



IT SEEMS THAT EVERY WESTERN COMPANY THESE DAYS IS TRYING TO FIGURE OUT WAYS TO BREAK INTO THE CHINESE MARKET. IT'S NOT HARD TO UNDERSTAND WHY.

IT'S MUCH HARDER TO UNDERSTAND HOW.

TO SELL IN CHINA, YOU FIRST HAVE TO REALIZE THAT THERE'S A DIFFERENCE BETWEEN SELLING IN SHANGHAI AND NEW YORK. SAVIO CHAN KNOWS THAT, AND HE WANTS YOU TO KNOW THAT, TOO. CHAN IS PRESIDENT AND CEO OF US CHINA PARTNERS, A CONSULTANCY THAT SPECIALIZES IN AMERICAN AND CHINESE BUSINESS RELATIONS. BY PEERING INTO THE MINDS OF CONSUMERS IN CHINA, WESTERN COMPANIES STAND A FAR BETTER CHANCE OF CONVINCING PEOPLE TO PART WITH THEIR YUAN. CHAN, A SPEAKER AT THE CONFERENCE BOARD'S 2014 CUSTOMER EXPERIENCE CONFERENCE, SHARES HIS INSIGHTS ON HOW BUSINESSES CAN BETTER CONNECT WITH CHINESE CONSUMERS.

WHAT DO YOU FIND MOST NOTEWORTHY ABOUT CHINESE CONSUMERS?

For one thing, a good number of them are really borderless. They don't only consume in China. More and more middle-class Chinese consumers are traveling and shopping abroad. They will go to London or Paris or Los Angeles or New York to shop. Fifth Avenue and places like Woodbury Commons [a New York state shopping outlet] are packed with Chinese consumers because they appreciate the better bargain, without certain luxury taxes and duties.

SO THE BEST PLACES TO TARGET CHINESE CONSUMERS ARE OUTSIDE OF CHINA!

Well, 60 percent of the luxury-good consumption for Chinese consumers is out of China. They find better prices and better values abroad. What's really interesting about them is that they will spend \$99 to stay in a cheap hotel in New Jersey, but then when it comes to shopping, they will spend \$7,000 in a shop on Fifth Avenue.

IT'S KIND OF ODD TO PICTURE SOMEONE CARRYING AN ARMFUL OF HERMÈS BAGS INTO A MOTEL 6.

It's because many Chinese will only spend on things that they can show off to other people. Nobody knows when you travel to America and stay at a Motel 6, so what's the point of spending thousands of dollars to stay at the St. Regis? Nobody will ever see that. However, things like luxury goods are very visible to other Chinese friends, so people will spend a lot on

them. That's why a company like Victoria's Secret probably wouldn't do well in China. People won't spend that kind of money to buy underwear that almost no one will see. Instead, people like to spend money to say, "Hey, I moved up in society. I can now afford to spend two grand on a Gucci bag."

SO PEOPLE CARE A LOT ABOUT LABELS?

Chinese consumers are very brand-sensitive, especially if that brand is a foreign one. In China, there's a saying: "The moon is rounder overseas." So U.S. brands can sell more in China than in the United States.

First, there's the issue of quality. Until recently, Chinese quality was not very high. That's one reason why Chinese are willing to pay more for U.S. brands—sometimes three, four, even five times as much as for a local brand. It's why when many Chinese visit America, they go to GNC to buy ten boxes of fish oil and vitamins.

Second, if people can afford to buy foreign brands, then they have proven themselves in society. Again, though, it depends on the product. People will buy less-expensive domestic brands for the home—refrigerators, air-conditioners, and other home appliances. Few people except the family will see these brands in your home, so people see no reason to spend a lot on them, but when it comes to all the things you'd wear to go outside, people are likely to favor foreign brands.

BUT DOESN'T EVERYONE LIKE A QUALITY TV IN THE HOME?

They do, but quality for those types of products is actually quite good now in China—not as great as the quality of top brands in the world, but Chinese TVs and other products work pretty well. They may not be a 10, but a 7 or 8 quality-wise is good enough. For products for the home, no one cares about brand, as long as it works and doesn't break down. But for products many others can see, it's all about showing off. For example, people will only eat Häagen-Dazs in public. Men will take their girlfriends to the store and spend \$5 on a pint of Häagen-Dazs ice cream, but they will not buy a pint for the home.

