

# Ego in Hong Kong

*The positioning of a luxury brand and product*



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## Management summary

Ego Lifestyle wishes to penetrate the Chinese market because of the presumably high potential for the brand Ego. In order to do so, I was assigned to advise the company. The counsel separates in two parts, that is a B2B plan and a B2C plan. The B2B problem statement is formulated as: *'What is the ideal entry mode for Ego Lifestyle when entering China?'* Two sub questions are used as intermediate stages to reach the answer structured. The same goes for the B2C plan. A research question and two sub questions are formulated, whereupon the B2C problem statement, *'What is the ideal communication strategy for Ego Lifestyle when entering Hong Kong?'*, is answered.

For the **B2B plan** desk research is used and replenished with analysis' in order to provide the answer to the first sub question: *'Is Ego Lifestyle capable to enter the Chinese market?'* Answering the first sub question is needed in order to provide Ego Lifestyle a genuinely useful advice. Namely, if the company proves to be incapable the assignment needs to be adapted in order to be of good service. For the analysis competences, as set by Svend Hollensen and Gunter Gaubomme, are weighed and utilized. As a result, I draw the conclusion that Ego Lifestyle is capable to enter the Chinese market, if financial funds will become available. Assuming that this resource will become available, since it will also be needed for the continued existence of the company, the second sub question is made acquaintance with: *'When adopting the transaction cost theory, which entry mode can best be used when entering China?'* The used theoretical framework exists of two theories, that is *The Hollensen Theory*, which consists of the different entry mode's advantages and disadvantages as set by Svend Hollensen, and the well-known *Transaction Cost Theory (TCT)*, founded by Coase in 1937 and replenished by Williamson and Hennart.

Using the Hollensen theory teaches that **exporting** is the best entry mode for Ego Lifestyle at this moment, for a few reasons. First, exporting is considered the most common entry mode when entering a foreign market, especially among SMEs. Second, other entry modes carry certain requirements or disadvantages that the company cannot overcome at present state, such as: costly negotiations, the access over (marketing) budgets, great know-how, intensive quality control and protection and the necessity of extensive integration. Third, some of these entry modes carry risks which are too dangerous for the company at present state, such as the risks of overpayment, conflicts, loss of control, the partner proving to be inadequate or the partner becoming the competitor. After determining the most suitable entry mode for Ego Lifestyle, next the optimal degree of integration is determined by making use of the TCT. Fortunately, the theories that I have made use prove to be replenishing rather than contradictory. In the opposite: the TCT proves to be a good extension piece upon the Hollensen theory.

The most important concept of the TCT is that economic activities can be organized in two different ways. The principle of the TCT holds that the best option is the one that minimizes all transaction costs. The first option to organize economic activities is using a **market governance structure**, meaning the use of outside agents as a sales force and meaning that transactions take place on the open market using the price system (agents being rewarded to their output). The price system involves cheating costs as a result of opportunism. The second option of organizing economic activities is using a **firm governance structure**, meaning that transactions take place within the firm using hierarchy and control (employees being paid a fixed salary for which good behaviour is expected). This system brings along shirking costs as a result of bounded rationality. What's between is a mix of both methods, called the **hybrid forms**.

Research teaches that using a mix of both methods (markets and firms) generally minimizes the sum of cheating and shirking costs. Organizing costs are dependent of three factors: asset specificity, internal uncertainty and external uncertainty. These factors together determine the organization costs and eventually which degree of integration is best for Ego Lifestyle. The analysis' I executed teach that Ego Lifestyle's asset

specificity is below average, that internal uncertainty is low and that external uncertainty is above average. Summarized the conclusion may be drawn that the best option for Ego Lifestyle is not to integrate, meaning that the firm should make use of **indirect export**. There are two ways of indirect export. The first option uses the market system; the second option uses “piggyback riding”. I find this option most suitable for Ego Lifestyle when entering China, since this option provides costs profit and the experiences of the carrier. This answers the second sub question.

As for the **B2C plan**, the size and the enormous culture variety in China make it impossible to create a communication plan applicable on the whole country. Therefore I decided to aim the B2C plan at a specific target area: Hong Kong. The B2C statement is formulated as: *‘What is the ideal communication strategy for Ego Lifestyle when entering Hong Kong?’* In order to reach the answering to this, qualitative research is used by means of face-to-face interviews with employees and a digital survey under current or former residents of Hong Kong, active in the luxury industry. The leading research question as for the survey is: *‘What is the Hong Kong attitude towards the brand and product?’* The answer to this, *‘The Hong Kong attitude can best be described as open-minded towards luxury products and towards the Ego notebook, aspirant towards leading brands, aspiring handcrafted and international values, however not individualistic-oriented’*, leads me to the sub question *‘What is the ideal marketing mix when entering Hong Kong?’* Instead of the traditional and slightly old-fashioned 4 P’s I make use of 7 P’s in the marketing mix. This 7 P’s are: Product, Price, Place, Promotion, People, Positioning and Presentation.

The **Product** is a given: a fully handcrafted, unique and easygoing high-end communications device. The **Price** is a given to: consumer prices start at € 7.176,- and reseller margins are 21 % for the notebook and 37 % on the skins respectively. Discount towards consumers is hardly given; discount towards resellers is occasionally given. The **Place** to sell the Ego: luxury department and concept stores with A+ locations. **Promotion** should include sales promotion (by making use of incentives), personal selling, public relations and if possible advertising in as many leading luxury and lifestyle magazines if possible (if not possible, intensively make us of free publicity). Promotion should also include the use of celebrity endorsement because this proves to be very effective in Hong Kong, and because it generates immediate awareness. **People** should be very representative, trained carefully, friendly, service-orientated and 25+ of age. The Ego should be **positioned** in a luxurious environment on the high-end market, meaning that the product should literally be placed between Hèrmes and Tiffany’s. **Presentation** should be perfect at all times and all-embracing, meaning that all communication should occur flawless, according to the highest possible standards, in order to give consumers trust.

Cultural differences between the West and China are noteworthy, and a company’s manner of dealing with them partly determines the chances of succeeding. Therefore the final B2C sub question is: *‘How should Ego respond to cultural differences in Hong Kong?’* The advice I would like to give the company is to deepen in the culture, e.g. by reading the appendices of this thesis, and especially in *The Art of War*, a book written by war strategist Sunzi (ca. 500) and up to this day used by businessmen. This “book of deception” provides a good vision on the Chinese manner of doing business, and teaches how to anticipate on this. I also advise the company to become acquainted with the Chinese history, in order to understand the Chinese culture. In short the Chinese can be described as a proud and arrogant nation with a sense of inferiority, which looks up as well as down to the West, very much wanting to prove itself. Westerners should adapt to this by showing much respect, by preventing the Chinese deception and by spending lots of time and attention to the Chinese business partners.

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## PART I: Introduction

### Chapter 1: Introduction to the firm

#### 1.1 Introduction

Ego Lifestyle, founded in 2003, designs, markets, produces and distributes high-end luxury lifestyle consumer electronics. *Ego* is a global brand name for luxury lifestyle products and relates services aimed at the higher-level luxury consumer and business executives market. The Ego notebook is the first, and currently only, product that was introduced by the company. Ego has been rewarded with a number of international awards, and distributed worldwide from her head office in 's Hertogenbosch. Since the home market potential is too small and incompetent, Ego Lifestyle mainly addresses flourishing international markets like Russia and the United Arab Emirates.

#### 1.2 Brand DNA

The brand name *Ego* is derived from the product being “**easy going**” and the possibility to bring in your personal ego to *Ego* products by personalizing it. Core values of *Ego* are:

- Individual personality
- Fashionable unique and iconic design
- State-of-the-art functionality
- Excellent quality – beautiful outside, smart inside

The Ego brand DNA: *The Ego design notebook is an exclusive fusion of unique fashionable design, ultimate functionality and your personality.*

#### 1.3 Mission and visionary statement

The company has neither formulated a mission, nor formulated a vision.

#### 1.4 Product

The Ego notebook combines technology, design, craftsmanship and above all exclusivity in a high-end notebook achievable for those that have a strong need to express themselves and make a lifestyle statement. This lifestyle statement is both out-bound as well as in-bound facing – to impress others or to reward or satisfy yourself. From a technological point of view, the Ego comes with all the features the owner may want to find in a high-end communications device. However, the Ego notebook is not marketed as pure technology, surely not marketed as just another notebook, but as a luxury lifestyle product. The covers, or as the company calls them: **skins**, of the notebook are fully convertible so that the owner can match the looks of his/her Ego to theirs. The Ego notebook starts at a consumer price of € 7.200,-.

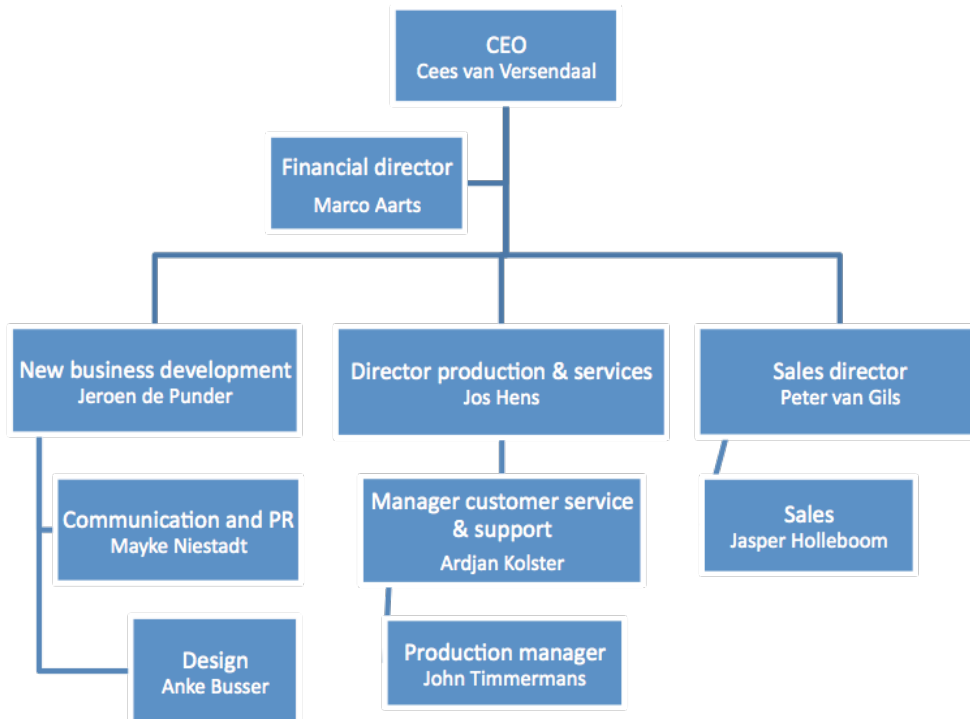
#### 1.5 Accessories

Ego Lifestyle got many requests from customers willing to protect their Ego and had a collection of bags designed. Following the Ego's unique shape and using the same high quality leathers the Ego bag collection is beautiful and unique in its kind. Similar to the Ego, the bag can be tailored to the customer's needs.



### 1.6 The company

When I started my internship in November '08, the owner of the company was the owner of Tulip Distribution International Holding: Huub van den Boogaard and existed of 15 strongly motivated employees. Financial difficulties, which were caused mainly by the credit crunch, meant that the company was taken over by an investment firm and became stock market listed. The firm had to let go of about half of their employees in January. The team that remained, including myself was as follows:



**FIGURE 1.** ORGANIZATION CHART EGO LIFESTYLE

### 1.7 Key business tactics in execution

Ego Lifestyle formulated the following business tactics:

- I. Focus – a luxury brand must never compromise their ‘luxury’ and ‘prestige’ status
- II. Simplicity – target audience messaging clear, professional yet persuasive. Broadcast that message; repeat the message again and again
- III. Consistency – luxury marketing needs completely aligned with the target audience
- IV. Quality – the best and only the best in terms of execution power
- V. Passion & drive – sometimes the impossible has to be made possible. This can only be achieved with a team driven by passion. The Ego Lifestyle organization will focus on design, marketing and sales of luxury products and has a professional team in place to achieve these goals.

In the next chapter I will describe the assignment I was tasked elaborately.



**FIGURE 2.** EGO LIFESTYLE’S PREMISES

## Chapter 2: Assignment

### 2.1 Description and reason of assignment

The Ego notebook is prominent, unique, fashionable and clearly expensive. Because a product like this does not genuinely suit the Dutch market and sober culture, Ego Lifestyle mainly operates in upcoming luxury markets where “showing your wealth” is seen as being smart and successful instead of it being “not done” or blatant. The main markets Ego Lifestyle currently serves are Russia, the United Arab Emirates, Qatar and Bahrain. Besides these countries there are a few selling points in Europe, to be found in the Netherlands, the United Kingdom, France, Germany, Romania, Bulgaria and Switzerland. Ego Lifestyle feels ready to penetrate a new market and of course the upcoming luxury market in China is not unnoticed.

China is the second largest country with the highest electrical consumption per capita and the country is set to become the biggest consumer of luxury goods in 2015 (currently she is the 2<sup>nd</sup> largest consumer to Japan).<sup>1</sup> Since the middle of 1990's, the purchasing power of Chinese consumers has continued to increase rapidly. More and more consumers are favoring international brands. Seeing the market potential, foreign supermarkets, department stores, and retailers have come to China one after another. Large luxury brands, such as Louis Vuitton, Gucci and Chloé, entered the Chinese market about ten years ago. At the moment China has the second largest economy, behind the United States. The current credit crunch no doubt affects the Chinese market growth and the prediction mentioned above. However accurate figures, taken the crisis into account, are unknown.

Ego Lifestyle wishes to penetrate the Chinese market because of the presumably high potential for the brand *Ego*. At the moment new markets or areas are penetrated via existing contacts and frequent expensive visits to the concerning country. With regards to entering new markets, the policy being pursued is ad hoc. In order to become more efficient, to realize lower costs and bring in information on the Chinese market I was assigned to write a market entry plan for China. The entry plan should be aimed at the Chinese consumer and be complete from A to Z; including goals, a SWOT analysis, marketing mix, potential partners and if necessary: product adaptations.

