



CRACKING THE COMPLEX CODE

*Learning from Swedish companies' success
in the Chinese consumer market*

CHINA: A STRATEGIC CHOICE

China is a vast, and at times, a daunting market and it is not the right fit for everyone; but it cannot be ignored. All international brands need an informed position to ascertain if China is a viable consumer market. The purpose of this study is to offer guidance by capturing learnings from Swedish brands who have been successful in the market.

Many consumer brands have faced tough times during the pandemic. A major impact has been a dip in offline sales. While this dip has driven increased sales online, it has also driven increased online competition, with many brands stating that this has put pressure on their margins.

The sheer scale and power of China's consumer market means interest remains high from consumer brands. There are mixed perspectives among the Swedish brands that we work with in China; some see China as an opportunity to compensate for lost business elsewhere, while others view it as the next natural step in their global growth journey. Entering China is neither cheap nor hassle-free, and requires dedicated focus and investments; close attention and dedicated resources are needed to maintain the strong quality and sustainability profiles which many Swedish brands are associated with. While China is not a market that works for all brands, all international brands need to consider what a potential China entry would require and deliver and make a conscious and informed decision about progressing or not.

In 2019, the Business Sweden team in China conducted a [study of 1,500 consumers from Chinese tier 1 cities](#) to understand their shopping patterns, with the goal of using these insights to better guide Swedish brands in their strategic analysis of China. This research enabled many brands to target their marketing and sales, but it also prompted brands to ask us how their peers have navigated market entry.

This report is the result of the conversations we have had with some of the most successful Swedish brands in China. The insights presented in this report show what a recipe for success should include and draws on the learnings from years of consumer experience from some of Sweden's world leading brands who have successfully carved out a space in the highly competitive and profitable Chinese consumer market.

We are confident these insights will be useful for your own China plans.

Joakim Abeleen
Market Area Director, Greater China



JOAKIM ABELEEN

Market Area Director,
Greater China

A HUGE MARKET MOVING AT FULL SPEED

Over the last decade China's consumer market has grown and transformed rapidly; total retail sales have doubled and Chinese e-commerce has grown from three per cent to 35 per cent of the world's total online sales during the same period.

With 1.4 billion potential consumers, it is not surprising that the Chinese market is attractive to many Western brands. But a huge number of shoppers does not automatically trigger sales success. In fact, the huge market makes it challenging for new brands to stand out, and getting over the initial threshold requires meticulous planning and a readiness to invest in new marketing and sales channels. And the market is not static. New channels appear, new opinion leaders emerge and consumer preferences shift. Even after a brand has climbed over the initial hurdle, there are new and evolving challenges ahead. But it is possible to carve out a place in the market and a number of Swedish brands have been successful in China, by leveraging the right insights and strategic preparations.

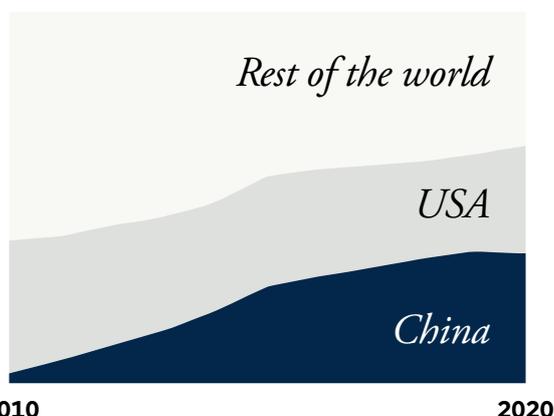
GROWTH OF E-COMMERCE

Many brands are attracted by China's e-commerce universe, as it is often easier to launch online in remote markets. Large campaigns, such as the famous Double-11, the vast e-Commerce event each year on November 11, have astronomic sales figures and have raised the profile and drawn attention to the potential of online. E-commerce has also had an additional boost during the pandemic period, during which retail sales dropped slightly, while online sales increased by almost 15 per cent in 2020. It is still important to understand that 80 per cent of all consumer sales happens through brick and mortar stores, and that offline and online channels are interconnected. Pure online brands need to invest even more in marketing, as consumers need to be convinced to purchase without being able to touch and feel.

