



## International Marketing Strategies for Lifan Group

A Marketing Mix Plan for UK Market

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## Table of Contents

1. Introduction .....	3
1.1 The Purposes and the Structure of the Report.....	3
1.2 Focus Group .....	3
1.3 Key Terms .....	4
2. Product Selection.....	4
3. The Pricing Strategy.....	5
4. Placement (the Entry Mode and the Channel of Distribution).....	6
4.1 Market Entry Strategy .....	7
4.1.1 Options available.....	7
4.1.2 Points to consider for Lifan.....	7
4.1.3 Decision making.....	9
4.1.4 Plan in detail.....	10
4.2 The Channel of Distribution.....	11
5. Promotion .....	12
6. People .....	13
7. Process (Physical Distribution and Logistics).....	14
8. Physical Evidence .....	14
9. Conclusion.....	15
10. Budget Plan .....	17
Bibliography.....	18

# 1. Introduction

Lifan Group, a Chinese private owned enterprise with a total of 12,000 employees and an annual turnover of US\$900 million (until 2006, Lifan official website), is looking to expand its business internationally. The main products of Lifan Group are its branded motorcycles and motorcycle engines, along with Lifan cars and other household goods such as anti-theft doors, sport shoes, agricultural machines etc. (Lifan official website).

## 1.1 The Purposes and the Structure of the Report

The main objective for Lifan Group is to become a dominant force in terms of the customer shares in the new market over the next two to three years time. The purpose of this report is therefore to develop a marketing strategy that will enable Lifan to expand into this chosen market successfully by winning over the maximum possible numbers of the customers in the short run and provide some useful suggestions on how the Lifan Group should sustain that market leadership in the long run. In order to do so, this report will use the famous Seven Ps modelling to demonstrate each factor that Lifan should be considered when they are launching their products to the new market with specific looking into the area of Placement (including the entry mode and the channel of distribution). An overall plan and recommendation will then be based on the result of those analyses.

## 1.2 Focus Group

This report will continue to focus on the UK market for Lifan's famous motorcycle products. This was largely resulted from the findings in the previous report, where we concluded that UK's motorcycle market has a potential for Lifan group due to:

### 1. At the Macro Level

- High National Income (including a well established financial service system and a strong currency)
- Low political risk
- Current strong economic growth
- Easy access to the EU market

### 2. At the Micro Level

- A large potential customer base
- The current ownership rate is low
- Market growth rate is high
- Soaring costs of fuel forcing some people to find an alternative form of transport
- Entry barriers are high

However there are also some adverse factors for the Lifan group:

## 1. At the Macro Level

- The economic outlook remains a question
- High labour and raw material costs
- EU Law that overrides UK law on the Motor industry (Mintel 2006)

## 2. At the Micro Level

- The UK motorcycle industry is very competitive
- It is easy to be substituted by other forms of products such as car
- A general bad public image for the motorcycles
- High entry barrier is also a big disadvantage for Lifan group

In the following sections, this report will find ways to overcome those obstacles.

### 1.3 Key Terms

- Seven Ps: is a marketing mix term which is generally referring to Product, Pricing, Placement, Promotion, People, Process and Physical evidence.
- Motorcycle in this report refers to motorbikes, scooters and mopeds

## 2. Product Selection

In the marketing terms, a product can be defined as something that is to be offer to the market on a purpose of satisfying a want or need. (Keegan & Schlegelmilch 2001, 372) It is the first decision which has to be made by business in the marketing process and plays a fundamental role in its success. If a product cannot match the market demand, the business will doom to fail. Therefore it is crucial to decide what to offer in corresponding to the market at first and all the subsequent Ps such as pricing, placement and promotion must thus to fit in the characteristics of this product.

In the previous report, we have picked Lifan's famous motorcycle product to testify the British market, which was due to two reasons:

- Lifan's motorcycle range is a well established product line, and has a good reputation for its quality and price in the Far Eastern Market. It was the first Chinese motorcycle brand to be sold in Japan back in 2001. (Lifan official website) Thus Lifan motorcycle has a competitive advantage over other Lifan products.
- The rising costs of fuel and increasing environmental awareness are forcing many consumers in the UK to find an alternative form of transport. Therefore motorcycles and smaller-engined, more fuel efficient vehicles could be an answer.

