

Do you know?

Credit Suisse projects that the number of Chinese households whose income exceeds their basic needs will rise from around 55 million in 2008 to 212 million by 2013

What does it mean?

§ US has about 309 million people, with 91% of those have income exceeds their basic needs, or 280 million

§ By 2025, China could surpass US and become #1 in terms of middle class (Miller-McCune Nov. 2008)

So stop --

§ Imagining that somehow the protectionism can keep us in business and revive our economy

And start --

§ Doing what the Chinese have been doing. If you've got the right product, sell it to the next largest market - China

Do you also know?

General Motors Corp.'s Executive Director of Global Market projected that Chinese auto sales could hit 10.7 million units in 2009, more than an estimated 9.8 million unit sales in the US, currently the No 1 vehicle



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Discussion in this Issue –

Do companies lose money when they shift from high margin to high-volume products and services?

Review of "Value-for-Money Strategies for Recessionary Times"

By Peter Williamson and Ming Zeng · Harvard Business Review

Turning Premium Niches into Mass Markets

If there is one thing that our current recession has taught us, it is that people in Western countries are looking more value for their money. Squeezed by potential job loss, skyrocketing healthcare cost, tuition cost and diminishing retirement funds, the American's middle class is shrinking and its capability of spending has been effectively reduced.

This recession however, may have just in time provided the best opportunity for US companies, which offer niche products and rely on the growth of middle-income class, to look beyond its country borders. It is with little dispute that the next largest market is in China. But the fact which is less clear to many is that niche markets in China are far larger. It can be larger than a mass market in US. There are a number of advantages by breaking into the Chinese market with a niche product:

Niche market is a market in which a limited and clearly defined range of products is sold to a specific group of customers

1. Supported by the size of Chinese market, a niche can blossom into a surprisingly large value segment.
2. With positive influx of cash flow, made possible by the large demand in China, a company with niche product can now economically develop and offer variety of choices to its US market and overseas market.
3. Variety in turn will help provide more values to its customers and help retain its leadership in the industry, both in US and overseas markets.
4. By going into Chinese market, US companies can learn some cost effective marketing techniques and develop new products, some of which can be applied and introduced back in the US market.

Of course not all niche products are suitable. It is essential to consult an expert if you think you may have the right product to expand to China.

Why does a company care about making its high margin product into a high volume product? High volume products usually mean more diversified customer base with inferior prices. It does not make sense to provide greater value at less than a prevailing price.

Well, we may not have a choice any more. In this recession time, "value for money has again become a strategic imperative" for both the developed and developing world. While in developed countries, consumers are now forced to look for more value for their dollars; in developing countries consumers are traditionally value conscious. Provide more value to its consumers nowadays could mean to stay competitive and stay in business.

Review and Discussion

The eagerness of expanding high margin products into high volume products could hurt the companies' bottom line and lower their competitive edge. After all, high volume products usually attract unwelcoming copycats, thus disrupting the existing market.

Instead of simply lowering labor and material costs, which are more of conventional ways to reduce product prices, companies should find innovated ways to cut cost and reach more value-conscious customers. For example, a company can transfer a cutting edge product at its 2nd stage of life time to mainstream market to maximize the product value and enhance the return of investment. To always stay a step ahead of competition, a company must continue to develop new variations and new cutting edge products. Clinging on a small market segment and hoping the world will never change can no longer sustain a business.

"Smart companies perceive not just threats in a recession but also opportunities. Their goal is to grow so they can emerge stronger from the downturn." Current recession provides valuable lessons for all of us, whether a company is affected or not yet affected.

Quotes in the "Review and Discussion" are cited from "Value-for-Money Strategies for Recessionary Times" by P. Williamson and M. Zeng; HBR Mar.2009