SELLING FROM THE OTHER SIDE OF THE BORDER

An attractive option which many foreign brands explore is cross-border e-commerce. This is a model where brands outside of China sell directly to end consumers via special cross-border platforms. The products are normally stored in bonded warehouses in China to guarantee proximity to customers, but customs clearance only happens once the customer places an order. This set-up allows brands to sell in China without having to establish a subsidiary or partner with a local distributor; it also enables sales of certain products which would otherwise require special approvals in the market. Cross-border e-commerce grew by more than 30 per cent in 2020 and offers a viable initial market entry stepping stone for some brands. Some companies use this approach and follow it up with domestic establishment when sales takes off, while others stay as pure cross-border brands for longer periods of time.

80%
of consumer sales happen in brick and mortar stores



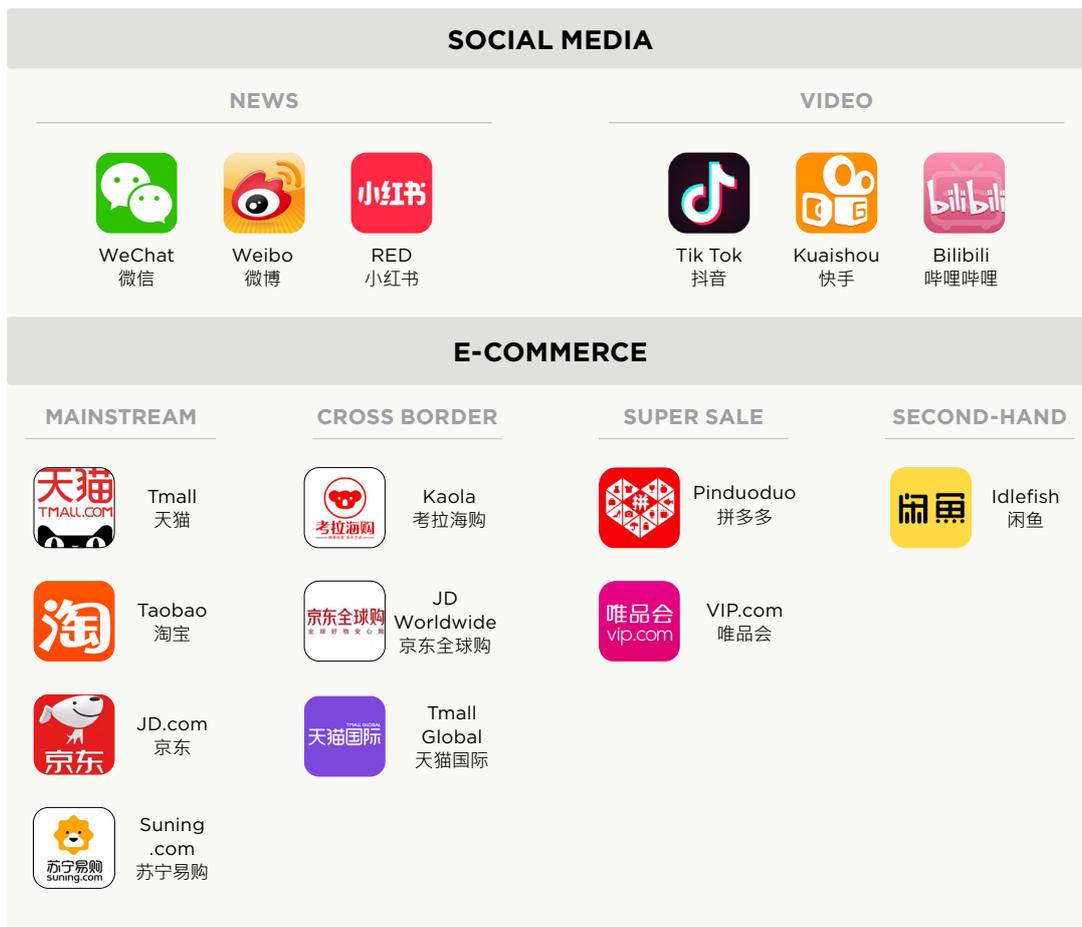
In one decade, the global e-commerce market has grown more than six-fold, and China's share of the total market has increased from three per cent to 35 per cent (source: Euromonitor)