This thesis beholds two parts. The first part contains a Business-to-Business (B2B) plan; the second part contains a Business-to-Consumer (B2C) plan. The B2B plan holds the choice of entry mode; the B2C plan holds the communication plan. China is one of the biggest countries in the world, with many different cultures. For this reason it is impossible to write a complete market entry plan that can be applied onto the whole country. Ego Lifestyle narrowed the assignment down and asked me to write an entry plan that can be applied onto Hong Kong, Shanghai and Guangzhou. However, it didn't take long for me to find out that cultures and buying behaviours between Guangzhou and the other two cities vary too drastically to make a complete entry plan which can be applied to all three cities. Only Shanghai and Beijing are considered to have a similar level of brand consciousness to Hong Kong<sup>2</sup>. For this reason I, too, have decided to narrow the assignment down to a communication plan. This results in my thesis completing a **B2B plan (entry mode) for China** and a **B2C (communication) plan for Hong Kong**.

### 2.2 Goals of assignment

The main goal of my thesis is to create a convincing market entry plan, which directly can be applied onto the Chinese market. It is Ego Lifestyle's goal to achieve a cost breakeven situation, which comes down to approximately selling 20 notebooks per month. Ego Lifestyle's future objective is to sell a profitable number of 40 units per month. At the moment sales results are failing to materialize. My thesis should help bring the first objective closer to reality. Simultaneously I will try to solve and prevent a communication problem within the company, namely the communication difficulties between Europeans and Chinese caused by cultural

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<sup>1</sup> LIANA CAFOLLA in 'City Glam', *APlus* magazine of the Hong Kong Institute of CPA, October 2007, page 24

<sup>2</sup> LIANA CAFOLLA in 'City Glam', *APlus* magazine of the Hong Kong Institute of CPA, October 2007, page 27-28

differences. My secondary goal is to learn as much as I can and develop myself towards being a fully-fledged graduate, ready to enter the job fair. Moreover I wish to be remembered by Ego Lifestyle as the student who has been of priceless value for the business.

### 2.3 Problem definition

The problem Ego Lifestyle is dealing with is the ad hoc policy when entering new markets and the unfamiliarity with China. The company is unfamiliar with the Chinese culture and therefore does not know how to reach the Chinese consumer best. In order to enter the market in China as effective and low-cost as possible, I will write a B2B plan which will be realized with the help of desk research. For this part I will have a look at the entry modes when internationalizing and make the best choice of going abroad for Ego Lifestyle. In the second part I will introduce Ego Lifestyle to the fascinating country and culture of China, in order to make doing business with the Chinese as successful as possible. In order to reach the Chinese consumer as successful as possible, I will do qualitative research and write a B2C communication plan.

Because my thesis can roughly be divided in two parts, I will do the same for the problem statement and formulate two problem statements, instead of one central problem statement. Next to this, I will formulate several sub questions and a research question.

Problem statement:	<b>What is the ideal entry mode when entering China?</b>	}	B2B
Sub questions:	Is Ego Lifestyle capable to enter the Chinese market?		
If yes:	When adopting the transaction cost theory, which entry mode can best be used when entering China?		
Problem statement:	<b>What is the ideal communication strategy when entering Hong Kong?</b>	}	B2C
Research question:	What is the Hong Kong attitude towards the brand and product?		
Sub questions:	What is the ideal marketing mix when entering Hong Kong? How should Ego Lifestyle respond to cultural differences?		

### 2.4 Gathering of information

To find out the best entry mode for internationalizing for Ego Lifestyle I will make use of a book that was recommended to me by Luuk van Leeuwen, renowned tutor in Marketing at the Hogeschool Utrecht. He urged me to make use of '*Global Marketing, a decision-oriented approach*' written by Svend Hollensen. Furthermore I will gather together books and articles about the topic, books to be found at the Hogeschool Utrecht Faculteit Economie & Management (FEM) library and articles on the Internet.

To become acquainted with the Chinese history and culture I will attend a seminar called '*China in one day*' given by philosopher and NRC next author Evert-Jan Ouweneel. Along I will read a famous book about cultural differences, which often cause miscommunication, between Europeans and Chinese. The name of this book is '*Bij de Chinees, gewoonten en gebruiken in China*' written by Bettine Vriesekoop. Another book about cultural differences I will use is a book of the famous Culture Shock series: '*Culture Shock: Hong Kong*' written by Betti Wei and Elizabeth Li.

To become acquainted with the Chinese and the luxury market I will read many articles and magazines on the topics, most of them to be found on the Internet. To learn how luxurious fashion products and brands are branded, I will read the book '*Luxury Fashion Branding, trends, tactics, techniques*' written by Uché Okonkwo, foreword by James Ogilvy. Jeroen de Punder, Manager New Business Development and my supervisor at Ego Lifestyle recommended this book to me.

In the next chapter I will elaborately describe the research methodology I have made use of.



## Chapter 3 Research Methodology

### 3.1 Introduction

This chapter describes the research design of this thesis. Yin (2003) describes it as “*the ‘blueprint’ of research, an action plan from getting from here to there*”. ‘Here’ can be viewed as the research question identified and ‘there’ as the conclusion of this thesis. This chapter shows the steps followed to get to the conclusion.

This thesis can be divided into four different parts, the introductory section (chapters 1, 2 and 3), the B2B theoretical framework (chapters 4 to 7), the B2C communication section (chapter 8) and the conclusion and recommendations (chapter 9).

Paragraph 3.2 describes how the problem was accurately defined, 3.3 defines how the theoretical framework was created and paragraph 3.4 describes the research plan for conducting the analysis part.

### 3.2 Creating the problem definition

The aim of the first part of this thesis is to find out what the problem at Ego Lifestyle is, that needs to be researched and advised on. To identify this problem several discussions with different employees were held to see what their view is on the subject. After the broad identification of the problem area, preliminary library and desk research (using the Internet) was done to create a manageable and logical problem definition.

### 3.3 Theoretical framework

After the definition of the problem statement is accurately formed in chapter 2, by having discussions and doing initially (desk) research, in chapters 4 and 5 the theoretical framework for internationalizing is developed – the B2B plan. This framework exists of two theories. The first theory that I make use of exists of the advantages and disadvantages of the different entry modes according to Svend Hollensen. The second theory I will make use of is the transaction costs theory. These theories will be compared with each other, after which a conclusion will be drawn in order to effect valid results. The results of the preliminary research show that the transaction cost theory is very common used when discussing different entry modes and that there are several issues that are important for finding an answer to Ego Lifestyle’s problem. These issues are: (i) determining what the different entry mode options are, (ii) which of those entry modes are suitable options for Ego Lifestyle and (iii) how the transaction cost theory can be used in this.

Results of the preliminary research also show that one cannot think of China as one country but more like dozens of countries sprawled across five time zones, 22 provinces and 273 cities<sup>3</sup>. Therefore it is impossible to create a communication plan applicable onto the whole country, and therefore I decided to aim the B2C communication plan at Hong Kong. I have a few reasons for choosing Hong Kong. First, my internship doesn’t take enough time to write multiple communications plans. Second, Ego Lifestyle’s target audience is mainly based in Hong Kong (information based on the number of HNWI’s). Third, Hong Kong is seen as the best starting point when entering China for several reasons, such as import duties and Hong Kong being more Westernized than mainland China. Fourth, Ego Lifestyle already has existing contacts in Hong Kong and is at the very starting point for exporting to this place.

The purpose of this theoretical framework is to get a thorough understanding of the different entry modes and issues that are found important when internationalizing. To ensure the quality of the literature used, a few criteria in selecting the journal articles are formulated. First there is, next to the recommended book *Global Marketing, a decision-oriented approach*, searched for articles in the core journals of the “international” discipline like the *Journal of International Business Studies* (JIBS) and core journals of the “small-business/entrepreneurship” discipline like the *Journal of Entrepreneurship Theory and Practice*. To find reliable

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<sup>3</sup> [http://adage.com/globalnews/article?article\\_id=136421](http://adage.com/globalnews/article?article_id=136421)

articles of the “luxury” discipline I used journals made by renowned organizations or parties such as the *Annual Wealth Reports* put together by Citi Private Bank and Frank Knight, journals made by Ledbury Research (*Luxury Considered, Targeting Wealthy Consumers*) and the journal *ConsumerCurrents* made by KPMG.

Second I tried to use the most recent articles as possible as this will make this thesis up to date. Third I also tried to minimize the use of secondary references because this could alter the intended words by the original author. This literature research is extended with articles that are referenced very often, the reason for this is that older articles can be of significant importance as well, which is indicated by them being referenced a lot.

The literature found is integrated in a logical manner to give a clear picture of the existing literature relevant to this thesis and to create a better understanding of the most important issues identified. Based on this theoretical framework the application on how to use the relevant theory and to create a model is known. The data collection done according to this model is discussed in the next paragraph.

### 3.4 The research

To collect necessary data on the problem, I did qualitative research by means of face-to-face interviews with three employees of Ego Lifestyle that are knowledgeable on the subject (sales director, sales employee and the operations director). To collect necessary data on the Hong Kong attitude towards luxury products, qualitative interviews are held under ten current or former residents of Hong Kong, active in the luxury industry, by means of a digital survey. I have specifically chosen for qualitative research instead of quantitative. Qualitative research provides in-depth examination and offers the possibility to deal with value-laden questions, which is important for this thesis and especially for the communication plan.

Interviewing is a good way to collect the data necessary for this thesis. The greatest advantage of doing face-to-face interview is that it provides the flexibility to adapt and change the questions when necessary and to explain when something isn't clear. The two main disadvantages of interviewing are geographical distance and the amount of time that interviewing takes. Because the number of interviews that needs to be done is low, and because the interviews with employees can take place nearby at the same location, these two disadvantages do not apply in this thesis. As for the interviews with residents of Hong Kong, geographical distances made that I had no choice but making use of a digital survey. Respondents were found using international exclusive social networks (*Elysians*), the Chinese Radio and TV (CRTV) organization and Chinese friends or acquaintances.

Because I felt that true honesty, and the prevention of people feeling restricted, are of importance, there is just a handful of leading questions I asked the employees of Ego Lifestyle, whereupon I let an open conversation and discussion begin. Because the questions are not of a kind that could make the interviewees feel uncomfortable answering in the near presence of colleagues, the interviews were held at the office of Ego Lifestyle. In advance of the interview confidentiality is assured and an introduction is given to make the interviewee understand why he (the interviewees are all male) is chosen and what the purpose of the interview is. Because the interviewees and the interviewer are both native Dutch speakers the interviews will be in Dutch. In order to exclude myself from being of any influence, the documented questions are open formulated.

Respondents of the digital survey are introduced with the brand and product in advance, by guiding them through the website and sending them promotional materials such as atmosphere images. The survey exists of thirteen open questions and is of course formulated in English. Both interviews and summaries of the face-to-face interviews are to be found in appendix 7. In the next chapter I will analyze Ego Lifestyle's capabilities of internationalizing.

## PART II Capability of internationalizing and choice of country

### Chapter 4: Capabilities of internationalizing

#### 4.1 Introduction

International expansion provides new and potentially more profitable markets. Ego Lifestyle's decision to go abroad seems obvious: a small and domestic market, tempting figures on economic growth and luxury consumption in the chosen market, a culture strong of out-bound motives, in which showing your success and achievements is generally accepted, together with press demands from the concerning market. However, internationalization is unlikely to be successful unless the firm prepares in advance.

Even though I was assigned clearly to put together a market entry plan for the Ego notebook in China, I would like to take two steps back and first have a look at Ego Lifestyle's capability of internationalizing. If it turns out that the company is incapable of doing this in the first place, which could be the reason for the current sales results failing to materialise, I shall have to adapt my research and thesis in order to offer the company expert advice that is really useful. Paragraph 4.2 establishes Ego Lifestyle's motives for internationalizing. Paragraph 4.3 analyses the firm's preparedness for internationalizing while paragraph 4.4 analyses the firm's capabilities. The final paragraph, paragraph 4.5 draws a conclusion and sets the first step in answering the first sub question. In chapter 5, I will answer this sub question by having a look at the firm's choice of country and market. If it turns out that the market the firm has chosen isn't suitable for the product, or that the firm is too inexperienced to enter this specifically chosen market, I shall have to adapt my assignment and thesis. This strategy of checking the given assignment on reasonableness and rationality before actual initiation instead of rashly accepting the account and going to work was taught to me in my education years at the Hogeschool Utrecht.

#### 4.2 Motives for internationalizing

Out of market-seeking, efficiency-seeking and resource-based reasons<sup>4</sup>, Ego Lifestyle mainly has **market-seeking reasons** (small and incompetent domestic market, increasing market share, the attraction of the Chinese market) and a few **efficiency-seeking reasons** (risk spreading, cover of season swells). Motives are both **proactive** (foreign market opportunities, technology competence/unique product, profit and growth goals, managerial urge) and **reactive** (small and saturated domestic market, unsolicited foreign orders).

#### 4.3 Preparedness for internationalizing

As for the capabilities of internationalizing I will analyse Ego Lifestyle's capabilities according to the required competences as set by Svend Hollensen in '*Global Marketing, a decision-oriented approach*', replenished with the required competences as set by Gunter Gaubomme, Area Manager Asia of the *China Europe Management Centre* in Vlaanderen and author of the journal '*Internationaliseren naar China: een overzicht van de diverse entry modes*'. I will weigh the competences and fill them in for Ego Lifestyle. In the following subparagraph the theory of the *Nine Strategic Windows* will be explained and described.

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<sup>4</sup> DUNNING, J.H., in '*Multinational Enterprises and the Global Economy*', Wokingham, Addison-Wesley Publishing Company, 1993, pp 143-148.

*The nine strategic windows, a matrix that supports strategy development in the context of globalization*

In order to analyze Ego Lifestyle's preparedness for internationalizing I would like to make use of Solberg's (1997) table *Nine strategic windows*<sup>5</sup> and have a look at Solberg's recommendations.

		Degree of industry's globalism		
		Local	Potentially global	Global
Preparedness for internationalization	Mature	3. Enter new business	6. Prepare for globalization	9. Strengthen your global position
	Adolescent	2. Consolidate your export markets	5. Consider expansion in international markets	8. <b>Seek global alliances</b>
	Immature	1. Stay at home	4. Seek niches in international markets	7. Prepare for a buyout

FIGURE 3. THE NINE STRATEGIC WINDOWS, SOURCE: SOLBERG, 1997

As previously mentioned, Ego Lifestyle is a relatively new firm, founded in 2003. Nonetheless I would like to state that Ego Lifestyle could best be seen as an **adolescent** with regards to internationalizing, because of Peter van Gils' many experiences – the firm's Sales Director. Seeing that Ego Lifestyle has already acquired some competences in international markets (e.g. Russia, the Emirates) it can be said that Ego Lifestyle's degree of globalism is **global**. An adolescent preparedness, together with a global degree of globalism, result in suggestion no. 8: *Seek global alliances*. The company can overcome some disadvantages by going into alliances with firms representing complementary competences, which are preferably Dutch because of language, culture and export easiness's – for example Henk or Vertu. Ego Lifestyle seems ready and has reason to internationalize.

