

**A new direction and business plan for developing and commercializing adult
incontinence products in China**

By

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A new direction and business plan for developing and commercializing adult incontinence products in China

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Lucia Y. Chai

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ABSTRACT

The adult incontinence market in China has been considered as one of the fastest-growing market, given the growing ageing population and rising income spending. However, despite the boom in registered incontinence brands, the market has a low penetration of only four percent, of which only one-fifth of the products is designed for lighter incontinence leakage, a problem thirty percent of women struggled postpartum and many more who enjoy an active lifestyle. Unavailability of such products led consumers to seek inappropriate alternatives and worsen their condition physically and emotionally. There is a need for research to understand this group of consumers and their attitudes toward this issue. Therefore, the main purpose of this study is to identify various strategies to increase customer awareness and demand. Moreover, this paper presents a business plan based on factors that influence consumer's buying behavior, the competitive advantage of DTC business model, and potential marketing and sourcing strategies. The vision of the startup is to normalize the seeking of solutions for the consumers and, in return to steer the industry back on the right track.

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1. INTRODUCTION

1.1 Overview of Today's China Incontinence Market

Though Asia has the fastest-growing ageing population, the retail adult incontinence market is still in its infancy stage in Asia, especially in China. The great potential presents an untapped market of CNY 13.2 billion in sales in 2023. Low product penetration attracts players at different scales, and many choose to take a position in online sales, as the internet continues to place an important influence in sales and marketing.

In China, almost all incontinence products are designed for older adults. However, in reality, a younger group, the majority of whom are women, are struggling with lighter bladder leakage (LBL) but can hardly find any appropriate products to use. In recent years, the proliferation of e-commerce and social media allows people to be more open up, and increasing attention is shifted to this issue. This study focuses on this niche segment. The objective of this research is to present a direction and business plan for developing and commercializing LBL products in China. To construct the business plan, a list of questions is raised as follows, and a full understanding of these questions is required.

- What's the addressable market size for the incontinence market and how is it segmented?
- Who are target consumers and what's their buying behavior?
- What's the right sales channel and how do we effectively educate the market to increase awareness?
- What kind of products to offer and with what sourcing model?

To help answer these questions, a situation analysis of the current adult incontinence industry is conducted to understand the historical changes and market evolution in adult incontinence, market size and segmentation, characteristics of the Chinese consumers and competitions. A case study of Thinx is performed to identify their best practices in Direct to Consumer model with their revolutionary feminine sanitary protection products. Comprehensive research is done to develop the sourcing and marketing strategy.

2. SITUATION ANALYSIS IN THE ADULT INCONTINENCE MARKET

2.1. Historical changes in the Adult Incontinence Market

Incontinence is primarily age-dependent, mainly for medical purposes

Adult incontinence products have been sold in China for over 15 years and are still in the emerging stage of development in China. The majority of consumers are the older people, and the product styles have been almost the same since its first launch, a pull-up pants product form targeting to control moderate and heavy flow. A common perception of adult incontinence still stays in the myths that only older people are likely to be affected by urinary incontinence. Therefore, the key driver of the market heavily relies on the purchasing power of the aging population.

Due to the growing aging population and increasing income spending, adult incontinence has indeed started to experience some rapid gain, a double-digit growth, over 2013-2018. However, the penetration rate of adult diapers in China has still been low at about 4%, far lower than the global average of 12%.

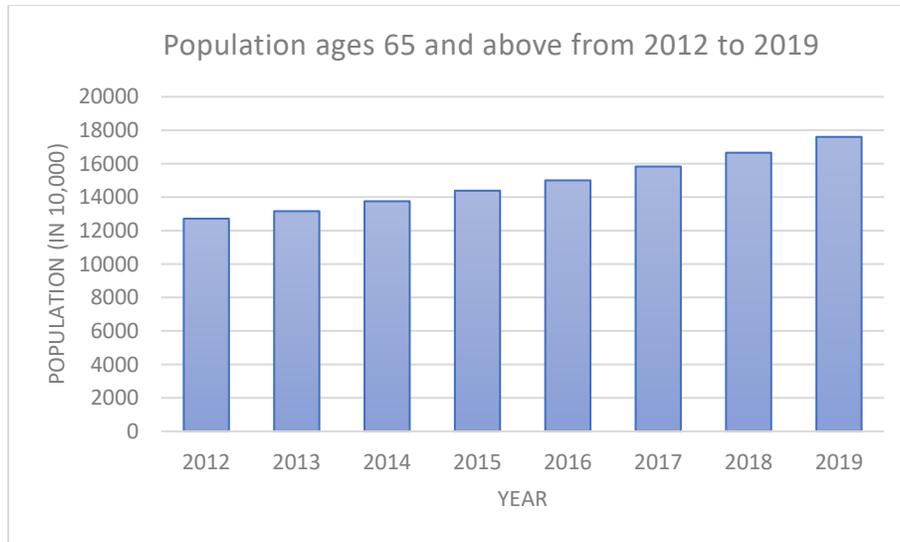


Figure 1: Population of people above 65 above between 2012 and 2019, data for population from China National Bureau of Statistics, retrieved from <http://data.stats.gov.cn/easyquery.htm?cn=C01>

The famous saying of “old people are not rich, and rich people are not old yet” can probably explain the still low penetration to some extent. Chinese people, especially older people, are known for their high rate of personal savings. Concern about how to pay for health care and retirements have constrained them from spending. On average, per capital expenditure for the population aged 65+ in the Asia Pacific remains one of the lowest in the world at just 16 USD. They also consider incontinence products are used as last resort; for instance, for bed-ridden older people; therefore, even when they received incontinence products from their children, they keep it on the top of the shelf till the last minute. Instead, they choose to drink less fluid and frequently change their underwear as an alternative.

Risks are growing among young people

Many young people thus take the wrong approach and hold the belief that the use of incontinence products is undeniable evidence of aging. Many of them overlook the fact that age is not the only contributing factor anymore; other risk factors have grown among younger consumers, such as obesity, consumption of caffeine, and childbirth, etc. In an overview, about one in three women (30.9%) in China are dealing with some level of incontinence.

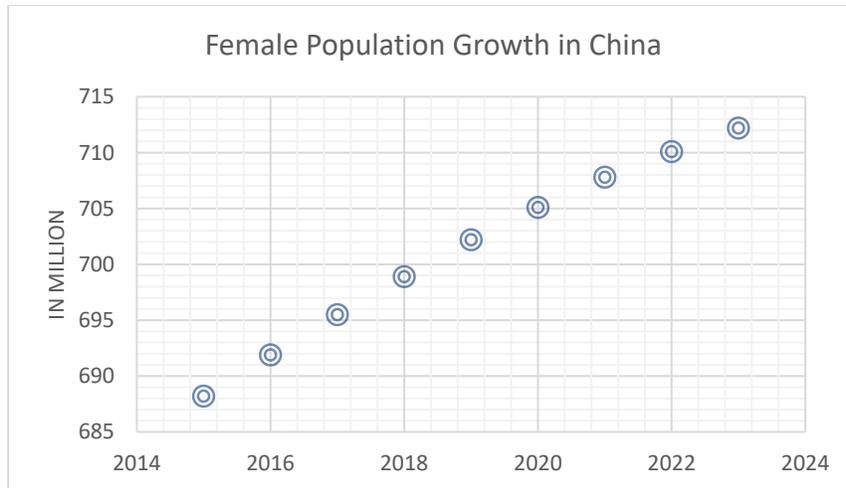


Figure 2: Female Population Forecast in China, data for female population estimates from Statista, retrieved from <https://www.statista.com/outlook/80060000/117/incontinence/china#market-revenue>

Unfortunately, even though the risk factors have been increasing, there is not much action or appropriate product for it. As of today, if one walks in the supermarket or search online in China, she will hardly find any incontinence products for lighter bladder leakage. The pads form of incontinence products, other than adult diapers for the elderly, almost does not exist in retail. Some might be able to find them in the hospitals or pharmaceutical stores, but they won't be able to see any on shelf space. A picture of BULIFENG and Watson (local beauty retail store) is shown below what a typical shelf display for absorbent products.

