

Risk and opportunities of estee lauder in china

[Countries](#), [China](#)



The aim of this report is to provide an assessment of the risks, opportunities and appropriate market entry strategy for Estee Lauder to launch a men's range in the cosmetics and toiletries industry in China.

Estee Lauder is one of the world's leading manufacturers of cosmetics & toiletries products. The company has an extensive range of leading brands under its umbrella name including Estee Lauder itself, Clinique and men's range Aramis. ([www. mind-advertising. com](http://www.mind-advertising.com)). The Men's range Aramis will be launched in the Chinese Market.

China was chosen for its great opportunities for foreign investments due to its growing economy with growing markets. ([http://www. beri. com](http://www.beri.com))

China is known as one of the biggest emerging markets (BEM) with a population of 1.3 billion. ([http://news. bbc. co. uk](http://news.bbc.co.uk)) The economy is growing faster than that of any other nation in the world.

Source: [http://www. travelchinaguide. com](http://www.travelchinaguide.com)

Summary of the Political and Economic Systems in China

The Communist Party of China (CPC) controls the government of China since being founded in 1949. The change in China's economic systems and reforms are more advanced compared to its political reform. ([http://news. bbc. co. uk](http://news.bbc.co.uk))

Since the death of the leader 'Mao Zedong' in 1976, China under the economic reformist leadership of 'Deng Xiaoping', " has gradually and greatly loosened governmental control over people's personal lives, and

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began transitioning China's planned economy into a mixed economy".

(<http://en.wikipedia.org>)

China is a socialist and authoritarian state with both communist and capitalist tendencies. " Government offices, urban economic, industrial, and cultural settings" have tighter party control compared to rural areas.

(<http://afe.easia.columbia.edu>). The CPC party maintains control over all political aspects of society by:

- * Eliminating any threats to its power
- * General control over press
- * Jailing political opponents and journalists
- * Censorship of press, political speech, literature, film and internet
- * Suppressing any protests, signs of opposition and independence movements
- * Sending outspoken activists to labor camps

(<http://en.wikipedia.org>)

China's economic system concentrates towards opening and integrating its foreign trading and world trading system to flourish its market-oriented economy.

China's corporate income tax rate " is theoretically 33%". In practice, preferential tax policies given as a direct fiscal incentive to decrease the tax

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and duty paid by foreign-invested enterprises (FIE's) to manufacture for export or local market. " A 15% rate applies in the 5 Special Economic Zones" (SEZ: Shenzhen, Zhuhai, Shantou, Xiamen, Hainan Province), " and a 24% reduced rate is in force in 14 coastal open cities". (<http://www.economist.com>). The system of taxes and duties imposed on enterprises, domestic and foreign alike, are in process of being standardized. However investments in the west and north-east regions, including high technology industries, will have tax break incentives. (<http://www.economist.com> & <http://en.wikipedia.org>)

China's membership in the Asia-Pacific Economic Co-operation (APEC) group " promotes free trade and co-operation in the economic, trade, investment, and technology spheres". <http://www.state.gov>

China's World Trade Organisation membership in 2001 has lowered tariffs and eradicated market barriers giving rights in importing, exporting and selling products without government middleman involvement to Chinese and foreign businessmen. <http://www.state.gov>

Although the economy is booming, the following imbalances have occurred due to the political and economic systems in place:

- * wealth disparity; rich are getting richer while poor are getting poorer
- * economic disparity; " between urban China and highly developed costal provinces and Rural and poorer inland regions"
- * Unemployment

- * Environmental pollution
- * Corruption at each level of the society
- * Labour shortages due to lack of skills
- * High rise in bad loans
- * High rise in HIV infection.
- * Non-unionized inexpensive labour
- * Low cost of non-labour inputs
- * No trade unions
- * State-run banking system is being overloaded by increasing number of non-performing loans
- * Inefficient state-owned enterprises

(<http://en.wikipedia.org>)

Legal System

China follows civil-law jurisdictions which means " in civil-law countries, companies are formed by contract between two or more parties, who are fully liable for the actions of the company". (Keegan & Green, 2003, pg 186)

Although more than 300 laws and regulations have been established since 1979. China's legal system is speculated take another 50 years to match

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with the West. <http://www.answers.com> & <http://afe.easia.columbia.edu/china/gov>

Major Potential Risks in doing business in China

- * The threat of civil disorder, war and ethnic conflict can create a potential risk such as the tensions between Mainland China and Taiwan.
- * China's differences across the regional markets reveal regional disparities and heterogeneity among consumers. Each regional market has its unique cultural heritage, geography, economic base and infrastructure, consumer purchasing power, political, social, distributional channels and operating conditions. <http://www.accenture.com> Chinese consumers in all regional markets differ in consumption patterns, attitudes, media use, " income, values, lifestyles, and extent of contact with the outside world". (Geng Cui, Qiming Liu, 2000, pg 55-72)
- * Pushing investors to invest in the direction of interior provinces by the Chinese government - this step forcing investors away from the coastal provinces will make the business face huge regional differences, trade barriers and local protectionism as " the further one goes from the coastal strip the more difficult it is to get about. The north west region - including the occupied country of Tibet - is big on mountains and deserts but lacks decent roads, railways and airports". (Cui & Liu, 2000, pg 55-72)
- * China's infrastructure poses a risk to business development and investment opportunities. The transport situation being insufficient in terms of quantity and quality in certain regions would provide barriers to the business.

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Therefore " transporting energy, raw materials and semi-finished products over large distances" would be difficult in the hinterland regions. Supply of energy in certain regions is unreliable as well. (Jagersma & Gorp, 2003, pg 27 - 35)

* Employing Chinese in management positions of the company may create communication risks and problems as " most have little acquaintance with areas such as marketing and entrepreneurship, both essential management tools". (Jagersma & Gorp, 2003, pg 27 - 35)

* Economic risks arising from devaluation of the currency in China poses a threat of increased exchange controls on foreign manufacturers. " The danger of an economic " hard landing" and the rising price of raw materials".
<http://www.accenture.com>

* Current inconsistent and underdeveloped legal and regulatory system in China can provide a risky and uncertain environment for the business. Despite the vital progress in improving the legal framework for intellectual property rights, protection in china still remains ineffective, inadequate and weak. Widespread copyright infringement practices will cause the business to compete with local counterfeit products. <http://www.export.gov>

* Existing cosmetic and toiletries manufacturers and products in the Chinese market pose risk due to competition.

Risk Reduction Process Model

The Model below illustrates how factors influence the Risk Reduction Process in International Marketing (adapted accordingly).

(Cateora & Ghauri, 2000, pg 52)

2. 6 Summary of Political Risks

" The level of political risk is inversely related to a country's stage of economic development. All other things being equal, the less developed a country, the greater the political risks as illustrated by the diagram below".

(Keegan & Green, 2003, pg 178)

(Source: diagram taken from Keegan & Green, 2003, pg 178)

China according to Keegan & Green is a high risk lower-middle income country. Whereas, according to Estee Lauder China currently provides low risk in terms of fiscal and monetary policy, currency, inflation, macro-economic issues, political situation as it provides a stable environment for foreign investment.

Evaluation of political risks has led to adopting the 'joint-venture strategy' as the market entry approach in China.