After the initial euphoria with the fabled market, the reality of limited growth set in. A significant number of MNCs operating in China have not been profitable. Those already in China will probably rationalize staying there. The optimistic misconception of a large and homogeneous population with increasing disposable income and insatiable appetite for foreign goods has led to rapid expansion, which often overshoots the local demand. Attempting to approach the market with a monolithic view of Chinese consumers is at best inadequate, and has led to returns less than satisfactory.

Today, many MNCs have recognized that making inroads into China requires in-depth understanding of its diverse consumers and application of differentiated marketing strategies. But for a company thinking of going in, it will be a lot harder to get a China project past the investment committee of its board.

**Evolution as Revolution**

An overview of China’s economy highlights the attractiveness of the growing market. The geographic area of China is slightly bigger than that of the United States. China's population is 1.25 billion, thus roughly every one of four human beings on earth is a native speaker of the Chinese language. Although China's population density is relatively low comparing to some other countries, most Chinese reside along the coastline, making it a highly concentrated market. The country's birth rate is much higher than those of Western nations, resulting in a younger population. At the macro-economic level, its GDP reached $650 billion in 1996. With an import of about $100 billion per year, China represents an enormous market, rivaling that of a European economy. Its potential purchasing power, measured by the international reserves, came to a total of $65 billion in 1996. With an import of about $100 billion per year, China represents an enormous market, rivaling that of a European economy. Its potential purchasing power, measured by the international reserves, came to a total of $65 billion in 1996. In the last two decades, Chinese government has opened one industry after another for foreign participation. As part of the campaign to join the World Trade Organization (WTO), China has reduced tariffs and the number of products requiring import licenses, revised customs laws, and strengthened intellectual property protection.

Economic expansion of China has attracted increasing trade and foreign investment. Using the Purchase Power Parity (PPP) method, the International Monetary Fund in 1992 already ranked China as the world’s third largest economy with a $1.7 trillion GNP in local currency's purchasing power (Nomani 1993). If China's economy continues to grow at the rate of 10% per annum, its GNP could reach $2.8 trillion by 2005 (Hamlin 1994). The rapid economic expansion was initially driven by the transfer of labor-intensive operations from Hong Kong, Taiwan and other countries to the mainland. In more recent years, MNCs flocked to China, selling products from passenger jets to baby food, to serve the pent-up consumer demand. Major MNCs have taken positions in China, attempting to block out slower-moving competitors. Success stories such as Coca-Cola and Avon's tremendous growth entice more entrants to the market. The attraction of business opportunities in China is epitomized by the encouraging word one would say today to an ambitious merchant "Go west, young man - to the East!"

Given its enormous size and presumably homogeneous culture, China promises many opportunities for growth and expansion, and for improving efficiency using standardized marketing. China has over 70 major newspapers and magazines, about twenty of which have a circulation over one million. The number of radio receivers is over 200 million. With 36 million sets, television has become a popular advertising vehicle. Several large networks such as CCTV can cover the entire country. The Chinese written language is the same for the Han Chinese, 94% of the population, with some regional variations in dialects. Thus, standardized advertising in Chinese language is plausible for the whole market. Such appearance of a homogeneous market has led many to dream of reaching the 1.2 billion consumers -- “If every Chinese buys one of our products, ....”

China has been a market in transition that has evolved from the introductory stage to the growth stage in many product categories (Wong & Maher, 1997). Like many emerging markets, China represents tremendous opportunities for growth and expansion as well as potential risks. As the economic reforms unfold, China continues to present new challenges for foreign firms. In the earlier periods, China was characterized by political instability, enormous uncertainty in market demand, sudden policy changes, lack of foreign currency, and government control. As MNCs continue to expand, they face problems in human resources, distribution channels, transportation and logistics.

However, many of the most crucial and noticeable problems and trends in the evolution of
joint ventures are the outcome of the at-times conflictual interplay between two key roles envisaged for joint ventures: that of component of national development strategy (a role envisaged by Beijing) and that of profit-making entree into the China market (a role envisaged by foreign investors).

MNCs in China face several contradictions. First, as a component of national development strategy, joint ventures are seen by the PRC primarily as foreign-exchange earners whose products are to be marketed internationally, often taking advantage of established sales networks of foreign investors. On the other hand, foreign investors have, from the start, like Hitachi, been heavily motivated by the lure of China's domestic market and have wanted to sell joint venture output within the PRC. PRC has concluded that joint ventures are indispensable to the transfer of advanced technology and managerial expertise now deemed key to economic modernization. The Chinese have decided that the equity joint venture structure, with its pooled management and shared profits, is often the only channel through which foreign investors are willing to pass on to China their proprietary knowledge and managerial skills.

Five years later, both sides are less sanguine. Although a detailed statutory framework has evolved and both sides have made considerable efforts, joint ventures have not as yet fulfilled the early, rosy expectations of either Beijing or the foreign investment community.

Romance vs. Realism

The movement toward free market in China has also generated great interest in the marketing challenges and issues unique to the country, especially the "emerging middle class" consumers. As more MNCs have entered these markets and moved beyond the stage of initial entry, they are facing mounting competition, volatile environment, elusive sales, and escalating cost. Amid the dynamic socio-economic changes, understanding the base line market conditions and enacting effective marketing strategies present special challenges for MNCs operating in these countries.

Despite the optimism about China, MNCs often have difficulty in accurately estimating the effective purchasing power of Chinese consumers. Official statistics indicate the per capita income in China was $681 in 1996. Many believe this figure undercounts the real earnings and buying power of Chinese consumers, especially in the cities where non-wage income and subsidies count as much as one third of a person’s total income. International Monetary Fund, using the PPP method, estimated the average Chinese consumer’s annual purchasing power ranged between $1,950 and $2,598, a level at which substantial consumption should become apparent. If this trend continues, China’s average personal income could reach $11,000 by 2010. With no mortgage obligation, largely free medical care and public education, low rents, no income tax except for a few; they are able to save up to 40% of their income. These consumers are, if not richer as individuals, in aggregate bigger than those in Japan. Thus, China is still the largest untapped consumer market in the world.