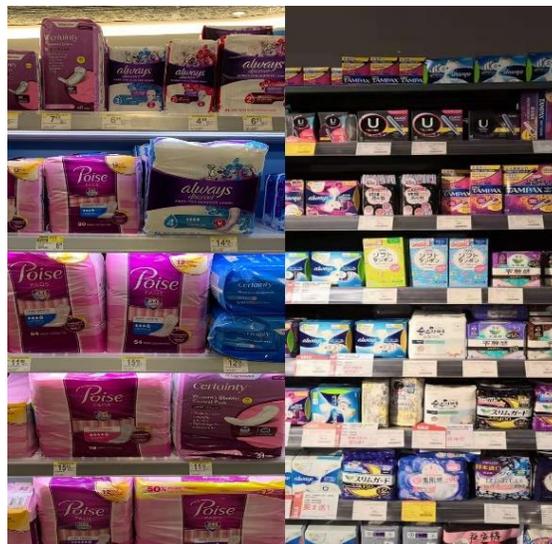


Figure 3: Shelf Comparison between major retailers in the U.S. (Left) and China (Right)

Prevalence of E-commerce changes Chinese people's buying behavior

Before the prevalence of e-commerce and social media adoption, most of the personal care and femcare brands were not promoted as much as they are today. Many believed that Chinese conservative cultural barriers have contributed to the lack of awareness and applications. Others have

argued that this should no longer be the case as women have become more open-minded and seeking to embrace the convenience and comfort the modern.

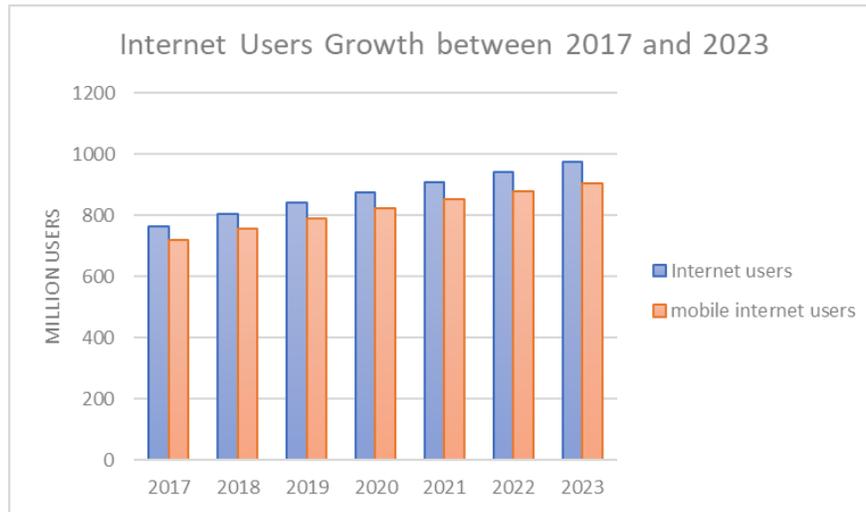


Figure 4: Internet Users Population between 2017 and 2023, data for internet users from Statista, retrieved from www.statista.com/statistics/278417/number-of-internet-users-in-china/, for mobile phone user from Statista, retrieved from www.statista.com/statistics/558731/number-of-mobile-internet-user-in-china/

Things evolved rapidly in the past three years - social media and cross-border trade through e-commerce have granted consumers access to different lifestyles and many foreign products. The eagerness to look out for a more convenient lifestyle encouraged people to step out of their traditional routines. The purchase decision is not just constrained to cost but also the quality and standard of the products presented. Many companies realized the massive opportunity embedded in China, in which there are over 800 million mobile users. Leveraging digital technologies, many brands started to offer products that were initially not in traditional retail channels. Among all, a classic example is tampons, which saw the most dynamic growth of a 342% increase from 2014 to 2018. A period of “consumption upgrade” came.

2.2 Market Size and Forecast- A Positive Outlook with strong growth

Overall, China is one of the fastest-growing regions in retail incontinence. Rising income level and higher hygiene awareness have put China in a good state in driving up incontinence sales. In 2018, retail incontinence yielded a value growth of 29% in 2018, reaching CNY 3.3 billion. The market is expected to increase by a current value CAGR of 32% in the next five years, reaching CNY 13.2 billion in 2023.

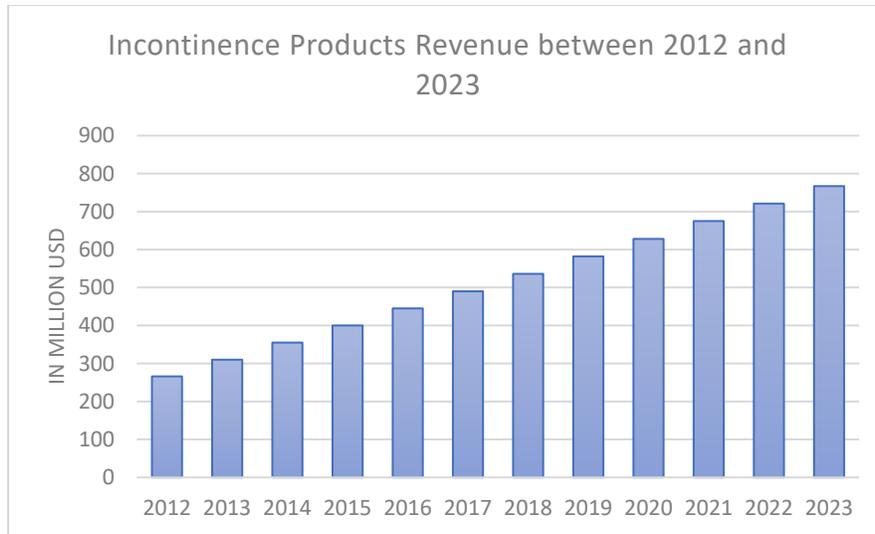


Figure 5: Incontinence Products Revenue between 2012 and 2023 forecast, figure adapted from *Retail Adult Incontinence in China*, By Euromonitor International, March 2019, retrieved from <https://www.euromonitor.com/>. Copyright 2019 by Euromonitor International

From geographic perspectives, on the one hand, first-tier cities are the key sales engine as consumers are likely to trade up to higher quality products and exposed to higher hygiene awareness. On the other hand, lower-tier cities have enormous potential in the long-term as the overall product penetration rate is relatively low, and retail incontinence is expected to experience higher product acceptance in lower-tier cities and rural areas in these areas.

In addition, the products offered in the incontinence category is relatively simple in China. As the range of consumers becomes broad, there is a significant increase in diversified demands. To meet these demands, brands need to come up with a higher level of product differentiation. For example, they need to look for ways to transfer from standard adult diapers for all levels of incontinence to several different formats optimized for light and medium incontinence. Moreover, though moderate and heavy incontinence still dominates the market, as urban consumers, especially women, participate more in the workspace and adopt a more active lifestyle with higher mobility and social interactions, growth for light incontinence might overtake that of moderate and heavy incontinence.

2.3 Market Factor

2.3.1. Supply and Demand in China Incontinence Market

Despite the low penetration of only 4% in China, China’s incontinent market is flourishing with a boom in registered incontinence brands. Most of the brands offer a moderate and heavy flow of adult incontinence products. Products offered by these manufacturers have very similar product structure and functional benefits. Four-fifths of them are in the pull-up underwear style. In addition, the majority of the brands are sourced from Original Equipment Manufacturers (OEM). However, despite the vast number of existing suppliers and new entrants, the industry remains relatively consolidated. Hengan Fujian Holding is the leader of the incontinence market with 13.5% of the market share. Unlike other players in this category only focuses on incontinence, Hengan covers sanitary protection and baby diapers too.

