tr>
<td>Family</td>
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<tr>
<td>Sales personnel</td>
<td>1</td>
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<td>Promotions (ex. In store discounts)</td>
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<td>Experts (doctors, dermatologists…)</td>
<td>3</td>
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<tr>
<td>Other</td>
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</table>

3) **Product:**

a. **If you could choose the size of the hand cream tube what size should it be?**

I prefer different sizes for different use; 100-150 ml for my home since both me and my mother use it, 100 ml for my office and 20-25 ml to have in my purse. But no brands have this size so I use 30 ml.

b. **If you could choose the shape of the hand cream, should it be:**

i. A tube

ii. A jar

iii. Other

I prefer tube to have in my purse, or else it does not matter.

c. **On a scale from 1-5 where 1=not important and 5=very important, How important is it for you that information on the product is available in Chinese?**

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</table>

If the sales personnel is busy I can read at the back about the content by my self. It is not important that the front has Chinese characters.

d. **On a scale from 1-5 where 1=not important and 5=very important, How important is the design of the product when you are buying hand cream?**

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<tr>
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<th>1</th>
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</thead>
</table>
e. In your opinion, how should the design on a hand cream be?

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<thead>
<tr>
<th>Design Style</th>
<th>Count</th>
</tr>
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<tbody>
<tr>
<td>Colorful</td>
<td>1</td>
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<td>Clean</td>
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<td>Pharmaceutics</td>
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<td>Luxurious</td>
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<td>Elegant</td>
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<td>Informative</td>
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<td>Other</td>
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</tbody>
</table>

f. Association:

**What do you associate with the color:**
- Blue - water
- Red - love
- Yellow
- Green - nature
- White - natural
- Gold - expensive
- Silver

g. Which colors would you regard to be most desirable to have on a hand cream?

Light and neutral colors. White and light blue would be ok.

4) Price:

a. **How important is price when you consider buying hand cream?**
   i. It should be low
   ii. It does not matter
   iii. It can be high

It shouldn’t be too low as this could imply bad quality. It should also not be too high as hand cream is something I use every day and not willing to spend too much money on.

b. **What do you consider to be a low price for a hand cream?** 30 rmb
c. **What do you consider to be a high price for a hand cream?** 100+ rmb
d. **How much would you be willing to pay for a hand cream?** 30-100 rmb


I do not go to spas that often as it usually costs a lot. If they try to sell me some products there I doubt if it is just their own brand and that they try to make more money on me, so normally I would not trust them. Manicure places appear to be more experts on how to protect the hands, so if they recommended me something I maybe would have tried it, but ONLY if I had heard something about the brand before. I also believe that the younger girls go more to the manicure places. They may go there once a week or every second week to change their styles.

*The remaining 9 consumer in-depth interviews can be found on the disc attached to this thesis.*
Appendix 15: Focus Group

Focus group with Chinese consumers  
Shanghai, 28.03.09

1) Associations – When I say hand cream, which brands do you think about?  
L’occitane (French) and Kose (Chinese). In addition the group mentioned that there are several local brands but they couldn’t remember the names.

2) Which hand cream brands do you use and why?  
Both foreign and local brands are being used. Local brands are cheaper, which is the most important criterion when buying hand cream. “Since it is a hand cream and not for your face, people will not consider buying it if the price is too high”. Good quality is the second most important criterion, something which is perceived as being more accurate for foreign brands. “Your age can be reviled by your hands, and thereby it is important to use a hand cream with good quality”.

3) Is your purchase of hand cream based on impulse or is it planned?  
It is regarded as casual shopping, and not always a planned action. However, when the consumer is planning on buying a hand cream she may have a preferred brand in mind, but usually she will consider the alternatives. Price is the most important issue in this regard.

4) How often do you use and buy hand cream?  
Hand cream is being frequently used, and this may vary during seasons. During winter everyone used hand cream up to several times a day, whereas almost everyone had the same frequency use during all seasons. It is a minimum to apply the cream in the morning and in the evening and others apply the cream after every time they wash their hands. The frequency of purchase varies from every month to every 2-3 months, depending on the size of the product.

5) For what purpose do you buy hand cream?  
Hands are of great importance to Chinese women and it is regarded as necessary to take care of them. The main reason for using hand cream is to apply moisture in order to achieve beautiful and healthy hands. It is also regarded as a way to feel fresh, especially if the cream has a good fragrance.

6) Do you believe many people use hand cream?  
This depends on different segments. In the more high-end segment it is very common to use hand cream. Among women this number is being estimated as 100 %, whereas this number is believed to be around 20% among men.

