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PwC International Market Services

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Insights from MNCs Senior Executives in China

Opportunities and Challenges for Brand Growth

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Executive Summary

During a business event held in Shanghai in September 2023, PwC conducted a poll to gather the views of representatives from multinational corporations (MNCs) regarding their brand management and investment considerations in China.

Here are the key ideas shared by over 100 MNC executives who participated in the survey:

A huge market size, potential growth prospects, and high consumer brand recognition are all key factors driving foreign MNCs to invest in brand building in China.

Over 80% of participants cited China's huge domestic market as the primary reason for their continuous investments in brand building in the country, followed by economic growth prospects (47%) and strong consumer brand recognition (45%).

Geopolitical uncertainties, market slowdown, and the ascent of local brands are top challenges facing foreign MNCs.

As respondents pointed out, geopolitical factors (51%), market slowdown (49%) and rising local brands (31%) are the top three challenges to MNCs in brand management in China.

MNCs face a combination of Environmental, Social and Governance (ESG) and digital challenges.

Over 40% of the executives considered the lack of ESG guidelines as the greatest challenge their company is facing when it comes to implementing their ESG strategy in China. Rising operation costs, an incomplete regulatory system, and the shortage of talents and tools are common ESG challenges mentioned by 20% to 30% of respondents.

56% of respondents said budget constraints are their biggest digital challenge. 20%-30% of them have experienced issues with hardware and software, changes in internal practices, and a lack of understanding on this subject.

However, foreign MNCs remain bullish on the Chinese Market.

According to the survey, while more than 70% of respondents declared they are not considering moving out of China, a small proportion of surveyed executives is contemplating a relocation plan, with some already having undertaken the move.

Outside of China, Southeast Asia (36%), India (26%), Europe (26%), the United States (21%), and Mexico (21%) were listed as the executives' preferred destinations for future investment.

The State Council of China issued 24 guidelines concerning the business environment in August 2023. 60% of respondents stated that the new measures had bolstered their business confidence to some extent.

Disclaimer: This survey gathered the views of MNC representatives who had participated in PwC's September event. This report's findings are affected by a number of factors such as participants' backgrounds and perceptions, and the size of the sample collected. Hence, the results may not be representative of the overall market's sentiments.

Preface

Since China started to open its economy in the late 70's, foreign MNCs have made great inroads into the Chinese market. Global brands, known for providing high-quality goods and services to Chinese customers, have earned significant brand recognition and gained popularity across the nation.

China is now the second largest economy and consumer market globally. In recent years, the Chinese government has been promoting consumption upgrade and the growth of middle-income households. There has been persistent and increasing demand for high-quality products in China, consequently generating substantial business growth and numerous opportunities for international brands .

However, navigating the Chinese market is becoming increasingly challenging for foreign brands due to the rise of competitive domestic brands and evolving consumer behaviours.

Global businesses in China are also confronting obstacles due to a slowdown in economic growth, intensifying competition in the domestic market, geopolitical uncertainties, and changing consumption trends, especially with the emergence of a new generation of consumers. Consequently, MNCs must continuously reassess and adapt their growth models to ensure sustainable development in the Chinese market.

In September 2023, PwC hosted a round table in Shanghai for senior executives from MNCs to discuss the topic of rebuilding brand relevance in China. In this event, a poll was carried out to gather business leaders' thoughts regarding their brand management and investment considerations in China.

In this report, we analysed the survey results and summarised those key findings alongside our branding experts' recommendations.

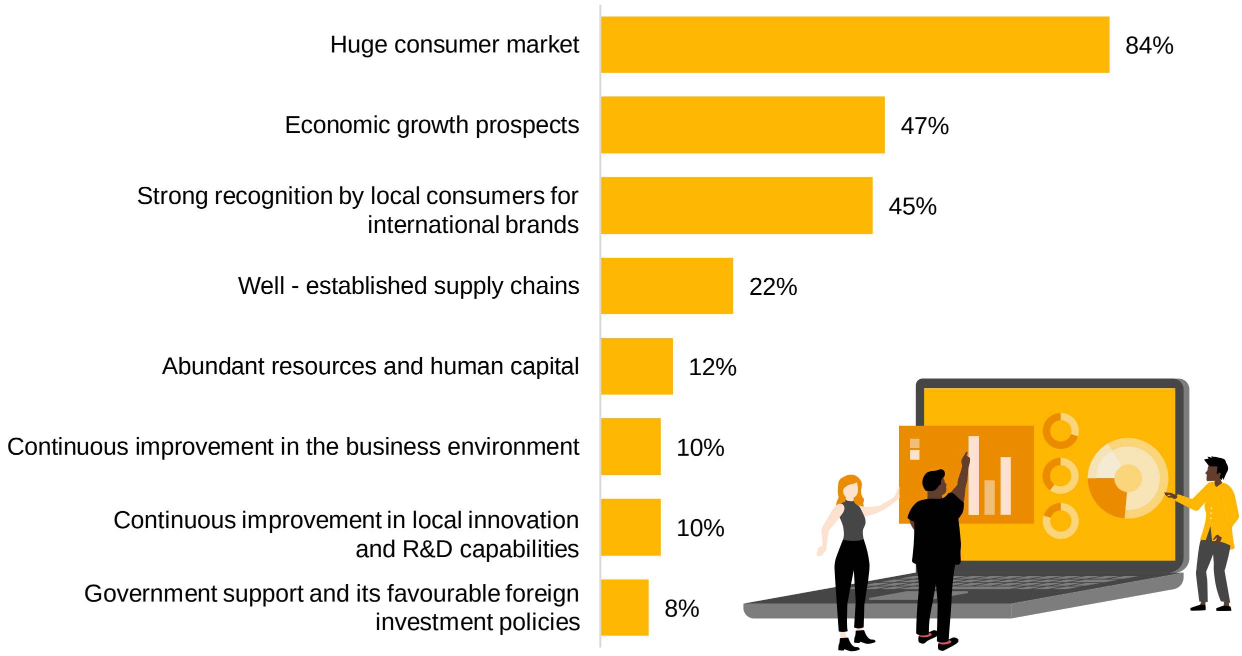
MNC brands in China:

Opportunities and challenges ahead

China’s vast domestic market, its potential growth prospects, and strong brand recognition by consumers are key factors driving MNCs to invest in brand building in China.

In the survey, over 80% of participants cited China’s vast domestic market as the primary driving factor for their investment in brand building. Economic growth prospects (47%) and strong customer recognition (45%) were also identified as critical reasons for MNCs to make such investment. Factors conducive to production and business operations such as the country’s well-established supply chains (22%) and abundant resources and human capital (12%) are the forth and fifth major considerations for MNCs’ brand investment.

Figure 1: Factors attracting MNCs’ investment in brand building in China



The vastness of the Chinese consumer market offers tremendous opportunities for foreign MNCs. According to China's National Bureau of Statistics, total retail sales of consumer goods reached RMB 44 trillion (US$ 6.04 trillion) in 2022, making the country the second-largest consumer market worldwide. According to a study titled "Consumption As a Key Driver to Effectively Expand and Meet Domestic Demand" released by the Development Research Centre of the State Council in September 2022, China's middle class accounts for nearly one-third of its total population and is forecasted to grow to over 50% by 2030, presenting ample opportunities for foreign MNCs seeking to pursue growth.

In terms of economic growth, China's GDP grew by 6.3% yoy in 2023Q2. According to CEIC, the United States and Japan saw quarterly growth of 2.4% and 1.6% while Germany and France recorded -0.6% and 0.4%. The International Monetary Fund (IMF) predicted in September 2023 that the GDP of the United States, Japan, and Germany would increase by 1.8%, 1.4% and -0.3% respectively in 2023. In contrast, China's GDP growth for the same year is expected to reach 5.2%.

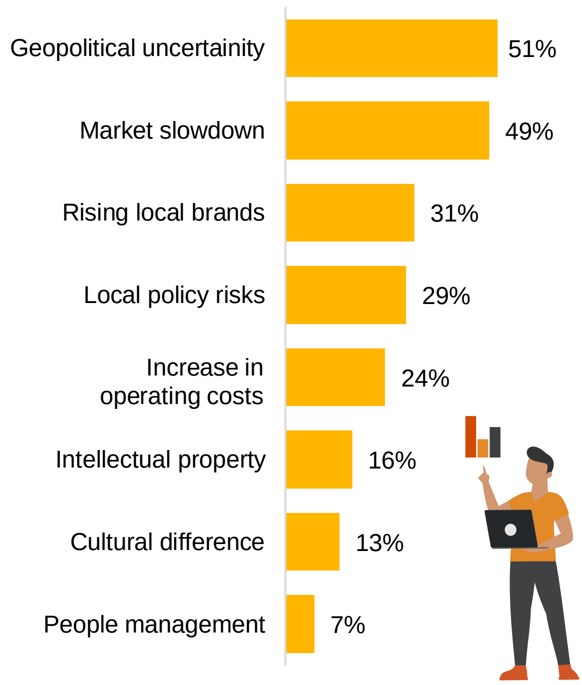
Although China's consumer market size is widely recognised as the main reason for foreign MNCs to invest in the country, the second most cited reason varies depending on the respondents' industry: respondents from the finance, health, and manufacturing sectors indeed ranked the country's economic growth prospects as the second most important factor that incentivises them to invest in brand building in China, while representatives from the retail and Technology, Media and Telecommunications (TMT) industries highlighted the importance of brand recognition by customers.