Even though the income level has been improving in China, the majority of the consumers are still price-sensitive. Therefore, manufacturers in the low-end segment are highly competitive, with their products at the compensation of better product performance. The majority of the suppliers have a hard time to lower costs. In fact, the unit price is close to CNY 1.5/pc in 2018, a 1% increase compared to the year before. Margins vary by different production strategies. For example, brands from Hengan Fujian Holding, which also produce many other paper products, have a higher gross margin resulted from the cost synergy of manufacturing a broader range of similar products. On the contrary, products sourced from OEM have a lower margin given not much of the economy of scales leveraged.

Furthermore, there is a notable misbalance between supply and demand at the product level. Even though domestic supply is way over demand, it is only for products in the range of moderate and heavy flow. There is a significant lack of light incontinence supply. Unlike heavier flows that concentrate on absorbency as a critical attribute, products in the light segment should be developed with improved comfort aesthetics and discretion. Therefore, to meet these diversified demands, a higher level of product differentiation will be needed in the future.

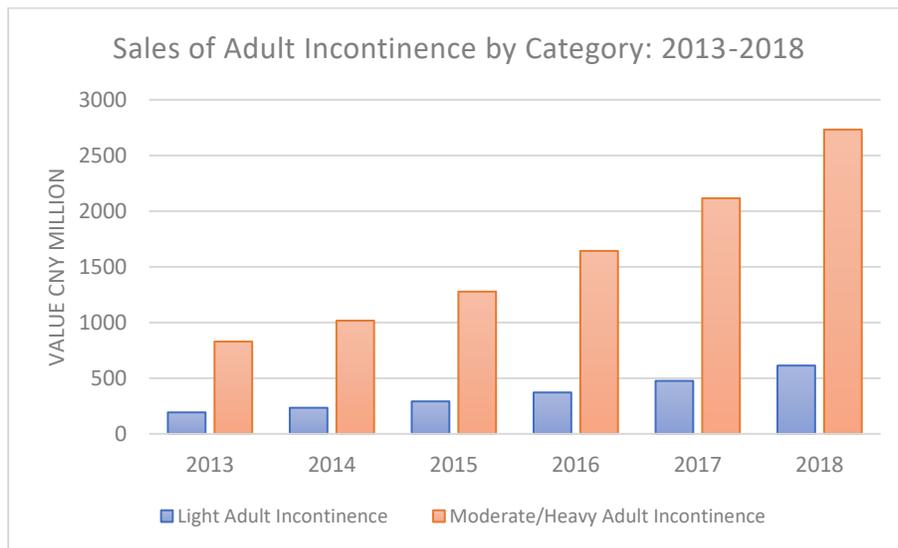


Figure 6: Sales of retail adult incontinence by category, figure adapted from *Retail Adult Incontinence in China*, By Euromonitor International, March 2019, retrieved from <https://www.euromonitor.com/>. Copyright 2019 by Euromonitor International

2.3.2. Menstrual products are often mistakenly used for incontinence purpose

Unavailability of lighter incontinence products led consumers to seek alternatives. In a study conducted by Mintel, out of a total sample of 420 women who are aged between 18 and 34 and struggling with light incontinence, nearly half of them are using sanitary protection products. This ratio is believed to be much higher in China due to low penetration and awareness. Indeed, in a recent focus group study conducted by Femme®, out of the 35 women from Beijing who have light bladder leakage, 80% of them reported that they had been either using feminine napkins or no protection at all. For those who use feminine pads, they stated that they were not aware that there are products dedicated to incontinence issues, and they have always thought that the feminine napkins can be used for this matter.

Though feminine napkins and incontinence-focused pads have a very similar structure, the absorbent materials and functions are very different. Menstrual products are designed and optimized to absorb a fluid with a much higher viscosity than urine. In addition, the ability to remove urine odor is important for incontinence products, whereas it is not much needed in sanitary protection products. Therefore, even though feminine napkins can seem to solve the problem at once, it should not be used in the long term.

Besides, brands and companies should be aware that the fact that more women are using menstrual products for incontinence purpose means there is a significant growth opportunity embedded. Brands should motivate women in the struggle to use the right products. They should promote the message that using the right products designed to absorb urine will provide the consumers with a higher quality of life in a way that reduces the times needed for product changes and ensures fewer leaks.

2.4 Competitive Landscape

The incontinence market in China remains consolidated. The top three players take up over one-third of the market in 2018. Domestic manufacturers are the dominant players, outshining international players with eight out of the top ten positions in 2018. Specifically, Hengan International has been the market leader in incontinence since 2014, followed by Hangzhou Coco Healthcare Products.

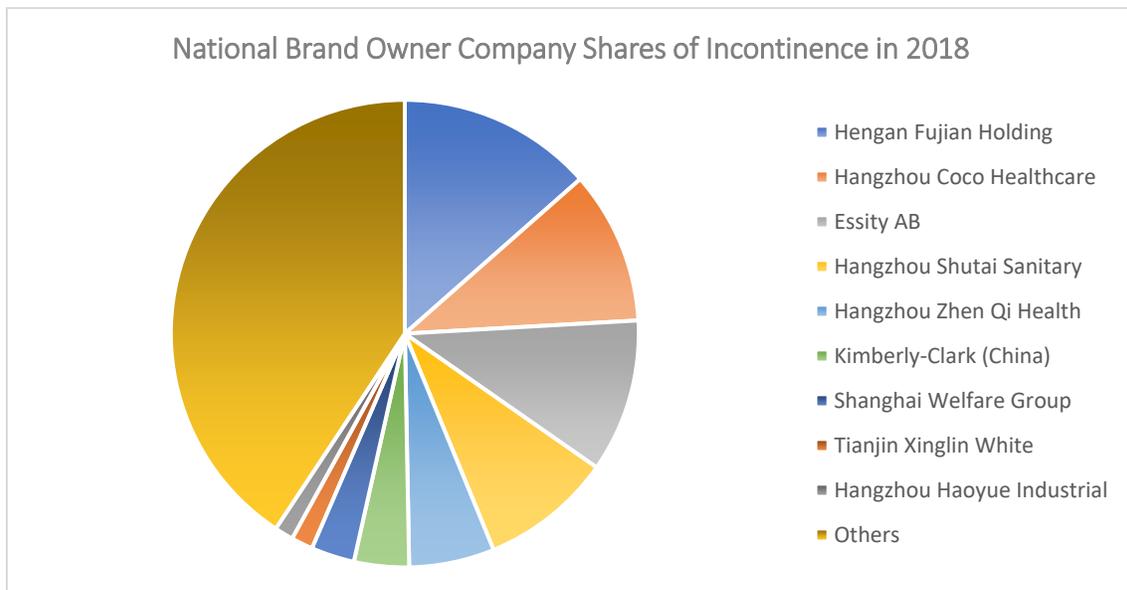


Figure 7: NBO Company Shares of Retail Incontinence, figure adapted from *Retail Adult Incontinence in China*, By Euromonitor International, March 2019, retrieved from <https://www.euromonitor.com/> Copyright 2019 by Euromonitor International

As the market leader, Hengan is one of the few companies that offers a wide range of incontinence products, covering from pads and pull-on pants. The company currently has two incontinence brands: Banitore and Elderjoy, with Elderjoy targeting the premium segment. Reviewing the history of Hengan, it is interesting to see the company started exploring the incontinence in the early 20s; however, after two years of operating, the company concluded “retail is not the ideal outlet yet” and switched to hospital line. A few years later, Hengan reassessed the market and decided to come back to retail channels, targeting the elderly group.

