

# [Sasa international’s entry into the china market](https://assignbuster.com/sasa-internationals-entry-into-the-china-market/)

Executive Summary In the midst of China cropping up as a hidden dragon, every firm that plans on foreign expansion is tempted into penetrating China out of all the optimization competitive advantages provided. Being one of them, SaSa, a listed well-know cosmetic chain store that stands alone in Hong Kong, has already taken action. Our report is to analyze SaSa’s business expansion in China. The background part reveals how SaSa has been turned around, originating as a small open-shelf retailer and her development over the past two decades.

Then we will go into the details of the qualities of SaSa International, which generally concerns her strong parallel shipment capability, covering a wide variety of brands and products. Following these is the institutional contexts of Hong Kong, which throw light on SaSa’s magical success. Strategic options available to SaSa will then be discussed, with the focus on expansion in China. The institutional variables and environment in China are then looked into and compared to those of Hong Kong, followed by a detailed analysis on why SaSa has gone down in China. Last but not least, recommendations are put forward for SaSa to maximize her shareholders’ benefits.

Introduction Stepping into 2008, it has to be the year of China. There is the Beijing Olympics, there is the snowstorm, there is the rapid appreciation of the currency and there are a lot of reforms and macro-controls. No matter what, China provides intriguing opportunities for foreign firms to invest and develop business in. Every business and corporation would like to ride on the trend of China’s development to boost their positions in the world. Despite all the advantages to pursue profit in an emerging country, there are obstacles that stand before investors politically and culturally in China. At times, it may seem to be too critical to speak for or against China’s policy and condition for running business, but it is interesting how businesses accommodate and some, retreat.

In this project, we are going to analyze the business of SaSa International Holdings Limited, a local cosmetics retailing and beauty service- providing company. The eminent success of SaSa domestically has lured it into expanding to Hong Kong’s motherland China. Having spotted the opportunities China offers, Sasa’s founder Mr. Simon Kwok set off for China in 2005. However, it was failure that followed, after a couple of strategies and actions. After all, is SaSa stranded in the wrong road to enter China or would it be better off if it did not go north at all? This is going to be discussed in the undermentioned report.

Background First established in 1978, Sasa has transformed from a housing estate cosmetic store into a renowned international enterprise. Listed in The Stock Exchange of Hong Kong Limited in 1997, SaSa International Holdings Limited is chosen as our target for analysis in this project. This cosmetics retailing and beauty service giant has already established a firm leading position and is becoming a largest agent and retail chain of cosmetics and beauty products in Hong Kong. Their mission is to become a dominant provider in cosmetics retailing and beauty services in Asia, in the hopes of further business expansion outside Hong Kong.

So, why has SaSa been so successful in developing its cosmetic kingdom? Parallel good, which is all it counts. Let us now look at SaSa’s scope of business. The company lays heavy emphasis on the concept of “ one-stop cosmetics specialty store“. Over 400 international brands and over 15, 000 cosmetics make-up, fragrances, skin care and hair care products are sold in numerous SaSa stores. Apart from retail business, SaSa also invested in different areas for diversification such as SaSa. com where shoppers are able to purchase beauty products online.

Health and beauty clubs, namely Philip Wain and SaSa Beauty+ are also established to provide beauty services. Such a wide range of products and services has penetrated across Asia, including Macau, Mainland China, Malaysia, Singapore, Taiwan and Thailand. Out of the success in Hong Kong, SaSa’s founder Mr. Simon Kwok is tempted into replicating the same model in China. However, lessons have been learnt for the past few years since Sasa’s China branches has yet to break-even.

. In the fiscal year 06/07, a deficit of 12 million YUAN was recorded in the financial report of Sasa China branch. There must be things Mr. Kwok has overlooked in the China market. With more and more shops planned to be opened among cities of China, would the market possession provide a turn round? Or would this be the first step of things getting even worse? In the following sections, we would commence by introducing some strategies which SaSa has adopted to contribute to its success for the past years in Hong Kong.

Then, institutional, social, economic and cultural context of China would be mentioned to explain why Sasa failed even it has experienced China’s stride. In the last part of our report, solutions for Sasa would be given according to our analysis on China’s current political and strategic issues. Core Qualities of SaSa International As of today, SaSa Group operates over 100 cosmetic stores in Asia selling over 400 brands and over 15000 products. It adopts a “ one-stop cosmetics specialty store” approach, which is a retailing formula based on choice and convenience. Customers of SaSa can buy the products of different brands in one store.