#### 4.4 Capabilities of internationalizing

Internationalization asks for a company's capability to invest in external resources, assets and competences and to overcome barriers and risks when internationalizing. At the same time the company must be able to develop a global marketing strategy, exploit the knowledge of the headquarters and transfer these knowledge and 'best practices' from other markets to use them in the new market.<sup>6</sup> For an elaborate analysis on Ego Lifestyle's score please see appendix no 3.

As a result of the credit crunch, all departments have been thinned out which makes the company limited able to exploit the knowledge of her headquarters and transfer knowledge from other markets. Peter van Gils, Sales Director at Ego Lifestyle, has contracted quite some experiences in both the Russian and the UAE markets. He will be able to transfer best practices to the new market, however, the current state of finances has affected his motivation strongly (as well as it has affected most employees). This is a serious problem, which has to be overcome as soon as possible. But there are other barriers a company should be able to overcome when internationalizing.

<sup>5</sup> SOLBERG, C.A. (1997) in 'A framework for analysis of strategy development in globalizing markets', Journal of International Marketing, vol. 5 (1), pp. 9 - 30

<sup>6</sup> Svend Hollensen, 2004

*Barriers when internationalizing:*

- Poor preparation
- Obtaining adequate representation for distribution and services overseas
- Ensuring payments
- Import tariffs and quotas
- Communication and/or language difficulties
- Disruptions for non-standard products

*Ensuring payments* is a difficult barrier to overcome for the company at present state. At the same time this barrier is a condition to all others; if this barrier cannot be overcome there is no use in trying to conquer the other barriers. Therefore I would like to state that this is the most important barrier. *Poor preparation* is the no. 1 cause of failure on a new market; hence this is the second most important obstacle. Hopefully, and supposedly, this barrier is being overcome by means of my thesis, which also applies for *Communication difficulties*, an important obstacle to overcome for building long-term relationships. *Language difficulties* can best be overcome by making use of an interpreter. *Obtaining adequate representation* can be overcome by making use of the employees' (Peter van Gils, Jeroen de Punder) network of overseas contacts. The barrier *Import tariffs and quotas* is also a condition to the other ones. High tariffs can be overcome in two different ways. The first is to have the Ego produced in China, since there is no import license needed when importing products that are to be processed into another product<sup>7</sup> (importing notebook components, which will be processed into the Ego notebook). Another way to overcome this barrier is to export the Ego to Hong Kong first. *Disruptions* can partly be overcome by ensuring accurate and complete filling in of all documents and shipments and using the correct name for China, which is 'People's Republic of China' and Hong Kong, which is 'Hong Kong Special Administrative Region'.

The information above leads me to a conclusion that will be drawn in the next paragraph.

#### 4.5 Conclusion

Ego Lifestyle's motives for internationalizing, combined with the output of the nine strategic windows, together with the required investments in external resources, assets and competences are adequate to draw a conclusion on the firm's capabilities for internationalizing:

*'Is Ego Lifestyle capable of internationalizing?'*

First of all, Ego Lifestyle needs to overcome the current state of finances. Furthermore the firm has to value the importance of the above-mentioned barriers and motivational problems. Ego Lifestyle should invest in external resources such as a network of contacts, together with putting aside a conceivable budget for matters such as marketing, product adaptations, distribution, building up a network and other initial and unforeseen costs, and last but not least invest in re-motivating their employees. If she does: Ego Lifestyle is definitely capable of internationalizing.

This is the first part of answering the first sub question. In the next chapter I will analyze Ego Lifestyle's ambition to enter the Chinese market.

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<sup>7</sup> <http://www.evd.nl/zoeken/showbouwsteen.asp?bstnum=925&location=>



## Chapter 5: The Chinese market

### 5.1 Introduction

In this chapter I will have a closer look at the firm's choice of country and market. The goal of this chapter is to answer the first sub question: '*Is Ego Lifestyle capable to enter the Chinese market?*' As said in the introductory paragraph of chapter 4: if it turns out to be that the market the firm has chosen isn't suitable for the product, or that the firm is too immature to enter this specifically chosen market, I shall have to adapt my assignment and thesis. This strategy, checking the given assignment on reasonableness and rationality before actual initiation instead of rashly accepting the account and going to work, is something that was learned to me in my education years at the Hogeschool Utrecht.

One should not think to easily of entering the Chinese market. Entering the Chinese market is a difficult, long-term and sometimes tiring project. In order to provide Ego Lifestyle the best advice possible, I have analyzed internal company issues, product-related issues, market-related issues and market figures on China. For an elaborate analysis please see appendix no 4. For the history, culture and business manners in China, actual market figures, developments in the luxury industry and a brief analysis on the above-mentioned issues see below.

Paragraph 5.2 encapsulates the Chinese history, the related culture and Chinese business matters. Paragraph 5.3 encloses market figures, including the number of prospects/the target audience, the market growth, the luxury consumption and developments in the luxury market. Paragraph 5.4 analyses Ego Lifestyle's capabilities to enter this specific market by analyzing internal company issues, product-related issues and market-related issues. The final paragraph, paragraph 5.5 draws an overall conclusion on Ego Lifestyle's capability to enter the Chinese market and hereby answers the second sub question.

### 5.2 The Chinese history, culture and business manners in a nutshell

To penetrate the market in China it is essential to have a strong connection with your Chinese partners. In order to build a bond with them, one must fully understand the Chinese culture and way of living. The Chinese can be described as a proud and arrogant nation with a sense of inferiority, very much wanting to prove itself. In order to truly understand this, one must take a look at the Chinese history because the culture and attitude derived from the successes and defeats the country has had to deal with in the past. The same goes for philosophical or religious movements, including Confucianism, Communism, Pragmatism, Taoism and *The Art of War*: the Chinese bible with regards to doing business. For this reason I have made a timeline of China history from 5000 BC to date together with a description of the philosophical and religious movements, which are to be found in appendix no 6. In the next subparagraphs you will find the Chinese history in a nutshell, together with *The Art of War* because I feel that it is important for Ego Lifestyle to know and understand the tactics and strategies when Chinese are doing business.

#### 5.2.1 The history in relation to the culture

Between 1350 and 1750 China had the largest world economy. From 1750 to 2050 the country had to deal with reverses, troubles, humiliation. She rebuilds.



... which leads to a proud and arrogant nation with a sense of inferiority, which looks up as well as down to the West, very much wanting to prove itself.

FIGURE 4. THE CHINESE HISTORY AND CULTURE IN A NUTSHELL

### ! 5.2.2 Business manners: *The Art of War* | 孙子兵法

Students in China are educated from the book *The Art of War*, written by war strategist Sunzi (ca. 544 – 496). Business- and sportsmen use the book to this day. The book is well called ‘the book of deception’ because the strategies take the view of who is best in deceiving one another. Though in China deceiving is much less negative interpreted: for the Chinese ‘deceiving’ is something as ‘cleverness’ is to us. Some lessons from Sunzi’s strategy game plan:

- I. Move not unless you see an advantage; use not your troops unless there is something to be gained; fight not unless the position is critical
- II. If it is to your advantage, make a forward move; if not, stay where you are
- III. Cleverness has never been seen associated with long delays. While speed may sometimes be injudicious, tardiness can never be anything but foolish
- IV. He will win whose army is animated by the same spirit throughout all its ranks
- V. He will win who, prepared himself, waits to take the enemy unprepared.
- VI. All warfare is based on deception
- VII. When able to attack, we must seem unable; when using our forces, we must seem inactive; when we are near, we must make the enemy believe we are far away; when far away, we must make him believe we are near
- VIII. A clever general avoids an army when its spirit is keen, but attacks it when it is sluggish
- IX. Rapidity is the essence of war

## 5.3 Market figures

### 5.3.1 Number of prospects around the world

Ego Lifestyle’s target audience consist of High Net Worth Individuals (HNWI’s)<sup>8</sup> and Ultra High Net Worth Individuals (UHNWI’s)<sup>9</sup>, as was given to me by my mentor Jeroen de Punder. A few figures on the number of High Net Worth Individuals over the world:

- The number of HNWI’s in Asia-Pacific grew by 8.7% in 2007, to 2.8 million, exceeding global HNWI population gains of 6.0%
- Asia-Pacific HNWI wealth expanded by 12.5% in 2007, to US\$9.5 trillion, exceeding both the 10.5% rate posted a year earlier and total world wealth growth in 2007 of 9.4%
- Asia-Pacific is home to 27.8% of the world’s HNWI population and 23.3% of global HNWI wealth
- India, China and South Korea experienced the highest HNWI population growth within the region, gaining 22.7%, 20.3% and 18.9%, respectively
- Together, Japan and China accounted for 68.8% of the Asia-Pacific HNWI population and 62.4% of its wealth
- We forecast that Asia-Pacific HNWI wealth will total US\$13.9 trillion by 2012, growing at a projected annual rate of 7.9%, which slightly exceeds the 7.7% global rate<sup>10</sup>

The map on the following page, presented in 2008 by Knight Frank and Citi Private Bank in *Annual Wealth Report 2008*, shows the number of HNWI’s and their growth rate over the world. As shown in this map, China is rich in a number of 373,000 HNWI’s.

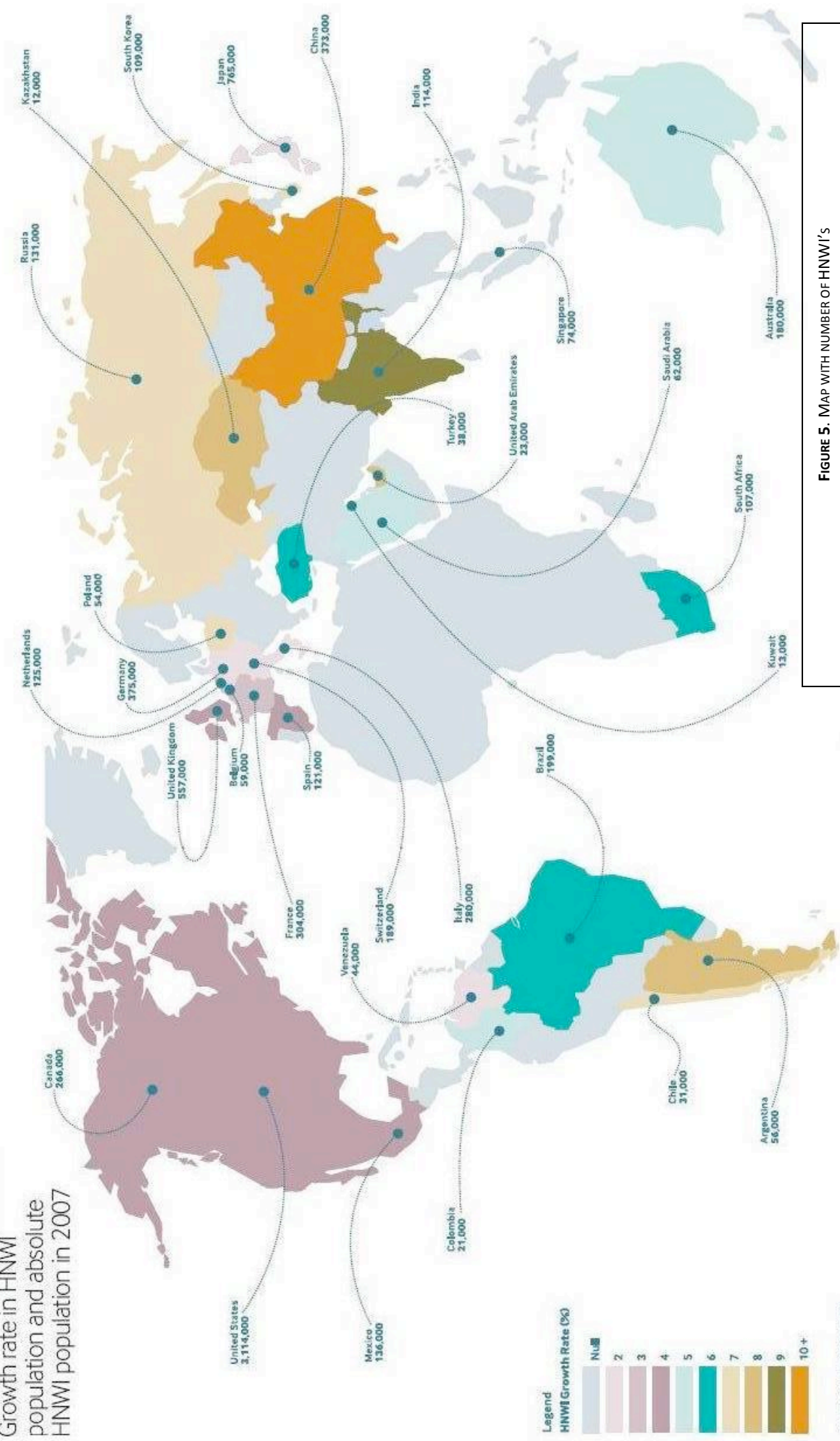
<sup>8</sup> High Net Worth Individuals own net assets of at least \$ 1 million excluding their primary residence and consumables

<sup>9</sup> Ultra-High Net Worth Individuals own net assets of at least \$ 30 million excluding their primary residence and consumables

<sup>10</sup> Capgemini and Merrill Lynch in ‘Asia-Pacific Wealth Report 2008’

## Where is the wealth?

Growth rate in HNW  
population and absolute  
HNWI population in 2007



Source: Scorpia Partnership

FIGURE 5. MAP WITH NUMBER OF HNWI'S

SOURCE: ANNUAL WEALTH REPORT 2008, BY KNIGHT FRANK AND CITI PRIVATE BANK

### 5.3.2 Numbers of prospects in Hong Kong

As stated before, I will narrow the target areas Ego Lifestyle has formulated down to Hong Kong for the communication plan. The number of millionaires in Hong Kong rose by 12.2 percent in 2007. In China the individual assets over 1 million USD reached 825,000 persons. Currently Hong Kong houses more than 86.000 HNWI's, out of 7 million residents. However, due to the credit crisis, number of millionaires in Hong Kong & China may drop slightly and there is no exact info regarding the reduced number<sup>11</sup>.

### 5.3.3 Market growth

Despite the credit crisis making it difficult to find accurate and up-to-date information, I have tried to make use of the most recent figures, which I've found in the online World Fact Book of the *Central Intelligence Agency*, pages last updated on May 14<sup>th</sup> 2009 and at the US Department of State, *Bureau of East Asian and Pacific Areas*, pages last updated in March 2009. I would like to compare market figures of China to Hong Kong, and compare figures of the two sources in order to provide the most reliable information.