The result of this test was positive (please see the Focus Group section). However there are also few obstacles need to be overcome to ensure Lifan success:

- Market is already dominated by almost all the major brands in a broad range of products
- Strong competition from substitutes

In order to find solutions, we have also studied UK's consumer attributes and found that:

- Majority of motorcycle buyers in the UK were male single and aged between 16-40
- Use the motorbike as a mode of short distance transport. Hence, love small and economical

However, there are differences among those consumers, which can be divided into:

- Group A: young, single, male and middle low income  
Group needs: good quality, cheap price, economical to run and fashionable
- Group B: middle age, married, male/female, middle/ middle high income  
Group needs: good quality, practical, safe to ride and reasonable price

Based on the elements above, this report would recommend Lifan to develop two new products to match UK consumers' profile:

- Both products have to have a good quality as well as fashionable

The differences between two are:

- For Group A: product's focus is on its economical, thus it is a market entry product
- For Group B: product is emphasis on its safety and practicality

As the result, it should position itself in the middle high range by functionality: thus to differentiate Lifan's products with others in the same category and more importantly to increase customer's perceived benefits.

### **3. The Pricing Strategy**

The price setting is the centre of the business. On one hand, if the price level is set too high in comparison with its competitors, the business will find it difficult to win over the customers. On the other hand, if the price level is set too low, it might will loss the profits. Therefore it is very important to set the price at the right level in order to attract as many targeted customers as possible without losing too much profit.

There are many factors need to be considered when an international business is making a decision on price setting. Broadly speaking, it can group into two categories: internal factors and external factors. (Keegan & Schlegelmilch 2001, 419)

Internal factors:

- Production costs
- Distribution costs

External factors:

- Currency fluctuation
- Inflation
- Government influences (e.g taxes)
- Competitive pressure
- Market demand
- Business objectives

A final price is set as the result of an optimum mix of these ingredients.

The main objective of Lifan group is to become a market leader in the UK's motorcycle industry over the next few years. To achieve this, it is important for Lifan to adopt an aggressive pricing strategy in order to gain the market shares as quickly as possible. The way to do it is to offer its products to the customers at a lower price level than its competitors. This could be done through

- A reduction in the unit costs
- Fix the price of the products in a weaker currency such as Chinese Yuan due to the strength of the currencies
- An effective distribution network

Advantages of Aggressive Pricing Strategy

- To help Lifan to penetrate a well established market such as UK in a short period of time

Disadvantages of Aggressive Pricing Strategy

- Reduce the short term profits

Verdict

In a competitive market, with a long term prospect on profits, it is necessary for Lifan to use such pricing strategy in conjunction with other marketing elements in order to gain the shares of the customer from its competitors.

## **4. Placement (the Entry Mode and the Channel of Distribution)**

Placement in the marketing mix term is concerning how to distribute products to the customers in a most efficient and effective way. A good channel of distribution can not only increase customer's satisfaction, but also helps to reduce the business costs. Therefore, it is another key business area that needs to be considered carefully by Lifan Group.

In this section, placement consists of two parts: the first part is to choose a most appropriate way to enter the target market, in this case, is the Britain. The second part is to deal with distribution channels within the target market. The overall objective is to serve the customers whenever and whichever they needed at a lowest possible cost.

## 4.1 Market Entry Strategy

**4.1.1 Options available:** export modes, intermediate entry modes, hierarchical modes (Hellensen 2007)

- Export modes

Advantages: have the lowest requirement for the resource commitments and highest flexibility

Disadvantages: no control over its product in the target market

- Intermediate entry modes

Advantages: closer to the target market, thus allows a better interaction with the local customer; reduce the risk of entry by sharing the responsibility; have a lower requirement for the resource commitments compare to hierarchical modes, thus it has got a higher flexibility

Disadvantages: less control over its product in the target market

- Hierarchical modes

Advantages: a complete control over its product in the target market.

Disadvantages: have got the highest business risk and lowest flexibility among the three entry modes due to the fact it requires a full resource commitment.

### 4.1.2 Points to consider for Lifan

Internal factors:

- Firm size: Lifan is a fast growing medium size enterprise

=>> Export or intermediate modes allow a lower Lifan's resource commitment and more flexibility

- International experience: already has a presence in the developed country such as Japan, and in the developing countries such as Vietnam and Turkey etc. With the factory established in Bulgaria, Europe and distribution centres placed around the world. (Lifan official website) Therefore the company already has experience to operate internationally

=>> Based on the past experience and expertise, either intermediate entry modes or hierarchical modes would be suitable for Lifan

- Product factors: the motorcycles and its parts have high value/weight ratios. Therefore need to be produced where they can achieve the production of economies scales. Furthermore, a motorcycle is high complex product and

requires after sales service. Thus the production line needs to be either in or near the target market.