A PLATFORM MARKET

Many brands have tried to leverage the same marketing and sales channels in China as they do in their home markets, but with limited success. A vast majority of online sales occur on third party platforms, and it is advisable to allocate money and resources to establish a presence in these channels, instead of building stand-alone websites and apps. The larger generalist platforms cover a big share of the total market, and offer options both for cross-border and domestic sales; there are also niche platforms which are worth exploring in some segments. All large platforms, both market places and social media channels, are China based. Many of the western platforms are blocked in the local

market, which has driven the development of a domestic landscape. While it is of course possible to leverage some of the content and structure used in other parts of the world, a presence in China often means rethinking the approach to fit the local setup and consumer preferences. It is also important to consider the risks involved in giving control of critical customer touchpoints, as well as customer data, to third parties. If the bulk of a company's sales are online, a brand will be dependent on platforms and operators, and exposed to the uncertainties involved in not running an own store. Striking the balance between platform collaboration versus in-house control, and finding the right partner to operate the stores, is crucial for success.

MAIN SOCIAL MEDIA & E-COMMERCE PLATFORMS IN CHINA



A snapshot of the most popular e-commerce and social media platforms in China

CREATING A TAILOR-MADE CHINA BLUE-PRINT

A structured plan is the foundation for success in the Chinese market, regardless of the companies' sizes and ambitions. A plan should provide a vital assessment and guidance on the costs involved, which is critical to know before advancing market entry.

Requiring a well thought out and thorough go-to-market strategy is not unique to China, but a strategy should also be combined with a robust operating model. While this report focuses on the customer facing front-end, and how to make marketing and sales fit for China, it is important to also consider implications for the underlying operating model. The operating model should detail how your company plans to integrate customer data across channels, link between local interfaces and global systems, and how to configure logistics and warehousing to support a fast-paced market like China.

Marketing and sales are two critical pillars of any consumer brand strategy which both need to be carefully constructed and managed to achieve success, however they are more closely integrated in China than in many other markets, making the journey transition smoother. In this section we

will explore how Swedish brands have managed to adapt their content, pick the preferred channels, identify good partners, and explore the power of influencers and campaigns.

IS THERE A BUSINESS CASE?

When putting all the pieces together for a China blue-print, it becomes obvious that there are many factors to consider and that entry into the Chinese market will come with a cost. It is critical to make this calculation before attempting to enter the market. Several cost elements are proportional with sales, such as commissions to partners and platforms as well as logistics costs, but there are also a number of separate cost elements, particularly under the promotion category, where large amounts need to be taken before sales start to increase. It is key to have this accounted for up-front to avoid crashing before take-off.

"Do your homework. Big promises can seem lucrative but don't often pay off. Take it slow and get it right, the first time. Progress will be very fast once a good foundation is laid."

Marcus Burmester,
Lantmännen

KEY ELEMENTS TO CONSIDER WHEN DESIGNING A CHINA BLUE-PRINT

MARKETING

How do you create brand messages for the Chinese market without losing your brand identity and origins?

What channels should be used to target the right segments?

How is your digital marketing capability and what services would you expect from a local partner?

What does the annual campaigns calendar look like and which influencers should you collaborate with?



Content

Channels

Partners

Promotion

SALES

Which products do you want to push to the Chinese market, and are any alterations required?

Which sales platforms should be prioritised what types of store should you be present in?