7) Do you believe that hand cream is only for girls – why/why not?  
Not necessarily but it is believed that only a small group of Chinese men will use hand cream in the nearest future. This may be men in the fashion industry and business men. Today there is no cream on the market which is meant for men only, and it is not important that the hand cream is made for men in order for them to use it. The consumers
compare the hand cream to toothpaste in this regard, and claim a hand cream can be used by both sexes.

8) What do you believe people usually consider when they buy hand cream?
As mentioned before this is price, quality, multifunction (anti-age, whitening).

9) How important do you believe brand is when Chinese women buy hand cream?
Brand is not regarded as important when buying a hand cream. The previous criteria are being regarded as more important.

10) How are your attitudes towards international brands contra Chinese brands?
The consumers are extremely price sensitive and this is the main criterion for their decisions. More and more local brands are perceived as having a good (enough) quality and with their low prices such brands are being purchased. But still, foreign products are preferred as long as the price is not too high.

11) What do you associate with Norway?
The Chinese song called “Norwegian forest”, mountains, snow, cold, blue ocean, natural, healthy. Norwegian products are regarded as natural, non-chemical, healthy, and fresh. These are qualities that Chinese consumers find appealing regarding skincare, but it is also mentioned that for a hand cream it may be an alternative to choose products from America, which are regarded as more efficient since they are believed to contain more chemicals compare to a Norwegian natural base. For facial creams on the other hand the consumers are more sensitive towards too much chemicals.

12) Where do you usually buy hand cream, and why?
Supermarkets and pharmacies are the most common places to buy hand cream. The first is the most convenient and often regarded as satisfactory regarding offering products which provide good quality moisture. The latter on the other hand, is mostly relevant when consumers have different symptoms like rash or other irritations. The pharmacy is regarded as a more suitable place to get better information in such cases.

13) How did you get the knowledge of the brands you told me about before?
As the consumers are not really brand conscious regarding hand cream, the most common way to discover a new product is through testing and thereby chose the one they like. It is however mentioned that commercial would be helpful and supportive. The word-of-mouth effect is regarded as the most influential on the buying decision of new products. E-marketing is also gaining more credibility. Internet searching is not as relevant as hand creams are low-involvement products.

14) What color, shape, design, size would be most desirable to have on a hand cream?
Regarding color these should be light and natural. Examples would be white, light blue (water), light green (herbs). The background should be white, and maybe a suitable color-motive on the front. The tube is the most preferred and should not be see-through. It is important that the material is not perceived as low-quality.
15) How much would you be willing to pay for a hand cream?  
This obviously depends on the size, but for a normal sized tube (100 ml) it is regarded as acceptable to pay a price of 100 RMB. It should not be prized to low, as this may signal low quality.

16) How likely is it that you would have tried a hand cream with a new brand which you have not heard about before?  
If this new product was available in a small sized package (samples) many of the consumers would have been willing to try it. Especially if the small package was a small attachment with the other main skin care products. This would be especially popular if the other brand was well known. Using demo-promotion and giving samples for people to try will be a good way to get people to buy the hand cream.

17) What do you think of the idea to sell this new hand cream in massage/spa/manicure salons or other beauty parlors?  
This did not come out as a very good idea for a new and unknown brand. The reason for this is that people may not trust this as a reliable retailer, and the products also may be regarded as overcharged since they don’t know the brand and the “normal” price. On the other hand, if the brand is well known and one has an idea about quality and price this may be a good sales channel. It is also mentioned that if a company wants to enter the Chinese skin care market, it has to provide a wider range of products (body lotion etc) in order to be sold in specialty stores and shopping centers. By offering only one product the only option is regarded as to sell the hand cream in supermarkets.

18) Activity – trying the formula: What do you like? What do you not like?  
The first reaction was that the cream was too oily, but after thoroughly massaging it on the skin the cream felt comfortable. It was also regarded to be somewhat thick. The cream has no smell something which some liked since the hand cream wouldn’t contradict with the smell of other products. Others on the other hand, preferred a little scent as it would make them feel fresh. By using only a small doze and after thoroughly application, the hand cream was regarded as a good product which they would consider to by depending on the price.

19) Would it mean anything to you if you knew that this product was dermatological recommended and approved?  
If the product could refer to certain licenses and tests it would have had a positive effect. This is especially relevant in China, as the contents may not always be exactly as proclaimed on the package. As Norway is a small country far away, it may not be reliable if the approvals came from Norwegian governments. It would have a greater effect if an international organization was responsible of the approvals.

