



France



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France - The Market Environment

The French republic, with an area of 550,100km² (about the size of Texas,) is one of the world's major industrial powers. It is acclaimed for its art, fine wines, great museums, outstanding food, culture and style. It is also blessed with some of the finest soils and vineyards on the planet. France is the most visited city in Europe and Paris, the capital city, is considered by many to be the most beautiful metropolis in the world. The French flag - the tricolore, was officially adopted on 15 February, 1794. It consists of three vertical bands of equal width, with the country's national colours: blue, white and red representing liberty, equality and fraternity - the ideals of the French Revolution. France has a population of over 60.2 million. Most are in the age group of 15 – 64, i.e. working age but the population is aging as the birth rate has declined and medical advancements are increasing life expectancies. See Figure 1.



Economy Overview

France is a developed country with a per capita GDP of US\$26,000. The government has partially or fully privatized many large companies, banks, and insurers, but still retains controlling stakes in several leading firms and remains dominant in some sectors, notably the power, public transport, and defence industries. The telecommunications sector, following global trends of deregulation, is gradually being opened to competition. The unemployment has dipped slightly to 9.6% - evidence of successful government measures. However the tax burden remains one of the highest in Europe despite having already been reduced recently.

France boasts a trade surplus with exports of US\$ 307.8 billion exceeding imports of US\$303.7 billion (all FOB). Exports include machinery/transportation equipment, aircraft, plastics, chemicals, pharmaceutical products, iron and steel, beverages. Raw materials exports are being cut down as emerging countries with lower costs of labour compete in the global market. France trades primarily with Germany, the United Kingdom and Italy. Trade is facilitated by harbours and airports linked by a modern network of railways (32,682km), highways (894,000km) and waterways (14,932km).ⁱ

Rapidly growing industries

Healthcare and medical

The overall healthcare market has grown by 4% annually since 1998 and remains a strong-growth industry. This market has become more attractive due to the increasing proportion of elderly people in the population.

Agriculture

One of the fastest growing sectors, as measured in real terms by the 1995 accounting basis, is agriculture which has experienced a growth of 3.7% from 2002. This has been the result of the introduction of the European Union's Common Agricultural Policy (CAP) in 1992 which subsidised agricultural production and modernization in rural areas, improving the farmers' working environment and both the quantity and quality of produce. The CAP has policies that provide low-interest financial aid for farmers and agricultural research.

France is ahead of Germany as the leading agricultural economy in the EU, accounting for 22% of the fifteen member States' total production. It is also the world's 2nd largest exporter of agricultural-foodstuffs, behind the USA, and in 1999 it had an agricultural trade surplus of over US\$8.3 billion.

Large Food-Retailers

The rise of large food retailers (hypermarkets and supermarkets) has caused the number of small independent food stores to fall dramatically. Their aggressive expansion has led them to dominate the French channels of distribution, capturing 60% of total market share. Furthermore, their cut price promotion strategies have boosted household spending, leading to an increase in retail sales by 2.8% in 2000; the third consecutive best performance over the last 20 years.

Characteristics of Competition in France

How do companies in France get more market share? This answer to this question appears to share a common denominator.

The automobile industry in France is dominated by Renault, the Peugeot Citroën Group and foreign imports. Renault enjoys dominance in France with a market share (passenger cars) of 28% with Peugeot following at 19%. Both invest heavily on R&D, churning out cars for feature shows across the country. In the last 2 years, foreign imports have become more popular as is evident in the drop of Peugeot sales since Toyota began the local manufacturing of vehicles in 2001.ⁱⁱ This is due to their focus on design and innovation to lure buyers to their cars, a strategy that is compatible with French consumers. Coupled with that focus are the financial and technical resources that make R&D possible. Foreign auto manufacturers have a global outlook and are experienced in marketing the brand to foreign consumers. 2003 figures show that 40% of the French passenger-auto market is divided among foreign makes such as Toyota, Volkswagen and Mercedes. R&D is synonymous to brand identity – what the French look for.

At **the luxury end** of product retailing, firms such as **Louis Vuitton** and **Gucci** compete against each other by powerful branding strategies. Gucci is the smaller firm having a net income of US\$276M compared to the US\$677M of LVMH.ⁱⁱⁱ This, however, is not stopping Gucci from growing to be hotter than the brands held by LVMH.^{iv} In the luxury market, the price is not a factor customers take into account. Instead, they are more interested in the exclusive image the innovative product project. Brand maintenance requires the firms to electrify the fashion press. A half page advertisement in a leading fashion magazine can cost upwards from US\$52,000. The success of Gucci can be attributed to their devotion to innovating new products and focus on invigorating the fashion press. Quality in both firms is taken very seriously as they have learnt that high-paying customers expect products of the highest quality only.

