

9.4. Place (1): Choosing the right geographical market (RC)

Introduction

Many fresh companies to the Chinese market neglect that China is big. While on a strategic level from the company perspective it might just be seen as one market for the decision to enter or develop the market, the operational business and business development is highly dependent on the regional specifics.

Due to the vast area and the varying economical development, when you are analyzing the Chinese market you should definitely break down the segmentation in smaller pieces to reflect the different development stages.

General criteria for market segmentation might be:

- Income Levels
- Customer habits
- Geographical specifics
- Logistics
- Production clusters of similar products and centers for specific industries.

Chinese Bureau of statistics

To get the first general data about any of the regions you are trying to analyze, the Chinese bureau of statistics offers lots of data for free and the statistical yearbook is even available in excel. Next to information that might be important for your business, you can find lots of interesting and surprising data there.

Regional separation: North, West, South, ...

As a first approach to segment the market is a geographical separation of the total market in regions. Since most of the economic power is concentrated on the east coast of the country, this is where most companies start with their operations. Depending on your products, this might be a good start for your business too.

Provinces

After you have identified in which general area of the market the sales of your product

makes sense, the next step is break it down into single provinces. While the above factors can still be used, you should try to include customer behavior and development stage of the market and province into your considerations.

Tier 1 to Tier 88 vs. Rural

Urbanization in China is a still ongoing process which leads to concentration of potential buyers in cities. Development stages can differ though: While in Tier 1 cities like Beijing and Shanghai you might have high-earning potential customers who – depending on your business – crave for international products, in lower tier cities this might be not so much the case.

Rural areas are seldomly considered as a good area for market entry due to the low income, logistical challenges and the low concentration of customers.

Mega-Clusters

A rather interesting approach is to identify a potential market not only by province and by city, but to determine Mega-Clusters in which a high concentration of population is distributed in several cities. By establishing an office in one of these cities within a cluster, you might be able to serve the market in several cities around, especially if your product is highly specialized and might attract potential customers enough to consider trips to there even if it is not in the direct neighborhood.

Trade-Off for your headquarter

When you are choosing the right location for your headquarter in China, the choices are vast. Before you settle on one location, be sure to create a decision matrix which includes all relevant criteria for your company and industry, since it e.g. might not make sense to be very close to your customers and having issues with the supply chain.

Relevant criteria which probably every company should consider, regardless the industry, are:

- Distance to Suppliers
- Distance to Customers
- Availability of qualified personnel
- Cost, e.g. of
 - o Personnel
 - o Rent
- Level of industrial zone which can influence the bureaucracy and professionalism of your local authorities, and can be e.g. divided in
 - o State level
 - o Provincial level
 - o Local level
- Infrastructure which influences the possibility of goods flow, business trips for salesmen or normal business operations, e.g.
 - o international ports
 - o airports
 - o road infrastructure
 - o sewage network
- Government support and incentives.

Micro-Location

Vendors of similar products often tend to concentrate in specific areas. When you are choosing a location within a city, be aware where your customers will be looking for products that you offer. Infrastructure and convenient transportation will also have an influence on your potential customers. Due to the sheer size of Chinese cities, they mostly do not have one single city center but several sub-centers. Identify these and choose the right one for your business.