

Factors influence procter and gamble in chinese market marketing essay



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PG is now focusing on its 40 largest and most profitable product categories which represent around 50 of sales and 70 of operating profit in the most important geographic markets (P&G Annual Report, 2012). Till 2012, developing markets account 38% of its total profits in compared to 62% from developed markets (Figure1. 1, Appendix A). The continuous strong sales growth and cash flow productivity were both strong developing markets in 2012; however, developed-market sales growth and earnings progress are not as prosperous as developing markets. This leads P&G to target the 10 developing markets with the highest potential for growth. Furthermore, 18% of its net sales came from Asia encourages P&G to grow sales in China and India to reach 1 billion more customers by 2014 (P&G Annual Report, 2012).

Factors influence P&G in Chinese market

US-China Business Council board (USCBC)

In 2012, Bob McDonald, the CEO, president, chairman of P&G and a member of the USCBC Board since 2007, was elected to be the Chairmanship of the US-China Business Council board (USCBC). This private nonpartisan, nonprofit organization consists of nearly 240 U. S. companies that doing business in China. Founded in 1973, its mission is to expand the business relationship between U. S. and China to benefit its members and the U. S. economy. It supports constructive concurrence with China to diminish trade and investment barriers and develop a business environment that is foreseeable and transparent to all parties.

Since China has risen to the world's second largest economy and America's third largest market, American businesses and American workers continue to benefit from expanding opportunities to trade with and invest in China. China
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is the one export market for U. S. products that has consistently delivered 15 percent annual growth over the past decade. Firstly entered mainland China in 1988, P&G China, as P&G's second largest market globally, supports 20 percent of the company's jobs in the U. S., indicates that this commercial relationship with China has provides great opportunities to P&G and other U. S. companies.

Aimed to build on the company's growth in China while helping to advance US-China relations in his new role as Chair, McDonald claims that USCBC serves as the voice of the organization to external stakeholders, both US and Chinese leaders, and plays a leadership role in discussions about influence agendas and communication between government officials, ensuring they reduce tensions and solve mutual problems effectively. Moreover, USCBC is dedicating to avoid sanctions, protectionism, and counterproductive regulations and legislation. On the other hand, USCBC tries to collaborate with Chinese government in addressing the issue of intellectual property rights, which remains problematic for both Chinese as well as multinational companies. (P&G Corporate Newsroom, 2010&2012)

Market Environment

Macroeconomic Forces:

According to a report published by US Department of Commerce (2012), in 2008, " China responded quickly to the global economic downturn. Its monetary, fiscal, and bank-lending measures resulted in China's GDP grew 9. 2 percent in 2009, 10. 3 percent in 2010, and 9. 2 percent in 2011. GDP in 2012 is expected to grow 7. 5 percent, with GDP projections for 2013 not

expected to be far off that mark at between 8.3 percent and 8.8 percent. After a 2010 consumer price index (CPI) of 3.3 percent, China's inflation rate rose to 5.53 percent in 2011."

Although the economy of China has been benefited from fixed asset investments, especially in response to the 2008 financial crisis, which significantly reduced China's net exports, the investment-led growth is widely perceived as non-sustainable. As a result, the authorities of China developed a 12th Five-Year Plan that aims to increase consumption activity from approximately 35 percent of GDP in 2010 to 50 percent by 2015; whereas around 70 percent of the United States' GDP is derived from consumption. The rebalancing of China's economy should create opportunities for U. S. companies that provide consumer products and services.

Despite China's gradually slowing GDP, U. S. exports to China increased \$9 billion in 2011 from \$91 billion in 2010. China is the fastest growing export market of the U. S. since it joined the World Trade Organization, and it remains the United States' second largest trading partner after Canada. Comparing the data of the U. S. consumer goods export to China between January and February in 2012 and 2013, it indicates that the amount of export is increasing by 4.5% (Figure__) Given China's rising incomes and demand for raw materials and finished foodstuffs, it is expected that China's imports will continue to grow well into the future.

Demographic Forces:

China has a rapidly growing middle- and upper-income population. The rising economy in china is expected to lift numerous Chinese household out of poverty. The proportion of Chinese people having annual income between \$17, 000 and \$35, 000 is estimated to increase from 6% in 2010 to 51% in 2020. (Moody& Chang, 2013) Also, the 2006 McKinsey report anticipated that the lower middle class with \$4, 040-\$6, 460 (25, 000-40, 000 renminbi) would have a steep growth in 2010, and the upper middle class, with annual income of \$6, 460-\$16, 155 (40, 000-100, 000 renminbi) will increase significantly by 2020. This also represents that 77% of urban Chinese household with annual income less than \$4, 040 are estimated to drop to 10% by 2025, and Chinese consumption, largely driven by the middle classes, will account for \$6. 2 trillion, one fourth of the \$26 trillion of additional global consumption.

In the past, P&G remains committed to deliver high-quality brands, such as Olay and Tide, to the middle and upper classes at a premium price, targeting consumers who earn higher income; nonetheless, the vast market and potential growth in purchasing power which lies in the developing environment attracts P&G to produce various pricing product lines to satisfy the different needs of different income groups. (Jennifer Reingold, 2011) P&G realizes that its future success must be accomplished aggressively at the lower end of the spectrum as it does at the higher one.

