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HD China's broken growth model will change Australian business: CMR

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China Market Research Group (CMR) believes the reorganisation of the Chinese economy will dramatically affect the Australia tech sector.

Managing director and founder of CMR, Shaun Rein, said western myths surrounding the Chinese economy are outdated, and that modern concerns, such as pollution, demographics and supply chain trust are key to trading in the market.

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One of the key initial changes is demographics, the stereotype of the Chinese being prodigious savers is rapidly changing. While the older generations are still saving more than 40 per cent of their income - lessons learned during hard times, such as the cultural revolution, those under 30 save nearly zero and are "extraordinarily optimistic" about the future of their country.

This is a market where car consumption passed the US for the first time with 21 million cars sold last year. It is also now the largest market in the world for Porsche and Ferrari.

There were 25 million credit cards in circulation in China five years ago, that number is now 340 million. China's youth have some of the highest revolving rates on credit card payments in the world.

Wages are also rising at a staggering rate of around 15-20 per cent per year, for both blue and white collar workers. Rein said this is putting pressure on manufacturers margins, and driving low cost production offshore to countries such as Vietnam and Thailand - Nike being a notable example.

Chinese companies' biggest growth hurdles are now retaining staff, with a 30 per cent turnover rate for staff in white collar industries. By comparison, the US is 11 per cent - similar to Australia.

This means for any businesses targeting China, traditional western business practises, such as targeting baby boomers as the big spenders doesn't work. That generation is not spending in China, despite its government's best efforts. Rein advises any technology business to adjust their targeting downwards by 20 years in terms of demographics.

To put it in perspective, the average age of a BMW owner in China is 39. It remains 50 in the USA.

The major concern, which is causing a generational shift in the Chinese political class' management of the economy has been the pollution 'bombs' that have wrecked its air quality.

In January 2013, Beijing reached 755 on the Air Quality Index. 100 is deemed unhealthy, 400 dangerous - 500 is meant to be the maximum. Rein says the culture now is to check mobile apps every morning before taking kids to school, or even determining whether its safe to go outside. The citizens have had enough, and the Chinese government is responding - but it will take time.

Visible price of progress

Twenty years of a manufacturing based, heavily export dependent economy has shown the visible price of progress, and this is cancelling out the advantages of this newly wealthy young generation's spending.

"They're saying, who cares if I can buy a Louis Vuitton bag if the air is going to poison me?" he said.

Interestingly, this is driving a huge growth in online shopping - this is hurting the Main Street, while malls seem to do well. When people want to come out of their 'Cocoons' they need to be in a fully functioning environment, with shops, movies, food and playgrounds for kids. Twenty per cent of this online retail is now mobile lead.

This is also driving a huge rise in **Chinese** external tourism and migration, as families look to give their kids clean air, cheap housing and a nicer lifestyle - something Australia has certainly benefitted from.

"It's not all about the bling they can show off," Rein said.

Rein also said this re-engineering of the **Chinese** economy to deal with pollution, combined with high wages, means that the country is rejecting permits for energy and water intensive factories. These low end businesses are being driven offshore.

While this is of concern for the west, and Australian businesses looking to get their low-end gear built in **China**, it also means that **Chinese** manufacturing is moving up the value chain.

It also means that they are bringing their weight to bear in terms of innovation, and no longer simply looking to imitate western trends and steal IP.

Low hanging fruit

Venture capitalists are also coming around to this way of thinking. In the past, VC firms would throw all their money at **Chinese** companies producing **Chinese** versions of western properties - for example, Baidu, the **Chinese**Google: "They want to pick the low hanging fruit."

Rein said **Chinese** innovators have been stifled by this period of capitalism, and as these markets approach saturation, VCs are looking to support **Chinese** innovation. The next big tech market disruptor will come out of **China**, he believes.

WeChat, a new Whatsapp style data based SMS system, that also combines shopping has been disrupting the **CHinese** telcos SMS revenues. It is already valued at $130bn. **China**'s eBay Alibaba has been mentioned as listing at $168bn.

CMR interviewed 5000 **Chinese business** people across 15 companies, and compared the results to the same survey five years ago. Back then 85 per cent preferred foreign brands, because they believed that local brands cut corners. This year that number has dropped to 75 per cent.

Various food scares and low quality electronics made the **Chinese** middle and upper classes wary of trusting local brands. Major western brands such as KFC and New Zealand **dairy** exporter Fonterra have had scandals, and it has tarnished their reputations.

Already some top **Chinese** companies have seen the holes in the market, such as infant formula, and advertise the fact that they cost 50 per cent more than the competition as a positive, because their supply chain is reliable. Technology is the same.

This has lead to a corresponding rise in the prominence of **Chinese** homegrown brands, such as Lenovo, Huawei and Xiaomi, products which are high quality by any markets standards.

"The west is no longer light years ahead," said Rein.

A 3M representative told Rein that 5 years ago, the **company** would've considered itself 10-20 years ahead. Nowadays **Chinese** firms have caught up, not just in terms of quality and price, but innovation. Its no longer a knock off game.

Lenovo is now the world's largest PC manufacturer, and continues producing high quality devices. Xiaomi mobiles, which are middle to high end smartphones, are set to be launched in North America, alongside ZTE and Huawei who have made market share in the low end.

Ericsson spends $5bn in R&D, Huawei is just behind on $4.9bn, and has picked up several key contracts in Ericsson's home turf, such as Deutsche Telekom. Rein said that Cisco executives have told him 'we're not that much better than Huawei anymore'.

"We are hearing the same thing in category after category," he said.

Part of the key to this innovative surge has been the 'bamboo ceiling'; the perception amongst **China**'s youthful elite that they can't be senior executives in western corporations. This leads **China**'s best and brightest back home to drive growth in their home corporations, and we're seeing the effects now.

One of the key advantages we still have left is that **brand** trust, which Australian tech businesses should take advantage of - and quickly, because its an advantage that's rapidly eroding.

Three Tips for Breaking the **Chinese** Market

Make sure you build **brand** trust in **China** - play on safety, quality

Make an authentic **brand** position build - don't knock off someone else

Be conservative - don't do anything to damage your **brand**'s trust.

IN i3302 : Computers/Electronics | icomp : Computing | itech : Technology

RE china : China | austr : Australia | apacz : Asia Pacific | asiaz : Asia | ausnz : Australia/Oceania | bric : BRIC Countries | chinaz : Greater China | devgcoz : Emerging Market Countries | dvpcoz : Developing Economies | easiaz : Eastern Asia

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