	<b>China</b> <i>World Fact Book 2008</i>	<b>Hong Kong</b> <i>World Fact Book 2008</i>	<b>Hong Kong</b> <i>Bureau of East Asian and Pacific Areas</i>
GDP 2008	\$4.222 trillion	\$223.8 billion	\$215.2 billion
GDP – real growth rate 2008	9.8%	2.8 %	2.5 %
GDP – per capita (PPP) 2008	\$6,000	\$43,800	\$30,840
Population January 2009	1.3 billion	7 million	7 million
Population growth rate	0.655 %	0,504 %	0.8 %
<i>Note: data are in 2008 US dollars</i>			

FIGURE 6. MARKET FIGURES OF CHINA AND HONG KONG

However varying data, seeing that China is approximately 8500 times bigger than Hong Kong the figures are promising. Outstanding is the difference in GDP per capita between China and Hong Kong. At present, China is the second largest world economy to the United States<sup>12</sup>.

### 5.3.4 Luxury consumption

In India and China alone, luxury goods consumption grew by 18 % in 2007 and is now worth \$ 21.4 billion<sup>13</sup>. A prediction by investment bank Goldman Sachs is that China's consumption of luxury goods will rise from 12 percent to 29 percent 2015, making it only second to Japan, in a global luxury market worth as estimated US \$ 80 billion a year<sup>14</sup>. India and China are particularly interesting as they each have a huge population and an increasingly affluent middle-class, providing businesses with one of the most important growth opportunities over the next two decades<sup>15</sup>.

The figures seem promising and attractive. However, they do not take into account the worldwide recession and there are only a few reliable new figures or predictions available yet. However, consulting firm Bain &Co., predicts the luxury goods industry will likely enter a recession in 2009. A study, released by Bain in October, said the industry, which has not yet experienced the full affects of the global meltdown, will see a relatively modest growth rate of 3 percent in 2008, compared with 9 percent growth in 2006 and 6.5 percent growth in 2007. However, it also said increased spending by high net worth consumers in new emerging markets

<sup>11</sup> Information provided by the EVD and the consulate-general in Hong Kong

<sup>12</sup> Aneki.com

<sup>13</sup> Bain & Co. in 'Luxury Monitor 2007' - figures are for Asia-Pacific excluding Japan. Exchange rates are 365 day average to \$ for 2006

<sup>14</sup> LIANA CAFOLLA in 'City Glam', APlus magazine of the Hong Kong Institute of CPA, October 2007, p. 24

<sup>15</sup> Business Week, May 2007

including China, Russia, India and Brazil over the next five years, ranging from 20 percent to 35 percent, help build an optimistic picture in the long run.<sup>16</sup>

### 5.3.5 Developments in the luxury market

There is a current surge in China of people reselling their luxury goods<sup>17</sup>. As the luxury industry prepares itself for harder economic times, it has never been more important to understand evolving customer needs. Luxury consumers are increasingly feeling the pressure and, in turn, becoming more discerning in their consumption.<sup>18</sup> One effect of the global crisis is that luxury brands ditch their mass-market strategy. The brands quit focusing on aspirational consumers and start refocusing on their core target audience.<sup>19</sup> Brand value and promise have never been under so much scrutiny.

The consumer becoming more discerning is not necessarily a negative evolvement. Vanessa Friedman, Fashion Editor of the Financial Times agrees: *'In emerging markets, the first wave of luxury consumers tend to be interested in aspirational products that are more about status and advertisement of social achievement. Once they're secure in that, they move to the next level, which is all about connoisseurship, value and integrity'*. This has implications for the way luxury players do business in the future – from large global players to smaller brands and retailers in developed and emerging markets.<sup>20</sup>

“**Before the financial crisis, people usually came with only one or two items, but now they bring five or six, or even up to 10 items, for commission sale. Usually we don't ask any questions, but sometimes customers tell us anyway. Some women said they get less money from their husbands due to a business downturn, so they're selling their luxury collections for pocket money.**”

ZHANG YU, OWNER OF CONSIGNMENT STORE  
"MILAN STOP" IN HANGZHOU CITY FOR LUXURY  
GOODS

The next paragraph analyses Ego Lifestyle's capabilities of internationalizing to China briefly.

## 5.4 The Chinese market & Ego Lifestyle

When analyzing a firm's abilities to enter a specific market, one analyses the internal company issues, product-related issues and market-related issues.<sup>21</sup> For an elaborate analysis please see Appendix no 4.

### 5.4.1 Internal company issues

Internal company issues, which encapsulate export experience, availability of time and money, the management's engagement level and production infrastructure, have partly been reviewed in chapter 4. The firm scores average on these issues (little availability of employees and money, strong belief and engagement in the Chinese market, average export experience, opportunity to create bigger volume and lower production costs when putting out production to China).

### 5.4.2 Product-related issues

Product-related issues encapsulate the product's chances, demands, import allowance, presence of purchasing power, necessary product adaptations and export rules. Ego Lifestyle scores above average on these issues (frequent PR inquiries, presence of purchasing power, minor necessary product adaptations, indications that the Chinese regard for logos and large brands will emerge towards regarding niche labels more interesting and less accessible, allowed import and export).

<sup>16</sup> [http://www.huiyee.com/event/2008lpz\\_en/web/list/rtv.html?id=12135](http://www.huiyee.com/event/2008lpz_en/web/list/rtv.html?id=12135)

<sup>17</sup> [http://www.huiyee.com/event/2008lpz\\_en/web/list/rtv.html?id=12135](http://www.huiyee.com/event/2008lpz_en/web/list/rtv.html?id=12135)

<sup>18</sup> Ledbury Research and De Beers group in 'Luxury Considered', page 7

<sup>19</sup> Wikipedia, search word "aspirational product"

<sup>20</sup> Ledbury Research and De Beers group in 'Luxury Considered', page 21

<sup>21</sup> GUNTER GAUBLOMME in 'Internationaliseren naar China: een overzicht van de diverse entry modes', p. 21



#### 5.4.3 Market-related issues

Market-related issues encapsulate the product's competitors, the market segments, the market figures and distribution. As seen in paragraph 5.3 market figures are promising. This together with high consumption in the market segment (China is the 2<sup>nd</sup> largest consumer per capita of electrical goods in the world), no direct competitors and no distribution difficulties make that Ego Lifestyle scores well on market-related issues.

#### 5.5 Conclusion and answering to the first sub question

The information and brief analysis's lead me to the answering of the first sub question:

*'Is Ego Lifestyle capable to enter the Chinese market?'*

**Yes**, Ego Lifestyle is capable to introduce the Ego notebook on the Chinese market, **IF** financial funds will become available. These funds will not only be necessary in order to prevent the company from going bankrupt, funds will also be needed for the ensuring of payments and investments in: employees or at least their motivation (which does not necessarily bring along high costs), possible collaborations, the development of a marketing strategy and marketing activities amplified onto the Chinese market, ensuring the best possible provision of services, minor product adaptations, frequent visits and stays to the country, logistics and unforeseen costs.

Whether funds will become available or not is something I cannot tell. Assuming that the results of negotiations with prospected investors and the application for credit will live up to Ego Lifestyle's hopeful expectations, the answer is in the positive.

The next chapter describes the possible entry modes and ultimately answers the second sub question.

## PART III Markey entry strategies

### Chapter 6: The Hollensen theory

#### 6.1 Introduction

This is the first part of the theoretical framework. In case of internationalization, there are several entry modes that a company can select from. An entry mode is an economical strategy to be chosen when entering (new) markets. The main entry modes are: export entry modes (direct or indirect), intermediate entry modes (contractual arrangements, equity joint ventures and wholly owned subsidiaries) and hierarchical modes<sup>22</sup>. This chapter holds the first theory in order to select the best entry mode for Ego Lifestyle when entering China. It holds the advantages and disadvantages of all entry modes and occurrences in the next paragraph. In order to simplify referring, I call this **the Hollensen theory**. Chapter 7 describes the second theory that has been made use of, that is the **transaction cost theory** (TCT).

Paragraph 6.2 encapsulates the Hollensen theory, shown in an organizing table, and determines the best entry mode for Ego Lifestyle, according to this theory. Paragraph 6.3 continues on these findings and elaborately describes the entry mode “exporting”. Paragraph 6.4 at its turn continues on these findings and explains the degree of integration that needs to be determined. The final paragraph, paragraph 6.5, draws a conclusion and is the starting point for the TCT.

#### 6.2 Advantages and disadvantages of the entry modes

In appendix no. 5 the different entry modes are explained individually with their most important characteristics and points of difference. For this part of the framework I would like to make use of a summarizing table of the advantages and disadvantages of the different entry modes.

	Advantages	Disadvantages
<b>Indirect exporting</b> <i>(low degree of integration)</i>	Fast access Flexible Minimal resources Limited risk exposure High degree of market diversification	Low control Trade barriers Low local responsiveness High distribution costs Limited product experience
<b>Direct exporting</b> <i>(high degree of integration)</i>	High control over physical and human assets Access to local experiences Shorter distribution chain	Little control over market price because of tariffs Cultural differences Possible trade restrictions
<b>Licensing</b> <i>(seen from licensor's viewpoint)</i>	Fast access Limited capital requirements Exploiting new products rapidly Increases the income on already developed products High rate of return on capital employed Protects patents	Loss of control over market operation Ceding of certain sales territories Licensee can become competitor after expiring of contract Licensee may prove less competent than expected Costly negotiations and license fees
<b>Franchising</b> <i>(seen from franchiser's viewpoint)</i>	Greater degree of control Low-risk, low-cost Ability to develop and distant markets quickly and on larger scale Generates economy of scale Precursor to possible future investment in foreign market	Quality control necessary to maintain integrity of brand name Finding competent franchisees can be expensive and time consuming Lack of full control Costs of goodwill and brand name protection, and marketing

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<sup>22</sup> Hollensen, 2004  
Ego in Hong Kong

<b>Alliance</b>	Overcome resource and capability deficiencies Can minimize transaction costs Increased market power Shared risks	Cooperation problems Goal conflicts Lack of trust Cultural difference Risk of losing proprietary knowledge
<b>Equity joint ventures</b> (seen from parent's viewpoint)	Shared risks, costs, and knowledge Increase market power Increased efficiency Limited resources necessary Reduced market and political risk May avoid tariffs barriers	Loss of investment / operations control Theft of intellectual property Conflicts of interest Creation of potential competitors Partners may become locked into long-term investment, difficult withdrawing
<b>Acquisitions</b>	Rapid entry to new markets Quick access to technology, distribution channels, labour force, existing experience and knowledge Reduced R&D costs	Usually expensive, costs of integrating two firms High risks of overpayment Threat: lack of integration with existing operation
<b>Greenfield investments</b>	Greatest control Greatest return Operational efficiency	High investment costs Slow entry of new markets Requires great know-how

**FIGURE 7: THE DIFFERENT ENTRY MODES, THEIR ADVANTAGES AND DISADVANTAGES.**<sup>23</sup>

The in chapters 4 and 5 described (financial situation, causing limited access over marketing budgets, employees and time, together with the unfamiliarity with the Chinese culture, country or market) into account, leaves the following options on the shelf: exporting, licensing and franchising. Joint ventures, acquisitions or Greenfield investments require too many resources and involve too many risks at this stage for Ego Lifestyle. Since Ego Lifestyle cannot permit serious risks, such as your partner becoming your competitor or the experiencing of cooperation problems, *licensing* and *alliances* drop out. Also, the company cannot permit intensive quality control and protection, making *franchising* a non-suitable option for Ego Lifestyle at this moment. The entry mode that remains is **exporting**.

### 6.3 Exporting

When entering international markets, exporting is often seen as the first step taken, exporting then serves as a platform for future international expansions<sup>24</sup>. Exporting is also considered the most common entry mode when entering a foreign market especially among small to medium sized companies (SMEs)<sup>25</sup>. Conditions favouring this entry mode<sup>26</sup>:

- Limited sales potential in target country, little product adaptation required ✓
- Distribution channels close to plants ✗
- High target country production costs ✗
- Liberal import policies ✓
- High political risk ✓

A ✓ means that the described is applicable, or that the barrier is conquerable, for Ego Lifestyle. A ✗ means that the described is inapplicable, or untrue, in Ego Lifestyle's case. Distribution channels (i.e. China) are not exactly close to plants (i.e. 's Hertogenbosch). Production costs in the target country would be much lower than in the domestic country. Still, so far, the literature found implies that at this point of internationalization exporting is the best option for Ego Lifestyle.

<sup>23</sup> Svend Hollensen in *Global Marketing*, pages 303, 327, 328 and 346

<sup>24</sup> Lu and Beamish, 2001

<sup>25</sup> Leonidou and Katsikeas, 1996, Lu and Beamish, 2001

<sup>26</sup> Quick MBA, Strategic management, <http://www.quickmba.com/strategy/global/marketentry/>

When exporting, one of the most important decisions that has to be made is the degree of channel integration the company wants in the new market. On the one hand the firm can decide to perform all sales functions themselves by integrating through a wholly owned sales subsidiary (direct export), and on the other hand the firm can decide not to perform any of these functions themselves by contracting them out to independent distributors (indirect export)<sup>27</sup>. The intermediate option is forming a sales related strategic alliance with other foreign firms<sup>28</sup>. This difference can also be seen as selling the product in someone else's store by outside agents, selling it with another company together by forming a sales alliance or selling in an owned store by employees. When making use of e.g. a shop-in-shop concept, the department store guarantees personnel, import, distribution and sales and manages the 'receivables chain' (financial management and repatriating of income)<sup>29</sup>.

After reading the preceding paragraphs about the different entry modes it becomes clear that there are a lot of different options to enter a foreign country. The most important differences can be found in the speed of access into the foreign country, the amount of resources needed and the level of control that a company will have. In the long term it is reasonable to state that all options can become possibilities, but in the short term most of the entry modes are too complicated and too resource intensive to implement, like setting up a wholly owned subsidiary or forming a joint venture.

#### 6.4 Degree of integration

For small businesses, strategic alliances are a way to work together with others towards a common goal while not losing their individuality. Establishing an owned sales office in a foreign market involves investment in specialized financial and managerial assets to manage the integrated channel, since the exporting firm needs to perform most of the marketing and distribution functions in the given market<sup>30</sup>. The market mode involves low resource commitment because the intermediary (i.e. the independent distributor) bears most of the marketing costs in the foreign market. The level of resource commitment for the intermediate option will lie somewhere between those two extremes, depending on the ownership level and the extent of resource sharing between the two partners<sup>31</sup>.