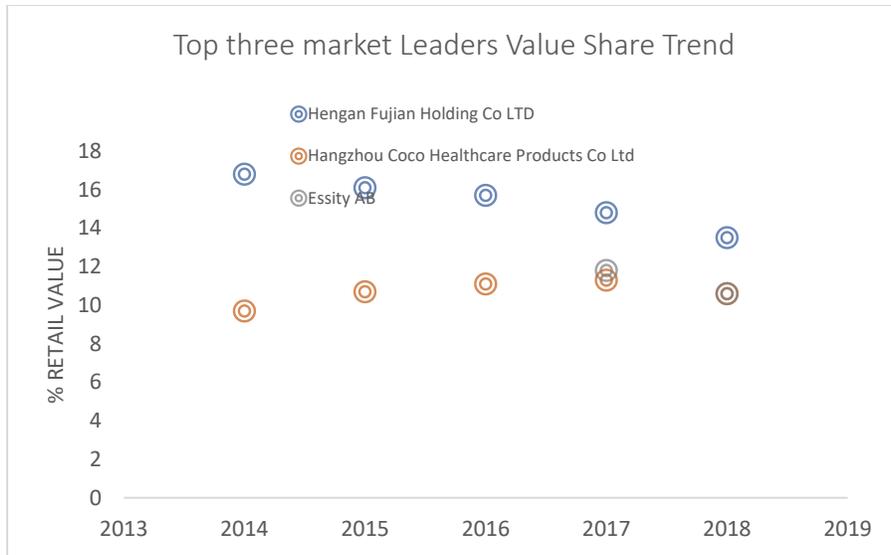


Figure 8: Market value share trend of the top three companies between 2013 and 2018, figure adapted from *Retail Adult Incontinence in China*, By Euromonitor International, March 2019, retrieved from <https://www.euromonitor.com/> Copyright 2019 by Euromonitor International

Since the incontinence market has a narrow product range compared to other categories, it makes more sense to segment by price. In this study, we evaluated the incontinence products offered on leading e-commerce platforms, such as Tmall and JD, and plotted them based on functions and price points. One outstanding observation was almost all products are promoted as unisex that there is no gender-specific messages found on the package, except for Unicharm. However, Unicharm is only available on RED as exported products.

There is not much advantage for international players in a market where the price is still playing a decisive role in the purchase. Even though foreign brands, such as Depends and Unicharm, win the mind of being reliable, high-quality, and offering a broader product presence, their higher price points have put them in a disadvantageous seat in terms of the volume sales. It's believed that price will continue to be the number factor in consumers' product choice in incontinence products in China. However, it is worth noting that foreign brands are known for picking up shares later in the arena when the industry evolves into the mainstream market, and consumers become sensitive about quality. For example, foreign brands, especially Japanese brands, are known to take up shares in beauty and femcare categories.



Figure 9: Consumer acceptance of price range based on reviews from major ecommerce; data obtained from Taobao, retrieved from www.taobao.com; Tmall retrieved from www.tmall.com; JD.com retrieved from www.jd.com

In addition to the leading group, a number of small enterprises and startups mushroomed in 2018. These companies do not have their own manufacturing capability, but relying on local OEMs. Their products are much simpler, typically only one layer of absorbent that barely removes odor, and cheaper, targeting to win at the heart of “price-sensitive” consumers, especially in low-tier cities and rural areas.

2.5 Consumers

2.5.1 Causes of Incontinences

The reasons why people experience incontinence can mainly fall into two causes: stress and urge related. Stress incontinence is quite different from urge incontinence, which is the unintentional loss of urine caused by the bladder muscle contracting, usually associated with a sense of urgency. Stress incontinence happens when physical movement or activity occurs – such as coughing, running, or sneezing. It is nowadays much more common in women than men. In the global urinary incontinence market, stress also overpasses urge as the number one cause of incontinence.

Even though age, which leads to urge incontinence, is still the single most significant factor due to weaker bladder muscles and menopause, pregnancy, childbirth, and issues related to lifestyles, such as obesity and even consumption of caffeine, all contribute to the causes of incontinence in recent years. Therefore, urinary incontinence has become a common condition. In the U.S., it affects as many as 34% of women, and in China, the percentage can go up to 40% in tier-one cities, and continues increasing to 50% as women age.

Typically, the first-time experience of bladder leakage for a woman occurs in her first pregnancy and lasts many years after childbirth. It is essential for women at this stage to take precautions because as women grow older towards their menopause, the incontinence conditions might become much more severe. In addition, sport is also one of the major causes of bladder leakage among the young generation. In a survey conducted by Euromonitor, 21% of consumers aged between 18 and 34 report sports/activity as a major cause. Furthermore, in today’s world, with more women joining the

workforce and even taking on high-pressure leadership roles, the chance of having bladder leakage is significantly increased due to increasing levels of activities socially and emotionally.

2.5.2. Consumer attitudes toward incontinence

The single and most significant attitude around having incontinence or shopping around incontinence products is embarrassment. This feeling is notably stronger for younger consumers, mainly resulted from the long-perceived image of incontinence as an age-related illness. Younger consumers also see incontinence as a more considerable lifestyle disruption leading to a low quality of life. Depends on the severity of their incontinence condition, incontinence also impacts their lives at different levels, from minimal to being forced to stay at home or curtail physical activities.

A good sign of today's consumers is that they are more honest about their situations. Even though younger consumers are still likely to believe it is embarrassing to shop for incontinence products, they are becoming more open about their condition. For example, in a study conducted by Mintel, 35% of consumers over age 55 feeling open to sharing about their bladder issues, compared to 52% of consumers aged 18-24 and 56% of those aged 25-34. Brands thus have an opportunity to act on the insights from consumers who are willing to share their experiences and help them normalize their life with the absorbent incontinence products.

To be more specific in the context of Chinese consumers, in a study conducted in 2014, *Effects of stigma on Chinese women's attitudes towards seeking treatment for urinary incontinence*, attitude towards finding treatment and product solutions for urinary incontinence was generally negative among Chinese women. Therefore, in order to realize demand and drive consumption and sales, the stigma of adult incontinence needs to be overcome. One way to solve this problem is to change the product style and packaging. Women have long complained about the pull-up styles as these products remind them of baby and illness-related products. It is difficult for them to accept these products emotionally and functionally. Brands need to develop products with significant improvement in comfort, aesthetics, and discretion. Another way to help overcome the emotional barrier is to connect the incontinence products to feminine or beauty brands. If brands were able to sell under the image of these two categories, they could develop a brand persona beyond the treatment of embarrassing conditions. There may also be acquisition opportunities that would help form a stronger emotional connection with younger consumers. The launch of P&G's Always Discreet is a vivid example of adopting this strategy. While still under the femcare Always brand, they provided consumers an opportunity to buy an appropriate incontinence specific product while staying within the femcare brand.

2.5.3. What drives their purchase decision?

It is crucial to create products with target consumers in mind and understand what influences their intentions on buying behavior towards personal care products. Through research, we have summarized the following key attributes to their buying behavior.

One of the primary factors is peer recommendation, particularly influential in the category of beauty and personal products. (research fact) Other than peers, social influencers, such as key opinion leaders or user-generated content, also impact or even motivate women to purchase products they originally have not intended to buy. Take China, as an illustration, there are over 817 million mobile users in the country, and a significant portion is made up of female users. Social media platforms,

such as RED, which maintains on average ten million daily active users, therefore specifically concentrate on advertising and product promotions on the female user groups.

Social causes are another factor that drives purchase decisions in recent years. Consumers, especially women, buy products from brands that resonate with them – authentic brands that they trust. Rather than merely shopping for products to meet their needs, some consumers are looking for a more intimate relationship in a meaningful bond. To this group, price doesn't play a decisive role. Instead, emotional attachment is highly associated with their decision making.

In the context of incontinence products, the barrier to attract people's attention before they even decide to buy is the lack of awareness and promotion online and offline. The lack of education and public sharing can explain why there is a void in this space. Therefore, adequate training will drive greater product acceptance for consumers who suffer from mild to less severe incontinence, leading to the development of habit persistence and aiding growth.