The French are sophisticated and demanding customers as is common in developed nations with a high level of culture. Quality, branded goods that make a statement about lifestyle are most sought after. The majority of the French do not appear to be price-sensitive when quality is present.

French Consumer Behaviour

Consumption Behaviour

In 2002 and 2003 the current global economic slowdown began to take its toll on consumer confidence, causing both consumer expenditure and retail sales to slow significantly.^v In a November 2003 estimate, French consumers cut spending on manufactured goods by 2.8% the largest decline in seven years, as rising unemployment deterred purchases. Spending was dragged down by a 9.2% drop in clothing sales and a 5.7% drop in car purchases.^{vi} Department stores suffered a 12% drop in November sales. The global economic revival at the start of 2004 has boosted consumer confidence slightly but analysts predict only a 2% GDP growth in 2004.

Purchasing Behaviour

French consumers are health conscious, sophisticated shoppers and are becoming more demanding in terms of the traceability of products and genetically modified content. Their image of a clean and green environment is particularly favourable in this context. French consumers are ready to pay 30% more for organic produce. The image and quality of the products are considered first. Nationalism does not depress the country-of-origin label. Consequently, the French do not hesitate to purchase Japanese digital cameras, Italian leather goods and German cars.

In the food industry, French consumers are used to buying quality, branded products and beverages through mass market outlets. Considerable efforts are being made to disassociate private-labels with cheap and inferior quality. A survey of French consumers in July 1999 showed that 58% considered private-label goods offered as good a value-for-money as national brands and 65% thought that their quality was equal to those of other brands.

The 4 Ps of France

Product

The French people's sense of style is what France is truly famous for. It has been the centre of haute couture for decades, and this tradition is reflected in the country's leading luxury goods companies. Consumers in France are used to buying branded, high quality products, mainly through mass market outlets. Perfume is a major constituent of the French luxury goods industry. French perfumes account for a substantial share of world perfume exports and four of the eight major groups in the sector are French, including [L'Oréal](#) and [Louis-Vuitton-Moët-Hennessy \(LVMH\)](#). In France, nine out of every ten women and one out of two men use perfume. French perfumes represent a good share of world exports in this sector.

Due to changing lifestyles, French consumers are demanding greater convenience and variety, hence the growth potential for convenience foods. Nevertheless, a trend towards private-label goods is recognisable especially in the field of food sales with major superstores trying to generate higher profit margins. About 20% of products in superstores are private-label and the efforts of superstores continue to undermine the position of many well established supplier-brands. A survey showed that 65% of French think that private-label products are of equal quality to those brands.^{vii} Consumers' concerns towards products with genetically modified ingredients have also caused responsive manufacturers and retailers to offer organic product lines.

Place

France has in place a diverse and comprehensive retail network. The growth of hypermarkets with discounted products is rapidly replacing small-and-medium-sized family-owned firms. Large food retailers and non-food specialized stores have dominated the channels with about 60% market share. The recent trend of mergers and take-overs have reinforced big players such as [Carrefour](#), [Leclerc](#) and [Intermarché](#) in the retailing business.

Under the French law, intermediaries may take any of the three primary forms – through a distributor, an agent or salaried representative. In general, French buyers prefer to make purchases through an intermediary, thus making direct sales to end-users a scarce practice – an exception being expensive and technically sophisticated goods. This, however, is changing gradually with the acceptance of the internet as a trading channel and the increase of email marketing. Changing needs and preferences of consumers are also reflected in the increase in mail-order/internet marketing and specialized chain stores.

Besides the traditional forms of distribution, the French direct marketing market is one of the largest in the world with textile products making up to 44.7% of direct sales. Sales to private individuals were evaluated to be at US\$8.41 billion in 2002. Of these, catalogue sales accounted for US\$3.66 billion, representing 49% of the total market. This characteristic is likely to be boosted by the increased use and trust of the internet for trade as the total number of French Internet users have grown to 17 million at the end of 2002 with a continuing trend of high growth.^{viii}

The franchise industry in French is a very competitive market and is ranked first in Europe in terms of sales. In 2002, the market size was US\$31,868 billion and the annual growth rate for 2002 - 2003 was 10.5%.