Do you prefer to work with a local distributor or directly with store operators to take better control?

What direct sales converting activities should you engage in and how does it impact your margins?



KNOW YOUR CUSTOMER

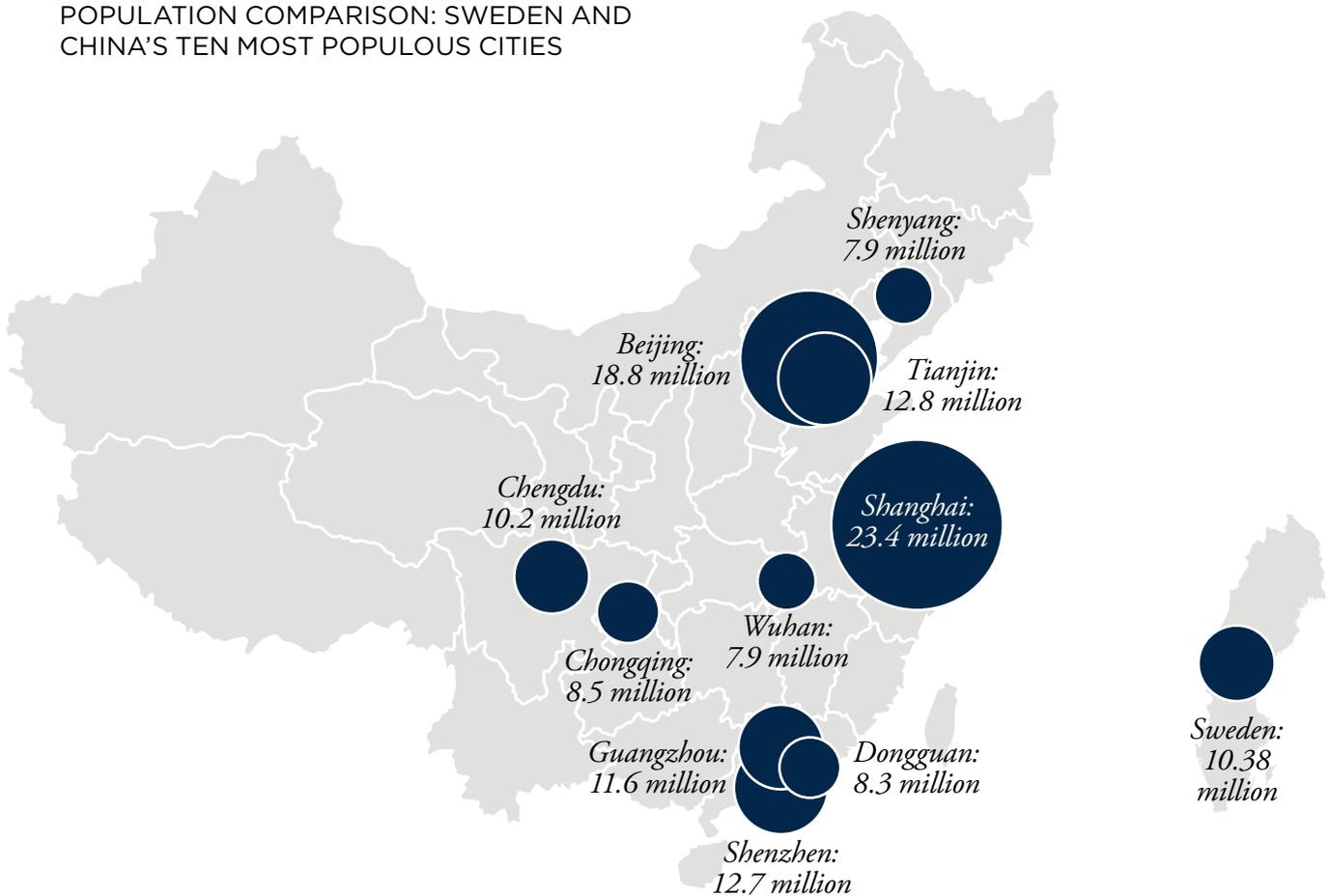
Before designing a sales and marketing blue-print, it is wise to understand who the target customers are. China is a huge market, with many cities having populations larger than Sweden. It is tempting to be greedy and try to go for the entire market at once, but it is often wise to zoom in geographically or on a more defined customer group than you would in smaller markets. This is relevant for all brands, regardless if the focus is online, offline or a combination of both. The geographical location of physical stores should be carefully aligned with strategic goals and online channels should also be segmented with the target audience in mind. Even if online reaches everyone, a proper selection of good channels and influencers requires an understanding of who your brand wants to attract. Many Swedish brands confirm that the demographics of their main buyers in China look different from