Since the late 1970s, China has reformed its economy and opened industry after industry for foreign participation. As sales in many product categories continue to grow rapidly, many MNCs have converged in China, attracted by the prospect of reaching one-fourth of the world’s people with their newfound spending power. The presumably homogeneous population with a common language and cultural heritage, reinforced by decades of Communist rule, promises opportunities for rapid growth with efficient marketing operations. While some MNCs have recorded impressive sales growth, many suffered from stiff competition, sluggish sales, and inefficient sales force. A significant number of MNCs over-estimated the demand for their products in China and have not been profitable.

The popular misconception of a homogeneous population with rapidly rising income in China led to difficulties in assessing consumer demand and sustainable marketing strategies. As MNCs continue to expand their operations and to penetrate the local markets, they have realized that Chinese consumers are far more heterogeneous than previously thought. In light of mounting competition, deflationary pressure, and accelerating overhead, MNCs are under tremendous pressure to improve efficiency and performance. Thus, understanding the emerging consumer segments, assessing effective market size, and enacting effective marketing strategies have become increasingly important.

The unleashed productivity has led to rapid economic development and increase in consumer purchasing power. MNCs have been part of this revolution from the beginning, and many have invested in local manufacturing to serve the pent-up demand of the "emerging middle class" consumers. Meanwhile, they have encountered a whole array of problems and challenges, and have so far achieved only limited success in penetrating these markets. According to a Harvard Business Review article, many multinationals suffer from the "imperialist mindset".

Although there is no shortage of reporting of the surging consumer power in these markets, descriptive information such as rapid urbanization and "Westernization" and other macro-social statistics has not translated easily into actionable strategies for MNCs. Meanwhile, multinational
markets and an impaired understanding of the valid data often results in a distorted view of the market size and demand for their products. Lack of number of foreign investors have overestimated the proved disappointing for many. A significant Results following this approach have proprietary practices developed elsewhere. introduced new products to China, and engaged in new business practices to the Chinese. Many have

China, they are introducing new approaches and most cases, when foreign companies come to China, they are introducing new approaches and new business practices to the Chinese. Many have introduced new products to China, and engaged in proprietary practices developed elsewhere.

Results following this approach have proved disappointing for many. A significant number of foreign investors have overestimated the market size and demand for their products. Lack of valid data often results in a distorted view of the markets and an impaired understanding of the baseline market conditions in the country. Such problems have been compounded by rapid changes in China, especially during the frequent retraction and recent austere times. Although category sales growth is often higher than the growth rate of income, such phenomena are largely due to the low base point and the growth of high income groups, not that of the overall population. As consumers are still at the formative stage of brand loyalty, brand switching is prevalent as they try out many new products. Thus, assessing effective market size and purchasing power, and understanding consumer attitudes toward Western products remain significant challenges for MNCs.

According to a Business Week article, some foreign executives are bearish on China while others rave. It is almost as though there are 2 China's - one the mother of all emerging markets, the other a maddening, bottomless money pit. There is old China, where holdovers of the Communist Party heap demands on multinationals, especially in important sectors such as autos, petrochemicals, and telecom equipment. Companies are shaken down by local officials, whipsawed by policy swings, railroaded into bad partnerships, and squeezed for technology. McDonnell Douglas, and Bell South have all been burned on big investments.

In fact, there are several China's that co-exist in the same country. First, there is the pre-modern pre-industrial China -- in the vast rural areas -- where the local economy is still based on agriculture and manual labor. With little education and marketable skills, people are largely uninformed and immobile. Then, there is the modern China in the process of industrialization -- where manufacturing with machinery is slowing integrating with modern technologies. This is urban China including the country's 2000 some cities. Here, most people have at least high school education and are employed in industries and service sectors. They are relatively informed of state and world affairs, have access to modern modes of transportation, and adequate medical services. But people's lives are largely centered around the traditional Chinese social groups, core values and beliefs.

In pockets of the major urban centers, a post-modern and post-industrial China is slowly emerging -- where a economy is being created, given birth to modern enterprises that rely on technologies and knowledge-intensive activities. These post-modernist Chinese are highly educated, information rich, connected to the outside world, and engaged in technical occupations. They are increasingly individual-oriented yet hold a pluralistic world view with a great level of knowledge of the modern world and a degree of tolerance for the unfamiliar. Rapid urbanization in China in the last two decades has also created a large number of small towns and cities, sprawling across China and making a transition from the pre-modern pre-industrial age to the modern industrial world.

Thus, like other Big Emerging Markets countries and the Transitional Economies from central planning to market forces, China is a society whose economies and lifestyles spread across decades and perhaps a century, encompassing both the old and new. It by no means will replicate the industrial process of the west, and will not perhaps repeat the evolution in the Newly Industrialized Countries, which all smaller countries. How to integrate the emerging consumer markets in transitional economies into MNCs' global strategies remains a critical task in the year to come. While many studies focused on the relative merits of global marketing standardization vs. local market adaptation, recent research suggest that these two approaches are not necessarily incompatible. Formulation of such strategies requires more in-depth understanding of the evolving market conditions and indigenous consumers in these economies.

**Government & Policies**

In the early 1980s, the Chinese government gave consumer goods production high priority. This is mirrored in the dramatic increase in the output of consumer durables. Even as heavy industry fell in 1981, the production of bicycles, sewing machines, watches, and radios rose by an
average of 33%. Output of new items such as television, camera, and cassette recorders increased by an average 80%.

Reforms in China have been a gigantic experiment, and FIEs are part of this experiment. In many cases, the leaders would just “feel the stones while crossing the river” -- finding out the path as you proceed. This lack of clear objectives, control mechanism, and legal infrastructures have led to frequent policy changes and reversals. For instance, Chinese government permit foreign investors to import capital equipment exempt from import duties and value-added tax. Consequently, some entreprenizing companies have abused this investment incentives, by setting a dummy company overseas, and a parallel joint venture in China. That way, they could use the duty/VAT free privilege to import vehicles, home and office equipment, etc., which would be sold in China for a sizable profit. This type of “double tripping” occurs a lot.

