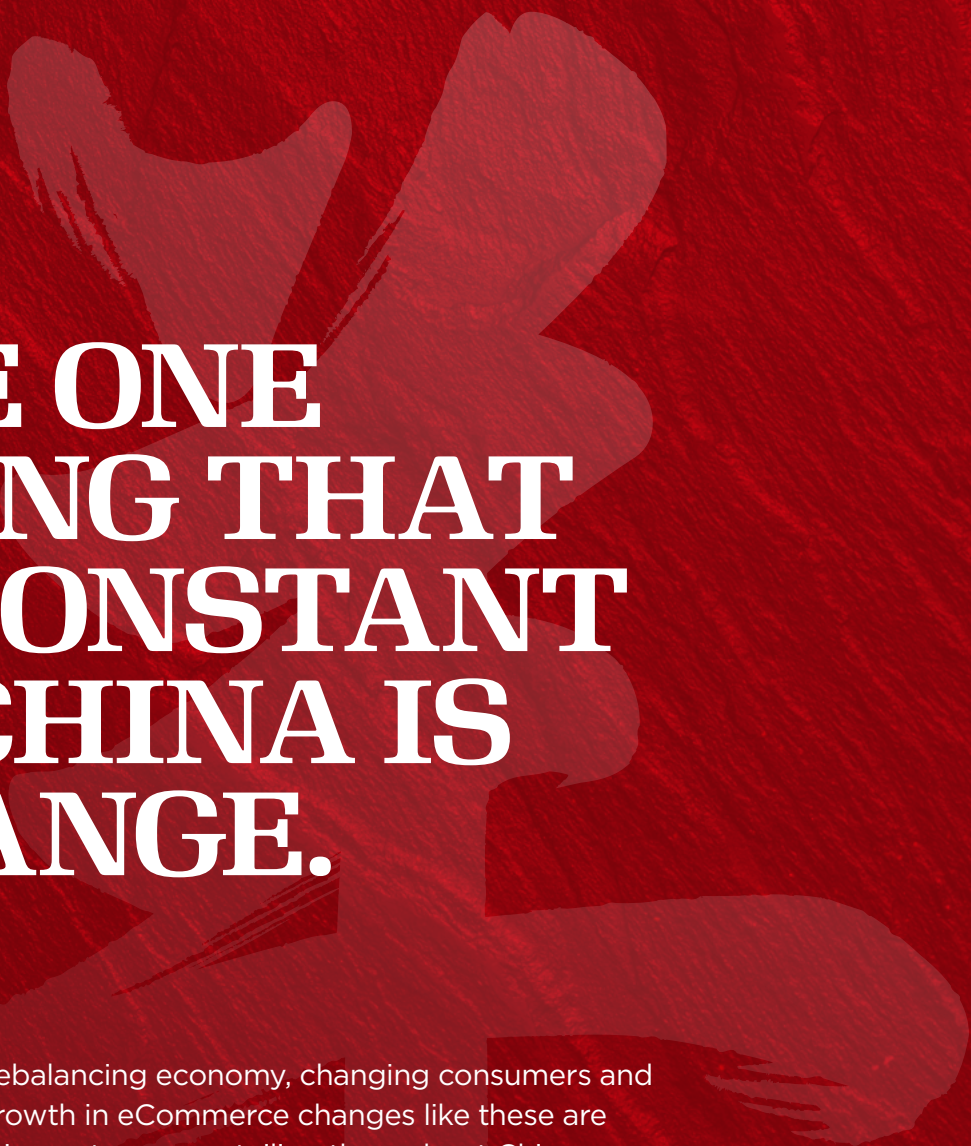




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RETAIL TRENDS IN CHINA

WHAT'S IN STORE
FOR THE YEAR
OF THE GOAT?



THE ONE THING THAT IS CONSTANT IN CHINA IS CHANGE.



With the rapidly rebalancing economy, changing consumers and the exponential growth in eCommerce changes like these are having significant impact across retailing throughout China.

Navigating this retail change will be the differentiator between success and failure.

So to help you focus on what is important we have synthesized 8 Retail trends in China that we think you should seriously be thinking about and creating strategies and implementation tactics around them during the year of the Goat.

No one has more experience in the field, at the sharp end of retail, than the Smollan and Always partnership, with activities in field marketing and activation in well over 600 cities right across China.

To learn more about the Chinese New Year and how the holiday unlocks year-round brand and retailer opportunities download this informative and visual BrandZ™ study: www.wpp.com/chinanewyear.

We hope that this will help your China insight and to better understand the fast changing, retail China.

Wishing you a very happy and successful Year of the Goat.



BUYERS CONTINUE TO FLOCK ONLINE

Just a few years ago e-commerce accounted for only a very minor proportion of retail transactions in China, today China is the world's largest e-commerce market and we can predict with total confidence that it's only going to get bigger.