those they experience in Europe. Some of them have higher price points, which broadens the brands to more luxurious consumers, while others have implemented light versions of their products to attract consumers of a younger age than they would traditionally have. They also experience, and drive different usage of the products - sometimes in creative ways which were not originally intended, but which can be new innovative input both for the Chinese market and elsewhere. An example is Lantmännen, who realised that their Chinese customers were not always eating muesli with yoghurt or milk, but as an ingredient when making salad. They learnt and adapted their marketing campaigns accordingly. This one example shows the importance of doing in-market testing of both the brand and new products, and to continuously follow up and leverage the good data sources available post launch.

"Be present where your customers are, and embrace the direction they take you."

Herbert Law, Oatly

POPULATION COMPARISON: SWEDEN AND CHINA'S TEN MOST POPULOUS CITIES



Leverage the right content

Many companies start their entry in the Chinese market the wrong way, and discussions tend to centre around which channels are best to use as a launch pad. China is indeed a platform market, particularly online, but each platform serves a purpose and the right match depends on the messages you want to convey and the products you want to display. A question which brands often ask during the planning phase is, how much should they adapt their brand message and what product alterations are required to attract Chinese consumers. Even though each situation is unique, many brands still end up with a balance of leveraging their original concept and story, while adapting the explanations to better fit the local audience. In most cases a big part of the brand value is related to the Swedish origins and heritage, and it would be a mistake to over-localise. But the messaging might need to be adapted to fit the culture of the consumers and the maturity of the relevant product category in the local market. Sometimes the category might not even exist in the market, and then is not only about promoting the brand, but also about building awareness of and interest in the relevant

category. Oatly channelled efforts into explaining the benefits of plant-based products in the Chinese market, and less on direct brand promotion.

And what about the actual products? Should they remain the same or is there a need to develop local versions with Chinese characteristics? Most brands stick to their base assortment, but for some brands, particularly within fashion, there is a trend to localise product ranges. Some of these products gain traction in markets outside of China - either intentionally or by organic consumer demand. Examples are spring festival editions from Happy Socks and GANT, the Lite Air Mask from Airinum developed for a younger customer segment in China, and IKEA's gaming furniture range, which was developed and launched in China in early 2021, but with plans to expand globally. For both global ranges or localised editions, what is common for all brands is that there is careful testing of each product in the market to understand consumer reactions and either alter or withdraw certain products which are not well received. Very few brands end up with exactly the same range in China as in Sweden.

"Don't assume that popular products in Europe will have automatic appeal in China. Know how your product can fit into consumers' lifestyles."

Karolina Horoszczak, Ikea



MARKETING

Build on your original brand story, but adapt the messages



SALES

Use your global range, but don't be afraid of experimenting with local editions

Optimise your channels

While we know China is a platform market and it is almost impossible to succeed without leveraging third party market places, this does not mean that the answer is always to start a store on one of the larger platforms. It is important to have a well-planned channel strategy. Each platform comes with a rather high cost and will demand significant platform-promotion spending as well as discounts to help boost volumes, leading to lower margins than what can be achieved in the Swedish e-commerce market. The platforms also have different store options, ranging from own flagship stores to mixed brand stores which require different levels of spending and deliver different exposure. If played well, the right platform strategy can create a presence that will rapidly increase the customer base. However, it is important to consider how to retain and get closer to customers, which is where social media interaction and smaller, more personal stores can play important roles.