On December 26 1995, Chinese government announced that it would largely reduce and eliminate most of the duty/VAT treatment to foreign investors. At the displeasure of many FIES, these policies were postponed. However, on January 1, 1998, China re-instituted the duty and VAT-free treatment for the capital equipment imports of select foreign-invested and domestic projects, and provided revised lists of sectors in which foreign investment is encouraged, restricted, and/or prohibited. The changes came as a response to two years of declining numbers and total value of new foreign investment projects as well as increasing realization by Chinese policymakers that elimination of these duty-free incentives hurts the very types of high-tech projects China hopes to develop.

The door has not been always open. China closed its door on automobile project in 1994. The Chinese government wants to consolidate some 160 vehicle producers into six or seven big groups. Foreign companies were expected to help by working with Chinese companies making components or commercial vehicles before being allowed to move on to cars. Even then, the conditions would be strict: new car factories must have a minimum capacity of 150,000 vehicles a year, and a 40% of the parts must be Chinese-made. Again 1998 after GM got in, Chinese government issued another ban new automobile projects. Most recently, China quietly called termination for joint ventures in telecommunication services by 2000 and banned the use of CCF (Chinese-Chinese-Foreign) model used by some foreign companies such as GTE to establish operations in China. MNCs subjected themselves to such humiliations because of China’s potential.

For one time, Daimler-Benz competed head-on with Chrysler for a $2 billion minivan project, and finally won the deal. It planned to become the first foreign company to list its shares on the Shanghai stock exchange. However, none of those plans materialized. The German company blamed the fluctuating Chinese stock market.

Japanese firms fared less well. Rather than investing in factories, Japanese car makers have exported to China or licensed design to local producers. Some 60,000 vans and minibuses were made in 1993 by Tianjin Automotive Industry. These vehicles were based on models made by Daihatus, a Japanese company in which Toyota has a stake. Later, Toyota present Tatsuro Toyoda offered to help the Chinese in management, technology and investment, and to make Corollas at Tianjin, but did not give the details. But the Chinese were impressed with Japan’s largest car maker, and announced in China Daily that the Tianjin plant will “go it alone,” with the Chinese government investing $250 million to expand its capacity to 150,000 vehicles per year. The project will remain wholly owned by the Chinese government. This type of behavior made some people suspect that the Chinese government might well be playing a game of industrial brinkmanship – trying to obtain the best terms and to squeeze the most cash and technology from a line of eager foreign suitors.

The most recent example is the ban on direct sales from several foreign companies. In April 1998, Chinese government banned all “direct sales” activities and inevitably hurt Amway and Avon because their downstream business developers have pitched it as an opportunity to strike it rich, sold their products at high prices, and using deceptive techniques. Representatives from the foreign companies claims themselves as innocent victims of some overzealous peddler trying to make an extra buck. Some had to wind their business while others scrambled for new ways to stay in business by converting to a retail license.

In this context, it bears mentioning that this trend toward accommodation of investors’ concerns belies somewhat the criticism of the PRC’s legal system voiced by a leading authority on Chinese law. Stanley Lubman has identified “tentativeness” as a dominant and regrettable characteristic of Chinese law, traceable to the Chinese Communist Party’s treatment of law as the mere handmaiden of ever-changing policy.

The list of "Encouraged," "Restricted" and "Prohibited" areas was revised in 199X. The second major new change to China’s foreign investment regime is the revision of its "Catalogue of Industries for Foreign Investment." The lists were initially introduced in July 1995 to provide investors and local officials guidelines for determining whether a foreign investment project would be given preferential treatment or,
conversely, whether it would be denied or given restricted approval (e.g., limited to a minority foreign-investment share). The revised lists, published in MOFTEC’s international business newspaper on January 8, include numerous and notable additions and deletions in both the "Encouraged" and "Restricted" categories. Most of the additions and deletions relate to the production of various goods, with little or no changes to the services sectors. The "Prohibited" list remains basically unchanged. Notably, telecommunications services remains on the prohibited list.

Under such uncertainty and constant changes, top management commitment to China and its long term development is critical. When negotiating with a prospect for joint venture in China executives often waiver in their purposes and seem vague or noncommittal. Comparing to the China executives often waiver in their purposes and seem vague or noncommittal. Comparing to the subtle strength that the Chinese bring to the art of deal-making, such weaknesses become stumbling blocks to the development of effective and profitable commercial relationships.

Furthermore, MNCs must be able to maintain flexibility and adaptability in this environment.

Many would suggest that patience is an important virtue for success in China. To establish an operation in China, foreign companies must negotiate with state, provincial, and local entities for licenses, awaiting approval for as long as 2 – 3 years. Aetna, for instance, waited for 7 years just to open shop in China.

While everything may appear identical on the surface of McDonald's 175 outlets in China, the fundamentals underlying its business have been turned upside down. In the US, Hong Kong, and Taiwan, McDonald's succeeds because it is fast and cheap. In China, however, its hamburgers are luxury goods. Chinese consumers must be sold on the quality and image of McDonald's fare at face value. The company has not been able to recreate its favorite management structure in China. Measured on a purchasing power parity basis, the economic hurdle confronting McDonald's in China begins to look somewhat lower.

**Consumer Market Segments**

One of the miscalculations that MNCs made is to assume that the "emerging middle class" in these countries are similar to those in the West, and they can simply bring their existing products and marketing strategies to these markets without properly accounting for the local realities. Such assumptions are largely based on the model of economic growth from western societies. Modern economic growth, beginning with the British Industrial Revolution, is a tale of unprecedented output and exploding populations. It is characterized by massive urbanization, the emergence of a middle class, and the rise of a civic society that first checks and then overwhelms nondemocratic alternatives to representative government and the rule of law.