For MNCs operating in China, capitalizing on market opportunities is key to driving growth. In terms of brand development, it's essential for a company to gain a deep understanding of its target audience, especially the emerging new generations, to craft an effective strategy for sales growth. This involves focusing on critical elements of sales and marketing, such as product design, promotion, distribution channels, and innovation. Most importantly, MNCs must align with the social values and cultural norms of the Chinese community. In some instances, this may require an MNC to undertake a comprehensive rebranding initiative, reshaping its brand and products to better connect with Chinese consumers.

Geopolitical factors, market slowdown, and the ascent of domestic competitors are top challenges facing foreign MNCs in China.

The survey highlighted that geopolitical uncertainty (51%), market slowdown (49%), and the ascent of domestic brands (31%) are the top three challenges foreign multinational brands are facing in China, closely followed by local policy risks (29%) and rising operating costs (24%).

Figure 2: Challenges to global brands in China



The World Economic Forum's (WEF) Global Risks Report 2022, based on a worldwide survey on risk perceptions, pointed out that geopolitical tensions are gradually spreading to the economic sphere. The report also highlighted the emergence of "geo-economic confrontation" as a significant medium to long-term threat to the world and potentially the greatest geopolitical risk over the next decade.

MNCs must not underestimate the competitive force of rapidly growing local brands. The PwC Global Consumer Insights Survey 2022 reveals that domestic Chinese brands have significantly increased their appeal to local consumers, gaining even more popularity during the Covid-19 pandemic. More importantly, in the past few years, factors such as the upgrade in consumer demand, heightened consumer identification with local culture, changes in consumer demographics, the transformation and upgrading of the manufacturing capabilities, the convenience of connections between brands and consumers, and national policy support, are collectively driving the rise of local brands.

Different industries are facing different sets of challenges. Respondents in the finance, consumer market, and health sectors, for example, cited a general market slowdown as their biggest challenge. On the other hand, respondents from the TMT industry emphasised the threats posed by an increasingly competitive domestic market and geopolitical uncertainties. The rise of domestic competitors remains the foremost concern for foreign manufacturers.

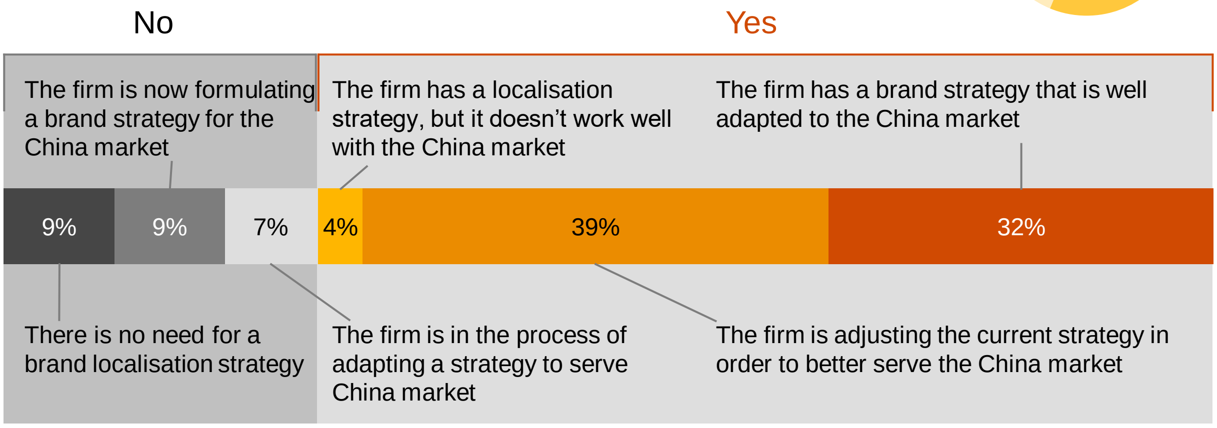
Despite numerous challenges ahead, multinational brands can stay competitive in China, leveraging their expertise and the wealth of experience accumulated over years of global operation. Amid fierce competition, foreign brands can draw lessons from the success of their domestic counterparts and continuously enhance their value proposition.

Over 70% of MNCs have developed a brand localisation strategy in China.

Three-fourths of our survey respondents said that they have developed a brand localisation strategy for China, but only 32% of them have devised a strategy that adapts well to the local environment. This indicates the dynamic nature of China's fast-changing market calling for MNCs to constantly adjust their branding strategies to meet the diverse needs of domestic consumers.

One-fourth of the MNCs surveyed have not yet formulated a localisation strategy even though the majority of respondents consider having a tailored branding strategy for China to be essential. 9% of the surveyed MNC executives are working on implementing such a plan in the future to better serve the local customers.

Figure 3: Has your firm formulated a brand localisation strategy for the China market ?



The above research results showed that most MNCs desire to continue to deepen their engagement in the Chinese market. Compared to aspects like production and sales, the localization of brand strategy is a key component of their overall localization strategy. In terms of specific approaches, there are successful precedents for both localizing existing brands and establishing new brands for the local market. The former can better maintain the continuity of core brand equity and usually requires fewer resources, while the latter is more adept at capturing new market opportunities and can more effectively mitigate potential risks to the original brand.