This kind of purchasing way can save lots of time for customers. Nevertheless, SaSa’s core quality lies not in the “ one-stop” nature. Instead, the hidden element for her success is the ability of SaSa to provide good quality cosmetic products with relatively low price by applying the knowledge of parallel goods and global purchasing power. The success of SaSa can be put down to the nature of “ parallel goods”. In general, distribution of cosmetics and toiletries is conducted by appointing agents and sub-distributors. However, SaSa take the role travelers or independent traders to purchase cosmetics directly from overseas without being imported by agencies or cosmetic dealers.

Given that the overseas wholesalers would sell the products to traders at low prices in order to reduce stock, these products are sold at a lower price though they were all genuine brand-named products instead of fake ones. The situation is illustrated as follows. SaSa is famous for its wide range of competitively priced skin-care, fragrances, makeup, bath and body products. The low price is the result of ‘ Global Purchasing’. Since the prices of the cosmetic products vary from country to country, with global purchasing and sourcing capabilities, SaSa is able to amplify her bargaining power by purchasing in large quantities. SaSa also keeps excellent relationships with the suppliers to ensure long-term cooperation so that generous discounts are offered and products from suppliers are of good quality.

Among the 400 brands of products, about over 300 brands are purchased in large quantities from cosmetics traders in Southeast Asia legally. However, full prices are usually not the case. Instead, SaSa only pays 10% to 50% of the marked price. In other words, consumers can enjoy a lower price but the exact same quality products.

Institutional Variables of Hong Kong To survive and succeed in a competitive market, developing core competences which are difficult for rivalries to imitate is vital. Our group has investigated the core qualities of SaSa. However, one has to be clear that if a company wants to win the game, her core qualities have to align with the institutional variables of the market. Listed below are the institutional variables of Hong Kong which contribute to the triumph of SaSa. Tax and import procedures Parallel shipment and import have set the backdrop for the success of SaSa.

These can significantly lower the selling price of the products. This strategy, though, cannot work alone without the presence of a simple and low tax policy. Hong Kong has abolished the import tax for cosmetics since 1993. It implies that for a company like SaSa, her cost for importing cosmetic products is greatly decreased.

The government did propose to charge the goods and services tax again in 2006. However, considering the strong feedbacks in opposition to the plan, the government ceased her proposal. Alongside the tax advantage is that the importing procedures in Hong Kong are comparatively simpler than in China. As long as the products conform to the consumer goods safety regulations and the quality standards, importing cosmetics to Hong Kong requires less time and it is of the essence to the success of SaSa because she can keep pace with the trends of the market without selling products which are obsolete and not welcomed by customers. Strong Tourist Support from MainlandersService industry and tourism have been the pillars of Hong Kong’s economy.

Among the visitors traveling in Hong Kong, mainland tourists account for the largest proportion. Since the handover of sovereignty to Hong Kong from China in 1997, the number of tourists from mainland China keeps on surging. The retailing industry of Hong Kong also benefits a lot from the improved purchasing ability of the tourists. Owing to the economic development of China, the mainland visitors have become a lot wealthier and they are willing to spend money when they go traveling.

Retail chains like SaSa are handling many more mainland customers than ever. According to the report of SaSa, revenues from Chinese customers contribute to nearly 60% of the sales. Perceived Value of Hong Kong’s high quality As aforementioned, mainland customers play a prime role in paving the way for the success of SaSa. The reason why they prefer spending their money in Hong Kong to China is that their perceived value of Hong Kong’s products is higher. It is their conviction that the goods sold in Hong Kong are of superior quality. Even they understand that they are buying parallel goods, they still have the confidence and are convinced that there exist no fake goods.

This reason is very crucial to cosmetic importers like SaSa. Strategic Options: Expansion in China According to the 2007 annual report of SaSa International, the management team of SaSa placed expansion as the first priority. In year 2005, they started their first store in Shanghai and two in Nanjing. The company mentioned that she would put more resources in capturing the China market. But why is SaSa so desperate for starting her business in China? The following discussion will provide some clues.