Recent research suggests that market evolution in emerging markets is less likely to replicate the development process that happened in developed nations. In reality, income levels that characterize the middle class in the West would represent only a tiny upper class of consumers in any of the emerging markets. Market structures in the countries can be characterized as a three-tier "pyramid" with a very small market of active consumers and the majority population much less interested in international brands. To compete effectively, MNCs need to define the emerging middle-class markets - which are significantly different from those in the West -- and determine a business model that will serve their needs.

The status of MNCs in one country -- China -- epitomizes their experiences in transitional economies. Since the late 1970s, China has reformed its economy and opened industry after industry to foreign investors. In the last two decades, China has become the second largest recipient of foreign direct investment, totaling $268.8 billion by 1998, only second to the United States (US-China Business Council 1999). Today, more than 330,000 foreign investment projects are operating in China, including at least 200 of the Global 500 Companies. Due to rapid economic development and continuous influx of foreign capital into China, performance of foreign direct investment (FDI) in China has been of considerable interest to both practitioners and researchers.

The huge population and rapid rise in consumer income in China are the two main attractions to MNCs. While China's geographic area is slightly bigger than that of the United States, its 1.3 billion people live mostly in the eastern provinces, making it a very dense market. The Chinese language is the same for Han Chinese, 94% of the country's population. Since the beginning of reforms, the Chinese economy has experienced tremendous growth. At a growth rate of about 10% per annum, China's GDP reached $960 billion in 1998, according to US-China Business Council. Per capita income among urban households reached $657 in the same year. These commonalities have led many to believe that Chinese consumers are largely homogeneous.

Rapid increase in consumer income and changing spending patterns have driven up sales of many consumer goods. Using the PPP method, the World Bank estimated the average Chinese consumer's annual purchasing power ranged between $1,950 and $2,598, a level at which substantial consumption should become apparent. At a rate of more than 20% a year, the retail market
of China had grown from $150 billion in 1993 to $350 billion in 1998 (US-China Business Council 1999). Sales of cosmetics, for instance, grew from 9 billion RMB in 1994 to 18.2 billion RMB in 1996. There were even enticing reports about "super consumers" and millionaires.

An important indicator of attractive market opportunities, found in developed economies and NICs is a large and affluent middle class looking for quality products. Despite its recent economic boom, China is largely a developing country and hardly represents a single market. The majority of mainland Chinese are still farmers and poor working people, who have little to spare. Thus, focusing on the rising income alone as a sign of market readiness creates an inaccurate perception of the opportunities and risks there. Many firms have over-rated the effective market size and under-estimated the level of competition in China. As they continue to build capacity and open stores, incremental sales from these new ventures have not kept up with the escalating costs of doing business there, resulting in lackluster performance.

Like in other transitional economies, there was little difference in people's purchasing power in China before the reforms, when government set uniform compensation in the pursuit of a classless society. Since the early 1980s, following Deng's adage "to let some people get rich first," many Chinese have enjoyed tremendous opportunities brought by the reforms, particularly people in coastal cities and those who left the government as their permanent employer. Consequently, disparity in people's income has widened, and the trend is likely to continue in the future. Paralleling the process of the social stratification is a marketplace that has turned increasingly fragmented and colorful. In sharp contrast to the homogeneous mass of "blue ants" in uniform Mao suits, today's China is marked by divergent attitudes and lifestyles.

Although global companies have studied various consumer segments in many developed countries and used differentiated marketing mix strategies to target them, such practices are relatively new in the transitional economies. Meanwhile, a number of researchers have focused on several groups of Chinese consumers as viable market segments that warrant target marketing, for instance China's youth and women. They explored demographic differences among China's three different age groups and studied the unique values and lifestyles of young Chinese -- China's Generation III -- as well as their consumption patterns and regional differences. Chinese children, often dubbed as China's "little emperors and empresses" and pampered by both parents and four grand parents, represent another premium market segment. While these studies provided valuable insight into a few consumer groups, they covered only a small number of variables and were rather limited in geographic coverage and sample representativeness. Most of the studies included only a few metropolitan areas. Although each group of consumers may represent attractive commercial opportunities apart from others and warrant targeted marketing, a single group of Chinese hardly reveals the diverse consumption patterns in China. They have not captured the "big picture" of market evolution and social changes in China. In addition, rapid development in many aspects of the Chinese society may render obsolete findings obtained just a few years ago.

Despite the substantial commonalities among the Chinese, China does not yet have a majority middle class like that found in Japan or US. In reality, China consists of multiple markets that can be segmented by regional economic development, consumer purchasing power, and local culture. Recently, several authors have noted the increasing heterogeneity among Chinese consumers and suggested a hybrid approach to market segmentation using multiple dimensions and representative samples. However, there have been limited empirical evidence supporting the fragmentation of consumer market and the need for customized marketing strategies in China.

Since most sales of foreign goods are limited to coastal areas and major cities, and retail boom has been largely an urban phenomenon, a national survey representing the entire urban population would be necessary for such a study. Secondly, income has a tremendous impact on consumer purchases, especially for imported goods and those made by foreign joint ventures, which are usually more expensive than domestic products. So are age, education, occupation, and household composition, which are correlated with purchasing power. Psychographic factors such as life philosophies and brand attitudes, and consumer lifestyles also affect consumer readiness for purchasing foreign goods. Knowledge of their media usage and consumption patterns would be very meaningful for marketing planning. Therefore, a multi-dimensional segmentation study of China's urban residents would help MNCs understand the divergent trends among the consuming populace of China and shed some light on the opportunities as well as pitfalls within each segment.