=>> The motorcycle in which will supply to the UK market shall produced in Bulgaria by using the existing production line.

=>> Due to the complexity of the product and product differentiation advantages (please see the part for product selection), it would be best for Lifan to use hierarchical entry modes

#### External factors

- Socio-cultural distance between home country and host country: China and UK have a huge gap in terms of culture, economic systems and business practices. (Hofstede 2001)

=>> As the result, it would be better to choose intermediate entry modes in order to reduce the resource requirements and increase the flexibility

- Country risk and demand uncertainty: based on previous report, we have concluded that UK has a low political risk and demand uncertainty.

=>> An intermediate mode or hierarchical mode would be appropriate

- Market size and growth: UK has a relatively large market size and potential for high growth rate. (please see the previous report)

=>> An intermediate mode or hierarchical mode would be suitable

- Direct and indirect trade barriers: UK and Bulgaria are both of the member states of the EU, therefore there is no trade restriction between two countries; The UK motorcycle market is already dominated by all the foreign names and foreign made products (please see the previous report), therefore, there is no resist to the foreign products.

=>> An intermediate mode or hierarchical mode would be considerable for Lifan

- Intensity of the competition in the target market: UK motorcycle market is very competitive (please see the previous report). Thus it requires more resource inputs in order to be profitable, as the result, firms normally found themselves in a position with less profits

=>> An intermediate mode of entry would be more choose-able due to the commitment it requires



### 4.1.3 Decision making

Table 1 Decision making on entry modes

	Export Modes	Intermediate Modes	Hierarchical Modes
<b>Internal Factors</b>			
Firm Size	✓	✓	
International Experience		✓	✓
Product Factors			✓
<b>External Factors</b>			
Socio-cultural Differences		✓	
Country Risk and Demand Uncertainty		✓	✓
Market Size and Growth		✓	✓
Trade Barriers		✓	✓
Intensity of Competition in the Target Market		✓	✓
Decision	✓	✓✓✓	✓✓

Based on above analysis, all the internal and external factors have been assessed and scored (please see the table 1), the decision has been made based on these factors; we conclude that an intermediate entry mode would be the one which is the most suitable for Lifan Group in the short run due to its advantage of low requirement for the resources, high flexibility and some degree of control over its products. Furthermore, this mode also allows M&S to access to its business partner's resources, knowledge and expertise of the local market, it will

- Help Lifan to get a quick access
- Reduce the immediate business setting up costs and lower the risk
- Help to Neutralise the level of local competition

Thus this mode will help Lifan significantly in capturing the market shares at the lowest possible cost in the short run.

But Lifan will not have

- A full control over its patent products, therefore it will
  - =>> difficult to create and market its unique products
  - =>> bringing in problems such as cooperation, communications and quality control etc.

As the result, this mode will increase Lifan's long term business running costs and reduce its profit margins.

Hence, in the long run, a combination of hierarchical entry mode and intermediate entry mode would be the best choice for Lifan group.

This combination would allow Lifan to

- Increase its market share by gaining a full control over its products and brand names.
- Reduce the long term business running costs, thus increased its potential profitability

#### **4.1.4 Plan in detail**

Initial set up (first two-three years), intermediate mode – Franchising due to

- A great control over its products (though this is not a full control)
- Low risk and low cost
- Could gain a quick access to the new market by using franchisees' knowledge and experience in the local market
- Could generate an economy of scale based on the same reason as above

In the long run, a combination of intermediate mode and hierarchical mode would be the best choice for Lifan; For hierarchical mode – national and regional centres thus it could

- Create a global scale for the Lifan products, thus to prepare Lifan to expand into other EU markets in the foreseeable future
- Allow a more flexibility on the transformation of the resources across national borders, therefore to maximise its utilities

## **4.2 The Channel of Distribution**

Objectives: to create utility for customers in the most cost effective way

Distribution Channel Structures:

1. Intensive coverage: the product is distributed by a large number of different types of intermediary and the largest number of individual intermediaries of each type. Suitable for low price, high turnover and convenience products such as food.
2. Selective coverage: the product is distributed by a number of selections of intermediaries for each area to be penetrated. Suitable for high price, low turnover and lasting products such as car.
3. Exclusive coverage: the product is distributed by only one intermediary in a market. Suitable for high price, low turnover and prestigious products such as air-plane