Growing purchasing power of Chinese people Since the economic reform in the 1980s, the Chinese people are becoming richer and richer. Their purchasing power has gone higher and they want to improve their living standard. The inferior local products cannot satisfy their needs. Therefore, they are willing to buy the imported products even though they are much more expensive.

Though the “ wealthier group” accounts for only a small scale of the Chinese population, this small percentage boils down to a figure as huge as 1. 3 billion people. Nowadays, it is easy to discover that people in mainland are eager to buy well-known brand products like Louis Vuitton and Gucci. The long queues outside the flagship stores of those “ big names” in Hong Kong are composed mainly of mainland travelers.

They are even more willing to purchase than their Hong Kong’s counterparts. As shown in the annual report of SaSa in 2007, it is discovered that the Turnover by Region figure of Mainland China (includes Hong Kong and Macau) constitutes 87% of all the sales. It means that the main customer srouce of SaSa is still in mainland China. Even without any sales in places like Singapore, Malaysia and Thailand, SaSa can still operates its business well with sole support from main tourists.

Hong Kong Brand’s Attraction to Chinese Customers Moreover, people in mainland China usually have a bias in favor of Hong Kong Brands. Since China has long been notorious for its poor quality control, even Chinese people have little confidence in China-made goods. Instead, Hong Kong brands seem to have much better images in their mind. As such, notwithstanding its higher price, Hong Kong brands are still a bigger magnet. In fact, the quality of cosmetic products made in China is not inferior to those made in Hong Kong or foreign countries. In fact, what makes the difference is the brand name.

Not only does the brand name provides a guarantee of quality control, it also delivers a sense of better living standard to the users. Again, it explains why the long queues outside the flagship stores of those “ big names” in Hong Kong are composed mainly of mainland travelers. Therefore, entering China Market sounds like a good choice for Hong Kong’s big names like SaSa. Institutional Variables of ChinaHigh Channel Cost (Tax, health inspection, time) Channeling cost is very important for any distributing and retailing business. The level of this cost positively correlate with the profits of the importers. According to an interview with the CEO of SaSa, Mr.

Kwok, the channel cost accounts for 70% of the total cost. Therefore it can be anticipated that if SaSa is to start business in China on the assumption that she continues her parallel shipment policy, she will have to sustain higher channel costs. Unlike Hong Kong, importing cosmetic products to China involve tax. Whenever a cosmetic product is imported to China, the importer has to pay tax which amounts to 30% of the price of the product. Tax aside, Chinese government also adopts a more rigid control over imported products.

The introduction of any new products requires no shorter than 6 months for health inspection, quality testing and toxicity testing. If any of the processes goes wrong, the importer may have to wait for a year. Moreover, they have to pay a lump sum inspection fee. Tax plus the inspection fee will create heavier burden for parallel goods shippers and importers.

The lengthy inspection period also limits the ability of retailers of selling the latest and newest cosmetic products to the market. Appreciation of RMB As the economy of China has taken off, the currency’s value also keeps on increasing. The financial burden of importers will be stressed. The reason is that the soaring import cost will eat up the profit margin easily. Parallel importers like SaSa rely on higher sales in order to cover the low profits, in Chinese, ??????.

However, the effect of RMB appreciation casts doubt on the workability of such a strategy. Swarms of CompetitorsUndoubtedly, China is a tremendous potential market for cosmetic industry. From the figures of the Statistics Department of China, the sales of the industry reached 38. 6 billion RMB in 2006.

This trend of rapid increase is likely to continue in the upcoming years. The huge market attraction also spins off strong competition. A lot of famous international cosmetic brands open their exclusive stores in China. Besides, a few famous cosmetic retailers also entered China. The most famous example is Sephora which is under LVMH. She focuses on selling the cosmetic products of high-end brands.

Another example is Shanghai Yiting (???? ), which concentrates on low-end products. All evidence points to the same conclusion that there will be intense competition in the Chinese market. Shopping culture of Chinese Whenever we talk about the shopping or retailing in China, the shopping culture of Chinese should not be neglected. This factor is crucial because the future of the industry depends very much on the habits of the mainland customers. In the light of economic reforms, the Chinese are getting wealthier. They love spending and they love to spend big.