The data come from the second national survey of Chinese consumers conducted by the Gallup Research Co., Ltd. (China) in 1997, after its first such survey in 1995. The Chinese are accustomed to using the 10,000 yuan increment (or Renminbi –RMB) to measure household purchasing power, as they often refer the well-off families as "Wan Yuan Hu" (households with 10,000 yuan). Thus, this study adopts 10,000 RMB as a baseline measure of household income. Based on annual household income, and divides China's urban population into four segments: 0 - 10,000 RMB,
 Emerging "middle class" consumers, or those earning between 10,001 - 20,000 RMB, represent about 40% of the sample. They have reached the status of "Little Rich" (20,001 - 40,000 RMB, 15% of the sample). They represent the emerging "middle class" consumers, or Xiao Kang families as the Chinese put it (Tong 1998). The "Yuppies" with annual household income above 40,000 RMB, the most prosperous of China's urban consumers, represent nearly 5% percent of the sample. The average annual household income among all four groups is around 17,000 RMB per year, close to the figure (17,600 RMB) reported by the Chinese government. These key statistics lend strong support to the sampling validity of the survey.

First, average annual household income shows marketed differences among these four segments (Table 1). The household income for the Working Poor is only 6,917 RMB, far below the average of four groups (17,000RMB). The Salary Class families have an annual purchasing power of 15,166 RMB, close to the average figure. Little Rich households have certainly risen above the average with annual income of 29,166 RMB. The Yuppies have set themselves apart from the rest with annual income of 78,181 RMB, more than ten times that of the poorest group (Working Poor). 2.7 times that of nearest group (Little Rich), and 4.6 times the national average.

These findings suggest that the four groups of China's urban residents constitute distinctive market segments. Each group has unique characteristics notably different from the others in terms of demographics, psychographics, lifestyle activities, and so on. The Working Poor households with annual income up to 10,000 RMB, about 55% of the population, still represent the largest segment of urban China. Most of them are married with one child, may have high school education, and work in state-owned factories. They are the least satisfied with the current situation, thus want to work hard and move ahead. The least socially active, they refrain from expensive leisure activities. Although they attend to all media types, they spend less time with them. This group lags behind in ownership of durable goods and usually purchase domestic brands. Most of their take-home pay goes towards essentials such as food and rent, leaving them little for other things. They closely resemble the "Strugglers" trying to make the ends meet.

The Salary Class group, a quarter of the urban population, consists of people in their forties, married with one child. Most of them possess a high school diploma. They are also more likely to work in government offices, thus higher in social status, perhaps more so than the Little Rich group. They are content with the status quo and do not see much need for change. Conservative and idealistic, they are conformist opinion seekers. Spending more time with reading and exercise, they go out occasionally for entertainment or excursions. While most of them have obtained the traditional durables, only a small number has acquired other luxury items. Yet occasionally, they seek quality products and even foreign brands, more so than the Little Rich households. A small portion of them use credit cards and have insurance policies. While they spend a large sum on essentials, it leaves them some for savings and entertainment. Their profile is similar to the Status Quo segment found in another study.

Another 15% of urban Chinese have moved up to the Little Rich (Xiao Kang) status, representing the "emerging middle class." They are mostly married, perhaps with two children. More of them have sought education beyond high school (19% college educated). While most of them still work for the government, many have started their own businesses or sought private employment. Although they have achieved a decent living by Chinese standards, they are not secure or satisfied with their lives, and have greater expectation for improvement. They ranked the lowest in opinion seeking and highest in pursuing one's own lifestyle. Besides reading and physical exercise, they often go out to the dancing halls and parks and travel to other places. They watch more television and spend more time reading magazines. Besides the traditional durables, an increasing number of them are stocking up other luxury items, such as VCD and air conditioning. In purchase of consumables, they are not that different from the Salary Class.

Yuppies, nearly 5% of the population, make up the most prosperous and "elite" urban consumers in China (Tong 1998). Many of these younger people, mostly in their thirties (36 years old on average), have obtained post-secondary education. While some of them are state employees and professionals, many have started their business or engaged in private employment (29%). They are very satisfied with their current situation and do not feel much pressure. This group is almost split even between conformists and individualists. These "Nouveau Rich" are willing to pay for brand name products and foreign goods. They have an active lifestyle and frequently go out for entertainment and relaxation. An increasing number of Yuppies have traveled for various purposes, own a home computer and even a private car, which are on the wish list of most young Chinese. They are well informed as they spend more time watching television and reading newspaper and magazines. While they buy luxury and Western goods and enjoy many better things of life, they have also become more sophisticated in recognizing good values. They are the "work hard and play hard" Achievers, namely Yuppies.
This multi-attribute segmentation of China's urban consumers reveals a market structure unlike that in developed countries and four distinctive market segments. They are significantly different from one another in many aspects, including consumption patterns and purchase of foreign goods. While household income plays a dominant role in distinguishing among these segments, value orientations and lifestyle activities are also significantly related to many purchase behaviors. Their distinctive profiles and descriptors provide a realistic understanding of the market potential in each segment, and a useful basis for selecting target market(s) and enacting effective marketing strategies.

From several aspects, Chinese consumers have become increasingly heterogeneous due to rapid economic development and increasing income disparities. Some segments of the society have benefited more from the reforms than others. Although social class is not a politically correct concept in China, Chinese consumers are nonetheless moving apart from one another in a number of dimensions, resulting in ranks of "haves," "home somes," and "have nots," resulting in a "pyramid" market structure (Figure 1). About 55% of urban households are still living in relative poverty with less than one dollar per person day. The Salary Class is ideologically conservative, pro-government yet adventurous in some product categories. Little Rich households -- the "emerging middle class" that MNCs wish to pursue -- are attractive in many ways but also have serious constraints. It is the small group (5%) of Yuppies that have set themselves apart from the rest in many ways, including business ownership, lifestyle activities, and consumption of foreign goods. Thus, it is perhaps reasonable to compare the China market to that of a smaller yet developed nation such as France or Norway. MNCs have reasons to be hopeful about the potential as much as to be cautious about the constraints of the China market.