Regardless of the approach taken, it requires the management teams of MNCs in China to break free from the inertia of merely executing headquarters' strategies. They must genuinely build a systematic capability to develop brands, particularly in terms of understanding local market needs, strategic design of the brand building systems, and the ability to implement marketing strategies that are relevant to the market.

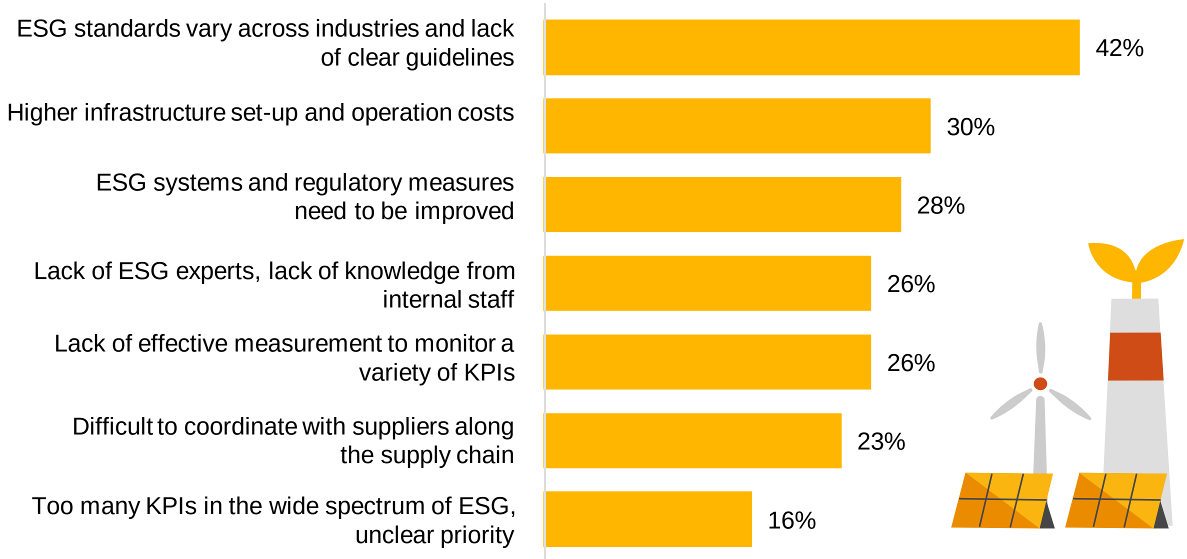
ESG and digital challenges in brand building for global firms in China

Foreign MNCs are facing a variety of ESG challenges.

According to our survey, foreign MNCs in China are facing various challenges when attempting to establish ESG systems. 42% of our survey participants expressed strong difficulties in addressing ESG standards, primarily due to a lack of clear guidelines specific to their respective industries.

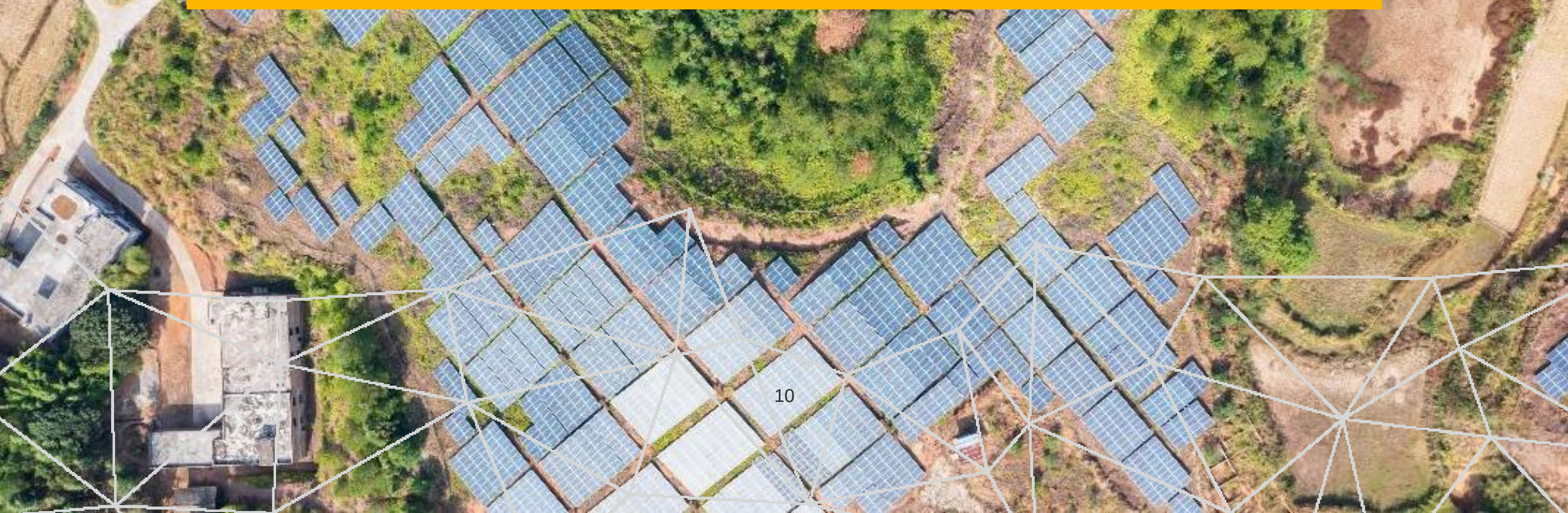
About one-fourth of respondents pointed at high operating costs (30%), incomplete regulatory systems (28%), talent shortages (26%), and a lack of effective measurement tools (26%) as specific ESG challenges when it comes to applying ESG standards to their brand growth strategy.