They are more than happy to spend money on items which are most luxurious with the thought that if they are to buy expensive products, they are to buy the most expensive ones. This can be a symbol of wealth, social status or just a way to “ show off”. This phenomenon can be understood from the fact that there are more and more luxury brands appearing in China, especially in the big cities like Shanghai, which is considered to be the centre of fashion and beauty. These shops are filled with customers that pursue the highest degree of material life.

On the contrary, they despise products which they deem “ cheap” or inferior. Actually this can be explained by the economic theories that when people are getting wealthy, the demand for superior goods will increase. Weakness of retailing business China has been traditionally strong in manufacturing business. From 1980 onwards, she has been manufacturing consumer products for companies from all over the world.

China is called the “ world’s factory”. However, the Achilles Heel of China will be her retailing and marketing business. Or some people migh say, “ Chinese cannot sell things”. This problem can also explain the fact that a lot of Chinese love to buy things from Hong Kong regardless of the fact that a lot of them can be sold in mainland even at a lower price. A ubiquitous scenario is that a lot of mainland tourists are bringing bags of diapers or bottles of milk powder back home. The perceived low quality in the customers’ mind is so strong that the retailing industry of China hardly captures the heart of her own customers.

They believe that the products bought in mainland are either overpriced or of lower quality. This mindset gives opportunities to Hong Kong’s retailing industries, as the consumers’ perceived quality is higher than that of her mainland counterparts. Our Rebuttal: Entering China Being the Best Strategy Result speaks for itself Mr. Kwok, CEO of SaSa saw market share as a way to succeed for the business of cosmetics and therefore in 2005, he set off for the first shop in China at WaiHai Road, Shanghai, followed by another store opened in Nanjing. By the year 2011, he hoped to reach the milestone of 100 shops in China. However, looking up the simple formula (Revenue-cost= profit) and the situation that Sasa has yet to break-even, Mr.

Kwok has to invest a lot more for the years to come in order to implement his strategy as revenue is low while cost for entry is high. After all, what is wrong with the strategy of SaSa? Despite her success in Hong Kong, SaSa’s core competence is by nature not oriented to the China market and therefore, leveraging the institutional variables of China is impossible. Before getting into the detailed analysis of mismatch between the core competences and institutional variables, there are some general ideas behind the failure. Inconformity of core qualities and the institutional variables To succeed in the competition, a company has to choose a market that matches her core competences so that she can have the competitive advantage that her rivalries cannot imitate. Also, she has to leverage the market’s institutional variables so that she can be the dominant player of the game. Ironically, however, SaSa is doing the other way round.

She is actually entering a market that doesn’t let her excel in her competitive advantage. SaSa is famous for her parallel shipment and provide high-end products at lowest cost. This magic only works in Hong Kong because of the low tax and short inspection process. In start contrast, the situation of China greatly impedes her ability to copy the business model in Hong Kong. As a result, her products sold in China are 20 to 30 % more expensive than those sold in Hong Kong. The strategies which SaSa is adopting cannot leverage the institutional variables of the China market.

SaSa’s targeted customers are those wealthy Chinese. They will only buy products which are from the most famous brands. However, the fact is that SaSa cannot import and retail the cosmetic products from luxury brands. Very much due to her unclear market position, the famous brands are not willing to join SaSa China and let their products be sold be SaSa. They fear the business model of brand diversification will cause the deterioration of their brand names. Instead, the luxury brands choose to join SaSa’s main rival, Sephora.

This seriously affects SaSa’s ability to leverage the social norms of Chinese. The poor confidence of Chinese customers in the retailing industry is another serious blow to SaSa. The fact they choose to buy cosmetic products in Hong Kong is because of their perceived value. Even though SaSa is selling the same products, the Chinese customers will dare not buy products from SaSa China. Other variables, like the intense competition from Sephora and Shanghai Yiting are also not favoring SaSa’s expansion to China. Same source of customers Another mistake which SaSa has made is the selection of target customers.

Clearly as we have mentioned, the main part of revenue of SaSa is from the mainland tourists. Thanks to the individual travel scheme and the improvement of transportation, Chinese customers can visit Hong Kong more requently. These customers, favored by the economic reform, are wealthy and willing to travel a lot. However, the ridiculous issue is that SaSa China, and her competitors are also targeting this group of customers. If SaSa was that successful in China, which is, as mentioned before, unlikely, SaSa China will draw the attention and lure Hong Kong’s customers away. SaSa is actually creating herself competitors.