The different degrees of integration provide different degrees of control and require different levels of resource commitment, financial and human. The degree of channel integration when choosing the exporting mode is a very important strategic decision, because of the difficulty of switching channels<sup>32</sup>. It affects the allocation of resources, it is likely to shape future foreign expansion and it may enhance the company's competitive advantages<sup>33</sup>.

Some researchers state that firms start with no integration and linearly go from no integration to complete integration. Like the Uppsala model, which states that the increased commitment to any country goes through four successive stages<sup>34</sup>. This view is criticized, because it may not be so predictable due to differences in resources, market opportunities and managerial capabilities<sup>35</sup>. In this thesis the assumption is made that because these differences exist firms do not follow a predictable pattern when exporting. There are other factors that determine the amount of integration.

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<sup>27</sup> Aulakh and Kotabe, 1997

<sup>28</sup> Anderson and Coughlan, 1987

<sup>29</sup> Gunter Gaubomme in *'Internationaliseren naar China: een overzicht van de diverse entry modes'*, p. 17

<sup>30</sup> Hill et al. 1990; Kogut, 1988; Vernon, 1983

<sup>31</sup> Hill et al. 1990

<sup>32</sup> Robinson, 1978

<sup>33</sup> Johanson and Vahlne, 1987, Dunning, 1993

<sup>34</sup> Johansson and Vahlne, 1977

<sup>35</sup> Reid, 1983, Strandskov, 1994

Anderson (1985, 1988) described the integration issue as the choice between outside agents (no integration) and employees (integration). Because Ego Lifestyle wants to know how to sell her product best in China, this can be articulated as whether Ego should use outside agents or employees as their salespersons. What degree of integration is best for Ego Lifestyle when selling her product in China? This will be investigated by using transaction cost theory. The rationale for using this theory and how it can be applied is extensively set out in the next chapter.

#### 6.5 Conclusion

In this chapter the first part of the theoretical framework has been created. After the important different entry modes were identified and shortly described, paragraph 6.2 narrowed this thesis' focus by showing that **exporting** is the best option for Ego Lifestyle, as it is the entry mode that is most often used when entering a foreign country for the first time and because it is an entry mode that is most feasible in the short term. Exporting can be done in different forms depending on the degree of integration the company wants. The optimal degree of integration is what is going to be researched now. How the transaction cost theory can be used to determine this degree of integration is described in the next chapter.



## Chapter 7: The transaction cost theory

### 7.1 Introduction

This chapter is the second part of the theoretical framework. The goal of this chapter is to answer the second sub question: *'When adopting the transaction cost theory, which entry mode can best be used when entering China?'* First it is explained in paragraph 7.2 why the transaction cost theory is used in this thesis. The most important concept of the transaction cost theory is that economic activities can be organized in different ways: using the market system and using the firm system. Paragraph 7.3 explains the difference between these systems. Because transaction costs exist in markets and firms both bear organizing costs, paragraph 7.4 explains how these costs are created by opportunism and bounded rationality. Finding the best level of integration means finding the level that minimizes organizing costs. Organizing costs are based on three factors: asset specificity, internal uncertainty and external uncertainty. These factors, and how they affect organizing costs, are explained in paragraph 7.5. If it turns out to be that there are certain disutility's between the theories, or difficulties in combining them, paragraph 7.6 detects these disutility's and if necessary will form adjustments. The final paragraph, paragraph 7.7, provides the conclusion of this chapter and hereby answers the second sub question.

### 7.2 Motivation

Transaction cost economics (TCE) emerged in the mid-1970s and can be used to evaluate why a particular entry mode is preferred over another entry mode. Transaction cost theory (TCT) is extensively used to determine the best degree of integration.

One of the reasons that I have chosen to make use of the transaction cost theory is that it has a long history in entry mode decision applications and that the theory has proven itself to be very useful. Another reason for using the theory is that it has proven itself to be applicable to Small-Medium Enterprises (SMEs)<sup>36</sup>. Most research on entry mode choices has been done on large companies, but in this case the entry mode choice is examined for Ego Lifestyle, a SME, and it cannot be readily assumed that theories based on large companies can be generalized to apply to SMEs as well. TCE can thus be used to evaluate the best level of integration (which form of exporting) for a company exporting to a foreign country, but how does it do that?

In the TCT the focus is not on producing competitive products or services, but on the *costs* of trading. The principles of TCT<sup>37</sup>:

- Systems with the lowest transaction costs are economically preferable;
- Parties have committed propriety;
- Parties aim for reducing transaction costs.

The decision that needs to be made for Ego Lifestyle is whether the company should use outside agents or employees as their salespersons. Outside agents represent in this case the market (no integration) and employees represent the firm (complete integration). According to the TCT, markets and firms are actually two institutions that use different methods to organize economic activities, markets use the **price system**, firms use **"hierarchy"** (control) and between them are what are called the **hybrid forms** and they use a combination of both methods<sup>38</sup>. This can be visualized by making a continuum with markets and firms as the pure end forms as can be seen in the figure below.

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<sup>36</sup> Brouthers and Nakos, 2004

<sup>37</sup> <http://www.integratedcare.nl/downloads/0807044.guus.pdf>, University Medical Center Utrecht, 2008

<sup>38</sup> Hennart, 1993

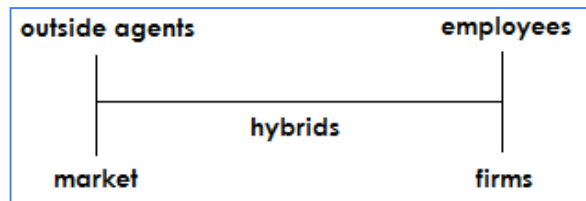


FIGURE 8. THE MARKET AND THE FIRM SYSTEM

When a *market governance structure* is used it means that the transactions take place on the open market, and when the *firm governance structure* is used the transactions will take place within the firm, of which the wholly owned subsidiary is the most pure form<sup>39</sup>.

### 7.3 Markets and firms and the methods of organizing economic activities

As stated in the previous paragraph markets and firms are two institutions that use different methods to organize economic activities; markets use the price system and firms use hierarchy. To make a choice between them, it is important to know the difference. This is explained next.

#### 7.3.1 Price system

Markets use prices to organize economic activities by rewarding or punishing agents for their outputs. Prices meter and perfectly reward an agent's behaviour; the gross rewards that agents receive are a direct function of their output times those market prices<sup>40</sup>. When markets function this way, prices are exogenous and bargaining does not pay<sup>41</sup>. When looking at the sales function of a company this means that it uses an independent channel with outside agents as their salespersons when using the market<sup>42</sup>. Agents will try to sell as many products or services as possible because they are rewarded for their output.

#### 7.3.2 Hierarchy

While markets use prices, firms use "hierarchy" or "control" as the method of organizing economic activities. And as markets are independent channels, firms are integrated and agents become employees to the company. Employees are rewarded on the basis of their behaviour and not for their output. Employees are usually paid a fixed sum in advance that should make them do as their boss tells them, and it thus generally offers the company more control<sup>43</sup>. It makes the employees more willing to perform functions other than those related directly to sales.

It should now be clear that using the market side of the continuum means using the price system to organize economic activities by using outside agents, and using the firm side of the continuum means using hierarchy (control) to organize economic activities by having integrated channels with employees. The most important difference between them is the way that the agents (outside agents or employees) are rewarded.

Before explaining how the choice between these two different ways can be made it is important to explain the principle of the "default hypothesis".

#### 7.3.3 The default hypothesis

The "default hypothesis" is used as the starting point when determining the optimal level of integration. This hypothesis holds that markets (outside agents) should be used unless it is proven otherwise. This is based on the benefits of competition and on the potential limitations of firms. Transactions within integrated companies

<sup>39</sup> Williamson, 1975, 1985

<sup>40</sup> Ouchi, 1979

<sup>41</sup> Hennart, 1993

<sup>42</sup> Anderson and Coughlan, 1987

<sup>43</sup> Anderson and Coughlan, 1987

with employees may be insulated from competitive pressure, subject to company politics, hampered by communication distortion, employee alienation, uninformed decision making, inertia, and other bureaucratic phenomena, and made unprofitable by the overhead of an administrative mechanism<sup>44</sup>.

In the absence of transaction costs both methods would organize economic activities perfectly, and it would not matter which entry mode is used and the market would always be the best option<sup>45</sup>. But transaction costs do exist and this means that both methods will bear organizing costs; the level of integration that minimizes these organizing costs is the one that is best. The independent market-contracting mode will therefore be proven to be not the most efficient one when the organizing costs of this independence are higher than that of an integrated firm mode.

The next paragraph will show why transaction costs exist so that it can be made clear how it can be evaluated which entry mode minimizes these costs for Ego Lifestyle.

#### 7.4 Organizing costs

TCE consists of two important assumptions; that of *bounded rationality* and *opportunism*. As a result of these assumptions, (both methods of) organizing economic activities come with a cost. Markets come with cheating costs and firms come with shirking costs. Another factor, which increases transaction costs, is *asset specificity*. Together these elements form the organizing costs and the best entry mode is the one that minimizes them. The next section explains what bounded rationality and opportunism mean and shows how it creates cheating and shirking costs.

**Bounded rationality** is defined as a semi strong form of rationality in which people are assumed to be intendedly rational, but only to a limited extent (e.g. because they don't have access to all relevant information, or that they can't fully comprehend all needed information)<sup>46</sup>. It also means that it is difficult for parties in a transaction to write complete contracts that cover all contingencies. **Opportunism** leads to the search of people how to favour their selves with means like misleading, cheating and confusing other parties in the transaction. **Asset specificity** holds the agents' investments in specific assets or qualities, bringing along high costs.

When assuming people are boundedly rational and opportunistic, both the price system and hierarchy bear organizing costs. But these costs will be of a different type because of the differences in organizing economic activities. The price system will bear cheating costs; hierarchy will suffer from shirking costs<sup>47</sup>.

##### *7.4.1 Cheating costs*

Bounded rationality means that measuring output when using the price system comes with a cost and that it cannot be measured perfectly. This causes cheating costs because it provides the agent the opportunity to cheat. Agents are for example less inclined to perform other functions than selling and it is therefore possible that they do not perform other (for example the after sales and marketing) functions as good as possible because it does not lead to direct sales. This would definitely cause harm to the company.

##### *7.4.2 Shirking costs*

When cheating costs are high when using the price system, it can be useful to switch to hierarchy. Hierarchy does not reward agents on the basis of their output but rewards employees with a fixed sum for obeying directives, meaning that the connection between outputs and rewards is broken, making that employees gain

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<sup>44</sup> Anderson, 1985

<sup>45</sup> Hennart, 1993

<sup>46</sup> Williamson, 1975

<sup>47</sup> Hennart, 1993

little from cheating. But there is also a downside to this method, which is that it reduces the incentive to work. The employees are paid a fixed sum anyway so why work as hard as you can, while doing moderately will pay the same. A way to deal with this shirking is to monitor employees, but this can be very costly. The amount of shirking costs depends on the degree to which the goals of the employer and employee are the same.

To find the best entry mode it is necessary to evaluate which entry mode will minimize both cheating and shirking costs. Cheating costs and shirking costs are dependent on three characteristics of the transaction, asset specificity, internal uncertainty and external uncertainty. These will be explained in the next paragraphs.

#### 7.5 Determining how to minimize organizing costs

As the paragraphs above extensively describe, there are two ways of organizing economic activities. The first option is using a **market governance structure**, meaning that transactions take place on the open market using the price system (agents being rewarded to their output). The price system involves cheating costs as a result of opportunism. The second option of organizing economic activities is using a **firm governance structure**, meaning that transactions take place within the firm using hierarchy and control (employees being paid a fixed salary for which good behaviour is expected). This system brings along shirking costs as a result of bounded rationality. What's between is called the hybrid forms.

Using a **mix of both methods** (markets and firms) generally minimizes the sum of cheating and shirking costs<sup>48</sup>. Research done by Hennart (1993) shows that cheating and shirking costs increase more than proportionately as one concentrates in either pure price or behaviour constraints. This explains why most transactions exhibit features of both markets and hierarchy (firms). Organizing costs are dependent of three factors: asset specificity, internal uncertainty and external uncertainty. These matters and their level at Ego Lifestyle will be handled in the next subparagraphs.

##### *7.5.1 Asset specificity*

Asset specificity holds the agents' investments in specific assets or qualities, bringing along high costs. There are four types of asset specificity: site specificity, physical asset specificity, human asset specificity and dedicated assets<sup>49</sup>. For asset specificity of the sales function, only human asset specificity is relevant<sup>50</sup>. High human asset specificity means that the sales person has gained a lot of experience and knowledge, putting him in a favourable position to the firm which can be misused without much chance of him being replaced: an example of opportunism and a cause of cheating costs. In this situation it is suggested to use employees rather than outside agents, because employees are better monitored and offer more control<sup>51</sup>.

In order to determine the level of human asset specificity for Ego Lifestyle I analyzed company nature, product nature, confidential information, customer complexity, customer loyalty and the importance of key accounts, a division made by Anderson (1985). As for the company nature, rules and procedures that salespersons need to maintain are not complex. As for the product nature, the Ego notebook is a fusion of technology and luxury making it a complicated product. On the other hand there are no direct competitors or similar products on the market, making the product really unique. Ego Lifestyle is a small company with a very open atmosphere. Therefore the amount of confidential information that Ego Lifestyle's employees possess over is average. Customer accounts at Ego Lifestyle are considered complex because they require a lot of time and attention. Because of the spent time and attention on customer accounts, it is assumed that customers are loyal to a particular sales person in contrast with loyalty to the company. However, it is not assumed that customers will

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<sup>48</sup> JEAN-FRANCOIS HENNART in 'Explaining the Swollen Middle: Why Most Transactions Are a Mix of "Market" and "Hierarchy"', 1993

<sup>49</sup> Williamson, 1983

<sup>50</sup> Anderson, 1985

<sup>51</sup> Anderson, 1985

disappear when sales persons do. Though Ego Lifestyle is a small and relatively new company, there are a few accounts that wouldn't easily be transferred to a new sales person. It would take the new sales person amounts of time to get to know the account. Moreover, the experience of the sales person currently handling this account is valuable for Ego Lifestyle. Next to all this I would like to mention the sales progress as currently.

As said before, the financial situation the company is in affects the motivation of its employees strongly. The financial situation makes that salaries aren't paid on time and that the company cannot live up to all settlements made by the sales department. The financial situation and these compelling problems are slumbering for a long time and linearly getting worse. The same goes for the motivation of sales persons, whereby the same goes for sales results. At the moment the sales persons' motivation and sales results have tumbled to a low in such a way that they have brought their sales activities to a halt. Despite the human asset specificity as described in the previous sub section, this lowers their favourable position in such a way that the human asset specificities for Ego Lifestyle are considered **below average**, because bringing back their belief in the company, belief in the product and believe in their selves is a long term and possible costly process.