20) How important is it for you that the package has Chinese characters?  
For imported items there are regulations in this matter. Foreign products sold in China must have a label with a Chinese description. By using Chinese characters on the packaging itself this might be perceived as if the product is made in China, and hence have a more negative effect. The consumers’ advice was to not put on any Chinese characters on the package.
Appendix 16: Observations
The authors have been on market observations in numerous retail shops like Carrefour, Lotus, E-mart, Wall-mart, Watsons, Sephora, Wanda Place, Super Brand Mall, Shanghai nr.1 pharmacy, Hua Mei da Yao Fang an others. In addition we attended the yearly China Beauty EXPO in Shanghai which was held in May.

16.1 Market Observations
Through our market observations we early discovered that the market for hand cream in Shanghai is clearly divided into two main sections: low-end players competing on price and high-end players competing on quality or brand.

16.1.1 Low-end Channels
The findings from our observations in low-end channels such as super/hypermarkets (E-mart, Wall mart, Carrefour and Lotus) and specialty stores (Watsons) which carry products from players competing on price are presented by brand name, function, price and size in the table below:

<table>
<thead>
<tr>
<th>Brand</th>
<th>Function</th>
<th>Price/Size</th>
<th>Brand</th>
<th>Function</th>
<th>Price/Size</th>
<th>Brand</th>
<th>Function</th>
<th>Price/Size</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nivea</td>
<td>Smooth Radiance</td>
<td>12RMB – 18RMB 50ml</td>
<td>Hand Veil</td>
<td>Hands &amp; Nail (Red)</td>
<td>13.50RMB – 15RMB 40ml</td>
<td>Freeman</td>
<td>Hand &amp; Elbow</td>
<td>48RMB 125ml</td>
</tr>
<tr>
<td>Nivea</td>
<td>Anti Age</td>
<td>15RMB – 18RMB 50ml</td>
<td>Hand Veil</td>
<td>Whitening (Silver)</td>
<td>16.50RMB – 18RMB 40ml</td>
<td>Vaseline Intensive Care</td>
<td>Hand &amp; Nail</td>
<td>18RMB 75g</td>
</tr>
<tr>
<td>Nivea</td>
<td>Anti Age</td>
<td>22RMB 100ml</td>
<td>Hand Veil</td>
<td>Water &amp; Oil (Green)</td>
<td>13.50RMB – 15RMB 40ml</td>
<td>Neutrogena</td>
<td>Hand Cream, Norwegian Formula</td>
<td>49RMB 56g</td>
</tr>
<tr>
<td>Nivea</td>
<td>Pure Moisture</td>
<td>11RMB 50ml</td>
<td>Shiseido</td>
<td>Red Box</td>
<td>49RMB 100ml</td>
<td>HandCream+ Kiss me</td>
<td>Box</td>
<td>40RMB 75g</td>
</tr>
<tr>
<td>Nivea</td>
<td>Whitening Hydration</td>
<td>15RMB – 18RMB 50ml</td>
<td>Shiseido</td>
<td>Red Tube</td>
<td>24RMB 40ml</td>
<td>HandCream+ Kiss me</td>
<td>Tube</td>
<td>20RMB 30g</td>
</tr>
<tr>
<td>Nivea</td>
<td>SOS – Hand Cream</td>
<td>23RMB 50ml</td>
<td>Shiseido</td>
<td>White Tube</td>
<td>24RMB 40ml</td>
<td>Doctor Li</td>
<td>Hand Cream + Lip Balm</td>
<td>14.80RMB 50nl</td>
</tr>
<tr>
<td>Sinoway Herb</td>
<td>Whitening hand cream</td>
<td>17RMB 50ml</td>
<td>Sinoway Herb</td>
<td>Lemon hydrating hand lotion</td>
<td>17RMB 50ml</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 6, Presentation of findings in low-end channels

In addition to the listed products, several local hand cream brands are to be found in these channels. Due to our lack of skills in both reading and speaking Chinese we have not been able to make out the brand name of these products. However, by adding the local brands to the equation, the price variation in these channels ranges from 2RMB to 49RMB per hand cream tube. Furthermore, it is important to mention that most of the players even in these channels usually carry product assortments which exceed hand cream.

Consumers in these channels seem to be focusing on price as the main criteria for choosing a product and the consumers are mostly female in the age from 18-40+. In super/hyper markets the consumers seem to be driven by a higher degree of impulse than in the specialty stores. Watson which is a skin care specialist chain
offers a higher degree of consultancy from personnel with expertise and has more in store promotions and discounts than the super/hyper markets.

16.1.2 High-end channels
From our observations in high-end channels around Shanghai the authors early noticed that even within these channels there was a distinct division between the players and the chosen distribution channels.