Figure 4: ESG challenges faced by MNCs in support of brand growth



As the Chinese economy further develops, governmental institutions and consumers expect companies to adopt a sustainable growth model. This green-market demand has had tremendous effects on consumer behaviours. One of the rising observable trends is that Chinese consumers nowadays are more willing to buy products that meet high ESG standards, even at greater costs.

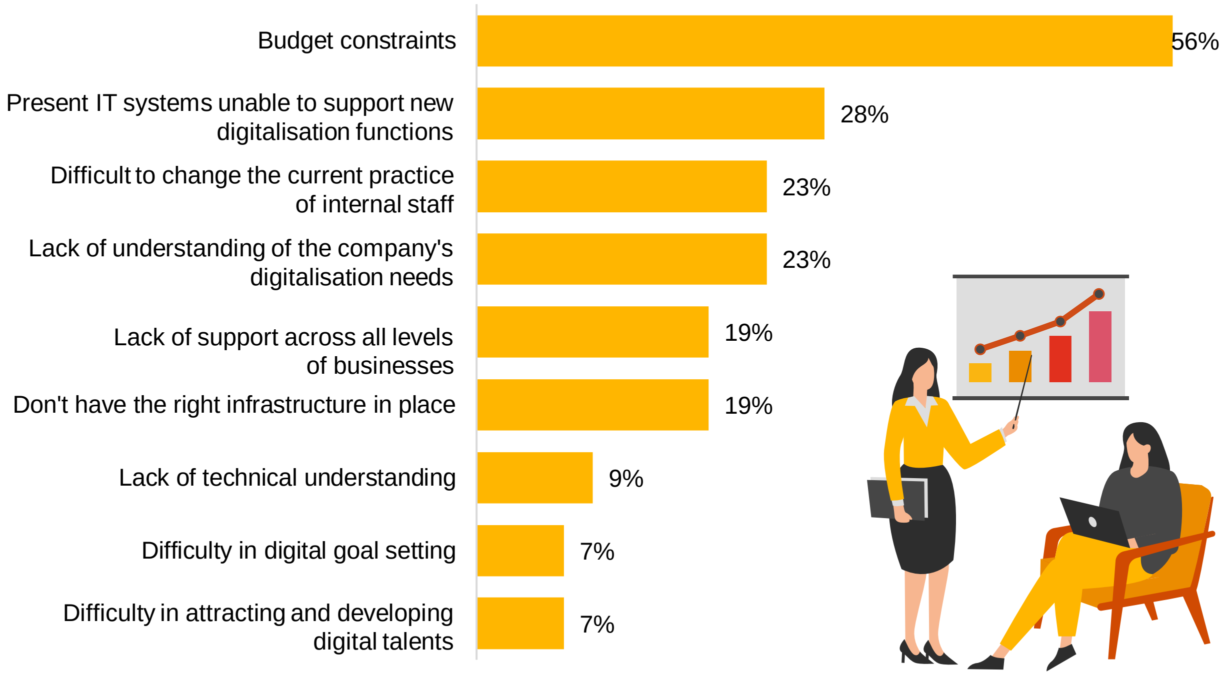
MNCs that possess international knowledge and pioneering experience in ESG implementations should grasp this golden opportunity to drive growth. Global brands should promote their sustainable products and ESG values to a wider audience in China. This would be an effective way for foreign brands to build relevance with Chinese consumers on a deeper level.



Budget constraints are the biggest challenge MNCs face in digitalisation.

56% of respondents cited budget constraints as the top digital challenge for brand growth. Other barriers mentioned in relation to firms' digitalisation include hardware and software upgrades (28%), internal change in management (23%), and a lack of understanding of the firm's digital needs (23%). These challenges primarily consist of technical issues that require professional guidance and support.