#### *7.5.2 Internal uncertainty*

Internal uncertainty is created when it is difficult to measure the output of sales persons<sup>52</sup>. According to Anderson (1985) there are three circumstances making the measuring of sales results difficult:

- I. Team sales, when responsibility is shared with a team it is difficult to evaluate individual performance;
- II. Inaccurate sales and cost records on the individual level;
- III. If sales and costs records are not enough to make a fair evaluation.

Whether these circumstances are present at Ego Lifestyle will be analyzed now. There are no sales activities that take place within a team; each employee has his (there are only male sales persons at Ego Lifestyle) own sales account. Peter van Gils attends the far away and more difficult markets such as Russia and the United Arab Emirates, while Jasper Holleboom focuses on the European market. Individual sales performances are therefore easily measured and kept by Ego Lifestyle without bringing along any problems, as I've found out through conversations with the sales department. Combining the above makes that the internal uncertainty at Ego Lifestyle is **low**.

#### *7.5.3 External uncertainty*

External uncertainty is the unpredictability or instability of a company's environment<sup>53</sup>. It exists when there is uncertainty over the continuation of present economic and political conditions. An unpredictable sales environment makes it difficult to make forecasts. External uncertainty is as well described as "country risk" and is determined by looking at the legal system, the public institutions, the openness of the market and the economic situation in China.

As for the **legal system**, China's legal and regulatory system is complex, contradictory, and lacks consistent enforcement<sup>54</sup>. Chinese law is one of the oldest legal traditions in the world, and has been a complex mix of traditional Chinese approaches and Western influences for the past two centuries. It is currently undergoing gradual reform, as many elements inside and outside the country emphasize the need to strengthen the rule of law in China, and international trade and globalization spur transformations in various areas of Chinese domestic law.

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<sup>52</sup> Anderson and Gatignou, 1986

<sup>53</sup> Anderson and Gatignou, 1986

<sup>54</sup> Journal *Asian Regulation* by Asian and Pacific Affairs, August 2007

Although China is becoming more and more powerful, behind the scenes the company is dealing with few less enviable matters: shrinking growth, increasing unemployment, poor labour conditions, extreme pollution of the environment and corruption at large extent, all forage for commotion. This inevitably makes the Chinese leaders worried, since many dynasties have fallen due to massive riots. This added up with the current credit crisis sets the government under great tension. The danger of commotion is omnipresent in China. It can rise amongst the farmers on the countrysides, amongst the working society in the cities, amongst the very poor and amongst the very rich, outside the Chinese Communist Party (CCP) and within the Party<sup>55</sup>.

As for the **public institutions**, the government system in China is characterized by ministries and other government departments putting their interests above public interests. Various levels of Chinese governments often give preferential treatment to certain multinational firms, making foreign-controlled operations more developed institutional environments than Chinese controlled operations next door.<sup>56</sup> Another weak point of the public institutions in China is the lack of coordination between different government institutions<sup>57</sup>.

**Chinese officials spend as much public money on eating, drinking and publicly funded cars to build two Three Gorges dams each year."**  
GILL, PEI AND HUANG, 2004

**The market** in China became more open by accessing the World Trade Organization (WTO) in December 2001. China had to lower its trade barriers and tariffs and this made the possibilities to enter China better<sup>58</sup>. Exporting is made more attractive in China by granting foreign firms the right to import most products directly. In the past, foreign firm were only allowed to engage in authorized imports that had to be used in their enterprises in China. And besides importing right, foreign firms are also allowed to distribute, market, wholesale, retail and repair their products, even the imported ones<sup>59</sup>. As part of the WTO agreement, China pledged to become a member of the global Information Technology Agreement (ITA). As according to the ITA, all member countries eliminated tariffs on semiconductors, computers and telecommunicated in 2005.

**The economic situation** in China has elaborately been described in paragraph 5.3 and the market growth specifically in subparagraph 5.3.3. China's growth for 2008 is estimated at 9.8 % while Hong Kong is expected to grow with 2.5 % – 2.8 %.

Summarized, China's legal system is still undergoing changes and improvements. Not all laws are effective and the Chinese human rights are still an issue of great concern. The public institutions lack coordination and the inequality among people in China is sometimes enforced by public policies. The public institutions are not yet stable, credible and honest but nonetheless making improvement. This all means that the political situation can be at a point of change which means uncertainty for companies entering China. Although the country is making improvements on all fronts is still not where it needs to be, in order to be a stable environment for companies entering. There is uncertainty about the continuation of the present political conditions in China. The economic environment is seen as quite stable, which means that this provides some certainty in addition to all the uncertainty in China. Ego Lifestyle's inexperience with China increases the external uncertainty. The overall level of external uncertainty in China is therefore seen as **above average**.

## 7.6 Combining the theories

Luckily, the two theories that I have made use of to determine the best entry mode for Ego Lifestyle when entering China replenish each other rather than contradicting each other. There are no difficulties or complications found when combining the theories whatsoever. In the opposite: the TCT proves to be a good

<sup>55</sup> EVERT-JAN OUWENEEL in 'Chinese overheid staat voor duivelse dilemma's', NRC Next, January 13th 2009

<sup>56</sup> Huang, 2003

<sup>57</sup> [www.buyusinfo.net](http://www.buyusinfo.net)

<sup>58</sup> Teng, 2004

<sup>59</sup> Teng, 2004

extension piece upon the Hollensen theory, making it unneeded to adjust any of the above. This makes that I can continue according to the intended strategy and draw my conclusions, by which answering the second sub question, in the next paragraph.

#### 7.5.4 Conclusion and answering the second sub question

The three factors, asset specificity, internal uncertainty and external uncertainty together determine the organization costs and eventually which degree of integration is best for Ego Lifestyle. From the previous paragraphs it is known that asset specificity is below average, that internal uncertainty is low and that external uncertainty is above average. Above average external uncertainty on its own would mean that a company should remain flexible by not integrating. Asset specificity being below average, meaning that there is still some flexibility, supports this. The below average asset specificity also gives indication that using the market system would be profitable for Ego Lifestyle. However, the above average external uncertainty indicates that using the firm system would be profitable, which is confirmed by the low internal uncertainty. This means that the organizing costs when using the market system would be higher than when using the firm system. However, this cannot be stated that black and white because, as previously said, there is the hybrid form, which lies between and combines the market and the firm system.

Summarized it can be said that the best option for Ego Lifestyle is **not** to integrate, meaning that the firm should make use of indirect export. There are two ways of indirect export, shown in the following value chain<sup>60</sup>:

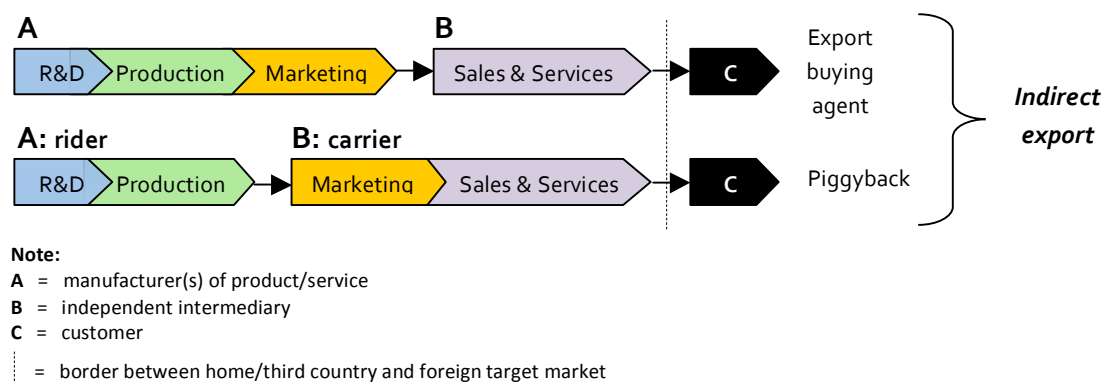


FIGURE 9. VALUE CHAIN INDIRECT EXPORT OPTIONS

The first option uses the market system; the second option uses “piggyback riding” or “mother henning”. In this form of export there are two parties: the international enterprise that has extended distribution channels (the carrier) and the smaller manufacturer (the rider) that wishes to make use of these channels<sup>61</sup>. This strategy is only used when the carrier and rider have complementary products. The rider provides appliances for the export product, making it possible for the carrier to offer the export market a complete assortment of products under the carrier’s name. Another possibility is that the carrier functions as export office and offers its services to multiple riders. The carrier guarantees market research, marketing, service and depository. This makes the smaller manufacturer’s say a lot bigger than in the previously described situation. The goods will be sold under the original brand name, whereby the manufacturer can put together its own international marketing strategy. This option would be most suitable for Ego Lifestyle. As a rider, it provides Ego Lifestyle costs profit and the carrier’s experience, which increases chances of succeeding. The carrier spreads his risks and generates income, meaning it creates a win-win situation. I believe “piggyback riding” is a very suitable option for Ego Lifestyle when entering the Chinese market.

<sup>60</sup> Svend Hollensen, 2004

<sup>61</sup> GUNTER GAUBLomme in ‘Internationaliseren naar China: een overzicht van de diverse entry modes’ p. 18-19

This answers the second sub question:

*'When adopting the transaction cost theory, which entry mode can best be used when entering China?'*

The best entry mode for Ego Lifestyle when entering China is **indirect exporting**. This can be done in two ways. The first is to make use of **piggyback riding**. The second is to make use of the **hybrid** middle way between the market and the firm system, by making use of outside export agents as well as own employees. I value the first option as the most effective, costs-reducing and best option for Ego Lifestyle.

The next chapter will elaborately describe the communication plan and its realization.



## PART IV Communication plan

### Chapter 8: B2C Communication plan

#### 8.1 Introduction

After determining the best entry mode for Ego Lifestyle, the time has come for this chapter to provide a communication plan. A communication plan helps creating order when you are communicating with several target groups, communication goals and a set of means. It helps setting priorities and creates a logical connection within communication expressions<sup>62</sup>. For the communication plan I will deepen into **Hong Kong** and focus on consumers. I do this because this is what the company needs the most, because they specifically asked me to do this and because a B2B communication plan would be strongly dependent on the choice of distribution channel. I have a few reasons for choosing Hong Kong:

- Ego Lifestyle is at the very starting point for exporting to Hong Kong (existing contacts with which at the beginning of agreements)
- The target audience is mainly based in Hong Kong
- Hong Kong is seen as the best starting point when entering China
- Hong Kong is more westernized than China, and therefore easier to enter
- My internship doesn't take enough time to write multiple communications plans

The goal of this chapter is to answer the third sub question *'What is the ideal marketing mix when entering Hong Kong?'* I did qualitative research amongst the target audience in Hong Kong by means of a digital survey with open questions. The goal of this survey is to answer the research question *'What is the Hong Kong attitude towards the brand and product?'* The ten respondents vary from CCO's and CEO's to owners of companies that operate in the high-end/luxury market. Find the survey attached in Appendix no. 7.

A communication plan consists of several elements. The next paragraph, paragraph 8.2, describes the goals of my communication plan. Paragraph 8.3 offers an analysis of the egress situation, including a SWOT analysis and confrontation matrix. The analysis's that can be made out of the results of the survey are processed in paragraph 8.4, which holds four different strategies of the communication mix. The results of the qualitative research are drawn in paragraph 8.5, which answers the research question. This leads to the formulating of the product communication mix in paragraph 8.6. By doing this, paragraph 8.6 answers the third sub question.

#### 8.2 Communication goals

This element encapsulates the goals I wish to reach with the communication roughly. All goals are SMART<sup>63</sup> formulated, in conversation with Ego Lifestyle. The goals Ego Lifestyle and I want to reach with this communication plan are:

- Creating awareness (recognition) of the brand *Ego* amongst 40 % of the target audience, within 2 years;
- Creating awareness (recall) of the brand *Ego* amongst 15 % of the target audience, within 2 years.

#### 8.3 Analysis of egress situation

The above-formulated goals mean little when there is no clear information on the size and place of the target audience, a good SWOT analysis, overall desk research and an analysis on the results.

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<sup>62</sup> <http://www.communicatie-centrum.nl/communicatieplan-opzet.html>

<sup>63</sup> Specific, Measurable, Acceptable, Realistic, Time-bounded

### 8.3.1 Target audience

Ego Lifestyle's target audience consists of High Net Worth Individuals. China is rich in a number of 373,000 HNWI's. The size of the country and previous parts of this thesis make clear that one cannot think of China as one country, but more like dozens of countries sprawled across five time zones, 22 provinces and 273 cities<sup>64</sup>. Ego Lifestyle has formulated three target areas for my thesis: Hong Kong, Shanghai and Guangzhou. As previously said, I narrowed this down to Hong Kong. Hong Kong houses over 7 million residents, out of which 86.000 HNWI's. This information was provided to me by the EVD and the consulate-general in Hong Kong.

### 8.3.2 SWOT analysis Ego Lifestyle

The SWOT analysis is one of the best-known and most common used marketing instruments. It helps creating an objective insight to a company.<sup>65</sup>

Strengths	Weaknesses
<ul style="list-style-type: none"><li>○ Unique, desirable product</li><li>○ Collaboration with an established brand (Bentley)</li><li>○ A lot of free publicity and PR value</li><li>○ Experienced team of employees</li><li>○ Service-oriented organization</li><li>○ Model and brand protection in China and Taiwan</li></ul>	<ul style="list-style-type: none"><li>○ Financial situation</li><li>○ Decreasing motivation of employees</li><li>○ Sell through (from reseller to customer)</li><li>○ The wanting of a relatively new firm to be a luxury brand (building a luxury brand takes time)</li><li>○ Just one product</li><li>○ Technical specifications</li></ul>
Opportunities	Threats
<ul style="list-style-type: none"><li>○ BRIC and UAE economies</li><li>○ The rising number of HNWI's</li><li>○ Individualization</li><li>○ Collaborations</li><li>○ Developing new products</li><li>○ Innovative credit from banks/government</li><li>○ Strong celebrity endorsement in China</li></ul>	<ul style="list-style-type: none"><li>○ Credit crunch</li><li>○ Indirect competitors</li><li>○ Negative reputation, which can arise from/is arising from the financial situation</li><li>○ Chinese falsifying</li></ul>

FIGURE 10. SWOT ANALYSIS

When looking at the SWOT analysis, it becomes clear that the company Ego Lifestyle has weaknesses, which are not negligible. The financial situation, resulting in a decreasing motivation of the firm's employees and the sell through waiting to materialize are features that have to be taken into account very carefully. Since my thesis is not about solving these weaknesses but about supporting the company to enter a new market, I will leave these features behind.