Growth may be slowing in both physical and online retail in China, but the decline comes off an incredibly high base so growth itself remains robust. The forecast for e-commerce in the Year of the Goat is for growth of close to 50%, with online accounting for 10% of total retail spend - compare that with the US where e-commerce represents just 6.1% of total retail sales. Perhaps even more significant for manufacturers and marketers will be the influence of online on purchasing decisions (50%) and the impact of online on overall shopping experiences (100%)! While these figures reveal much about the pervasiveness

of e-commerce in China, two particular events in 2014 highlight the importance of this channel: Alibaba recorded the largest IPO in history by raising \$25 billion and, on a smaller scale but perhaps no less compelling in terms of the shape of things to come, Costco, the US big box retailer, entered China on Alibaba's Tmall platform with only an online presence. Alibaba entered the BrandZ™ Top 100 Most valuable Chinese Brands 2015 rankings at No 2. To learn more about Alibaba watch the BrandZ™ documentary film www.brandz.com or <http://bit.ly/16hCGoG>

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THE FLOW ISN'T ONLY TOWARDS THE COAST

China's east coast has been the global epicentre for economic growth in recent years but as growth slows in the relatively developed coastal metropolises, the focus will be on the lower tiered inland cities (tiers 3 to 5)

We've already witnessed this shifting of focus and anticipate its expansion as urbanisation and development continue in China's hundreds of smaller cities (that's small by China's standards, but still massive multi-million populations). This geographical shift is a major priority for the Chinese government in accelerating growth in cities across China and so we'll continue to see more

retailers opening stores in these areas, aligned to local consumers' increased purchasing power. While the potential of these new territories is set to accelerate in the year to come, the challenges will be huge, especially against established, strong regional players. To succeed in these regions a "one size fits all" policy will not work, instead a well considered localised strategy will be key to success.

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RETAILERS WILL LOOK TO LIFT “LIKE FOR LIKE” SALES

As in any fast growing market, much growth comes from increasing the number of distribution points. In China this has prompted the rapid development of new store openings at a rate not seen in any other market.

Both manufacturer and retailer have enjoyed the rewards of this initial phase, but we predict that the Year of the Goat will see them enter a new phase in the more developed cities, that of a more saturated retail environment. As a consequence, we foresee their adoption of a new strategy, one that will concentrate on

how to grow like for like sales (sales in stores open for the past 12 months or more). This plays well for consumers, as retailers will need to become more shopper-centric. It may not, however, be such good news for suppliers who should prepare themselves for continued pressure in terms of pricing, trade terms and in-store contribution.

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RETAILERS AND MANUFACTURERS SET TO DEVELOP MORE CLOSE-KNIT RELATIONSHIPS



As retailers face pressure to deliver growth, be more efficient and reduce their operating costs, they will look to work in true partnership with manufacturers to delight their customers.

To meet expectations, manufacturers will have to be seen not simply as suppliers, but as an integral component of the retailers' growth agenda. Those manufacturers with a clear vision and strategy for how to deliver category growth will be placed above those who do not. Manufacturers with well considered shopper marketing programs, underpinned by the relevant investment in their brands' in-store presence, can look forward to real returns both in the short and long term.





LOWER CONSUMER CONFIDENCE WILL LESSEN SPENDING

Disposable income has risen for a large proportion of the Chinese population in recent years, but it's widely predicted that this will change in the Year of the Goat.

Some analysts are forewarning of the lowest annual income growth to have been seen in the Chinese economy in the past 10 years. The expected outcome of this will be a lower rate of growth in consumer spending; indeed, we've already witnessed this in the current annual growth in the FMCG sector, a relatively low 3%.

The pressure on consumers to decide more carefully where to spend their money will impact across many

categories, not just retail. As such, the Year of the Goat will be a tough one (although vastly more positive in China than for many other parts of the world). That's not to say companies that have the right strategy won't be able to reap ample rewards, but it will require a laser-like focus on capturing a higher share of the available disposable income. We foresee that rewards will come to those that work to get under the skin of what really motivates their consumers.

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CHINA WILL INCREASINGLY EMBRACE ITS OWN CREATIVITY

The idea that China was good at copying but poor at innovating no longer holds true. As innovation breeds innovation within China, we expect that the Year of the Goat will see more home grown ideas make it to market.

Silicon Valley has long been seen as the hub of technical innovation but increasingly entrepreneurs and venture capitalists are looking east to tap into the vast innovation potential that resides in China. With O2O (“online to offline”) becoming so prevalent in China, we can expect to see innovation in the digital space – just take a look at the rapid development of Tencent – but

we also anticipate that more and more products and solutions created in China will be seen in other markets across the world. Tencent is China’s most valuable brand, having overtaken China Mobile in the BrandZ™ Top 100 Most Valuable Chinese Brands 2015 ranking. To learn more about Tencent watch the BrandZ™ documentary film www.brandz.com or <http://bit.ly/1BZs2Ow>

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WELL-BEING AND APPEARANCE WILL ATTRACT MORE ATTENTION

Concerns over air pollution along with multiple scandals of food and drink contamination have revealed a darker side of Chinese production and environment, but we see a growing counter-trend.