3. BUSINESS PLAN

The mission of the startup is to reduce the stigma of the disorder by educating the consumers how bladder leakage, especially LBL, is more common than most would think. The vision is to normalize the seeking of solutions for the consumers in return to steer the industry on the right track. Using the concept of customer funnel as a guideline to map the customer adoption curve, we noticed there are two most significant obstacles ahead: the lack of awareness and attention to this issue, and a barrier in product usage. To overcome these challenges, the startup needs to develop an effective marketing strategy to raise awareness and implement an easy-to-understand usage message to introduce the products.

In addition, a strong management team, an attractive market, a compelling new product or service, and strong evidence of customer interest are the top four key elements that startup ventures are recommended to look for in a column written by M. Cusumano from MIT Sloan. Therefore, the startup should also recruit and retain talents from both digital (online) and incontinence products (offline) as a hybrid team to drive meaningful product and service insights.

3.1 Conducting marketing education through digital technologies and marketing analytics

In order to create appropriate marketing strategies and branding concepts, it is crucial to understand the changes in perceptions of consumers in incontinence. Based on the previous discussion, we have concluded that incontinence products have evolved from the healthcare space, the hospital outlet, into mainstream consumer goods, the retail outlet. Therefore, the value proposition should no longer be targeting illness and age-related but reliving normalcy in social life. The goal of the company is then to create a new understanding of incontinence from a novel and educational perspective.

An effective marketing strategy needs to be implemented to achieve that goal. Since the age of customers has been in a broader range and the leading cause of incontinence varies depending on cases, it's crucial to identify a key target group and cultivate them to become the first adopter. It's also essential to relate incontinence to adjacent markets that are appealing to female consumers to help overcome their emotional and psychological barriers. Thus, social commerce should be practiced for this startup given Chinese consumers are famously avid users of social media and social commerce has been proven its influence in converting awareness, creating demand and monetizing the attention.

Many brands have been able to gain awareness and convert awareness into a purchase through social media. According to a survey conducted by a leading consulting firm, 50 percent of respondents said that they had become aware of a product on a social platform; 25 percent of respondents also claimed they had made a purchase directly through a social channel, 3.6 times increase compared to what it was in 2017. Considering the low penetration of incontinence products at this stage, gaining consumers aware of the products is inevitably the top priority, and the startup should leverage social elements to build consumer awareness and engagement in these channels.

Another piece of the social element is content marketing built by Key Opinion Leaders (KOLs). In China, peer influence is one of the most important factors to purchase intention. In the category incontinence, it's believed KOL's impact is even more significant given professional knowledge is "critical" in a consumer journey. For example, in the mom and baby category, 57 percent of respondents in the survey say that professional content is essential, while two-thirds stated that information they had collected from vertical websites such as BabyTree influences their purchasing decision. Thus, the core customer has great power to change people who are struggling with incontinence. Establishing an opinion-leader oriented marketing state should be the primary goal related to maximizing effectiveness. In addition, understanding their exact pain points and developing products to meet the sufficient demand of the specific consumers are essential to make the conversion happen.

3.1.1 A social media strategy: Introduction of CCI (Circle, Content, Influencer)

The goal of CCI is to increase commercial value and conversion rates through social media and content marketing. CCI targets to leverage existing user streams from specific social media platforms, identify the *circle of users*, and operate *content* and *influencers* to impact their purchase intention, precisely making the conversion. In addition, getting feedback from consumers is also vital to iterate product development and create sales effects. Precisely, the following steps should be followed in order to enhance the outcome of this method:

- Make content authentic and user-oriented to the targeted circle.
- Conduct marketing analytics on different channels and adopt a test-and-learn approach to improve ROI.
- Create a long-term brand goal with sustained social media efforts.

Prior to analyzing and selecting the appropriate platforms, a more precise target circle should be identified. In the consumer section, we learned that pregnancy and childbirth are the leading cause that set the early stage of light incontinence. The startup needs to understand that even though pregnancy is temporary, it often creates long-term bladder leakage. If a brand wins the loyalty of new and expectant moms, in return, the brand is likely to win long-term consumer loyalty. It's also an opportunity to reach out to women who may not be aware that there are dedicated solutions outside of adult diapers.

Moreover, this group is considered "easy conversion." In a study conducted by P&G, it discovers that new mothers are more open to new products and lifestyle because they start a new chapter of their life. Thus, the group of new mothers should be selected as the startup's primary circles of users. The second circle of users is identified through the lens of product usage. Physical activity is one of the significant causes of bladder leakage among young consumers. Sports are an example of an otherwise healthy event that causes stress incontinence, especially among women. As women

become more active in sports and other strenuous activity, there is a higher likelihood they might need incontinence at some point. The recommendation of these two circles leads to the identification of mother and sports-related platforms and contents.

Applying the characteristics of the two groups identified above, BabyTree, RED, and KEEP are three platforms chosen for the startup to pioneer. Firstly, the majority of the users on these three platforms are either new mothers or active users. Individuals on these platforms tend to follow influencers in their best interests. Secondly, the startup should create a database of the opinion leaders associated with active and modern “lifestyle.” These KOLs should be advised to provide content and communication closely related to “emotional comfort” rather than “functional benefits” about the products to the target audience. Though functional satisfaction is crucial, an emotional barrier appears to be the biggest challenge to overcome for the first adaptors. It’s also critical to work with KOLs to educate users on ways to prevent risk factors as part of the startup’s responsibility efforts.

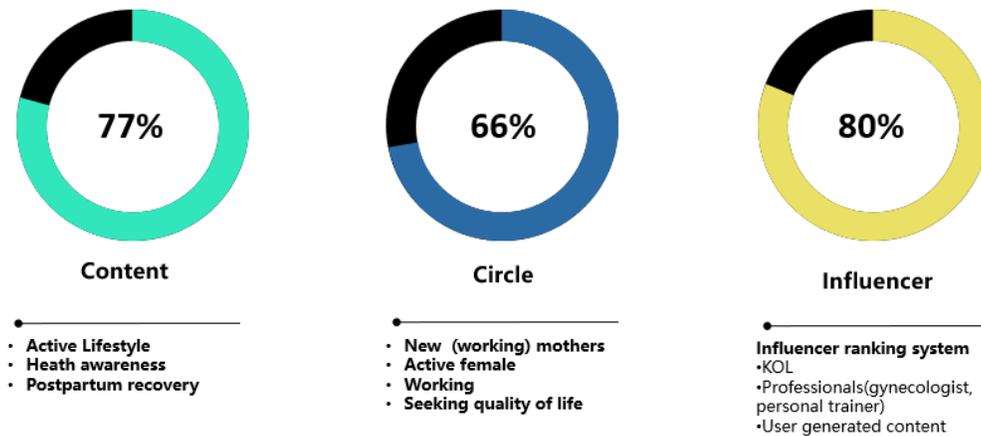


Figure 10: Overview of CCI implementation, figure adapted from Yimei Shikejia Case study (2019), IPP program, Tsinghua University

Once the right platforms are determined, it’s important to manage them wisely. The ecosystem in China social media is well established, and rules to promote through each application is quite complicated. The creator of these social media platforms constructed a much more perplexing system for companies to conduct social media marketing. For example, WeChat has been one of the most popular social media platform companies prefer to partner with. However, WeChat alone has three types of advertising and associated with six different categorical groups. Without sufficient knowledge, it’s challenging to navigate through the various platforms and their sophisticated rules. The startup needs to recruit and retain platform operating experts to manage across different platforms.

3.1.2 Channel Engagement: Tap into Omni-channel behavior to Generate Effective Sales

The subject of product availability in retail is vital. A startup business needs to choose where to sell the products wisely as their primary channel—online or offline a better choice. Factors, such as cost, preference by consumers, and the startup’s resources, all need to take into consideration in order to evaluate between the two options.