### 8.3.3 Confrontation matrix

Combining the strengths, weaknesses, opportunities and threats makes the confrontation matrix. The matrix is used to answer the following questions:

- How can a strength be used to participate in an opportunity?
- How can a strength be used to defend ourselves from a threat?
- How can a weakness be improved to participate in an opportunity?
- How can a weakness be improved to defend ourselves from a threat?

<sup>64</sup> [http://adage.com/globalnews/article?article\\_id=136421](http://adage.com/globalnews/article?article_id=136421)

<sup>65</sup> <http://zakelijk.infonu.nl/marketing/3380-swot-analyse-en-confrontatiematrix.html>

<b>Analysis</b>	<b>Opportunities:</b> <b>O1:</b> BRIC and UAE economies <b>O2:</b> The rising number of HNWI's <b>O3:</b> Individualization <b>O4:</b> Collaborations <b>O5:</b> Developing new products <b>O6:</b> Innovative credit <b>O7:</b> Celebrity endorsement	<b>Threats:</b> <b>T1:</b> Credit crunch <b>T2:</b> Indirect competitors <b>T3:</b> Negative reputation, which can arise from / is arising from the financial situation <b>T4:</b> Chinese falsifying
<b>Strengths:</b> <b>S1:</b> Unique, desirable product <b>S2:</b> Collaboration with an established brand (Bentley) <b>S3:</b> A lot of free publicity and PR value <b>S4:</b> Experienced team of employees <b>S5:</b> Service-oriented organization <b>S6:</b> Model and brand protection in China and Taiwan	<b>Offensive strategy</b> <b>S1, S5, O1, O2, O3:</b> Create desire for the product among HNWI's in upcoming economies, by intensive brand promotion (using e.g. (free) publicity) <b>S1, O4, O5:</b> Start new collaborations with established luxury brands, optionally create new products together <b>S1, S4, O1, O4:</b> Find certified resellers in upcoming economies <b>S2, O4:</b> Profit of Bentley's successes <b>S1, O7:</b> Make use of the valued celebrity endorsement	<b>Reactive strategy</b> <b>S5, T2, T3:</b> Excellence and the no. 1 in customer and partner service <b>S6, T4:</b> Strongly protect the brand <i>Ego</i> and the notebook model <b>S3, T3:</b> Use PR value and free publicity to protect and improve reputation
<b>Weaknesses:</b> <b>W1:</b> Financial situation <b>W2:</b> Decreasing motivation of employees <b>W3:</b> Sell trough (from reseller to customer) <b>W4:</b> The wanting of a relatively new firm to be a luxury brand <b>W5:</b> Just one product <b>W6:</b> Technical specifications <b>W7:</b> Non-competitive prices	<b>Adjust strategy</b> <b>W1, O6:</b> Invest extensively in relations at banks or government to be granted a credit <b>W4, O4:</b> Piggyback ride with/profit of the established brands of collaboration partners <b>W1, W3, O1, O2, O3:</b> Create more direct sales (with higher margin) using the website <b>W2, O5, O6:</b> Re-enthusiast employees with new product and stronger financial position	<b>Defensive strategy</b> <b>W2, T2:</b> Invest in employees (using both satisfiers and non-satisfiers) to motivate them and hereby create a stronger position than the competition <b>W5, W6, W7:</b> Produce and market a new, lower cost product

FIGURE 11. CONFRONTATION MATRIX

I would like to clarify and replenish a few of the above-mentioned strategies. For instance the offensive strategy *Profit of Bentley's successes*. Bentley Motors sold 338 cars in China and Hong Kong areas in 2007, up 93 percent from one year earlier<sup>66</sup>. Unfortunately, Bentley Motors would not provide any information over 2008. Fact is that Bentley was hit hard by the credit crunch and saw a significant decrease in demands. Over 140 employees, who usually manufacture luxurious vehicles, are set in to create furniture because otherwise there is no work for them.<sup>67</sup> However, Bentley sales are still going up in China and Hong Kong areas. Exact figures are unknown. Ego Lifestyle should make use of the successes Bentley was and is gaining in these areas, and try to reach potential Ego for Bentley customers through the certified Bentley dealers.

*Make use of the valued celebrity endorsement.* In China celebrity endorsement is valued highly and it doesn't have to bring along extremely high costs. Ways of profiting of this is choosing the celebrity carefully and provide him or her with an Ego notebook for free. Write an amazing accompanying letter and make sure you find out his or her style and taste, so that the skin can be adapted to this end. A great example of suitable celebrities in the United States would be Oprah or Tyra Banks. These women have their own talk show, are

<sup>66</sup> <http://www.theautochannel.com/news/2008/02/18/077930.html> online article, date 18 Feb 2009

<sup>67</sup> <http://www.endandit.nl/auto/060311497/bentley-wordt-meubelmaker>

grateful people, are interested in fashion, have an immense group of fans and would **love** the Ego. It will probably be impossible to have them feature the Ego notebook in their talk show. However, it might be possible to get a picture of the celebrity with his or her new Ego. In any case, you can claim that the celebrity is in possession of an Ego notebook, which will help you create credibility as a brand and a company. Total costs: ± € 2.500,- and some time. The invested money will earn itself back with just one sales order.

*Create more direct sales (with higher margin) using the website.* If the website will be adapted so that customers can compose their Ego notebook, the company makes more margin, can control the sales process and monitor the promised and proposed service.

*Excellence and the no. 1 in customer and partner service.* Because the company is dealing with financial problems, she must offer her customers **the best service possible**. Customer relations are very important in this stage, as building a strong customer relation network is much cheaper than attracting new clients. Moreover, existing clients are willing to pay more for a product or service than new clients and devoted clients will realize positive advertising from mouth-to-mouth.<sup>68</sup>

With regards to the weaknesses “*The wanting of a relatively new firm to be a luxury brand*”, I would like to cite a line from the book *Luxury Fashion Marketing*:

**The best way for a need brand to  
succeed is to act like an old brand!**  
UCHE OKONKWO IN *LUXURY FASHION BRANDING*

The next paragraph describes the possible strategies of the product communication mix, according to Svend Hollensen in *Global Marketing*. I value these strategies one by one.

#### 8.4 Strategies of the communication mix

Svend Hollensen discerns four possible strategies of the communication mix, that is: *straight extension*, *product adaptation*, *promotion adaptation* and *dual adaptation*. Each of the following sub paragraphs handles one of the strategies, after which the product communication mix accurately can be determined in paragraph 8.6.

##### *8.4.1 Straight extension*

Straight extension involves introducing a standardized product with the same promotion strategy throughout the world market: one product, one message worldwide. By applying this strategy successfully major savings can be made on market research and product development.<sup>69</sup> Since the 1920s Coca Cola has adopted a global approach, which has allowed the company to make enormous cost savings and benefits from continual reinforcement of the same message. While a number of writers have argued that this will be the strategy adopted for many products in the future, in practice only a handful of products might claim to have been successful using this strategy. Besides, the brand *Ego* is in no way comparable with the brand *Coca Cola*, even more: the luxurious, high-end product (Ego notebook), only achievable for the lucky few, is in no way comparable with a mass-product like Coca Cola. Straight extension might seem an attractive strategy because of its low cost, however the chance of succeeding is little. I find this strategy inexpert for Ego Lifestyle.

##### *8.4.2 Product adaptation*

By modifying only the product a manufacturer intends to maintain the core product function in the different markets.<sup>70</sup> There are several aspects on the product that have been questioned in the survey, namely: first

<sup>68</sup> <http://dienstenmarketing.web-log.nl/dienstenmarketing/2008/05/klanten-behoude.html>

<sup>69</sup> Svend Hollensen in *Global Marketing*, p. 465

<sup>70</sup> Svend Hollensen in *Global Marketing*, p. 465

impression, keyboard preferences, personalization possibilities, pricing and possible values that should be added to the brand *Ego*.

### First impression

Most respondents were confronted for the first time with the brand *Ego*. They have had a look at the website and promotional and marketing materials such as campaign images. The first impressions of all respondents but one, were rather positive: *'chic, modern, funny, looks stylish, fashion!, amazing style, very high-end, very feminine'*. The one respondent that had a rather negative first impression, said: *'My first impression on the Ego Notebook is that the form factor bothers me. The fact that it is not in a rectangular shape, it is not practical, in my opinion for travel. What does interest me is the handcrafted factor.'* Altogether, most first impressions to the product are positive. No adaptations needed here.

### Keyboard

None of the respondents wishes to make use of a Chinese complex keyboard. 40 % of the respondents prefers a regular **US-keyboard** against 40 % of the respondents who prefer a **Chinese simplex keyboard**. 20 % has no preference. A remarkable finding, since it is generally said that Mainland China uses simplex keyboards, while Hong Kong and Taiwan use complex keyboards<sup>71</sup>. Probable is that this theory doesn't take into the account the number of foreigners that moved to, and live in, Hong Kong. It is also assumable that this information is slightly outdated. I would like to advise Ego Lifestyle to offer **two types** of keyboards when entering the Chinese market: a US-keyboard and a Chinese simplex keyboard. At the same time I would like to make the small note that also the different electrical voltages in different countries have to be taken into account, through which plugs have to be adapted.

### Personalization

9 out of the 10 respondents feel the option to change the skin of the Ego suits the market in Hong Kong, as well as the market in mainland China. Links are made with *Hello Kitty* and *Anya Hindmarch*, both very successful brands in Asia. Hello Kitty offers the option to fully customize your doll by not only dressing it, but also selecting the sounds "your new friend" makes<sup>72</sup>. Anya Hindmarch offers the option to customize your bag by simply uploading your favorite picture and having your personal bag produced and delivered at your home<sup>73</sup>. This makes that people spend more time on your website, resulting in them feeling more affinity with your brand. The marginal note has to be made that the option to change or customize your skin is **fashion**, and not **luxury**. Then again, one can argue that it is probably easier to attract the early adopters (which are the fortunate fashionables, who buy out of "fashionability") than the ones who would buy out of luxury or functionality. After all, *Ego* is not a globally established brand name yet and because of inadequate specifications the product is not quite functional.

One respondent answered that "changing the computer itself maybe more important because the upgrade of computer technologies are so fast". The advise I would like to give Ego Lifestyle is: hold on to the switching of covers in China, and if the means are there: produce one of the light-weightiest and most complete notebooks with regards to technical specifications. But the most important advice I would like to give is the firm concerning this, is to make the important "fashion vs. luxury decision". Is the product fashion, is the product luxury or is it both? At this moment Ego Lifestyle is stuck in the middle, and cannot answer this question.

### Pricing

*'Too expensive. Way too expensive. Way too much!'* are the most common reactions. However, one of the respondents said: *'Limited edition, styled products have extremely elastic prices. People pay for the feeling not*

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<sup>71</sup> CHRIS DEVONSHIRE-ELLIS, Senior Partner Dezan Shira & Associates

<sup>72</sup> [www.buildabear.com](http://www.buildabear.com)

<sup>73</sup> [www.anyahindmarch.com](http://www.anyahindmarch.com)

*just for the intrinsic product.*' The question rises whether to lower the price or not. In my opinion this also depends strongly on the "fashion vs. luxury decision".

### Values to add

The respondents agree on the basic needed must-have values for *Ego*: fashion, luxury, high quality and user friendliness. Values that could be added or more expressed according to the respondents: limited edition, international and branding. One respondent said: *'With the current financial atmosphere, I believe branding is key.'* - Jimmy K.W. Chan, Chairman and CEO of Semeiotics, inc. How branding is done? First it is important to understand that branding is not about getting your target market to choose you over the competition, it is about getting your prospects to see you as the only one that provides a solution to their problem<sup>74</sup>.

■ ■ **Use Chinese language and Chinese role models/ambassadors in combination with international vide for credibility."**

RONALD DE LA FUENTE, CCO OF ELYSIANTS AND PART-TIME RESIDENT OF HONG KONG

### 8.4.3 Promotion adaptation

Use of this strategy involves leaving a product unchanged but fine-tuning promotional activity to take into account cultural differences between markets. It is a relatively cost-effective strategy as changing promotion messages is not as expensive as adapting products.<sup>75</sup>

### Language

It is a known given that Chinese like to be addressed in their language, which has everything to do with respect. When entering China *Ego* Lifestyle should adapt her current promotional materials by making use of Chinese characters instead of English.

### Celebrity endorsement

My assumption that an effective and easy way "to brand your brand" in China is to make use of Chinese celebrities as ambassadors, was confirmed by at least one of the respondents to this survey, see the citation to the right. Because I feel that making use of celebrity endorsement will help getting the brand *Ego* on the map, I have made an overview of the 25 most powerful celebrities in China in appendix no. 8. In comparison with the Western market, the Chinese are very sensitive for celebrity endorsement, secure multiple researches. In China it is considered a status symbol to purchase an endorsed product<sup>76</sup>. Below, find examples of the most popular brands in China and their endorsement strategies in brief. This will help one understand the impact of celebrity endorsement in China better.

■ ■ **BRANDS, it's all about brands here. LV, Gucci, Prada, etc, when brands are fashionable in Europe and the US than they will become fashionable here."**

PATRICIO DE LA FUENTE, OWNER AT LINKS CONCEPT HONG KONG

<sup>74</sup> LAURA LAKE in *'What is Branding and How Important is it to Your Marketing Strategy?'*

<sup>75</sup> Svend Hollensen in *Global Marketing*, p. 465

<sup>76</sup> Wikipedia, search word "celebrity endorsement"

A great example of a brand that massively makes use of celebrity endorsement is *Louis Vuitton*. Madonna, Uma Thurman, Keith Richards, Scarlett Johanson, and Jennifer Lopez: all big names in celebrity land pass in review. *Fendi* and *Moët & Chandon* are other brands owned by the French luxury powerhouse **Louis Vuitton Moët Hennessey** that make use of celebrity endorsement (Jay-Z for Fendi, Scarlett Johanson recently became the new face of Moët & Chandon). The company keeps reporting high percentage rises in full-year profits and is currently establishing stores throughout China<sup>77</sup>. Surveys show that 92% of Japanese women own a Louis Vuitton handbag. According to Eoin Gleeson, author of the journal *“How China fell in love with Louis Vuitton”*, ‘there is every sign that the Chinese are in the middle of being gripped by a similar madness’.



