

## Going to market in China



Consumer goods companies desperately want to reach China’s millions of emerging customers. To do so, they will need multiple strategies.

Since the days of *Jack and the Beanstalk*, the road to market has been fraught with risks and opportunities. If the giant in your story is China, that road can be long, convoluted and thorny.

China’s retail channels are highly fragmented, and despite the rapid rise of national and international retail chains, likely to remain so for the near future. In 2008, almost three-quarters of consumer packaged goods sales in China reached customers through independent stores or traditional retail formats like open-air markets. By 2013, chain stores are expected to have gained only a further 10 percent share of a market that will have grown by 60 percent in five years. Even in the fast-changing world of consumer electronics (CE), national retail chains accounted for only 17 percent of sales in 2008, with small regional chains and independents dominating the market and will still account for less than a quarter of sales in 2013 (see Exhibit 1).

This fragmented retail environment makes market access and distribution management difficult for consumer goods companies, since they can’t rely on the standardized processes and infrastructure they are accustomed to using in the

US, Europe or Japan. Moreover, many distributors are small and not particularly capable. Wholesalers are mostly “box-movers,” adding little value in terms of either developing efficient networks or enhancing retailer performance.

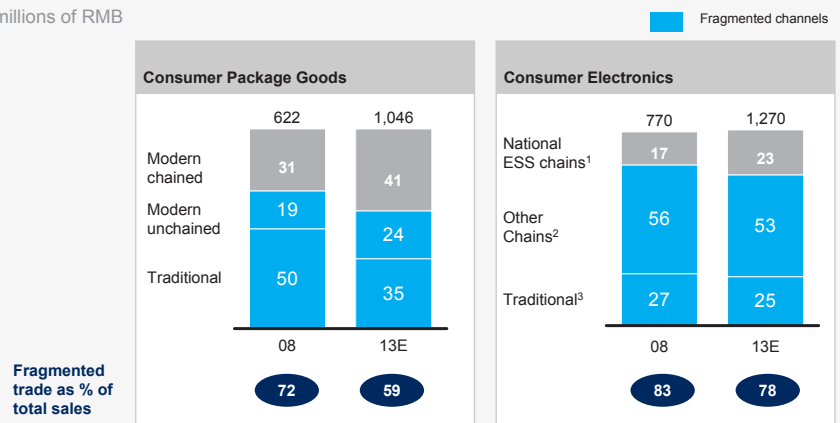
Then there is the growing importance of customers in smaller cities, with which foreign retailers are much less familiar. In 2010, the 40 largest and most prosperous cities—known as Tier 1 and Tier 2—accounted for 44 percent and 47

percent of sales of fast-moving consumer goods (FMCG) and consumer electronics respectively. The remaining 840 cities (Tier 3 and Tier 4) are now growing faster, however, both in terms of size and disposable income, making them the likely source of two-fifths of growth in consumer electronics and four-fifths of growth in FMCG over the next three years.

Today, goods reach Chinese consumers by a wide variety of routes, from direct distribution by manufacturers to multiple

Exhibit 1:  
**Where the sales are**  
millions of RMB

ESTIMATES



1 Gome, Suning, Bestbuy/Five-stars  
2 Regional Electronics Superstores, hypermarket/ supermarkets/ department stores  
3 PC malls, individual mom and pop stores, etc

layers of national, regional and local wholesalers and distributors. These networks, which are characterized by unsophisticated players operating on low margins and motivated by price promotions, make it difficult for manufacturers to create and sustain loyalty. And connecting with customers is difficult, too, as manufacturers have little control over the way their goods are priced, presented and sold in stores. That matters because 45 percent of Chinese customers say that sales people are likely to influence their final choice of brand, compared to only 24 percent of those in the US. As one Chinese consumer told us, “I find myself leaving the store with a different brand/ product than I planned because of the suggestion of the in-store salesman.”

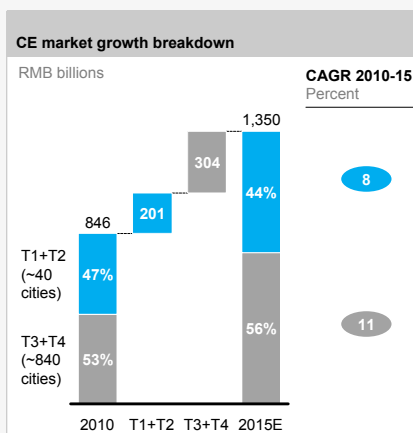
### Segmented solutions for fragmented markets

The most successful consumer-goods companies operating in China are navigating complex routes to market by segmenting them according to type, size and value, then developing standardized offerings, processes and routes to market to suit each segment. They are supporting these efforts with a focus on operational efficiency that allows them to extend the reach of their most effective strategies.

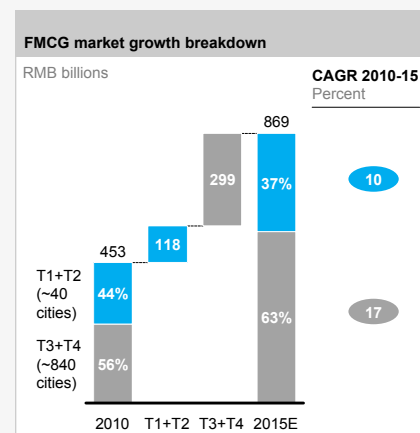
Three elements are crucial—consumer activation (pricing, packaging, promotions); the sales package (loyalty programs, discounts, bonuses); and delivery methods (means; frequency; order size). Leaders concentrate on five things:

- Establish **systematic standards** segment by segment to simplify field execution
- Link execution guidelines to **strategic marketing objectives** by segment
- Invest in **shopper and outlet insights** to optimize tactics

Exhibit 2:  
Tier by tier: Where the growth is coming from



SOURCE: MGI McKinsey China Consumer Center survey



- Emphasize both share/mix and **brand development** objectives in designing execution
- Use rigorous **ROI assessments** to prioritize investments.

One beverage company segmented its largest and most strategically important retailers into *bronze*, *silver* and *gold* groups depending on their sales value and growth. Instead of one-off negotiations, it created integrated packages and tied all promotions—both “gives” such as promotional material and credit, and “gets” such as in-store visibility and exclusivity—to its strategic intent. It also provided escalating rewards to encourage retailers to trade up to higher-value goods. Retailers in strategically important locations were offered a package of discounts, point of sales material, account support and flexible logistics that increased in value depending on their segment. In return, the retailers were expected to justify their position in a segment by complying with price and presentation standards and delivering agreed levels of growth.

Another FMCG company focused on improving its direct store delivery (DSD) network to profitably supply more outlets without the need for wholesalers, which

tend to have weak relationships with retailers and limited outlet management skills. Indeed, research shows that half of volume can be served through DSD more profitably than through wholesalers. A combination of improved distribution center locations, smaller trucks and a cost-effective telesales operation cut the minimum economic drop size in half, making it possible to serve more places. This allowed the firm to profitably deliver 80 percent of its total volume directly, up from 50 percent, reducing the margin shared with intermediate players and reinforcing relationships with retailers.

Done right, improved go-to-market capability delivers real results, on the order of up to 15% revenue improvement, and up to 25% in cost reduction and profit growth. Qualitatively, it can help to deliver stronger consumer preference as a result of higher penetration and prominence, as well as a distinctive platform for brand development and competitive differentiation. And ultimately, there is little choice—as China develops, so must the businesses that hope to do so, too.

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