

Pushing (and Paying) For Quality

Consumer demand creates opportunities for new brands

🔥 By Yujun Qiu

Twenty to 30 years ago, deep-fried dough sticks and soybean milk from food stalls were popular breakfasts across China due to their low prices and convenience. Many stalls maintained poor safety and health practices, however, including not changing oil for days or using detergent to make dough sticks look more appetizing.

When Yum!'s KFC began to sell Chinese breakfast, dough sticks and soybean milk were popular with Chinese consumers because they trusted the company's promise of quality, backed by KFC's positive brand image.

Recently, though, consumers used the internet to expose KFC for using instant soybean powder instead of the traditional mill-and-boil method. Although KFC never said how its soybean milk is made, the company's marketing led consumers to believe that it was freshly prepared. Feeling tricked, consumers collectively voiced their complaints online about KFC.

In the past food safety never drew much attention, but thanks to the efforts of Chinese netizens, it is becoming more difficult to cover up quality control problems and prevent safety issues from turning into major scandals. Realizing the severity of the problem, Chinese consumers now seek trustworthy products and are willing to pay a premium for peace of mind. For suppliers and retailers, there is growing opportunity to capitalize on this new focus on safety and quality.

CHANGING CONSUMER HABITS

Despite China's rapid economic growth over the past thirty years, its legal system remains underdeveloped in terms of consumer protection. Companies take advantage of weak enforcement by providing inferior products, adding questionable ingredients and making empty promises. Producers compromise quality to reduce costs by any means and keep their products competitive. In some cases, Chinese consumers have been shocked to find out that even the leading brands

are cutting corners. For food retailers, the backlash has been significant.

Changing attitudes toward food safety, rising incomes and growing brand influence increasingly shape Chinese consumers' buying habits. Food safety has become consumers' biggest concern. According to recent research by Renmin University of China, over 60 percent of those polled were concerned or deeply concerned about food safety.

RISING DEMAND FOR QUALITY

A study by PlanetRetail, a leading retail analyst firm, shows that recent food safety problems have pushed Chinese consumers towards brands and standard products. About a quarter of the interviewees were willing to pay a reasonable premium for better quality and up to 80 percent were willing to pay more for items like infant formula or healthcare products. The same research also found that consumers from small cities are more willing to pay for quality than those in large cities, reflecting not only a lack of quality products and greater demand for quality, but an opportunity for brands and labels in those areas as well.

For a long time, conventional wisdom suggested Chinese consumers always bought the cheapest product. It's true that for familiar products such as vegetables, they seek the best bargains. Yet in categories which they know little about, they tend to choose brands they trust. In the absence of big brands, consumers tend to pick middle-end products, believing the cheapest are poor quality and the expensive ones charge an unnecessary premium. Middle-end products are becoming the new standard of consistent quality and affordable prices.

OPPORTUNITIES FOR NEW BRANDS

As Chinese consumers are left wondering who to trust, it is the right time for companies to forge new brands and emphasize quality. Standard marketing can encourage Chinese consumers to try new brands,