Figure 5: Digital challenges MNCs face in supporting brand growth



The above findings suggest that foreign MNCs in China are prudent with their resource utilisation. To maximise the impact of digitalisation, it is indeed essential for senior management to scrutinise the costs and effectiveness of various digital tools and channels.

Nowadays, digital marketing is essential for brand growth. Foreign MNCs in China have to deal with a multitude of marketing challenges such as the increasing cost of customer acquisition in public domain traffic and the diminishing efficiency of traditional marketing channels. New competitors can easily enter the market via "interest e-commerce" (which incorporates videos and streams featuring e-commerce functionalities) and "social commerce" (which utilizes social platforms in e-commerce sales). These channels often have lower entry costs compared to traditional marketing channels.

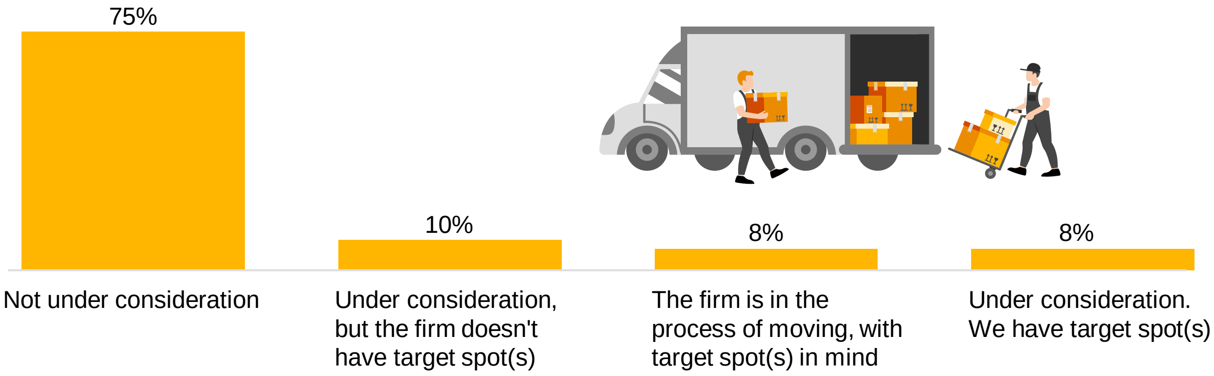
To make digital marketing effective, firms should focus on developing four key capabilities: (1) better management of private traffic, focusing on user operations and behaviours within new domains and marketing channels; (2) build touchpoints that are conductive to online shopping and sales; (3) apply omnichannel marketing, create unique but consistent brand experience for online shoppers, operate channels that can provide a convenient and seamless sales and aftersales experience for users; (4) build a customised customer data platform to enable digital marketing and business transformation.

MNCs remain bullish on the China market

70% of respondents plan to retain their operations in China.

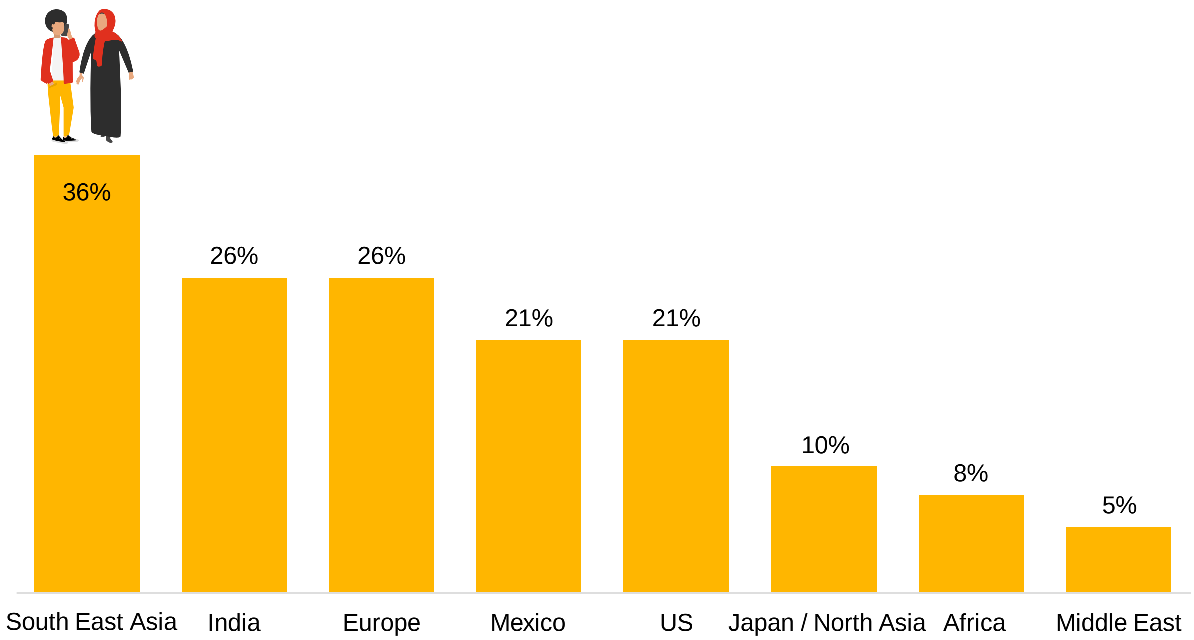
Over 70% of our survey participants stated that they are not considering moving their production and sourcing operations out of China. The remaining 30% are either contemplating a move or have already started executing their relocation plans. These figures suggest that China continues to be attractive to foreign MNCs in the global supply chains ecosystem.

