



**China Brand Consulting**  
*Spot, assess & attack your target market™*

# *Step 1: Spot*

## *The Case of the Indian Automaker*

Though the lure of the emerging consumption culture within China leads many to believe a product or service launch within the country is a no-brainer, preliminary country and industry analysis should be conducted to confirm assumptions. In each custom country/industry analysis project, a PESTE Analysis a element key of “spotting” both opportunities and potential threats in the marketplace. The following slides include an example:



## *The Opportunity*

- An Indian auto maker is hoping to launch a new ultra-efficient and low priced vehicle in China. Though the firm's product is very successful in India, the company's product launch ambitions are limited by their unfamiliarity with the business climate in China. With a product that could rival the lowest cost Chinese automobiles, the Indian firm has the potential to gain significant market share in by marketing its product to the working class Chinese population.



## *The Challenge*

- The Indian firm has not operated in China previously and they are not clear as to what would be required to enter into the market nor what challenges they may confront. They are worried that if they take action to enter the country they would be surprised by unforeseen barriers caused by political, economic, social, technological or environmental factors.



## *The PESTE Results - Political*

- **Joint Ventures:** The government imposes a limit of 50% foreign investment in the auto industry, so JVs are required for new entrants who intend to manufacture in China
  - The number of joint ventures are limited to 2 per vehicle category (e.g. sedan, SUV, small car)
- **Auto Industry FDI:** The minimum investment is US \$240 million
- **Tariffs:** If imported instead of produced in China, vehicles face a tariff of 38%
- **Taxes:** Low emission vehicles with small displacement engines are taxed at a lower rate
- **Counterfeiting:** No foreign company has ever won an IPR case against the domestic auto manufacturers.



## *The PESTE Results - Economic*

- **Auto Loans:** State owned banks, MNCs, auto manufacturers and other non-bank foreign financial institutions are allowed to provide auto loans
  - One of the major challenges of lending in China is the lack database for credit history, which creates significant default risk.
- **Middle Class:** The lower middle class was forecasted to reach a peak of 270 million people in 2009 followed by a burst of growth in the upper middle classes. By 2025, it is predicted that the upper middle class will reach 470 million and will represent nearly RMB 12 trillion in disposable income.
  - The middle class is reportedly the most conservative among all customer groups. This is the group that avoids credit & financing and prefers to buy cars with savings
- **Purchasing Power:** The purchasing power per capita currently is about US \$3,940
- **Currencies:** The Chinese currency is pegged to the US dollar, so This would mean that if the Indian firm chooses to realize all its earnings in home currency Rupee, then it would actually be exposed to the volatility of the US dollar, in addition to currency manipulations that could arise on part of the PRC.



## *The PESTLE Results - Social*

- **One Child Policy:** Due to the policy that caps children per household to one, children often become the focal point of parents and grandparents – these “little emperors” are given many things as they grow. They could also receive cars as gifts
- **Age:** Legal driving age is 18
- **Chinese Pride & Symbolism:** Foreign automakers have attempted crafty correlations between their car models and aspects of Chinese culture and folklore.
  - Toyota’s Prado or “ba dao” is a recent example of how marketers must be cautious within the competitive marketplace
  - The number “4”, though often used in car model names in the west should be avoided. In Mandarin Chinese, the word is very similar to that of “death”



## *The PESTE Results - Technological*

- **Technology Transfer:** As state owned enterprises desire to form joint ventures foreign firms that are able to teach highly efficient processes and deliver highly innovative technology, the Indian firm should be prepared to offer enough that the potential partner is interested, but also protect their secrets to the greatest extent possible, so that the partner cannot produce matching vehicles for launch within the Indian marketplace as a direct competitor.



## *The PESTLE Results - Environmental*

- **Emissions:** China's State Environmental Protection Administration (SEPA) sets emission standards. India and China closely match in terms of emission standards. China is based on the European standards "Euro 4" and the proposed model for launch within China meets those standards.
- **Enforcement:** Some Chinese firms ignore environmental mandates from Beijing without repercussions
- **Non-government Influences:** Environmental NGO's or advocacy groups within China are nearly non-existent



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## *Implications*

- Clearly, the PESTE Analysis and insights that are gleaned from it are a critical part of the country/industry analysis process. It requires both country and industry expertise, both of which China Brand Consulting and its associates and partners are capable of providing. By providing this preliminary glimpse into the potential target country/industry, we ensure that our clients are not caught off-guard. We safeguard our clients' potential for success.