16.1.2.1 Department stores and specialty stores
The findings from our observations in high-end channels such as department stores like Wanda Plaza and Super Brand Mall as well as specialty stores like Sephora is presented by brand name price- and size-variation in the table below:

<table>
<thead>
<tr>
<th>Brand</th>
<th>Price/Size</th>
</tr>
</thead>
<tbody>
<tr>
<td>Este Lauder</td>
<td>Size range from: 75ml – 125ml.</td>
</tr>
<tr>
<td>Clarins</td>
<td>Price range from: 75RMB – 300RMB</td>
</tr>
<tr>
<td>Biotherm</td>
<td></td>
</tr>
<tr>
<td>Olay</td>
<td></td>
</tr>
<tr>
<td>Guerilan</td>
<td></td>
</tr>
<tr>
<td>Clinique</td>
<td></td>
</tr>
</tbody>
</table>

Table 7, Presentation of findings in high-end channels (1)

The observed department stores and specialty stores carry well established luxury brands and the players within these channels have clearly positioned themselves on exclusivity and brand name. In addition, all of the players offer broad product portfolios including everything from makeup, to skin care products, to fragrances. The displays of the products are well maintained and each brand has their own sales person working in order to provide the best service and information to the customer.

The majority of the customers in these channels are observed to be high-end women in their early twenties to their mid-thirties. Opposed to the price-driven characteristics of the consumers in low-end channels, the women shopping at these locations seem to be mainly driven by brand and less price concerned.
16.1.2.2 Pharmacies
The findings from our observations in high-end pharmacies such as Shanghai nr.1 pharmacy and Hua Mei da Yao Fang are presented by brand name price- and size-variation in the table below:

<table>
<thead>
<tr>
<th>Brand</th>
<th>Price/Size</th>
</tr>
</thead>
<tbody>
<tr>
<td>La Roche-Posay</td>
<td>Size range: 75ml</td>
</tr>
<tr>
<td>Avene</td>
<td>Price range from: 70RMB – 120RMB</td>
</tr>
<tr>
<td>Vichy</td>
<td></td>
</tr>
<tr>
<td>Eucerin</td>
<td></td>
</tr>
<tr>
<td>Shiseido</td>
<td></td>
</tr>
</tbody>
</table>

Table 8, Presentation of findings in high-end channels (2)

In the high-end pharmacies the different players are clearly positioned on quality and function over price and brand. There are only international brands offered in these channels and the different brands offer broad portfolios of skin care products each product designated to assist different parts of the body. Each brand has its own stand in the store with their own sales person providing the customers with advice and assistance. Since we were able to bring a Chinese translator this day we were able to talk to the sales lady for Avene. She informed us that her customer base mostly consist of women in their thirties and that they regarding hand cream usually searched for products that would be helpful towards dry skin or allergies. She also informed us that 120RMB was not regarded as a high price to pay for a hand cream among her customers.

The customer group in the high-end pharmacies is observed to be women in their late-twenties to their early-forties. They are quality driven in their search for products and regarding quality they trust international brands over Chinese (since no Chinese brands are offered in these channels). The products have a clinical, exclusive and clean look.
16.2 Observations China Beauty EXPO

16.2.1 Background
The China Beauty Expo is an annual event organised by Business Media China AG and BMC Baiwen Exhibition Co. Ltd. It is the No. 1 beauty exhibition in mainland China. The exhibition is the ideal platform for generating sales leads and networking activities with strong government association support. The 14th China Beauty Expo in 2009 had about 3000 stands and more than 1400 participating companies in the following areas: Color cosmetics, Skin Care, Perfumery, Detergents & Personal Care, Hair, Beauty & Spa Products and Equipment, Nail Care, Packaging, Machinery, Ingredients, OEM and Media361.

16.2.2 Our observations
During our visit to the China Beauty Expo we were a bit disappointed that there were mostly local and Asian exhibitors present. We got the impression that there would be more international players participating at this event. We also had some language problems as the majority of the people there did not speak very good English, so it was very difficult to acquire information from the participants. However, we did observe that there were a lot of cosmetic companies from Hong Kong, Korea, Singapore and Japan present. The skin care companies we were able to speak to where hoping to find a distributor that would be interested in selling their product in mainland China. They gave the impression that it was very difficult to find a suitable distributor to sell their products, even though their products had a strong brand name in their domestic market.

We also got to talk to some foreigners who were at the expo to find products they could sell back home in Europe.

Another interesting observation was that there were a lot of local companies “copying” the brand name and logo of other large international players. For instance we observed there was one company called Maybelieve New York which had a strikingly similar logo, products and name to the known international cosmetic brand Maybeline New York. There was also a brand name called Nieva which is very similar to the brand Nivea.

361 http://www.chinabeautyexpo.biz/