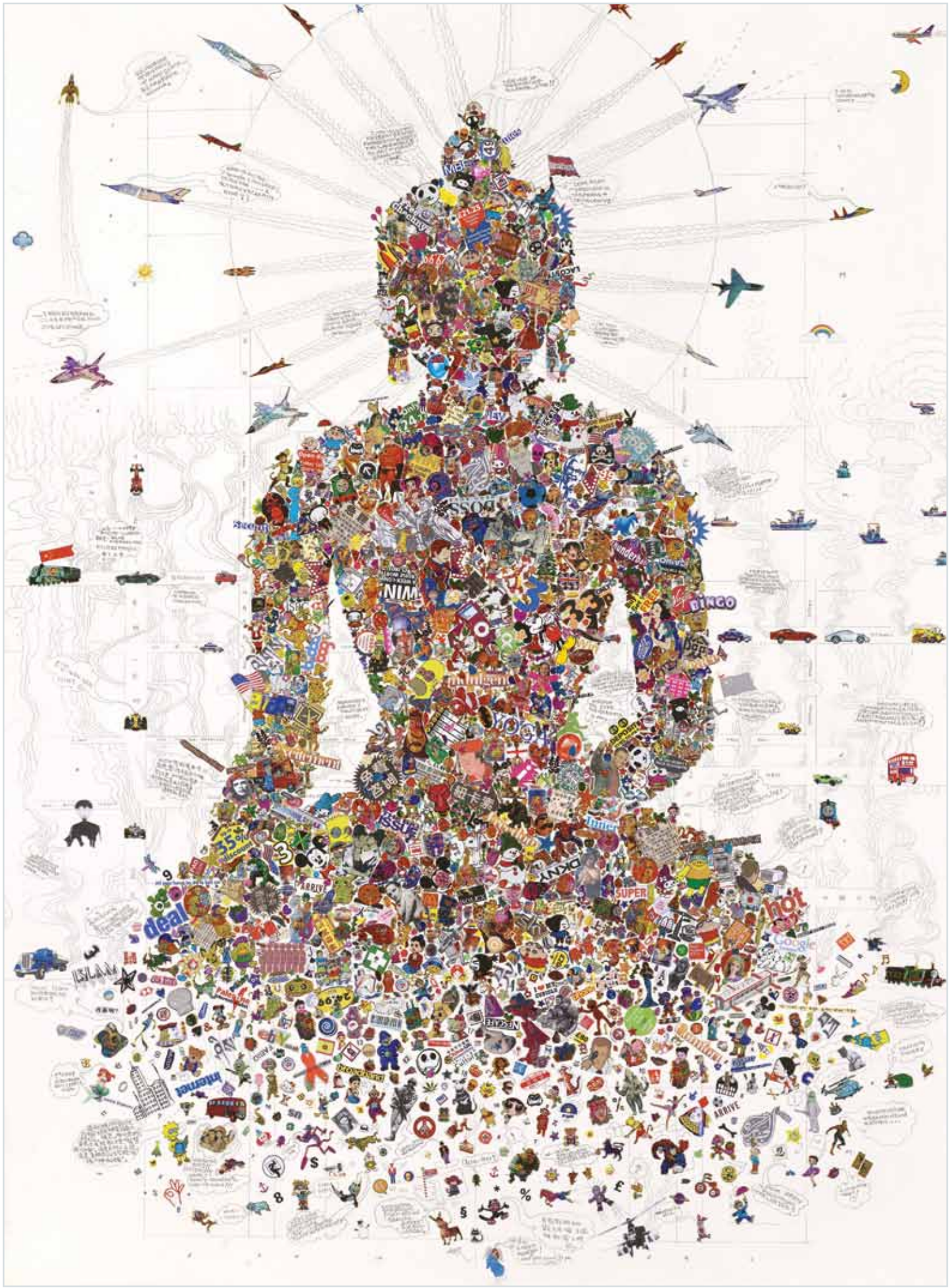
In *China Brief's* "Artist Spotlight," we partner with one of Beijing's galleries to feature a selected artist's work that lends a new perspective on an article from the magazine.

October's Artist Spotlight

This month's featured artist is **Gonkar Gyatso**. Born in 1961 in Lhasa, he studied Fine Art in Beijing and London, and currently lives in London, New York and Beijing. Gonkar Gyatso was selected to participate in the 2009 Venice Biennale and the 2010 Sydney Biennale. This piece, titled "Buddha Sakyamuni," is currently exhibited at Red Gate Gallery in Beijing: www.redgategallery.com

Artist Statement

My current work comes out of a fascination with material and pop culture and a desire to bring equal attention to the mundane as well as the extraordinary, the imminent and the superfluous. These contradictions are often found in the same painting. The work can be very silly and uncanny, and at the same time, comes out of concerns that are shaping our times.



but it is quality that retains them.