Figure 6: MNCs' relocation considerations



Respondents that chose to move out of China opted for Southeast Asia (36%), India (26%), Europe (26%), the United States (21%), and Mexico (21%) as their investment destinations for the relocation of their operations.

Figure 7: Investment destinations for MNCs' relocation



In recent years, Southeast Asia, India, and Mexico have registered notable increases in foreign direct investment. These geographies usually possess advantages such as large populations and low production costs, as well as ongoing improvements in their business environments and the steady development of their industrial value chains. Mexico serves as a good example of such countries. Given its proximity to the United States, Mexico is an excellent location for foreign MNCs to set up their supply chains as they can directly benefit from the convenience of cross-border logistics as well as the tariff-free treatment brought by the United States-Mexico-Canada Agreement (USMCA).

According to the report released by PwC in April 2023 titled "Insights from MNCs Senior Executives in China: Supply chain transformation in Asia Pacific", labour costs and availability, logistics costs, trade issues, tariff rates, and geographical proximity are all crucial considerations when determining to the location for setting up supply chains and the example of Mexico further validates these points.

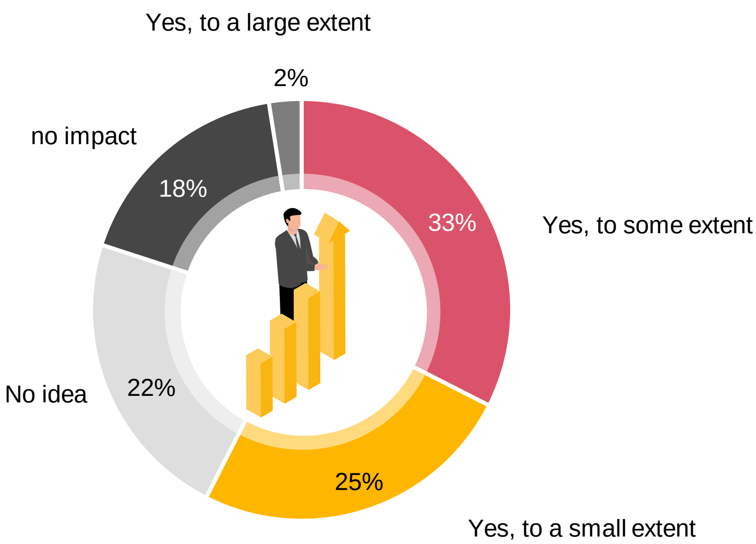
It is foreseeable that the applications of big data and artificial intelligence (BDAI) would greatly enhance the cost efficiency of supply chains. Global corporations, particularly those in the fast-moving consumer goods (FMCG) industry, can leverage BDAI extensively to make their supply chains more agile and to maintain strong brand influence.

In fact, MNCs are already accelerating the implementation of digital technologies within their supply chains. Such transformation can optimise the multi-location operations management, as well as business planning and decision making processes. The optimisation of the supply chain can raise overall productivity and drive growth.

Recent foreign investment policies had positive impact on MNCs’ investment confidence

In August 2023, China’s State Council issued the “Opinion on Further Optimising the Environment for Foreign Investment and Increasing Efforts to Attract Foreign Investment”. This new policy aims to further incentivise foreign investments in the country. In our survey, over 60% of respondents stated that the policy had to some degree bolstered their investment confidence.

Figure 8: Impacts of China's recent foreign investment policies on participants' investment confidence



Since the economic reopening in 2023Q1, the Chinese government has increasingly put more effort into attracting inbound investment. In January 2023, China published the new edition of the “Catalogue of Encouraged Industries for Foreign Investment”, with a record high of 239 new items added. The government would also revise the “Measures for Strategic Investment by Foreign Investors in Listed Companies”, easing the restrictions on foreign investors' strategic involvement in the trade of publicly listed companies. In addition, the country announced plans to gradually cut down on the “Negative list for Market Access”, lower market barriers to entry, and widen the scope of opening up the services industry to foreign investors.