Online has undoubtedly more advantages over cost. Generally speaking, online shopping has become really powerful in gaining sales, especially in China. The infrastructure is already built and continuously improving. China also has the most extensive online user base and e-commerce transactions accounting for more than 25% of the world's total. Moreover, incontinence product is the category shoppers seek discretion. Therefore, the drivers for buying these products online are reliable from the consumer's perspective. The startup also needs to understand other factors drive online shopping for this particular category, such as the bulkiness of the products, dire of running out of products, and demand for more information. These insights and implications can assist the startup to design better service and products that meet the requirement of those consumers. Lastly, once the online presence of incontinence increases and community forms, consumers will likely seek out the convenience and discretion of subscription service.

In addition to online presence, physical stores (offline) cannot be neglected. Since 2017, Chinese shoppers have actually made a noticeable shift back to physical stores, especially in mono-brand retail stores. Given the low awareness and penetration of this product category, some of the most fundamental needs can be fulfilled by in-store visits: seeing and feeling products firsthand, testing products with visual aids, and even the immediate accessibility of products in the store. In addition, brands are able to enter offline channels to win the perception of "better quality" in the mind of Chinese consumers because it requires more regulatory efforts and higher quality standards to enter the store. Therefore, for a new brand, being able to place on the shelf added a third eye confirmation to its quality.

Increasingly, Chinese consumers are combining their experience at physical retail stores with online buying decisions. Consumers use the digital device to search products while making the purchase in a store, an observation named the "showroom" effect. Consumers also like to check the price, review comments, or popularity online. In summary, to fill the demand of the information-hungry mobile-savvy young consumers, it is important to promote online while establishing a physical presence in the store. From the cost perspective, limiting physical presence in only specific retailers, such as Watson and BLT, can maximize return on investments as these stores are especially popular among the target circle of audiences.

Learning from the U.S, where incontinence is a much more mature market, drug stores, and mass merchandisers are still the dominant channels. Online retail is more of an expansion than a replacement to the current market due to the growing number of tech-savvy younger consumers. As more boomer ages and younger consumers enter the market, it is expected that online retail will be the dominant channel.

3.1.3 Direct to Consumer vs. E-commerce Platform

Knowing the importance of online presence, the next challenge is to develop a valid consumer journey path. An effective strategy not only helps to generate sales but also understand the consumer's needs and pain points. Many factors need to be taken into consideration to decide whether to use a rented or develop a separate platform for the online presence of incontinence products. The short answer is probably to have both, which is what most of the established companies have been doing. However, for a startup, it needs to prioritize one over another from a cost and resource perspective.

Firstly, each option comes with its advantages and disadvantages. If using existing platforms, the two most significant benefits are the established infrastructure and the access to a broad audience and past sales database of similar products, requiring less resource and yielding possible higher conversion rates for a startup. However, the downside of it is less degree of flexibility and control over branding and pricing. On the contrary, building its own platforms ensures total control over branding and pricing; however, without enough user stream and conversion, the startup will still not be able to foothold in the market. Therefore, a startup needs to evaluate carefully on its long-term vision and its unique product attribute to determine which leads to the best outcome.

Notably, several social media are starting to offer the Direct-to-Consumer (DTC) service on their platforms. The definition of social DTC is similar to the concept of building your own platform while on existing social platforms. However, the benefits of DTC, as opposed to using a third-party retail site, is that it highlights a sense of community, as well as authenticity. A famous example is led by WeChat mini-programs, which has grown from nothing to reaching one-fourth the adoption rate of leading e-commerce platforms. Through research, we have seen beauty brands, including Estee Lauder, YSL, and Shiseido, offering samples of newly launched products via WeChat mini-programs. YSL Beauty also incentivizes its users on mini-program to post selfies and tag products. Besides brands, we have also seen other platforms using WeChat mini-programs to capture more users. RED, a popular platform that has over 300 million users and 90% of their users were born after the 90s, also uses WeChat mini-programs to engage and grow their user base.

The startup should target the **social DTC** as its primary sales channel at its early stage. We have already learned that social platforms have become drivers of online shopping and creating incremental demand from users. Social Interactions, including interactions with KOLs or posting of user-generated content (UGC), motivate consumers to explore more products that they were not aware of before. The startup can leverage those social elements of the existing platform to build consumer awareness and make the transaction directly through the payment service offered by the platform. In addition to the benefit of existing user streams, there are many other use cases in WeChat mini-programs the incontinence startup should consider given their unique product categories, such as product trial reservations, counseling services, and referral programs.

Given the many options the startup is offered through DTC social platform and other digital channels, it needs to build a sustainable strategy and define several metrics to measure the company's growth. The system should also help the company to understand the customers, their journey, and optimize the sales funnel. In this case, AARRR is a practical framework and should be served as a foundation for this startup. Many startups have widely adopted AARRR due to its actionable and straightforward structure. In this system, metrics around acquisition, activation, retention, referral, and revenue are measured. Implementation of AARRR can help track and evaluate the effectiveness of different channel strategy to determines which channel or account work the best. The figure below shows an example of the application of AARRR.



Figure 11: Descriptive Overview of Five Phases of AARRR. From An introduction to the AARRR framework, by Gino Arendsz (Sep 4 2014). Retrieved from www.medium.com/@ginoarendsz/an-introduction-to-the-aarr-framework-b8570d6ae0d2

3.1.4 Converting from Awareness to Interest: Digital Assessment Bridges the Gap

Some common questions that consumers incur when using incontinence products are what is the right size to choose from and how long they should keep it during the daytime. Other concerns related to material safety might surface as consumers become more interested in the products. Social interactions, such as user-generated content, can help resolve the issue to some extent. In addition, the startup can initiate some proactive approaches to potential consumers. A professional and knowledge-based online forum with information regarding incontinence can be launched to serve the consumers with these concerns better.

In summary, the following practices can be adopted to help resolve the problem:

1. Provide active Q&A and sufficient information to answer questions that might be generated during the first-time use.
2. Develop a quiz system to involve users in conducting self-screening proactively.
3. Conduct live broadcast online (Taobao or RED) to synchronically answer questions from audience while building conversations with consumers to foster long-term relationships.

3.1.5 Case study of Thinx: Unicorn e-commerce business in an Amazon world

Founded in 2013, Thinx is an American brand that sells feminine hygiene products online. Different from many other brands, Thinx owned a very successful e-commerce platform before putting their products on the e-commerce behemoth Amazon. With its niche products, the company was able to make over \$50 million in revenue in 2018. As it continues to expand, this direct-to-consumer brand is now considering to roll out its physical retail stores by 2020. By far, this startup has been using pop-up stores as a way to run tests and gather critical consumer data.

There are many similarities between the Thinx and the startup. Both of them are targeting women consumers while being niche in their market. Thinx offers washable “period-proof” underwear and the startup targets to reform the incontinence market with a focus on light incontinence leakage. Both Thinx and the startup launched or plan to start their products online and leverage heavily on social

media to enhance their marketing efforts. However, there are still some distinct differences between these two that the startup should take a closer look and benchmark Thinx's best practices:

Dedicated and sustained social entrepreneurial endeavors. At Thinx, their value is to break taboos about menstruation and reproductive health, and they have been consistently acting on it through the products they create and the conversation with their audience. Content is a significant part of their marketing efforts. They created Periodical blog, Iconomic blog, and BTWN line for parents and teens on their respective sites. They also initiated programs, such as GiveRISE. All of the social elements have contributed to their brand story and authenticity that their loyal consumers feel like they have been building a connection with the brand because it has been doing something meaningful, and thus they are part of it.