We anticipate that in the Year of the Goat there will be a more firmly co-ordinated push towards well-being as a whole, beginning with a focus on the sourcing of ingredients and materials. This movement has been building in small areas and it's increasingly clear that in order to encompass the masses of products in China, convincing evidence will be required to show that "locally produced" is in fact healthily sourced. Having visibility of the entire supply chain will be a significant competitive advantage and offers retailers a massive opportunity to take the lead, in collaboration with selected manufacturers.





HUGE POTENTIAL STILL AWAITS AT THE POINT OF PURCHASE

With so many local and imported brands fighting for touch points with consumers, the shelf will continue to be a vital battleground.

Breadth of distribution has always been key in China, but now the quality of that distribution is coming under scrutiny. The effectiveness of brands on the shelf is a strategic imperative for manufacturers in a retail environment but at present the quality of execution is only at “entry level”. For manufacturers this means a very inconsistent presence

at the most critical part of the supply chain. This is damaging to sales in an ever more competitive market environment and has a negative impact on brand building. The good news is that with so much room for improvement there are massive gains to be made, given the right strategy and execution in this increasingly important area.

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HISTORY OF THE CHINESE NEW YEAR

THE CHINESE NEW YEAR, KNOWN IN CHINA AS SPRING FESTIVAL, IS THE COUNTRY'S MOST IMPORTANT HOLIDAY.

The Chinese New Year is based on a calendar established about 4,700 years ago. Various legends explain the origin of the Chinese New Year. One describes how people dreaded the New Year because a fearsome beast named Nian annually terrorised the population and devoured children. Then one year a child appeared dressed in red. The beast, frightened by the colour, fled and never returned. That's why the Chinese New Year traditionally features red lanterns and noisy firecrackers to ward off evil spirits.

The Chinese New Year is based on a calendar that calculates time using both lunar and solar events. Time passes in 12-year cycles with each year represented by an animal of the Chinese zodiac.

Traditionally, people prepare special foods and hope for a future of good luck. They attend many family dinners, starting with a New Year's Eve feast. Travel home for the family reunion produces a mass migration. The New Year period culminates in the lantern festival, a joyful celebration around the first new moon in the lunar New Year.

THE YEAR OF THE GOAT CHINESE ASTROLOGY

GOAT YIN, (WOOD)

Believers of the Chinese astrology attribute a person's personality characteristics to the profiles of their birth year animal. It's not that simple of course. Following the Chinese view of the world as comprised of opposites, the zodiac animals are equally divided into yin and yang. They are also combined, according to their similarities, into categories called trines.

In addition, each animal is connected to one of five elements: wood, fire, earth, metal and water. The possible combination of animals and elements produces a 60-year cycle and a complicated astrology.

People who are born in the Year of the Goat are believed to have these characteristics:

Righteous, sincere, sympathetic, mild-mannered, shy, artistic, creative, gentle, compassionate, understanding, mothering, peaceful, generous and seeks security.

They can also be moody, indecisive, worrier and pessimistic.

To learn more about the Chinese New Year and how the holiday unlocks year-round Brand and retailer opportunities download this informative and visual BrandZ™ study.

www.wpp.com/chinanewyear

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BRANDZ™ TOP 100

Most Valuable
Chinese Brands
最具价值中国品牌100强

2015 贰零壹伍年



For sharp insight on how China's brands are coming of age, download the BrandZ™ Top 100 Most Valuable Chinese Brands 2015 report.

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- **The drivers that can help retailers and brand owners – both Chinese and western – build valuable brands in a rapidly changing China**
- **How Chinese brands will expand onto the world stage**

BRANDZ™

Established in 1998 by WPP and constantly updated, the BrandZ™ database of brand analytics and equity is the world's largest and most authoritative containing over two million consumers interviews about more than 10,000 different brands in over 30 countries. BrandZ™ is proprietary to WPP companies. For further information about BrandZ™ contact Doreen Wang, Millward Brown China Doreen.Wang@millwardbrown.com or David Roth David.Roth@wpp.com

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BRANDZ™ TOP 100

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2015 贰零壹伍年

CHINESE BRANDS
COME OF AGE

Brand value rises 22 percent
Market-driven brands outperform SOEs
Technology surpasses banks in category value



Partnership and Authority by
MillwardBrown

WPP



English
(pdf, 27MB)

Chinese
(pdf, 27MB)



SMOLLAN



Smollan is an international field marketing organisation delivering growth for clients across five continents. With extensive industry experience, an exceptional human platform and sophisticated systems, Smollan has provided consistent excellence in operational execution to retailers and manufacturers for three generations.

Smollan delivers growth by acting as an extension of our clients' brands:

- Ensuring perfect representation on shelf through outsourced sales forces, and in-store merchandising, stock management and promotional implementation;
- Engaging shoppers to create an experience that delivers on the client's brand promise; and
- Providing actionable insights into the trade through Smollan's technology offering of category management, dashboard reporting and a custom mobility platform.

From a traditional sales agency, founded in South Africa in 1931, Smollan has grown into a full marketing services company operating in 5 continents with over 60,000 people.

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