(Hollensen 2007, 511)

Points to consider

### 1. Customer Characteristics

In the previous report, we have found that

- UK's potential customer numbers: 20-30 millions (estimated figure, based on a total population of 40 millions aged between 15-64, CIA 2007)
- Income: US\$ 35, 486 per head per year (International Monetary Fund, 2007)
- Geographic distribution: towards southern bias (Mintel report 2006)
- Shopping habits: very flexible, but mainly purchase their motorbikes from the retail dealers

### 2. Product Attributes – Motorcycles

- For individual consumers: a bulky high price, thus low turnover lasting product
- A high degree of standardisation
- Service requirements: need before and after sales service

Therefore it needs

- A selective coverage

## Conclusion

Based on above analysis

- Initial set up (first two- three years): an indirect involvement with a selective coverage
- Long term plan: a combination of direct and indirect involvement with selective coverage
- Ultimate aim: to presence in all the UK's major towns and cities (populations start from 100,000) with particularly in the south (to match the Southern bias) in order to create the scale of economies.

## 5. Promotion

Overall Objectives

- Short term: to obtain new customers by increasing consumer awareness of the Lifan's products and improving its image among the target groups
- Long term: to attract more sales by encouraging the frequency of repeated purchase actions.

Sender

- Lifan Motorbikes

Receiver

- Potential customers (please see the Part I)

Message:

- In the previous report, we have found the motorbikes have a general bad public image in the UK, it is often related to the high rates of road accidents (Mintel 2006).

=>>Therefore it is important to change such image by emphasising on the safety of the product

- Environment has became a hot issue over past few years in the UK and EU

=>> It needs to stress the environmental friendly aspect of the product

- Furthermore, it needs to include its quality, economy and travelling convenience
- As the result, a brand message could be – Lifan Motorbike 'Your Best Travel Mate.'

Communication Channels

- Media selections: based on GRP (media's gross rating points)= Reach \* Frequency \* Impact, and Cost per thousand GRPs (Hollensen 2007, 549)
- Traditional forms of media: television, radio, printed newspaper, magazines, cinemas and outdoor advertising
- New form: internet

=>> By using the formula above, we conclude that the best forms of media are: 1. Internet, 2. Television, 3. Radio, 5. Printed newspaper and magazines 6.outdoor advertising, 7. Cinemas

### Public Relations

- A great way of advertising via World of Mouth: cheap and effective
- Short term: Press releases and announcements, trade fairs and exhibitions due to its cost savings
- Long term: Sponsorship and Contribution of prizes to different events to build its brand images

### Sales Promotion

- Objective: to encourage customers to purchase the product
- Possible option: Free Unlimited After Sales Services for Three Years
- Why: increase customers' satisfaction by strengthen on its built in quality, thus to attract more customers

### Other forms of marketing

- Through direct emails, and mails to maintain customers' loyalty and stimulate purchase: cheap and effect

### Conclusion

- Short term and long term promotion objectives can be achieved through a careful selection of communication channels and forms of marketing such as new product announcements via BBC News Time on television and internet

## 6. People

People are the one who will implement the marketing strategies; therefore they are determining the success of the business. And to find the people with the right skills are important for Lifan's success.

### The requirements for

- Local employees: have an excellent customer services skill

=>> to increase customer satisfaction

- Management: know well about local culture as well as understand corporate strategies

=>> to incorporate corporate strategies locally

- Company culture: to build a corporate culture internationally

=>> to increase coordination and integration within the company

Thus

- Employees: local to serve local
- Managers: local managers to head of the local branches with the managers from the home country on the top to oversee the implementation process

## 7. Process (Physical Distribution and Logistics)

Physical distribution and logistics are referring to the ways of the products to deliver to the customers in which including order processing, warehousing, inventory management and transportation. (Keegan 2002, 401)

Order processing

- Order entry: by credit payment system such as bank cards at the local branches as well as via company's local websites (a web address ends in .uk)
- Order handling: orders are handled at the local branch via a centralised company computer network
- Order delivery: products are available at the local branches; for online orders, customers can pick their orders at the nearest branch

Warehousing

- Products are stored at the local branches

Inventory Management

- Can apply the system they use in the Far Eastern market to UK due to its efficiency and effectiveness

Transportation

- All the products which have been supplied to the UK market should dispatches from its production line in Bulgaria by ship due to its geographical closeness

## 8. Physical Evidence

The product information can be provided through the marketing campaign, at the branches and via company's local website. Products can be demonstrated in the show room at the local branch as well as online via company's local website.