Figure 1. The Pyramid Structure of China's Urban Market

These results also uncover the dynamic complexities in the China market. Consumption patterns, including purchase of foreign goods, do not always follow the income line. Most notably, Salary Class households, with less income than Little Rich families, have a higher level of satisfaction with life, and in many cases an equal or higher inclination to purchase brand-name products and foreign goods. In comparison, the Little Rich segment feels insecure and uncertain, perhaps they are at the forefront of the social experiment. This study also suggests some new consumption trends, particularly in financial services, and increasing sophistication of some Chinese consumers. A significant percentage of them now have credit cards and life insurance coverage, especially among the Yuppies. To a great extent, these findings reflect rapid social changes since the reforms and the consumer revolution still under way in China and highlight the need for MNCs to develop in-depth knowledge and sensible strategies.

Certain product categories may be subject to climate conditions, seasonal patterns, and local cultures. Market segmentation across geographical regions would be meaningful for such products as food and clothing. Consumers from various regions have different values, lifestyles, and customs. As MNCs expand into the inland areas, systematic
research of regional variations can help assessing local markets, planning for product introduction, and overcoming the hidden barriers between the regions. Although rural areas have lagged behind their urban counterparts in terms of economic development and rising income, rural families near major metropolitan areas and in coastal provinces represent attractive market opportunities. They may even own their own businesses, thus economically better off than many urban households. Studies of other factors including consumer decision making, attitudes toward media, and advertising responses would help improve product positioning and promotional effectiveness.

As the Chinese society continues to evolve along many dimensions, consumers will enjoy better opportunities and experiment with new ideas and lifestyles. As the effect of reforms ripples through the social strata, new lifestyles and consumption patterns will emerge, and boundaries of these market segments may shift over time. Future studies need to provide fresh and reliable data to examine the stability of these market segments, and update their profiles. Longitudinal studies such as regular surveys and consumer panels would help tracking market evolution and changing consumption patterns. Although the China market is unique in many aspects, these findings would provide interesting comparisons to the evolving market conditions in other transitional economies undergoing similar socio-economic changes.

These findings of the study highlight the predicament of many MNCs operating in China. As far as foreign goods are concerned, China is still a market with limited demand despite the promise of long-term growth potential. While some researchers have predicted that many products in China have reached the growth stage and firms are challenged to meet the new success requirements, slow growth and depressed prices in the last few years indicate a discerning trend. Despite of growing income and newfound opportunities, the "emerging middle class" consumers have grown wary and insecure as they taken on more financial responsibilities shifted by the state. Thus, MNCs should take a cautionary approach – determining the effective market size before pursuing aggressive expansion. Furthermore, disparate income and divergent lifestyles result in different levels of consumer readiness and responsiveness to marketing efforts. Thus, effective strategies can not be based on intuition but realistic understanding of the opportunities and risks in each segment.

Regional Disparities

There essentially two or three Chinas operating in different economic systems. First, you have the vast rural areas, which still operate in the pre-industrial times, where manual labor and working cows are the foundation of the economy. Then, one can move into the small towns and large cities where unreformed industries dominate the local economies. Only in the major metropolitan areas and coastal cities, post-industrial industries are spreading, and consumers are better-off. Even in these areas, it is easy to overestimate the buying power of China’s elite consumers. Together, they represent no more than 30 million people in cities such as Beijing, Shanghai, Guangzhou and Shenzhen. For the most part, they are not rich by world standards. According to the most recent government survey, the top 10% of city dwellers have an average annual disposable income of just $1,240 per person.

China is a very large and dynamic country, which contains many conflicting contrasts and even contradictions. Women in fashionable prints dash past a motionless old man in a blue Mao suit. … For MNCs seeking entry and expansion in China, it is important to recognize that China actually is a conglomeration of fragmented markets divided by factors such as level of economic development, industrial priorities and local cultures. Like many large states, China is a multi-ethnic country with heterogeneous subcultures. Behind the Great Wall, there are 50 ethnic groups. Even among the Han nationality, there are tremendous diversity in speech, culture and tradition. Furthermore, regional environmental conditions such as topography and climate also have a tremendous impact on economic development and help shaping consumer attitudes and lifestyles. Each region, for instance, has its own distinctive culinary traditions, music and operatic styles. Based on economic development, local culture and consumer attitudes, China can be divided into eight distinctive regional markets (Figure 1). These regional markets can be grouped into three levels of market development and consumer readiness: growth markets, emerging markets, and untapped markets (Table 2).

First, government policy to "let some people get rich first" created tremendous economic disparity between coastal cities and hinterland regions. The eastern part of the country has the top three growth markets: South China, East China and North China. Following the "open door" policy, China's coastal areas were the first to attract outside investment and have benefited the most from economic reforms. All four Special Economic Zones (SEZs) and fourteen "Open Cities" are located on China's coast line, providing generous provisions for corporate tax, import and export duties, and other privileges. They are the most advanced in economic infrastructure and market development. All these regions tend to have higher per capita income than other areas. For instance, the top five markets including Guangdong, Jiangsu, Zhejiang, Shanghai and Beijing have 16.9% of the country’s population yet accounted for 33% of national retail sales (Lim 1996).
Shenzhen, Zhuhai, Shantou and Xiamen, and have attracted the most foreign investment. Increasingly freewheeling and independent, Guangdong has become more integrated with the economy of Hong Kong. Measured by GDP, Guangdong has already surpassed Shanghai as the most productive region of the country. Fujian has attracted many investors

South China includes Guangdong, Hainan, and Fujian Provinces (Table 2). This regional economy has been the most outward-oriented, and in more recent years, is transforming itself from labor-intensive operations to high tech manufacturing. The four original SEZs are located in this region:
across the strait from Taiwan, and is renewing its historical ties with the island. This region also represents the Chinese culture of the South, i.e., Min-Yue Culture, with plenty of contact with the outside world and great emphasis on mercantile entrepreneurship. Each province has its own main dialect, Cantonese and Fukienese. Consumers in this area, about 7% of Chinese population, are among the most prosperous in China, and considered the trendsetters. Many of them have relatives living overseas and have long been exposed to foreign products. Close to the popular cultures from Hong Kong and Taiwan, they are inclined to emphasize materialism and conspicuous consumption.