Social media also requires a specific strategy as there are a number of popular platforms for brands to be present in. The exact mix depends on the target group and the content types to focus on. WeChat is almost always a must; it allows for education of, and interaction with a specific customer base through longer stories, and it also facilitates tailored mini programmes and stores. Other common channels for Swedish brands are Weibo, a short post Twitter style platform, Douyin, the Chinese version of TikTok, and RED, an influencer heavy social community. Each channel requires focus, tailored content and an active presence, so it is important to be selective and not spread resources too thin.

”Shorten your time to market by using local channels to listen to your end customers and quickly adapt to changing trends.”

Anders Wahlström, SAS



MARKETING

Stay active in social media, but don't spread yourself too thin



SALES

Third party marketplace apps are a must, but can be combined with more personalised options

Find the best partners

Just putting the right content in the right channels won't automatically deliver success. Just like in all markets, it is key to have the right people positioning your brand and selling your products. In a geographically distanced market like China, it is even more important to select your partners carefully as they will be the physical presence representing your company in the market. China's unique digital ecosystem also means that content that may have been successful in other markets will have little to no impact with a Chinese audience. To succeed you will need a strong digital marketing agency, who knows how to utilise the various social media channels to create market specific content, a relevant presence and buzz, has access to suitable influencers, knows how to properly balance a pyramid of small scale Key Opinion Consumers (KOCs) with more expensive Key Opinion Leaders (KOLs), and

even activate celebrities when relevant. In order to sell on e-Commerce platforms you will also need a trading partner (TP) who will be the interface to the platform and the party running the store. There are a plethora of TPs, each with their own characteristics and experience. Some are specialised in certain product categories, others zoom in on one platform, and their track record can vary dramatically. Selecting the right TP is a key decision when launching an online presence in China, and is, in many cases the factor which makes or breaks it; so it is worth spending time on getting the selection right. If an offline launch is also part of the mix, sales partners will need to be selected as well; few TPs are strong in offline sales, and few traditional distributors are strong online. But it is key to co-ordinate the efforts of the online and offline partners to ensure price levels, positioning and campaigns are synchronised.

"Your partner choices should be based on their strengths in specific channels. Partners are often stronger in physical or online – not both."

Aleksander Milenkovic, Happy Socks



MARKETING

Go for a local agency with the right skills and connections



SALES

Finding the right TP is one of the most important decisions to make

Promote your brand and products

Chinese consumers are social shoppers. [In a survey recently performed by Business Sweden](#) 81 per cent of the consumers considered reviews made by friends or influencers before making a purchase. This presents a challenge for new brands and products who do not have a review presence to leverage; influencers can play a strategic role in the early stages to help build up a positive profile. Chinese consumers also like shopping campaigns. The largest campaign day of the year, Double-11, generates around ten per cent of the total annual e-Commerce sales. Participating in campaigns often requires proven sales volumes in the previous months and commitments to price discounts.

Influencers and campaigns do require substantial investment, but it is close to impossible for an unknown brand to succeed without these financial commitments. This commitment is required both for brand building, by positioning the brand with the right people in the right settings, but also for driving immediate sales through live

streaming events and e-Commerce discount campaigns. It is key to work on both these levels, even though it is tempting to prioritise short-term sales conversion in favour of long-term brand building. A brand needs to have separate marketing and sales budgets in their China go-to-market plan. From a sales perspective it is also important to carefully monitor margins and not fall into the promotion trap. All brands will need to spend a significant amount on platform promotion to cut through the noise, but this spend combined with larger discounts can quickly turn profit into negative contribution margins even before production and overhead costs are considered.