## 9. Conclusion

Based on above analysis, an overall marketing plan developed as the result, details below

- Overall marketing objective: to become a dominant force in terms of the customer shares in the new market over the next two to three years time
- Product type: motorbikes
- Target Market
  1. Target groups (based on previous findings in the buyers' part)
    - i. Group A: young, single, male and middle low income
    - ii. Group needs: good quality, cheap price, economical to run and fashionable
    - iii. Group B: middle age, married, male/female, middle income
    - iv. Group needs: good quality, practical, safe to ride and reasonable price
  2. To develop a new environment friendly product to match UK consumer culture and EU standard such as three wheelers with focus on its quality, practicality, fashion and economy. Positioning itself in the middle high range by functionality: thus to differentiate Lifan's product with others in the same category and more importantly to increase customer's perceived benefits
  3. To lower its price by positioning itself in the middle low price range
  4. According to Keegan (2002), these would lead to an increase in the customer value; create a better reason for customer to purchase. Therefore attract new customers
- Entry modes
  1. Initial set up (first two- three years): an indirect involvement with a selective coverage
  2. Long term plan: a combination of direct and indirect involvement with selective coverage
  3. Ultimate aim: to presence in all the UK's major towns and cities (populations start from 100,000) with particularly in the south (to match the Southern bias) in order to create the scale of economies.
- Promotion: short term and long term promotion objectives can be achieved through a careful selection of communication channels and forms of marketing such as new product announcements via BBC News Time on television and internet
- Product information should be provided through the marketing campaign, at the local branches and via company's website. Physical evidence can be provided at the show room in the local branch and online.
- Process

1. All the products to the UK market are supplied from its production line in Bulgaria by ship, stored at the local branch
  2. Orders should be taken and processed electrically via a central company computer network
- People
    1. Employees: local to serve local
    2. Managers: local managers to head of the local branches with the managers from the home country on the top to oversee the implementation process



## 10. Budget Plan

Based on above marketing mix, a budget plan for the first year of entry is evaluated in the table 2

Table 2 a Budget Plan for UK Market (in UK Sterling)

Year: 1 <sup>st</sup> Year	Customer Group A	Customer Group B	Total
Total Market Demand (units)	0.28 millions (note 1)	0.084 millions (note 2)	£0.374 million
Market Shares	60%	30%	N/A
Price per Unit after tax (£)	800	25000	N/A
Total Revenue (£)	22.4 million	210 million	232.4 million
Fixed Costs			
Products after tax (£)	8.4 million (see note 5)	8.4 million (see note 6)	N/A
Variable Cost (taxes included)			
Marketing Sales Cost per unit	250 (note 3)	700 (note 4)	N/A
Product Promotion Costs per unit	50	50	N/A
Total	8.4 million (see note 7)	6.3 million (see note 8)	N/A
Cross Profits (before tax £)	5.6 million (see note 9)	195.3 million (see note 10)	200.9 million

## Notes

1. Total market demand for customer group A= 60 (million, total population) \* 0.8% (the ownership of scooters against whole population in 2005, see appendix) \* 60% (targeted market share) = 0.28 million
2. Total market demand for customer group B= 60 (million, total population) \* 0.7% (the ownership of middle range motorbikes against whole population in 2005, see appendix) \* 20% (targeted market share) = 0.084 million
- 3 Sale costs per unit for customer group A = commission for agents (£100) + shipping and storage costs (£100) + salaries travel costs trainings (£50)= £250
- 4 Sale costs per unit for customer group A = commission for agents (£500) + shipping and storage costs (£150) + salaries travel costs trainings (£50)= £700
5. Total product costs for customer group A (fixed)= £300 (per unit) \*0.28= £8.4 million
6. Total product costs for customer group B (fixed)=£1000 (per unit) \*0.084 million= 8.4 million
7. Total Variable Cost for customer group A= £300\*0.28 million= £8.4 million
8. Total Variable Cost for Customer group B=£750\* 0.084 million= £6.3 million
9. Cross Profits for customer group A= £22.4 million- £8.4 million-£8.4million= £5.6 million
10. Cross Profits for customer group B= £210 million- £8.4 million- £6.3 million= £195.3 million

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