



BUILDING A BRAND CHINESE CAN TRUST

Understanding what
really drives shoppers
perceptions

RE-DEFINING BRANDS IN CHINA - TRUST IS KING

In a market where fakes, pricing scandals and food safety are big issues, trust is the most important criterion for customers in choosing their favourite retail brands. While there is some variation - for example with fashionability being more important in apparel and product quality being more important in grocery - building trust is always the most important criterion to win customers' loyalty in China.

This year's Retail Proposition Index surveyed 1,600 customers in East China (chosen as it is normally at the forefront of China's development) to reveal their favourite retail brands. The overall winner was Nike, continuing to demonstrate the power of sports

brands in the market. Second place in customers' ratings was Zara, showing tremendous performance for such a new brand in the market. Coming in third was RT Mart, by far the best performer all round in the grocery category.



The Winners

Proposition Index 2011

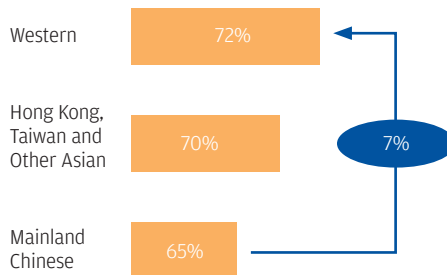




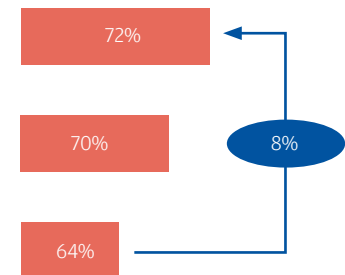
Trust score by type of retailers

% rating of each type of retailer - Trust

Clothing & Footwear



Grocery Retail



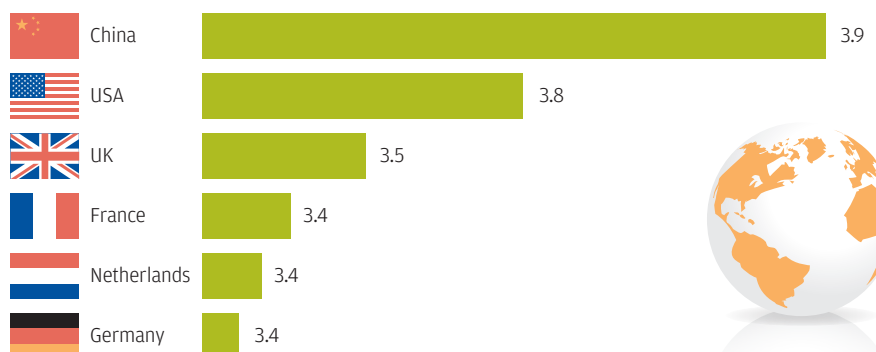
As interesting as who the winners are is which retailers are performing poorly in the index. By and large local Chinese retailers are the ones suffering in customers' eyes. The major reason for this is customers trust foreign retailers

more than local ones. While this favourable impression is good for foreign retailers it is also a double edged sword - it puts pressure on foreign retailers to deliver an impeccable proposition.



Chinese consumers are more satisfied overall with retailers than their peers in other countries

Average overall retailer rating by country surveyed
1-5 rating



Compared to other markets Chinese consumers rate retailers better than do customers in other countries, suggesting overall they are happy with the offer. This is due to the very rapid development of the retail sector where some of the best rated players are the new entrants.

Customer preferences shift rapidly in China, giving zero room for complacency. Indeed among the players at the bottom of the table are those who recently were considered the best players with the best prospects. Maintaining customers' trust in modern day China is a day to day challenge.

CLOTHING

Two groups of retailers do well in clothing - the major sports brands and the vertically integrated international brands such as Zara and Uniqlo. It is also noticeable how many of the older more local brands have lost their customer appeal.

Clothing - Overall Scores

Overview of Proposition Scoring

% of max possible score

	Low Prices	Product Quality	Product Choice	Products Suited to Me	Service	Store Look & Feel	Value For Money	Fashion	Trust	Overall
Nike	55.0	85.0	82.5	80.0	75.0	87.5	65.0	80.0	77.5	87.5
Zara	44.2	71.2	82.7	75.0	82.7	88.5	71.2	82.7	76.9	82.7
Jack and Jones	57.9	75.0	64.5	69.7	78.9	84.2	67.1	80.3	75.0	80.3
Adidas	43.4	76.3	67.1	63.2	75.0	75.0	72.4	72.4	78.9	76.3
Uniqlo	68.3	71.7	78.3	68.3	73.3	81.7	68.3	70.0	76.7	73.3
Li Ning	65.4	76.9	69.2	57.7	71.2	65.4	67.3	57.7	67.3	73.1
Esprit	45.5	76.1	67.0	67.0	72.7	76.1	60.2	77.3	71.6	72.7
H&M	54.7	59.4	82.8	68.8	67.2	79.7	60.9	79.7	70.3	70.3
Baleno	71.2	69.2	61.5	65.4	73.1	65.4	67.3	61.5	71.2	67.3
Etam	48.3	66.7	68.3	58.3	63.3	68.3	63.3	76.7	65.0	66.7
Giordano	57.7	63.5	55.8	57.7	67.3	67.3	61.5	55.8	61.5	65.4
Vero Mods	55.3	59.2	65.8	56.6	64.5	68.4	59.2	67.1	57.9	64.5
Metersbonwe	50.0	60.9	57.8	51.6	60.9	68.8	65.6	65.6	62.5	64.1
Category Average	55.1	70.1	69.5	64.6	71.2	75.1	65.3	71.3	70.2	72.6