Promotion

It is important to note that all advertising, labelling, instructions and promotional programs must be in French. An English slogan is permitted (and accepted by the French) only if it is translated into French. Companies selling alcohol should also be aware of the restrictions on the advertising of alcohol.^{ix}

Compared with other European countries, advertising in France can be much more provocative as regulations are very open. The French are accustomed to explicit images in advertisements, notably used for cosmetics and perfumes, provided these explicitly suggestive advertising does not lead to much agitation. It is therefore quite difficult for advertisers to create an advertising concept that gets the desired attention.

Since the economic downturn beginning in 2001 the French advertising market registered a decrease of 1.3% and has not yet recovered. One of the reasons is the increase of media prices since 1999.^x Consumers remain aware of prices, quality and brand image.

Promotional activities include point-of-sale, additional quantities for same price, special two-product packages, sampling/trial periods, brochures and recipe cards. Efforts are also made by suppliers to adjust their merchandising strategies and target children since their influence on purchasing decisions have been found to have increased substantially. Thus, to compete in the market when introducing new products, companies need to provide competitive pricing, adequate advertising and aggressive sales strategies. Meanwhile, in mature markets or food sectors where brand already have a strong presence, new product development with a focus on image branding strategies is vital to acquire or maintaining market share.^{xi}

Pricing

French consumers' buying decisions are guided on the basis of quality, price and after-sales service. Due to the availability of information and choice in the marketplace, consumers are becoming more aware of prices, sales and value. French consumers can be especially price conscious. This is evident in the difficulties superstores have over selling 'green' products such as phosphate-free washing powders and organic foods, for customers are reluctant to pay the premium such items usually command.

The basis of French retail distribution is 'discount', or cut-price. There are three price bands categories – 'premier prix' or discount, private-label and national/international brands.

An exporter can determine the export price for a manufactured product by using 70% of the domestic price (after deduction of all local marketing costs) as a guide. Generally, a French consumer is willing to pay a maximum of 10 - 15% over American retail prices. With the introduction of Euro, firms now quote the new currency to avoid complex exchange rate calculations.

Other Characteristics of the Marketing Mix

To enter the market and compete with current French businesses, it is important to realize that they provide all kinds of after-sales service including home delivery, maintenance warranties, warehousing facilities and hotlines for any technical assistance.

What are the three important product sectors in France for Hong Kong firms?

Total value of HK exports into France: US\$1.3 billion in the first half of 2003.

Clothing & clothing accessories	19% of total	
Toys, games & sporting goods	8%	
Travel goods & handbags	7%	See Figure 4.

Hong Kong's geographic position allows easy access for HK businessmen to liaise with mainland China. They are able to take advantage of the low production costs to offer products at competitive prices. In addition, HK's advanced logistics facilities allow for easy and efficient re-exporting of the products produced in mainland factories. The three aforementioned product sectors are very popular among HK businessmen, as they are small and light, allowing for easy movement, and shipping in bulk.

What are three important reasons for superior French fashion products in the world?

French fashion houses target elite consumers who do not flinch at forking out US\$12,000 for a **Louis Vuitton** suitcase or a \$500,000 **Patek Philippe** wristwatch. Their **higher prices** do not necessarily cause lower sales, in fact, within a certain class, higher prices may increase sales. This depends on the brands' promotion of their respective images. Each brand, using its own competitive strategy, promotes images of **superiority and exclusivity**. All this, of course, is backed with high standards of **quality**. For example, some of the leather accessories (handbags and suitcases) made under **Louis Vuitton** go through several hundred steps, carefully engineered by accomplished craftsmen. As of 2003, there were 65 members in the Comité Colbert elite-fashion group. Members are often competitors who come together to discover best practices in quality and to fight counterfeiting, which remains a major problem for all these luxury brands.^{xii}

What are the 3 important lessons to learn about the brand building strategies from successful French firms?

Luxury, Style, and Creativity have contributed to the glamorous worldwide reputation of the French fashion market. French fashion designers, famous all over the world for their astronomically priced items of desire. They share a common interest for fashion and are sources of innovative, original ideas.

French firms are well known globally for their **tradition of quality** – a country of origin boon. The strong brand names of their products build up confidence and secure loyalty even without advertising. Customers are familiar with these companies. For instance, France has a long history of excellent wine production (**Bordeaux, Beaujolais**). France reputation of fine wines is enough in itself. **Cartier**, the famous luxury watchmaker/jeweller, is 150 years old.