Figure 1. The Eight Regional Markets of China

East China, centered around the mouth of Yangtse River, consists of the city of Shanghai and Zhejiang and Jiangsu provinces (Table 2). Densely populated and highly urbanized, this region historically has been the most prosperous in China, productive in both agriculture and industries. In recent years, this region has become China’s industrial powerhouse, boasting 30% of the country’s industrial output for the last several years. Its Open Cities include Lianyungang, Nantong, Ningbo, Wenzhou and Zhanjiang. This region is also sprawling with medium-size cities that specialize textile and light industry manufacturing, such as Wuxi, Suzhou and Zhangjiagang. Shanghai, known as the “head of the dragon,” is the industrial and financial nerve center of China and the gateway to eastern China’s 200 million consumers and other neighboring provinces. Shanghai is also the regional cultural nucleus, representing the “Hai-pai” culture, well known for having the best amenities and products for enhancing the quality of life, and the tremendous pride in local products. Shanghainese is the main dialect of the region, with many other variations. Comparing to other parts of China except for the South, consumers in this regional market are better off, the most innovative and cosmopolitan, setting trends in fashion and lifestyles.

North China, including Beijing, Tianjin, and the provinces of Hebei and Shandong, has been growing fast over the last few years and attracted investment from many countries such as Japan, Korea and the US, including large foreign investors such as Motorola and General Motors. Close to the center, with access to key government relationships and buying agencies, this region is making tremendous investment in state-owned enterprises and in industries such as telecommunications, computer technology, and pharmaceuticals. With
port cities like Tianjin, Yantai and Qingdao, this regional economy is increasingly open. Beijing as the geo-political center of the nation for centuries also represents the culture of North China -- the Jing-pai culture -- the traditional Chinese culture, attaching great value to hierarchy, stability and control. Beijing dialect (putonghua) is promoted as the standard Chinese speech. Shandong Province, the hometown of Confucius and the biggest agricultural province in China, also has the best township enterprises in China. Comparing to the consumers in the South and East, they appear to be relatively more conservative and place importance on intrinsic satisfaction, yet still open to new product ideas.

The emerging markets in Northeast, Central and Southwest of China are becoming increasingly important and need to be cultivated (Table 2). Northeast China, with the three provinces of Heilongjiang, Jilin and Liaoning and the port city of Dalian, has begun to enjoy the benefits from the reforms. As the "foundry" of the country, this region emphasizes its heavy industries such as mining, automobile and machinery, etc., found in industrial cities such as Shenyang, Changchun and Harbin. This region is trying to revitalize its economy and build modern industries. In recent years, the border trade with Russia has been booming. This is the far north region of China, thus having the longest winter and limited agricultural output and variety in food products, except for its forestry products. Consumers are less susceptible to outside influences and have relatively lower level of awareness of foreign brands. Manchurian and Koreans are the biggest ethnic minorities in the region, having great impact on the local culture.

Central China and Southwest China, despite their own industrial and agricultural bases, are relatively less developed and less accessible due to the landlocked locations. Central China (or Zhong-yuan) including the provinces of Henan, Hubei, Hunan, Jiangxi and Anhui, is the heartland of China with heavy emphasis on agriculture. With depleted resources, perennial flood problems during the monsoon season, and drought during the summer, this region as the flood plain has some of the most impoverished places of the country. In recent years, this region has been trying to energize its economy and catch up with coastal areas. Headed by the industrial city of Wuhan, they have shown more respectable growth than in the past. This region is also building some of the major transportation hubs for rail transportation and the European-Asia corridor, thus important for reaching other parts of China. Although most of its residents are Han Chinese, these consumers have unique cultures such as cuisine and operatic styles. They are conservative, conformist belonging. With an enormous population and a growing economy, this region has emerged as an excellent opportunity for growth and expansion.

Southwest China including Yunan, Guizhou, Guangxi and the most populous province of Sichuan (over 110 million people), has always been of particular interest to foreign consumer goods manufacturers (Table 2). Despite its industrial output and tremendous population, most firms find the consumer market there sluggish. The topography of mountain, plateau and basin makes this region closed-in and less accessible. Headed by the city of Chongqing, this region is expanding its economic base to develop various industries. In a country where pollution has become a national issue, its environment is probably the least spoiled. The subtropical forest in the far south is as exotic as the Shangri-La, thus attracting a huge influx of tourists every year. This region has great potential as it is has rich endowment of natural resources. Many of China's ethnic minorities reside in this region with close ties to several countries in southeast Asia, making it the most culturally diverse region of the country.

The untapped markets of Northwest and West China still await to be explored. Northwest China includes provinces of Shanxi, Shan’xi, Inner Mongolia, Gansu and Ningxia. Xi’an, the nation’s ancient capital and a tourist hot spot, is the cultural capital of the region. Among the expanding the dessert, this region has been known for its pastoral farms and diary products. However, cultivation over several thousand years make this region less arable. Many people consider the far western part of the region the rugged frontier land and a hardship post. Mongolian and Muslims are the major ethnic minorities of the region and play an important role in the local culture. Many of them have adopted the irrigation and farming methods, and even the lifestyles of the Han Chinese. But recent government policies encourage more foreign investment in this region, and it is gradually catching up the coastal areas. The government has given high priority to a number of large-scale infrastructure, agricultural and environmental protection projects in these regions in their search of foreign investment. In some cases, matching funds will be channeled into those projects by the central government.
the least explored by foreign investors. Chinese rich endowment of natural resources, this region is foreign consumer goods are concerned, but they just Little is happening in the impoverished west as far as there has been little industry if any in this region. them are still horseback nomads. Until recently, retained their ethnic culture and lifestyle. Many of residents in urban areas, ethnic minorities have largely the small number of Han Chinese in this region into the Han Chinese culture, this "empty quarter" is ethnic minorities, which has resisted assimilation poor29. Largely occupied by Muslin and Tibetan Qinghai and Tibet, is relatively backward and wide-open space of West China developing eastern provinces along China' coast, the Compared to the dynamic and rapidly developing eastern provinces along China' coast, the wide-open space of West China including Xinjiang, Qinghai and Tibet, is relatively backward and poor29. Largely occupied by Muslin and Tibetan ethnic minorities, which has resisted assimilation into the Han Chinese culture, this "empty quarter" is sparsely populated and the least accessible. While the small number of Han Chinese in this region resides in urban areas, ethnic minorities have largely retained their ethnic culture and lifestyle. Many of them are still horseback nomads. Until recently, there has been little industry if any in this region. Little is happening in the impoverished west as far as foreign consumer goods are concerned, but they just begun to enter the modern world. Even though it has rich endowment of natural resources, this region is the least explored by foreign investors. Chinese government has been trying to reverse this trend by investing more heavily in this region and encouraging inter-regional cooperation, to ensure this vast corner of the country is not to be forgotten in its rush towards modernity.