More than 10% above average

Average (+/- 10%)

Worse than 10% below average

Sports apparel brands are highly successful in China, demonstrating that a model which invests consistently in a clear brand still delivers strong results. Nike leads the way in this sector - critically backing up the brand with strong scores for product quality, store environment, and fashionability.

Among the other sports brands Adidas still performs well, with strong trust reflecting its historic strength in the market. However, unlike Nike it is failing to be best on any particular dimension. Despite strong growth driven by its fast expanding store portfolio, Li Ning's scores

show more challenges, with poor ratings for fashionability, store environment and product suitability. Li Ning's only strong score is for price.

Sports brands now face a fight for top spot in customers' perceptions from the vertically integrated international brands. Leading this in customers' minds is Zara which while still small in China is getting very strong ratings. It is seen as expensive but leads the market in fashion, service and store environment generating a very strong overall score. The next challenge for Zara will be to keep this position while successfully expanding its store base.

Most striking in the apparel scores is the poor performance of some of the more established retailers in the market. These retailers are scored poorly suggesting that the formula of moderate levels of fashion, smaller store sizes and limited ranges is not competing well with the international vertically integrated players. The international vertically integrated players with wider ranges, better fashion credentials, and the willingness to invest in large stores appear to be poised to continue to gain share against these players.



GROCERY

The contrast between local and international players is more pronounced in grocery - with one honourable exception being the Taiwanese RT Mart which is the clear winner in the sector.

Across the board, RT-Mart presents a stronger consumer proposition than its direct competitors

Overview of Proposition Scoring - Grocery Retail
% of max possible score

	Low Prices	Product Quality	Product Choice	Products Suited to Me	Service	Store Look & Feel	Value For Money	Trust	Overall
RT-Mart	73.9	70.7	88.0	81.5	66.3	73.9	76.1	75.0	80.4
Tesco	75.0	65.0	83.3	80.0	65.0	70.0	70.0	71.7	75.0
Carrefour	66.9	68.5	80.6	75.0	64.5	69.4	66.9	67.7	74.2
Walmart	68.3	75.0	83.3	76.7	75.0	75.0	71.7	76.7	73.3
Century Mart	61.5	66.7	69.9	69.2	61.5	65.4	66.7	67.3	72.4
Lotus	61.1	65.3	77.8	70.8	58.3	59.7	62.5	65.3	69.4
Lianhua	56.8	61.4	66.7	63.6	59.1	62.1	58.3	61.4	65.2
Trust Mart	64.6	56.3	68.8	60.4	52.1	58.3	60.4	62.5	64.6
Category Average	66.0	66.1	77.3	72.2	62.7	66.7	66.6	68.4	71.8

■ More than 10% above average
 ■ Average (+/- 10%)
 ■ Worse than 10% below average

As expected, relatively, price is more important in grocery than other sectors, and RT Mart is seen as the clear winner on price. However, critically, it also delivers strong scores for product choice, quality, store environment and most importantly trust.

The western grocers are led by Tesco, once again showing the relative new comers can win customer loyalty. Carrefour continues to get good overall ratings perhaps getting the benefit of its longevity in the market. However, it does not achieve leading scores for any particular aspect of the proposition.

While Walmart achieves reasonable scores, Trust Mart is the poorest rated of the grocers, suffering for perceived poor choice, product quality and store environment. This shows how difficult it has been for Walmart to impact the performance of its acquisition.

The relative poor performance of Lianhua and Century Mart (both part of the Lianhua group) shows the challenges facing the local players. Lianhua in particular (perhaps driven by the de-centralised franchise model) gets poor scores around choice, value for money and critically trust.

LESSONS FOR RETAILERS IN CHINA

Retail in China is a dynamic and demanding sector. While customers are overall satisfied with the sector, they are damming on retailers which don't perform regardless of how long they have been around.



For OC&C the major lessons from this index are:

- Brand is now being redefined in China - before it was price, now it is brand but brand that means trust.
- Trust is the most important criterion for customers in China. Winning and maintaining your customers' trust is critical.
- Investing in the proposition to maximise trust which is always critical. The index shows clearly how poorly customers rate long established players who have failed to invest.
- Execution is critical - all the winners have delivered consistent top class execution.
- Opportunity is out there - many new entrants to the market have got to the top of the table, showing how fluid the market is.

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