French firms **try to reach out to as many people as possible**, while maintaining their image. They target a large group of customers including almost every age bracket. For instance, the cosmetics firms **Biotherm** and **Lancôme**, launched a vast range of skin care products for men such as Purifying masks and exfoliating gels.

Appendix

Figure 1 | Location of France



Figure 1 | Location of France

Figure 2 | Population Distribution in France

Age Group	Percentage	Male	Female
0 - 14	18.6%	5,725,170	5,449,991
15 - 64	65.1%	19,619,994	19,583,850
65 +	16.3%	4,006,857	5,794,667

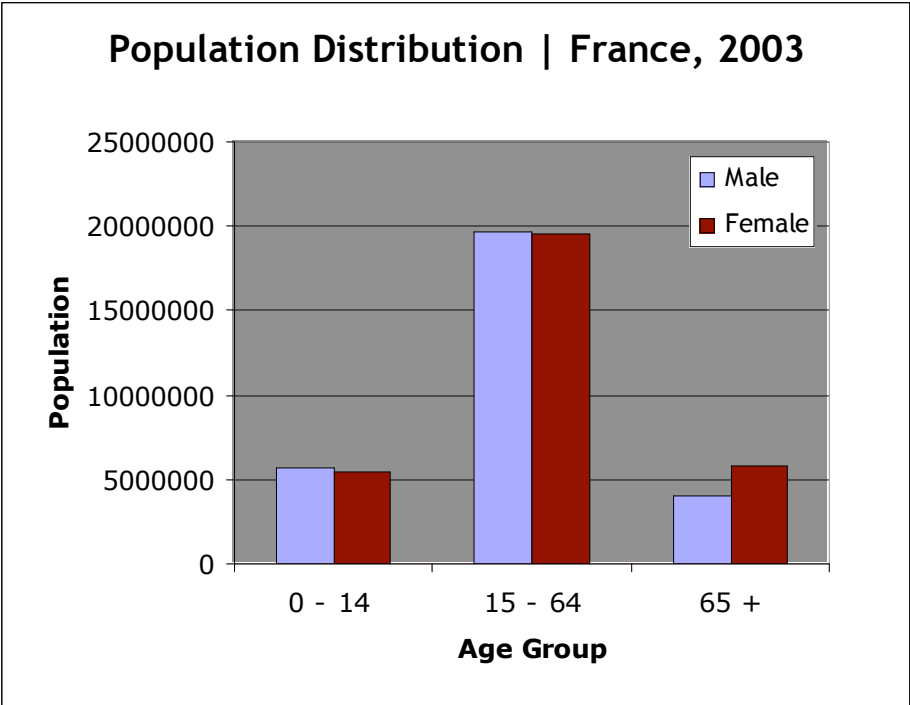


Figure 2 | Population Distribution in France

Figure 4 | Retail distribution in France

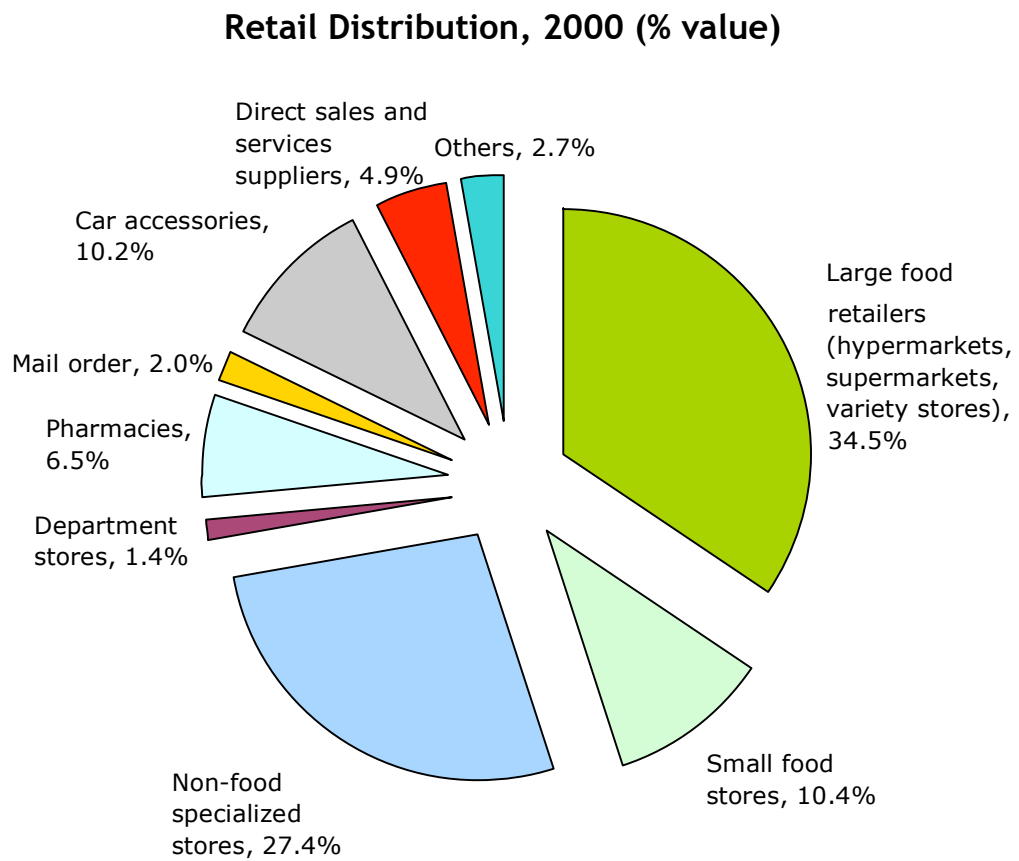


Figure 4 | Retail distribution in France^{xiii}

Figure 4 | Imports to France

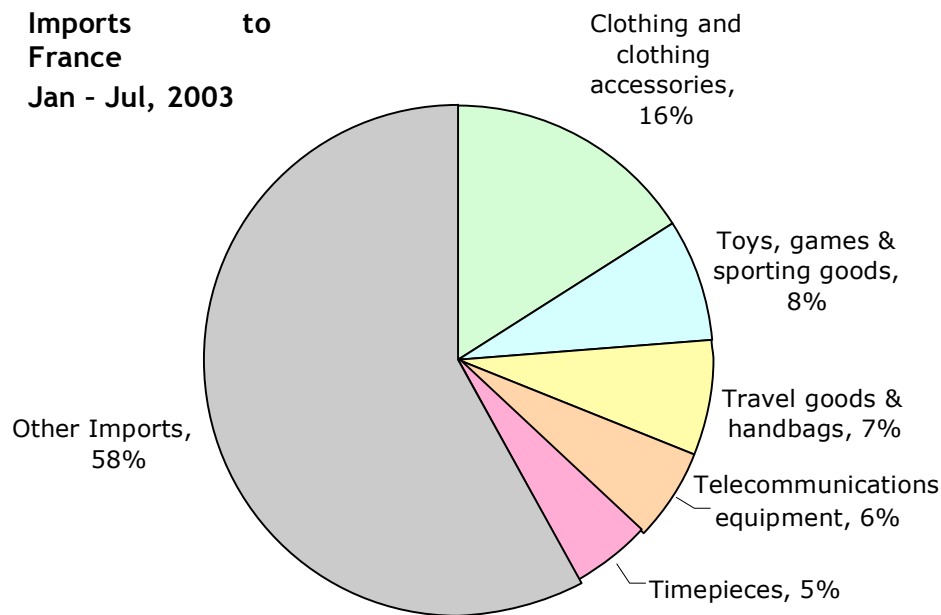


Figure 4 | Imports to France^{xiv}

Endnotes, Sources

ⁱ CIA Factbook | <http://www.cia.gov/cia/publications/factbook/geos/fr.html>

ⁱⁱ [See annual report \(2001\) of Toyota and facts & figures of Peugeot.](#)

ⁱⁱⁱ [Financial statistics from annual reports of Gucci and LVMH investor relations websites](#)

^{iv} [TIME EUROPE May 8, 2000 VOL. 155 NO. 18](#)

^v <http://www.marketresearch.com/publisher/746.html>

^{vi} [Statistics Office, Paris](#)

^{vii} UK investor assistance | <http://www.uktradeinvest.gov.uk/business/france/profile/overview.shtml>

^{viii} USA investor assistance | <http://www.buyusa.gov/france/en/115.html>

^{ix} <http://www.trade.uktradeinvest.gov.uk/france/profile/index/introduction.shtml>

^x <http://www.marketresearch.com/map/prod/931254.html>

^{xi} <http://www.buyusa.gov/france/en/page115.html>

^{xii} Quoted from the Comité Colbert homepage: http://www.comite-colbert.com/html_en/messages.html

^{xiii} <http://www.trade.uktradeinvest.gov.uk/france/profile/index/introduction.shtml>

^{xiv} HK Trade Development Council website, latest figures for first half of 2003.
<http://www.tdctrade.com/mktprof/europe/mpfrance.htm>