Figure 12: Demonstration of Thinx GiveRISE Program. Retrieved from www.shethinx.com/pages/thinx-giverise

A wholly owned DTC platform. At the very early stage, Thinx determined to create a community of evangelists because they believe a sense of community helps build an emotional connection with customers and foster sharing. Having complete ownership of its platform also enables Thinx to control every aspect of their user experience and optimize every touchpoint as it tracks down its customer journey. For example, as a user scrolls down the impeccable visuals and becomes interested in learning more about the products, she would find a “more-related” button right at where she needs it. When she wants to chime in some discussion, she can easily engage in the community forum and becomes part of the larger group. The “personalized” experience encourages users to visit back as they feel a one-to-one experience continuously. Amazon, on the other hand, is missing this key “emotional” ingredient. The monumental retail brand is known for its cost and delivery, but emotional loyalty is nonexistent. In one interview, Mollan (Thinx CEO) remarked that “shopping the site was ‘somewhat of a search experience’ and that doesn’t make you ‘feel part of something.’ [Being] a part of Amazon isn’t necessarily something that people want to achieve”.

True innovation that solves the pain point. The company is using innovation to change culture and conversation. As consumers become more conscious of healthy alternatives to traditional products, they are looking for products better fit their on-the-go lifestyle. Thinx’s “period-proof” underwear prevents leakage and messiness of period while giving you discretion and freedom. As part of their expansion, Thinx has also divested their product lines into more styles and designs of their signature panties, training shorts, unitards, and leotards that give extra support. Recently, Thinx has also invented the first FDA-cleared reusable tampon applicator. The Thinx team envisioned this eco-friendly innovation as “a new way to grow, change and empower people with periods.”

3.1.6 New features enable increasing stickiness to platforms

The case study of Thinx enhances the importance of product innovation and complete ownership by building Thinx’s DTC platform. However, solely relying on DTC platform presents many challenges in the Chinese market. A similar strategy needs to have a local twist in order to become effective. In this section, we examined the top three new brands ranked by 36Kr, a China-based publishing and data company focused on “new economy” and analyzed their startup journey, to understand how they developed their businesses online.

The three brands range from food and beverages to beauty category: Yuanqi Senlin Lemon Juice, Perfect Diary, and HFP. The primary sales channels for all three brands are through e-commerce platforms, mainly Taobao. In addition, they leveraged private traffic on WeChat mini program, as mentioned in 3.1.3, to aid marketing and sales efforts. In their marketing strategy, they approach consumers through content-based thinking, allowing the brand to speak with their consumers on a one-on-one basis. In this way, these brands are able to attract and retain their “super users” products at a practical cost.

To draw some parallel comparison, we looked at some new brands in the U.S. – Allbirds, Everlane, JUNO & Co, and their marketing strategies in China and the U.S. All three are DTC brands in the U.S. They skip the massive distribution networks and Amazon, and sell directly through their online stores. As for now, each has over couple million users and brand ambassadors consistently promoting their brands; more importantly, they have complete control over data sources of their consumers. However, as they expanded their business in China, they chose to only sell through Taobao and the social DTC wechat mini program. Several factors in the U.S. attributing to the success of DTC are not fully ready yet in China: consumer buying habits, SaaS infrastructure, and the possibility of comprehensive user data collection. Moreover, livestreaming has transforming shopping in an unprecedented way that can hardly be built on the DTC model.

Live commerce is the new weapon platforms have developed to increase their network stickiness and make the last mile purchase unprecedentedly convenient. “See now, buy now” allows the platforms to maximize the user traffic to its fullest potential that if one doubts the products, she or he can engage and review the products through live personalized recommendations. If their concern is resolved, they can simply make the transaction by tapping on the link. This new trend of shopping, digital teleshopping, is becoming increasingly popular and adopted by almost all established platforms. As consumers crave immersive experience, they can get involved in the live streaming and receive immediate response and demonstration of the products if needed.

For a startup, digital teleshopping can hardly be implemented in the DTC platforms. Successful live commerce requires a superhost and extensive user base, especially the latter. Platforms, in this case,

can push streaming promotion to their user base and efficiently convert traffic timely. Also, each platform, such as RED, develops its own virtual gifts. On RED for example, as superhost is demonstrating products, viewers can give hosts a virtual bouquet that can be converted into digital currency and finally real money. Popular superhosts can be compensated partially in this way, and in return, the superhosts become sticky to specific platforms as well.

3.2 Product Development and Sourcing:

3.2.1 Chinese preferences and product developments

A compelling product and service is a must-have for a startup business. The existing products are not suitable for our target consumers. Consumers avoid picking the bulky and diaper alike products on the shelf. Unfortunately, the unavailability of the right form of products has forced the potential consumers to either ignore their incontinence problem or switch to menstrual absorbent products as substitutes. Therefore, the startup needs to ring the wake-up call for the industry and players to reshape their product formats as the risk factors for incontinence grow among younger people.

While delivering technical innovation is essential, the startup should pay extra attention to the insights drawn from Chinese consumers. Chinese consumers have historically perceived natural brands superior over other brands. We have observed similar trends in other absorbent hygiene categories since more and more natural brands emerged. The same pattern is believed to take place in the incontinence market. A similar case is observed in Europe and the United States: Cora and Natracare, the two brands known for their organic cotton tampons and period pads, have started their expansion into natural bladder leakage products.



Figure 13: Cora and Natracare brands offer LBL Natural Products, Incontinence - US -2018, by Mintel (2018). Retrieved from <https://reports.mintel.com/>

Moreover, as more Chinese women begin to work after childbirth, the brands need to shift to develop a product with an active focus that meets the demand of physically active women with lighter bladder leakage. In addition, discretion and convenience are still the top attributes that consumers look after. The majority of younger women expressed in a survey that they still hesitate to pick out products that are dedicated to incontinence brands. A recent case of the successful launch of P&G's Always Discreet proved that women preferred products for bladder leakage under the guise of sanitary protection or beauty brands.

Given the consumer preferences above, we concluded the three research areas the startup should consider in their product developments:

- Develop dual-fluid products to enhance convenience and discretion as women do not need to switch products.
- Optimize shape to ultra-thin products geared towards physically active women, so they don't slip during activity.
- Explore absorptive capacity and retention of natural materials composition to satisfy the demand of consumers who are eco-driven.

3.2.2 Export vs. Import Feasibility Study

Making the right decision about domestic versus offshore sourcing depends on a thorough cost-benefit analysis, and it relies heavily on volume and product design requirements. More importantly, an effective sourcing strategy is needed to offset the volatile demand at the early stage of the business.

In the eyes of western corporates, China has long been accepted as a place for offering cost-effective sourcing options. Though many have argued that the increasing labor cost in China has contributed to the recent manufacturing migration to southeast Asia, products manufactured in China remain many competitive advantages, especially some leading-edge products. The startup should prioritize domestic sourcing over offshore, as it provides flexibility in logistics, communication, and general administration.

An interesting fact that helps with exploring domestic sourcing options is that producing incontinence pads requires a similar type of equipment and specialized technicians as feminine sanitary pads. In China, there are over two thousand brands in the sanitary protection market, and around four-fifths of these brands are manufactured through OEM. The technology readiness and overlapped capabilities across the two categories allow the startup to start with hygiene protection providers. Geographic locations of the OEM also yield some advantages as it provides a one-stop-shop for the most part: the majority of the manufacturers is located around two industrial centers. One is along the Chang Jiang river, mainly in Jiangsu and Zhejiang provinces (Jiangzhe area), and the other is in the southern part of China, mostly in Fujian and Guangdong provinces. Cartons and Adhesive suppliers, other parts contributed to the formation of incontinence pads, also have a strong presence in these regions as well.