“Celebrities can educate the market about your brand but won’t necessarily generate instant sales. Livestream has a good ROI but it significantly drives down price levels.”

Jessie Shi, FOREO



MARKETING

Allocate sufficient budget for long term brand building activities



SALES

Leverage livestreaming and discount campaigns, but be careful with margin erosion

KEY LEARNINGS

Understand what brands should focus on, how to avoid mistakes, and minimise risk in their journey into the Chinese market was core to this study. All participating brands were asked what they would do differently if they were to start over, and each brand had their own story, however the common threads can benefit Swedish companies looking to start their own journey.



PURE ONLINE IS TOUGH

Even though there are examples of brands succeeding with just an online presence, all the interviewed brands have a balanced model combining brick and mortar with online channels. Some of the brands started several years ago with an exclusively offline presence and have then gradually supplemented their sales network with an online presence; while others have had online as the main channel from day one and leveraged an offline presence to create attention and ultimately drive traffic online. For many categories the touch and feel factor is still critical in attracting customers. The alternative, to rely on influencers to endorse how good the product tastes or feels, can in many cases be even more expensive than a certain level of presence offline.

“Brick and mortar remains important – customers still want to be able to touch and feel products.”

Laura Frisk,
Happy Socks



STAY CLOSE TO THE MARKET

All the brands recognise that from day one, it is critical to have close contact with the Chinese market, either by having their own team in China, or by working closely with local partners. This has been even more important during the pandemic, when travel limitations have increased the distance. Proximity is important as brands need to track and react to consumer sentiments within hours, while also following overall trends which will drive adaptation of the brand messaging and product offering. The Chinese market moves at ‘China Speed’, a rapid pace that is unlikely to be familiar for Swedish brands. Any brand not active in the market will quickly become obsolete, and miss out on the huge learning opportunity that a Chinese presence entails. This has made a number of brands reconsider previous distributor or franchise models and start taking direct control of sales and marketing channels. It has also made brands realise that you can’t control China with just a sideways glance, while putting all of your focus and energy into Western markets. China deserves and requires the same focus, if not more, as a launch in any large Western country.

“We enjoyed working with our long-term distributor, but having our own team in place has really helped us understand the nuances of the local shopping culture. A hands-on approach is invaluable.”

Ylva Röntfors,
GANT



PICK THE RIGHT PARTNERS

It is impossible to market and sell on your own in China; the social media and e-commerce platform landscape looks completely different compared to Europe, and many marketplaces require brands to have a professional operator (TP) to run a store. The right partner is seldom the first one you encounter. Many of the brands have shifted partners throughout their journey, moving from the first opportunistic choice onto partners that better suit their current needs. Everyone confirms the importance of a proper selection process, where not only the partners' reputation and credentials are scrutinised, but also the specific plans and the team line-up for the relevant brand. This group of people will write your social media posts, interact with your customers in the marketplaces, potentially also staff your offline stores, and be your ambassadors in the local market – so they have to be a great fit for your business.

“Find a trading partner that suits your company size and growth ambitions. A mismatch can be very costly.”

Alexander Hjertström,
Airinum



LEVERAGE INFLUENCERS

All of the brands featured in this report have used influencers at some stage in their journey, and all have learnt the hard way that brand building and direct sales often require different types of engagements and profiles. While celebrities can help some brands establish a fashionable image, they don't always automatically boost sales. To drive volumes, live-stream talents and micro-influencer endorsements can deliver more impact. Brands are also noticing the shift away from generic stars towards expert influencers. An established brand like IKEA is only working with opinion leaders within their segment, and they have recently started engaging their own employees in their live-streaming.

“Chinese consumers are savvy and increasingly aware of brands using paid influencers as a tool to promote their products. Think outside of the box and be fast and agile.”