DO CHINESE CONSUMERS CONSIDER OTHER FACTORS, LIKE SUSTAINABILITY, WHEN MAKING PURCHASING DECISIONS?

They care to an extent, but the general Chinese consumer is behind the U.S. consumer in that regard. In the United States, the government pushes sustainability, but the Chinese government is late to the game, and so as consumers, Chinese are not as sophisticated in that regard. But that will change down the road.



SO BESIDES THE BLING FACTOR, WHAT ELSE DO CHINESE PEOPLE CARE ABOUT AS CONSUMERS?

They care a lot about history, heritage, culture. Companies that somehow connect Chinese heritage to their products will do well. For example, in all of their stores globally, Louis Vuitton has pieces of artwork that somehow relate to the local area. That sort of approach resonates especially with people in China.

People also love sales. They love good values.

WHO DOESN'T?

Everyone all over the world does, but in China, it's how you convey the value of a product that matters. For example, in Chinese department stores, you see lots of workers standing there to promote products. These workers are paid not by the stores but the brands themselves. People like to discuss what they buy or what they plan to buy with others.

DO PEOPLE READ REVIEWS ONLINE MUCH?

They do this more than their U.S. counterparts. Chinese consumers do a lot of research and reading about products, and are always eager to share what they learn with friends. They spend a lot of time and energy on that. They are very vocal online, which is why it's important to engage them in social media.

In China, there is no Facebook or Twitter, but there is WeChat. In less than two years, it has blossomed, with 250 million users in China. It's driving the way that people shop. Users can instantaneously communicate with friends and family by chat and texting on WeChat. People can do that here in America, too, but what's different is that WeChat users often have group chats, maybe five or ten of their friends, or a family group—and if you don't like to type, you can press a button on your cell and talk into it, sending something like an instant voice mail to your group. It's like using a walkie-talkie. That's why China has no voice mail. No one leaves actual voice mails on cell phones or landlines because they are using WeChat in a more instant way. A lot of brands leverage this by, say, creating a video to show new products or models so that WeChat users will share it with their groups. It's buzz-creating.

WHAT ABOUT ONLINE SHOPPING?

Mostly, people buy only low-end products online, because a lot of online sales are cash-on-delivery. Use of credit cards is growing, but especially inland, credit cards are not very popular. For higher-end products, people prefer to buy in-store, whereas online they would be worried about whether something is real or fake. People worry about that a lot in China! That's one reason why very few top brands do e-commerce in China.

DO WESTERN MULTINATIONALS TAKE LOCAL CULTURE INTO CONSIDERATION ENOUGH WHEN ENTERING CHINA?

Some do. Others don't do so well because they don't consider how the Chinese culture differs from their own. Take Home Depot. In America, a lot of their marketing centers on a do-it-yourself approach to projects in your home. But this business model does not work in China. Chinese are not handy people. People don't renovate their garages themselves. If they want to do any work on their home, they hire contractors. Home Depot's American model proved to be completely wrong for China. Instead, the company should've targeted more contractors and construction companies.

Best Buy is another company that had problems. The Chinese appliance-and-electronics retail industry is very price-driven. Best Buy was competing with local dominant chains that are larger and capable of crushing Western stores on price. Meanwhile, Best Buy was also charging for delivery and all sorts of after-sell services, but that model doesn't work in China. People don't want to pay for those services. The store was just too expensive for many people. Even the name "Best Buy" translates into "Think One Hundred Times Before You Buy." That's not good.

IS THERE A FIELD THAT IS PARTICULARLY RIPE FOR WESTERN PENETRATION?

I'd say women's cosmetics and skincare. Chinese women are getting more powerful and consuming a lot more. For example, my friend Wei Brian—she's Chinese but is married to an American and lives here—has had a big following in America on HSN for her skincare products. After she began selling her products in China a year ago, she achieved the same volume in business as she did in America over the past ten years.

The market is big in China, and there's an insatiable demand for U.S. and foreign products, but companies really need to have local Chinese leaders to understand all sorts of local nuances. They have to talk to a lot of Chinese consumers. Unfortunately, Americans' understanding of Chinese consumers is still so little and so weak. ■