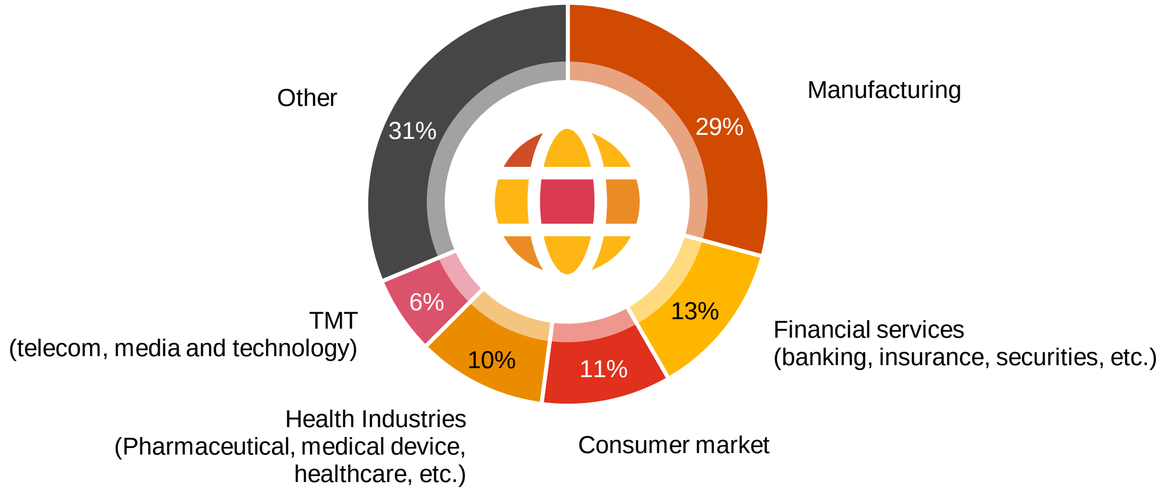
In light of these developments, we believe that the reform measures will further help stabilise the business confidence of foreign firms to invest in brand building in China.

About the respondents

Industry Profile

About one-third of the participants came from the manufacturing sector. There were also representatives from financial services (13%), consumer market (11%), health industries (10%), and TMT (6%).

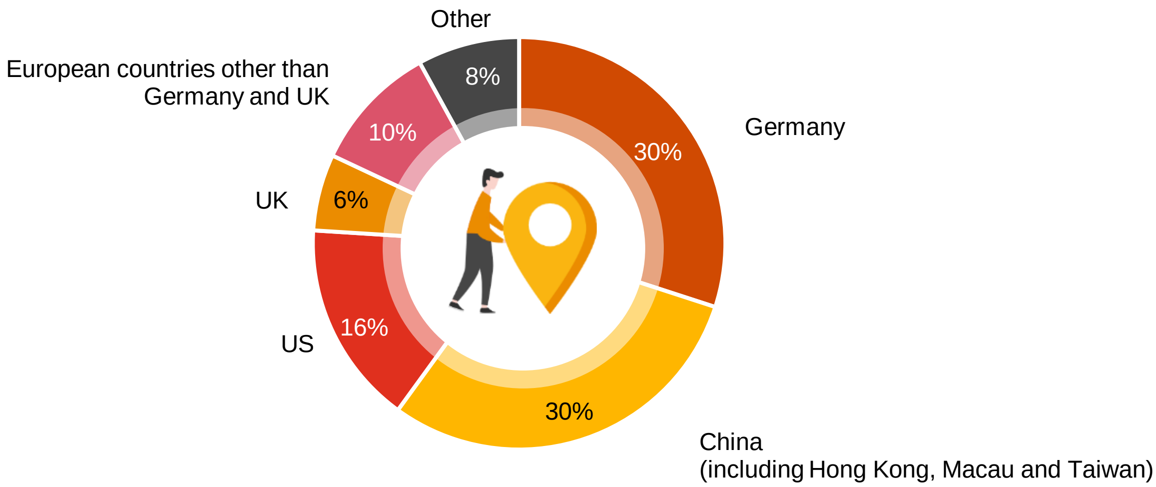
Figure 11：Industry profile of the respondents



Headquarters Location

30% of the respondents are headquartered in Germany, another 30% in China, 16% in the United States, and 6% in the United Kingdom.

Figure 12: Headquarter location of the surveyed firms



Conclusion

At present, "in China for China" has become a strategic consensus among MNCs operating in China, prompting them to embark on a deeper localization process. This involves systemically upgrading their brands to better meet the needs of local customers and continually enhancing their relevance in the Chinese market.

At the same time, MNCs need to transform and improve in four areas: first, they must gain in-depth insights into the local customer base and establish deeper emotional connections and shared values. Second is to continually iterate the product and service matrix, constantly introducing new and improved offerings. Third is to develop highly differentiated customer experiences and management systems from a overall business perspective. Fourth is to shift from reactive and extensive marketing investments to more refined and nuanced brand engagement. Additionally, digital marketing and earnestly practicing ESG are important levers for MNC brands to continuously improve management and operational efficiencies.

Building brand relevance is a long-term endeavour that requires sustained effort. As always, PwC looks forward to working hand in hand with brands to further explore opportunities in the Chinese market.

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