FIGURE 11. UMA THURMAN FOR LOUIS VUITTON (2005)

China’s \$3.8 bn watch market is almost completely dominated by Swatch Group (SWR), which has a 70% market share for high-end watches. The Swiss group has increasingly geared the company towards products such those sold under its Omega label (endorsed by 007 James Bond, Cindy Crawford, Nicole Kidman, Daniel Craig,), currently the most popular luxury watch brand in China.<sup>78</sup> At the opening of Omega’s flagship store in Hong Kong Omega ambassadors Simon Yam, QiQi and Richie Jen, the Taiwanese pop idol, and a host of Hong Kong celebrities were present, together with several other Chinese celebrities<sup>79</sup>. Another example is the advertising campaigns of Motorola for the Korean markets. When Motorola launched her new cellular phone an advertising campaign for the Southeast Asian market was developed in Singapore. However, the advertising proposal from Singapore was redeveloped in Korea. A juggler was switched to a well-known Korean drummer as it was thought to be more familiar and appealing to Korean customers.<sup>80</sup>

**“ I believe that companies that can afford expensive celebrity endorsements have real strength. To me, the more famous a celebrity is, the better the product will be because celebrities have to take care of their reputation.”**  
- CUI PING, 31, RESIDENT OF BEIJING

An example in which celebrity endorsement turns out less fortunate for the brand: In China Christian Dior got hit harder than any of Phelps’ brands when its celebrity endorser, Sharon Stone, made cruel remarks about the millions of victims of the Sichuan earthquake last year, saying they deserved what they got because of China’s treatment of the Dalai Lama. Her remarks sparked immediate protests, and Dior suffered a major setback in one of the world’s strongest-growing cosmetics markets.<sup>81</sup>

The disadvantages of celebrity endorsement (possible negative aspects thanks to celebrity behaviour, high costs) don’t offset the reasons why celebrity endorsement would be a great strategy for Ego Lifestyle. It makes the brand’s message stand out among the clutter, it convinces customers of credibility, and it realizes great brand awareness and generates extensive PR leverage. Utilizing celebrities to endorse a luxury fashion brand

<sup>77</sup> ‘How China fell in love with Louis Vuitton’ by Senior Writer Eoin Gleeson, June 14, 2007

<sup>78</sup> ‘How China fell in love with Louis Vuitton’ by Senior Writer Eoin Gleeson, June 14, 2007

<sup>79</sup> News article ‘Omega launches first Hong Kong Flagship Store’ on Omega website

<sup>80</sup> Svend Hollensen in *Global Marketing*, p. 465

<sup>81</sup> <http://news.imagethief.com/blogs/china/archive/2009/02/11/the-celebrity-that-ate-my-brand.aspx>



can be done in several ways: print media advertising in magazines, television advertising, product use in movies and television programs, fashion spreads showing celebrities in the apparel of accessories/brands at different events, paid and unpaid celebrities casually using the product, the mention of luxury brands in music lyrics, inviting celebrities to be co-creators and partners in designing products or naming products after celebrities.<sup>82</sup> The question that rises next is: How can the right celebrity be matched with the right brand in order to achieve the desired maximum impact and results? For five rules of celebrity endorsement for luxury brands I wish to refer to Appendix no. 8.

Ego Lifestyle should make use of female (since the Ego notebook is a rather female product) celebrity endorsement when entering China, because *Ego* is a relatively new brand, because it will help the brand to stand out and to be positioned, because it creates credibility among customers and because the endorsement will generate extensive (free!) PR leverage. Moreover, the impact of celebrity endorsement in China has proven to be very high. Ego Lifestyle should select the celebrity carefully, according to the five rules of celebrity endorsement. Making use of a Chinese celebrity instead of a globally famous celeb reduces costs and is appealing to the Chinese. Suitable female Chinese celebrities (in sequence according to their powerfulness as determined by Forbes) would be: actresses Zhang Zhi (actress with the highest income, that is 55 million yuan or \$8 million a year), Fan Bingbing (launched own studio, starred in several Hong Kong films), Zhao Wei (starred in John Woo's *Chibi*), Zhou Xun (film star most recently appeared in *Hua Pi*), Li Bingbing (awarded best actress, popular cover girl), Gong Li (dubbed role for movie *Lan Mei*; cast in Hollywood's *Shanghai*), Xu Jinglei (made editor-in-chief for e-magazine *Kai La*), singer Zhang Liangying (two hit albums; holding benefits for earthquake victims), actresses Sun Li (advertisers' favorite; movie *Jin Shan* expected to gain her global fame) and Huang Shengyi (singer and dancer is exploring more TV work).

Taken the financial situation into account, Ego Lifestyle should try to have her product featured in television programs and use photographs of unpaid celebrities using the product. A good way by making the chosen celebrity willing to pose unpaid for photographs using the product is by providing her with a Ego notebook for free. A fierce accompanying letter should be written, and the company should extensively keep up the contacts. Another possibility for Ego is to profit of celebrities endorsing Microsoft Vista, which are Eva Longoria, Molly Simms, Maria Menounos and Josh Duhamel.

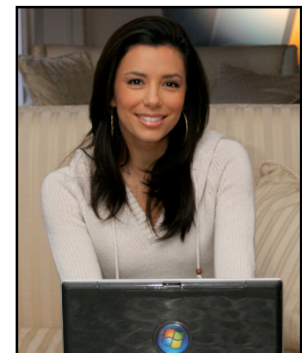


FIGURE 12. EVA LONGORIA  
FOR MICROSOFT VISTA

#### 8.4.4 Dual adaptation

By adapting both product and promotion for each market the firm is adopting a totally differentiated approach. This strategy is often adopted by firms when one of the previous three strategies has failed, but particularly when the firm is not in leadership position and is therefore reacting to the market or following competitors. It applies to the majority of products in the world market.<sup>83</sup> The modification of both product and promotion is an expensive but often necessary strategy. However, trying out and failing with the previous three strategies might be even more costly. For this reason, and for most chances of success, I advise Ego Lifestyle to instantly and initially make use of dual adaptation.

<sup>82</sup> UCHÉ OKONKWO in *Luxury Fashion Branding*, Foreword by James Ogilvy, page 160-161

<sup>83</sup> SVEND HOLLESEN in *Global Marketing*, p. 465



#### 8.4.5 Conclusion

This subparagraph answers a part of the problem statement, which is:

*'What is the ideal communication strategy when entering Hong Kong?'*

Ego Lifestyle should make use of **dual adaptation**, meaning product adaptation as well as promotion adaptations. The necessary promotion and product adaptations are described below:

##### **Product adaptations**

- Offer two types of keyboards: US & Chinese simplex
- Take into account the different electrical voltages, offer compelling adaptors
- If financially possible, improve technical specifications
- If financially possible, adjust the website and make it possible to select or design the skins

##### **Promotion adaptations**

- All promotional materials should be in Chinese (language in Hong Kong is predominantly Cantonese in character<sup>84</sup>) instead of English
- Female celebrity endorsement

This outcome will be part of the product communication mix, drawn in the next paragraph.

#### 8.5 Results qualitative digital survey

Responses of the digital survey are processed in the sub paragraphs above. For structure and intelligibility I would like to shortly organize and analyze the responses here.

##### *8.5.1 Responses*

Too high pricing, the importance of being a known brand in Hong Kong, the value of celebrity endorsement and the necessity of excellent technical specifications, are often mentioned. It is also a few times mentioned that brands in Hong Kong become successful when they are in Europe. The target audience travels a lot, and therefore global visibility (especially in Europe) is important. It is also important to bear in mind that the target audience *"knows what's on the market for comparable prices"*, as one respondent pointed out. However, there is also a respondent who said: *"Technical specifications mean little to me, all I need to know is they're OK"*. Still, I believe it is important, but not a necessity, to offer the technical specifications according to the highest standards.

The high pricing bothers 90 % of the respondents. I agree with the respondents that the pricing is too high for a product that lives up to 3 years. However, the price is a given for me, and not a given I can change. Branding is often mentioned and is something that I too regard as important. The same goes for the celebrity endorsement. The brand *Ego* is not yet appealing to the respondents, because it is unknown to them. Hong Kong people are followers<sup>85</sup> and aspire global established brand names, for preference brands coming from Europe. However, the product does appeal to them as most respondents initially react positive towards the brand (*'Wow, How come I don't have one, Very stylish, Very fashionable, Very high end'*).

Multiple respondents state that the values *handcrafted, high quality* and *user friendliness* are suitable to the market in Hong Kong. They are unsure about the value *personalization* (however some respondents are explicitly positive on this value, referring to other successful brands using personalization) and most

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<sup>84</sup> Betty Wei and Elizabeth Li in *'CultureShock! Hong Kong'*, p. 51

<sup>85</sup> Betty Wei and Elizabeth Li in *'CultureShock! Hong Kong'*, p. 97

respondents state that the value *individualization* does not suit the market, which suits with the Chinese collectivism.

The next sub paragraph will draw the conclusion on the Hong Kong attitude towards the brand and product, as short as possible.

#### 8.5.2 Conclusion and answering the research question

This paragraph answers the research question:

*‘What is the Hong Kong attitude towards the brand and product?’*

The Hong Kong attitude can best be described as open-minded towards luxury products and towards the Ego notebook, aspirant towards leading brands, aspiring handcrafted and international values, however Hong Kong people are not individualistic-oriented.

#### 8.6 Product communication mix

The four famous P’s of the marketing mix become the **Seven P’s of Luxury Branding** in my thesis. The Six P’s is a tool that propels the marketing and branding strategies of luxury brands in the direction of market success.<sup>86</sup> The Six P’s are the following: Product, Price, Place, Promotion, People and Positioning. In addition, I would like to add a ‘P’ myself: the P of Presentation. Each of the P’s will be handled separately in the next sub paragraphs.

##### 8.6.1 Product

The actual product<sup>87</sup> is a high-end communications device (notebook) of which the main features are the round shape and the convertible skins. The product is fully assembled by hand in Ego Lifestyle home atelier in ‘s Hertogenbosch, the Netherlands. Craftsmanship, exclusivity and the use of high quality materials (from the actual product to the packaging, from the website to the writing paper) are key. The product comes with a 2 year warranty and so-called “red carpet service”, meaning that the highest possible service will be provided. The product is subject to continuous developments, however the financial situation makes it impossible to implement found improvements.

The brand name *Ego* derived from the product being “easy going” and the possibility to bring in your personal ego to *Ego* products by personalizing it. Core values of *Ego* are: individual personality, fashionable unique and iconic design, state-of-the-art functionality and excellent quality – beautiful outside, smart inside. The Ego brand DNA: *The Ego design notebook is an exclusive fusion of unique fashionable design, ultimate functionality and your personality.*

##### 8.6.2 Price

The cost-price of one Ego notebook with/without a skin is € 2.300,-. The reseller price is € 4.088,-, the net margin is 21.3 % and the consumer price is € 6.188,- including VAT. The Ego is not being sold without at least one skin. Prices of the skins, for resellers and for consumers, vary between € 406,- / € 762,- (plain leather collection, net margin 36.5 %) to € 519,- / € 988,- (design collection, net margin 37.5 %) to € 1.050,- / € 1.999,- (exotic and personal collection, net margin 37.5 %) respectively. Cost price of a skin is unknown, but at any rate strongly depends on the used materials. There is no direct comparable product on the market to which prices can be compared.

Discount towards resellers is occasionally given. Discount towards customers is hardly ever given. It is part of Ego Lifestyle’s strategy to prevent the product from being sold with price reduction. I support this strategy to

<sup>86</sup> UCHÉ OKONKWO in *Luxury Fashion Branding*, Foreword by James Ogilvy, p. 129

<sup>87</sup> Kotler

the fullest. When giving discount for no specific reason, one “admits” that the product isn’t worth of being paid to its full price. However, I do feel a little uncomfortable with the price itself. Although the product is unique; technical specifications and functionalities are inadequate in such a way that, when looking at these features alone, the product would have to be divided in a lower segment than it is now. Moreover, I strongly belief that the price is simply too high for a relatively fast moving product: nowadays notebooks are being replaced in 1 to 3 years.

### 8.6.3 Place

The Ego notebook is marketed as a luxury fashion product, as well as the brand *Ego* is marketed as a luxury fashion brand. For this reason the product should be placed identical to the way luxury fashion brands and goods are placed: in luxury department and concept stores. The product does not necessarily have to be available everywhere; as long as the few points of sales are select carefully. Suitable department stores for the Ego notebook in Hong Kore are *Lane Crawford*, *Landmark*, *Joyce*, *Sogo* and *Harvey Nichols*. When selecting reseller partners, their location has to be taking into account very seriously.

**The three most important things in retail are: location, location, location.”**  
 UCHÉ OKONKWO IN *LUXURY FASHION BRANDING*,  
 CHAPTER 4 PAGE 78

Every point of sales should have 1 or 2 notebooks and a selection of the bestselling skins in stock. Consumers do a impulse purchase and wish to take the product home immediately. For Ego’s target audience, the *Luxury Leaders* and *Elegant Epicureans*, it is all about instant satisfaction to which a luxury brand should anticipate. Plus, by offering only a handful of skins in stock and others on request, production facilities can remain to take place in the Netherlands by which the Country of Origin (COO) remains to be exploited. Transport will occur by using shipping corporations such as Fedex, UPS, DHL, Shipping International, etc. A disadvantage is the high transport costs.

### 8.6.4 Promotion

Just as we have a Marketing Mix, which are the 4 P’s or in my thesis the 7 P’s, we also have a Promotion Mix. The Promotion Mix consists of the following: advertising, sales promotion, personal selling and public relation. Each of these aspects will be handled separately.

#### Advertising

Specific media tools for advertising are print (magazines, newspapers, direct mail), broadcast (television, radio) and display (billboards, signs, posters). All options will help Ego Lifestyle to realize brand awareness and to convey a consistent, enduring image that continuously reinforces the positioning of the product (the Ego notebook). But since the Ego notebook is a product with a small target audience, and since Ego Lifestyle is a company with financial difficulties, when advertising print advertising would be most feasible and affective. Print advertising makes it possible to reach a specific target audience, to measure results carefully and prices are, thanks to the credit crisis, negotiable. Luxury, fashion and lifestyle magazines would be most suitable: promotion should also be identical to those of luxury fashion brands. With help of the consulate general of Hong Kong, I have put together a list of suitable (the leading luxury and lifestyle) magazines in Hong Kong. These magazines are the following: *Asian Tatlers*, *Prestige Hong Kong*, *Harper’s Bazaar*, *The Peak Hong Kong*, *Elle Hong Kong* and *Marie Claire HK Edition*. For detailed contact information and a list of advertising agencies, please see appendix no. 9.