Social and environmental Forces

The living quality in the metropolitan area of China- such as Beijing and Shanghai- is considered as one of the major the source of P&G's revenue.

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The increasing disposal incomes, along with heightened awareness of wellness and living quality, the demand for feminine care and beauty product has extended significantly. The emergence of gender-neutral in China implies that the beauty product is no longer exclusively feminine-orientated and the growing demand of male beauty products is predictable. (US-China Business Council, 2012)

Furthermore, the issue of environmental degradation raises the environmental protection-conscious. Environmental degradation is one of the main consequences resulted from China's rapid economic growth during the past few decades. Underground water supplies in about two-thirds of China's cities are seriously contaminated. Water shortages have already led to a rapid drop of underground water table levels in Northern China. (Rapoza, 2013) These problems have greater the demand for products made from natural/organic ingredients. Consequently, P&G should provide green products, contributing itself to protect environment in China, and encouraging consumers to take simple actions by using natural/organic product; otherwise, pollutions in China will likely to reduce living quality, hinder productivity, deprive investment and, in turn, doom China's growth, hence constrain the development of P&G.

Despite the opportunity of market eco-friendly product in China, P&G has close relationships with the top 20 universities across China because of campus recruitment. From the interview of Bob McDonald (2012), CEO of P&G and chairman of USCBC, 98% of P&G's employees in China are Chinese nationals. This not only aids to smoothen the operation and strategy problems raise from cultural differences, but also boosts sales revenue and <https://assignbuster.com/factors-influence-procter-and-gamble-in-chinese-market-marketing-essay/>

market share in China. P&G also hires the talented Chinese into the rest of the P&G organization across the globe, helped P&G maintain high level of retention in China. (Reingold, 2011)

Technological Forces

The proliferative Internet users open a further opportunities for P&G to market its products. According to China Internet Network Information Center (CNNIC), a Chinese government organization, Internet penetration rate in China in 2012 has climbed to 42. 1% relative to 4. 6% in 2002. China's media environment has been transformed by the increasing usage of social media such as Weibo, or micro blogs. The explosion of the Internet allows consumers access information from P&G and enable the company to communicate with their customers.

At the same time, P&G outsources the repetitive commodity work and keeps IT improvement as its strategic concentration. For example, P&G transferred nearly 2000 employees over 48 countries to HP for infrastructure management and application coding. By doing so, the company could decommoditize its shared-services business and focus on innovation and developing new IT-related business capabilities.

This IT-driven innovation helps P&G to gain a competitive advantage by turning technology into solution providers. Under the new IT structure, P&G could personalizes its service and develop connections with consumers, and its digital-services team can synergize data collected from brands in different business units. The large scale of data sources that P&G has is considered one of the most valuable information that helps P&G creates the brand and

keeps it dynamic This increases the effectiveness of data analysis, especially with the enormous consumer population in China. (Michael Bloch & Elizabeth C. Lempres, 2008; Michael Chui, 2011)

Changes in investment structure and FDI

P&G entered a joint venture with Hutchison Whampoa- a Fortune 500 company and one of the largest investment holding company based in Hong Kong- in 1988, when per capita spending on P&G products was only \$3 a year. P&G attempts to raise the average expenditure to \$11. 50 within the next few years. (Jennifer Reingold, 2011)

In order to reach the target, P&G has planned to invest 4% of sales in capital spending to expand its manufacturing capacity into categories to support future growth. P&G built the new Luogang Plant in Guangzhou, where P&G's China headquartered. The plant is included in the \$1 billion investment plan in China and will begin operations in the late 2013 and will produce multi-category products to complement the scale of production from expansion. This demonstrates P&G's confidence towards Chinese market and its commitment to consumers in China. (Li Woke, 2012)

In additional to Luogang Plant, P&G also invested in Beijing Innovation Center (BJIC), which P&G devotes considerably efforts among the 25R&D centers all over the world. Because BJIC is rich for research, resource, and product development for China as well as the rest of Asia, P&G China does not rely on the company's headquarters in Cincinnati. (Reingold, 2011)

Multinational companies cross border knowledge and experiences

As one of the earliest multinational companies who set up business in a country with completely different culture, P&G has made a lot of efforts in adapting products and conquering the cultural gap. This is one of the reasons why P&G partnered with local companies when it entered China in 1988. With the supports of local partners, P&G received critical connections, insights, and knowledge to develop a consumer measurement called “weighted purchase intent.” This is a modified system that, not only captures the technical performance of the product, but also helps to predict consumer purchasing behavior in the marketplace, furthered helps P&G recognizes the elements that are valued the most; consequently, the company could offer quality user experience, which is a critical aspect of ensuring long-term success in foreign markets. (Cloyd, G., & Euchner, J., 2012,)

Except the gaining benefits from joint venture, P&G opened innovation center in Beijing with a mission to meet the needs of Chinese consumers from low income to high-earners. For instance, the company designed Rejoice Daily Care shampoo for lower income Chinese consumers; Crest Herbal and Crest Salt White toothpastes are designed based on traditional Chinese herbal remedies; Olay White Radiance skin care products were specifically designed for Chinese consumers and Pampers diapers specially designed to fit Chinese babies. These special product designs originated from the local experts demonstrate P&G’s engagement to Chinese market. (Reingold, 2011)