Another direction companies can take is to revive the old brands dearly missed by Chinese consumers, which can be more effective than creating new ones. Chinese consumers are nostalgic for familiar products, believing that the quality of modern products does not compare.

A local dairy company, WonderSun from Heilongjiang province, launched a product called “old-style yogurt.” Sales rose and other companies followed suit, though consumers lost their appetite when they discovered that the classic yogurt taste was recreated with glue. The initial success, however, suggests that had the company not taken shortcuts, bringing back old favorites could have been successful.

Now is also the time for newcomers to challenge the leading brands that have come under scrutiny and increase market share. Shortly after KFC’s soy scandal, another fast food chain, Yonghe King, announced it would open its kitchens so consumers could witness firsthand how their stores made soybean milk. Although it is too early to determine its success, the strategy sensibly aims to build trust through transparency.

PRIVATE LABELS CAPITALIZE ON CRISIS

Private labels in China are far less developed than those in the West, and most still compete on price at the expense of quality. But private labels have the potential to be popular if they can demonstrate value. Should retailers find qualified suppliers, it is very likely that Chinese consumers will pay more for retail brands in recognition of their quality.

In the aftermath of recent food quality issues, it is a good time for retailers to launch standard private label lines. Metro Cash & Carry was patient in developing its private label, spending years appraising suppliers to develop its Fine Food line. Fine Food products are now widely available at prices 10 to 20 percent lower than national brands, but still higher than small local brands.

For a country with many specialty products, there is also an opportunity to broaden the market for high quality, regional products. RT-Mart has a sourcing team that identifies existing products and helps small suppliers distribute them. Since RT-Mart buys these products in volume, they are able to attract new customers through frequent promotions that appeal to cost- and quality-conscious consumers.

RETAIL SUITS UP FOR QUALITY

Apart from launching premium supermarkets and expanding their product selection, leading retailers are upgrading sparse stores with a modern look that creates a visual sense of quality. Shiny malls are replacing old-fashioned department stores and these hypermarkets are also transitioning to an emphasis on

safety and quality, replacing unqualified suppliers at the expense of reduced margins.

Beijing based retailer Wu-Mart not only rebranded two of its Chaoshifa supermarkets, but added locally supplied healthy foods, vegetarian selections, an on-site bakery and imported food and wine.


Younger consumers are also paying the premium at convenience stores, preferring them over the traditional mom and pop shops potentially stocked with fake or inferior products. Convenience stores are expanding in wealthy second-tier cities and local and international retailers have announced ambitious plans to capitalize on the trend. Family Mart is slated to enter Sichuan and Zhejiang provinces this year and Beijing next year, involving a total investment of RMB 3.2 billion. Lawson, once in decline in China, recently took back control of its joint venture from its local partner and plans to open 200 stores annually compared to 50 previously.

Even traditional wet markets are adapting to quality-conscious consumers. Vendors have begun to market their goods as organic and chemical-free rather than emphasizing low prices.

QUALITY WILL PREVAIL LONG-TERM

As economic growth expands and incomes rise, it is just a matter of time before the pursuit of quality will spread from big cities to small ones. The biggest challenge, however, is the short-sighted approach that many Chinese companies take with the intent of making money quickly and then withdrawing from the market.

But looking at Chinese products produced for export, companies are capable of providing quality when the price is right and quality control is working. Now Chinese consumers are demanding that same quality, and new companies have arisen that focus on meeting the growing demand. Among the Chinese companies that have built a strong reputation with consumers are Good Baby, a baby products manufacturer, GREE, the leading air conditioner producer and Blue Moon, a local household care products supplier, to name just a few.

Any food safety crisis immediately reminds Chinese consumers of the importance of quality and shapes their consumption habits, but it will take time for the broader market to prioritize quality production over price competitiveness. For consumers with limited incomes, quality products remain out of reach; however, with the rapid growth of the Chinese economy, this is expected to change soon. Furthermore, as younger generations who value quality above price come of age and their purchasing power increases, their shopping habits will differ greatly from those of their parents. 

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