With higher costs due to expansion, how can SaSa support herself financially without finding new customers? Expansion incurs huge capitalSome critics claimed that SaSa is not only attracted, but pushed and forced to China. Seeing her competitors rushing to China, the CEO fears that the potentially huge market will be eaten up by Sephora. However, expansion requires huge capital support. It is doubtful whether SaSa can withstand the heavy financial burden for her expansion. In past few years, SaSa’s performance in China is catastrophic.

SaSa recorded a loss of 12 million. According to the proposals of SaSa international, she is planning to have more than 100 stores by 2011. However, the performance clearly depicted the future of SaSa. As a matter of fact, SaSa is pushed by her competitors, like Sephora.

With similar business models and strategies, Sephora is also opening up new stores in different cities of China. However, we have to be clear that Sephora is not generating profits either. According to an interview of her general manager, Sephora China has yet generated profits in three years after her entrance. They “ anticipate” that their sales and revenues are going to increase in the coming years so that their huge expansion cost can be covered. It is understandable that expansion in the earlier stage requires capital.

However, a successful business should not be keeping on bleeding out. The reason why Sephora still stands is that she has the strong financial support from LVMH. One cannot compare SaSa’s capitalization with LVMH. She is a multinational holding company. Exclusive Brand Development In order to deal with the problem of low brand diversity in mainland, the CEO of SaSa international has mentioned to focus on her exclusive brands development in China. These brands include Suisse Program, Methode Swiss and SaSa Cosmetics.

SaSa International is also planning to open up single brand stores in China. In some sense if the brands are very famous like LV or GUCCI, single brand stores will be very successful because a centralization effect will be created. However, the “ brands” of SaSa is immature and lack public recognition. One has to understand that developing a young brand is a very lengthy process.

Most of the luxurious brands from France are over 100 years of development. It is really doubtful whether SaSa can boost the fame and the publicity of the products in just a few years. If she cannot do so, the so called “ exclusive brands” will just become numbers of “ exclusive burden” to SaSa. Also, starting one-brand-store does not conform to SaSa’s strength, which is brand diversification. SaSa has been famous for selling cosmetic products of different brands like supermarket.

Will the customers of SaSa be attracted to her immature and low diversity cosmetic stores in Huaihai Road (??? ) of Shanghai, while her rivalries like Sephora are selling products from cosmetic brands like Estee Lauder, Loreal Paris, Lancome or Maquillage? It is highly unlikely. Therefore, wasting resources on starting stores which solely sell products with low market recognition will be a complete disaster. As mentioned in the institutional context, Chinese love products which are famous. SaSa is also trying to sell her own “ SaSa brand” cosmetics. However, those products are manufactured in China and if they are sold in China, the “ perceived quality” issue will be critical to SaSa.

If the Chinese customers’ perceived quality over these “ made in China” cosmetic products is low, this strategy will be a complete failure. Therefore, SaSa’s current strategy on focusing exclusive brands and single brand stores is difficult to comprehend. What may be foreseen is that the stores will keep on incurring huge losses. Our Recommendations In light of the inconformity of SaSa’s core qualities to China’s institutional environment, expansion to China has so far been destined for failure.

News has reported the an inferior fate for Sasa’s competitor Sephora even though it is greatly backed by LVMH. Such precedence should deter Sasa from making the same mistake. The decision was wrong and SaSa should retreat from the China market lest it would lose even more capital. Given mainland tourists’ easy assess to Hong Kong, there is no point in setting stores in China to seize the sales generated from the same group of customers in Hong Kong and fight with herself. On analyzing the various institutional variables, for SaSa to survive in China, it has to capitalize on China’s optimization strength by creating a China-based brand so that products can be produced at a low cost while surpassing the costly import channels, which is the main problem currently facing Sasa. However, such a process requires immense effort and is lengthy.

Success is by no means easily achievable. A possible alternative is for SaSa to concentrate her effort in few flagship stores in big cities selling exclusive and renowned brands not available in Hong Kong. Yet, such an option is also beyond likely as SaSa lacks her bargaining power in China for capturing an exclusively profitable distribution channel. First and last, the parallel shipment expert should keep on utilizing her capital to expand domestically in hopes of magnifying her bargaining power for agency to distribute more products at lower costs.