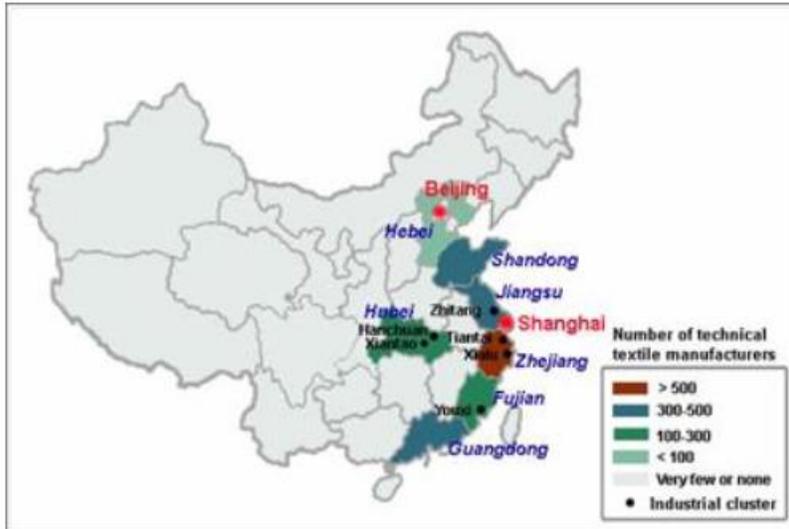


Figure 14: Textile Industry Maps, *China Technical Textile Industry*. Retrieved from <https://www.technicaltextile.net/articles/china-technical-textile-industry-6757>

The established supply network in the two hubs provides a wide range of raw materials and distributors selections. For incontinence pads, the critical components of the product formation are the absorbent core and cover sheet. According to CNITA(China Nonwovens and Industrial Textiles Association) report, as China became the leading global exporter of nonwoven roll goods, Jiangzhe area alone has over twenty nonwoven suppliers. Moreover, leading manufacturers achieve their growth not just in volumes sold, a fundamental tenet of their growth strategy comes from sophisticated operations and technologically advanced materials, creating a market for valued-added nonwovens that offer softness and comfort. As concluded in the previous section, material developments in absorbing dual-fluid and thinner structure are two potential research areas the startup should focus on. The startup should prioritize exclusive and strategic partnerships with researchers from the supplier side to develop proprietary material technologies to meet the demand of more sophisticated products.

To ensure smooth execution and sustain long-term relationships with domestic manufacturers, the startup needs to construct a full contract term, especially towards protecting intellectual property and providing quality assurance. Risks associated with IP can unleash additional costs and competitions for the startup, and quality excellence is the fundamental promise the startup should offer to their consumers.

In conclusion, domestic sourcing has advantages in many different perspectives, but it does not mean the startup should stop researching international supply. Instead, the startup needs to evaluate the supplier's innovation capacity and understand where the constraint is. If necessary, working with an oversea supplier who possesses more robust research and design capability can be more palatable and a better fit for their product and organizational goal. Moreover, Chinese consumers tend to prefer imported goods as they are perceived with better quality and performance. Therefore, the label of "imported" with superior product performance can win some room for higher pricing in the heart of consumers.

3.2.3. Costs associated with the two sourcing models

The cost of domestic sourcing is quite straightforward – a strategic partner sometimes even breaks down the material costs, if not ordered by the brand directly. The final cost structure is mainly composed of the cost of goods sold, handling and storage, shipping cost, and taxes. A final margin is added based on mutual agreements.

The cost of managing offshore sourcing is nevertheless a different story. Nowadays, many businesses have chosen Southeast Asia as an ideal replacement for China. For incontinence, Israel also offers great products as it has one of the largest manufacturers in personal care and is driven for continuous product innovation. The cost structure, in the case of offshore sourcing in these regions, can be quite complicated as it leads to many hidden costs that merely rolled into consideration. To confidently make decisions, the startup needs to understand what are the potential hidden expenses and risks. A list of cautious measurements that the startup should take into consideration are listed below:

The risk with initial sourcing – the costs immediately incurred as the startup lands in the foreign area. The whole process will be costly, given the team needs to learn about the pros and cons. The chance of sourcing depends heavily if you have someone with a resourceful network and a good experience. Time different inefficiencies can also slow down the sourcing and production process considerably.

Rising transportation fees and overseas wages. It is difficult for the startup to make forecasts and manage demand in the early stage of the sales cycle. With rising transportation, a mistaken but common practice is to carry more inventory than necessary to optimize the transportation buy. The outcome of this move is some real additional expenses, including costs to store and handle. In China, retailers have a very rigid rule on initial display and set stringent transaction goals; thus, for a startup with low brand awareness and promotion resource, underperformance means rid-of for this inventory.

Cost of inventory management – The fluctuations and volatility in demand, coupled with communication efficiencies, raw material availability, operation efficiency, make offshore manufacturing even tougher for a mature business, not to mention how much impact it can have on a startup. To best combat the situation, the startup needs to hire specialized procurement and planning team. Even so, it is still hard to avoid any additional expenses incurred from loss in sales or higher waste in inefficient inventory management.

Question of proper labeling and changing classification across border. Incontinence is classified as a Class I medical device and required special labels on packaging. If not appropriately labeled to meet the specifications, the additional expense is charged to rework the packaging, and extra logistics and handling are needed to accommodate the change.

Last but not least, according to Global Manufacturing Services, insufficient legal resource is one of the most significant risks to consider. Even if the startup has maintained a good relationship with the vendor, there is still a slight chance that things might not always be the case. The startup needs to add provisions for performance expectations. Since laws can vary by country, a clear understanding of the implications and cultural consideration is very important.

4. CONCLUSION

“Demographics and lifestyles explain everything” clearly applies to the business outlook of adult care market. These products proportionately aim at birth rates and active lifestyle women embraced.

In this study, the market is concluded to flourish through the lens of consumers and competitions, and a business plan is discussed with a goal to reduce the stigma of LBL among women. More importantly, I hope that the startup and many others who genuinely care about this issue to further develop the industry by offering better products and increasing awareness.

4.1 Challenges posed by E-commerce behemoths

Acquisitions in the digital world are ubiquitous nowadays. In the case of Amazon, ever since 2005, it has unstoppably made multiple acquisitions per year, with a focus on digital retailers and media websites. In examples of acquisitions of similar businesses, Amazon acquired diapers.com and soups.com in 2010. The intention behind every acquisition varies but with the same goal to diversify Amazon's retail portfolio as an online retailer and maximizing power in fast-growing segments.

Same as Amazon, many of the e-commerce nowadays, such as JD.com, takes up a conflicting role as both a platform and a retailer of its products. Small businesses rely on giant e-commerce marketplace to thrive selling online, and there are few alternatives they can choose from. As a result, small businesses allow the platform to access transactional data and are charged additional expenses to promote their brands. In 2018, Amazon generated \$42.7 billion in revenue from seller services such as fees and commissions. In addition, these giant e-commerce platforms gain insight into each product segment and start to launch or acquire a smaller business in the fast-growing ones. Though attention has been drawn by regulators and lawmakers in the U.S., heavily relying on e-commerce as the primary source to drive revenue is certainly not a sustainable strategy for any smaller businesses.

The dual role that Amazon's playing will continue to concern small businesses, especially the ones with niche products. Therefore, small businesses need to create a strategy to differentiate their brands, diversity product presence, and eventually convert loyal consumers to their sites.

4.2 Improving operational competitiveness

The barriers to enter the LBL market is considered low, given the established supply chain and mature technology for raw materials. As price plays a decisive role in the purchase, the startup is required to control costs while continuing to drive product innovation. Since expenses mostly come from production and marketing, it is vital to forecast demand per upcoming promotion plans and make adjustable changes on time. Every spending on social media accounts should also be carefully examined, and each account's past performance needs to be discussed openly within the team. Otherwise, inefficient promotion can quickly generate loss and rejected by customers. After the startup retains the first group of customers, strategies for peer-to-peer dissemination should be explored within this group.

It is also essential to maintain the customer relationship and activate "idle" customers through proactive service. A productive customer relationship increases the level of satisfaction for the price paid and maintains competitiveness as competition increases. Moreover, in the DTC business, some customers can become lead users in user innovation and diffusion.

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