Vincent Meunier,
Absolut Vodka



IT'S NOT CHEAP

It will cost money to enter and expand in China, something which all brands emphasised. It can be tempting to start gradually and test the market, but dipping a toe in the water does not work. Even for a smaller scale launch there will be a number of unavoidable cost elements just to get the basics in place, and a lot of marketing spending required to catch consumers' attention. Sometimes partners offer to absorb part of the cost, but this is conditional and a payback should be factored into the overall cost of the investment. Brands must be careful never to assume that something will come for free. For many brands, the true cost of becoming big in China has been somewhat unexpected, and they have had to restart their China journeys with a clearer structure in place and with sufficient investment upfront.

“China is vast. Go big, or go home.”

Karolina Horoszczak,
Ikea

KEY RECOMMENDATIONS

Swedish consumer brands are recommended to draft a China blue-print and assess the cost and effort involved in entering the China consumer market before activating market entry. For brands who already have a presence in the market, it is worthwhile taking a step back to assess if the current situation reflects the business and growth ambitions and what alterations might be required.

Concrete actions recommended are:

- Establish a clear ambition level, and create a blue-print for marketing and sales which reflects those ambitions
- Spend sufficient time identifying the right partners in the market
- Stay close to the market and be responsive to trends and customer feedback

READY TO GO?

The findings from this research are clear: market entry into China requires a relevant concept combined with proper planning and execution. There is no magic recipe for success; but by incorporating learnings from other brands, the market entry journey can be accelerated and also increase the likelihood of capturing a share of the market.

PARTICIPATING COMPANIES



Ikea has had a presence with retail in the Chinese market since 1998 and now has more than 30 stores across the country as well as online sales through third-party marketplaces and their own shoppable app. IKEA is testing and exploring new ideas in China like smaller city shop or home experience of tomorrow place to meet changing consumers' shopping preferences and bring a constant innovation.



Lantmännen started with a cross-border approach but has swiftly moved to now having several of their products physically present on Chinese shelves. At the outset, a number of distributors were knocking on their door ready to import and sell offline, but over the last four years Lantmännen has focused on identifying the right long-term partners. In 2020 they launched an own flagship store on Tmall for the AXA brand.



Oatly started their journey into the Chinese consumer market in 2018 with a collaboration with speciality coffee shops in Shanghai. They have recently significantly grown their on-trade presence through a partnership with Starbucks, at the same time as expanding off-trade and online sales.



GANT has had a presence in the Chinese market since 2004, when the partnership with a local trade partner was established. The company took over operations from their long-time partner in 2021 and they now run all their physical stores, online channels, and have a local team in place at their Shanghai headquarters.



Airinum has sold their range of health accessories in China since 2018. Their journey started with a distributor but they have now taken more ownership of their channels with a majority of their sales coming from online channels which is complemented with a physical presence with pop-up shops and department store collaborations.



Absolut Vodka has had a presence in China for many years as part of the larger portfolio of their parent company Pernod Ricard. A large upswing in popularity happened four or five years ago when online sales and marketing activities, including collaborations with fashion designers and brands took Absolut Vodka to the next level.



Happy Socks has proved that a second approach is worth the investment. After an attempt over a decade ago with a small-scale investment with an offline distributor didn't take off, their 2017 re-launch continues to show positive growth. The focus on China's Tier 1 cities has reaped rewards with the majority of their sales coming from their 61 concept stores, but online is growing rapidly.



FOREO has had a successful growth journey with their beauty products. While they primarily use online channels with a presence on the largest platforms, they also have physical sales points in 13 department stores across China.



SAS (Scandinavian Airlines) has been flying to destinations in mainland China since 1988. SAS reaches its customers through own channels as well as via agencies. Over the last few years, they have supplemented traditional channels with a strong online presence for both sales and social media marketing.



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Business Sweden would like to express our gratitude and thanks to the people who were interviewed as part of this study.

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The report is based on the interviews with the above contributors and combined with Business Sweden's experience from helping Swedish brands in China. The analysis and opinion presented in this document and supporting material has been formulated by Business Sweden, and should not be viewed as opinions by the participating brands, unless explicitly quoted.



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