It is important for MNCs to understand the overall market potential of China as well as regional differences. Each regional market has its unique geographic typography, economic base, and cultural heritage. Consumers in various regions are also known to differ in values, lifestyles, and the extent of contact with the outside world. These differences will in turn influence people’s perception of imported goods and their purchase readiness. Beside the factor of geography, these regional markets are also the creations of Chinese government policy. Inter-regional disparity has grown rapidly in recent years. The regionalism and inter-provincial rivalry

Table 1. The Seven Regional Markets of China:

<table>
<thead>
<tr>
<th>Region</th>
<th>South China</th>
<th>East China</th>
<th>North China</th>
<th>Central China</th>
<th>South-west</th>
<th>North-east</th>
<th>North-west</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sample Size</td>
<td>12</td>
<td>39</td>
<td>398</td>
<td>226</td>
<td>553</td>
<td>226</td>
<td>70</td>
</tr>
<tr>
<td>Household Income</td>
<td>27,481</td>
<td>24,659</td>
<td>12,993</td>
<td>13,831</td>
<td>14,008</td>
<td>8,683</td>
<td>7,770</td>
</tr>
<tr>
<td>Occupation</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Professionals</td>
<td>18.2%</td>
<td>12.5%</td>
<td>9.3%</td>
<td>12.8%</td>
<td>12.0%</td>
<td>4.8%</td>
<td>2.9%</td>
</tr>
<tr>
<td>Factory Workers</td>
<td>18.2%</td>
<td>27.5%</td>
<td>27.8%</td>
<td>34.8%</td>
<td>15.2%</td>
<td>20.2%</td>
<td>5.7%</td>
</tr>
<tr>
<td>Office Workers</td>
<td>9.1%</td>
<td>10.0%</td>
<td>3.2%</td>
<td>6.4%</td>
<td>6.3%</td>
<td>9.7%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Govn't officials</td>
<td>0.0%</td>
<td>10.0%</td>
<td>23.8%</td>
<td>6.4%</td>
<td>6.3%</td>
<td>9.7%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Education</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Elementary/less</td>
<td>16.6%</td>
<td>7.7%</td>
<td>10.7%</td>
<td>12.2%</td>
<td>28.1%</td>
<td>19.0%</td>
<td>41.7%</td>
</tr>
<tr>
<td>High School</td>
<td>66.7%</td>
<td>69.3%</td>
<td>62.8%</td>
<td>69.5%</td>
<td>56.2%</td>
<td>69.0%</td>
<td>46.3%</td>
</tr>
<tr>
<td>College/plus</td>
<td>16.6%</td>
<td>23.1%</td>
<td>26.4%</td>
<td>18.3%</td>
<td>14.8%</td>
<td>12.0%</td>
<td>2.8%</td>
</tr>
<tr>
<td>Satisfaction with life</td>
<td>66.6%</td>
<td>67.5%</td>
<td>81.3%</td>
<td>80.2%</td>
<td>66.8%</td>
<td>81.3%</td>
<td>67.6%</td>
</tr>
<tr>
<td>Work Hard, Get Rich</td>
<td>33.3%</td>
<td>31.6%</td>
<td>30.7%</td>
<td>34.6%</td>
<td>42.3%</td>
<td>44.2%</td>
<td>67.1%</td>
</tr>
<tr>
<td>Pure and Honest</td>
<td>8.3%</td>
<td>10.5%</td>
<td>12.7%</td>
<td>11.9%</td>
<td>9.3%</td>
<td>9.3%</td>
<td>4.3%</td>
</tr>
<tr>
<td>Favor foreign brands</td>
<td>36.4%</td>
<td>27.5%</td>
<td>22.2%</td>
<td>24.1%</td>
<td>19.6%</td>
<td>28.1%</td>
<td>35.7%</td>
</tr>
<tr>
<td>Going to movie</td>
<td>33.3%</td>
<td>41.0%</td>
<td>40.4%</td>
<td>37.2%</td>
<td>41.4%</td>
<td>2.4%</td>
<td>10.0%</td>
</tr>
<tr>
<td>Going to park</td>
<td>66.7%</td>
<td>51.3%</td>
<td>31.8%</td>
<td>50.0%</td>
<td>37.5%</td>
<td>31.6%</td>
<td>12.9%</td>
</tr>
<tr>
<td>Traveling (domestic)</td>
<td>45.5%</td>
<td>47.5%</td>
<td>42.1%</td>
<td>42.0%</td>
<td>38.2%</td>
<td>37.6%</td>
<td>16.9%</td>
</tr>
<tr>
<td>Dancing</td>
<td>25.0%</td>
<td>23.1%</td>
<td>17.7%</td>
<td>27.9%</td>
<td>22.3%</td>
<td>32.9%</td>
<td>4.3%</td>
</tr>
<tr>
<td>Cable TV</td>
<td>83.3%</td>
<td>69.2%</td>
<td>68.3%</td>
<td>68.9%</td>
<td>68.8%</td>
<td>28.3%</td>
<td>14.3%</td>
</tr>
<tr>
<td>Newspaper</td>
<td>75.0%</td>
<td>82.1%</td>
<td>54.8%</td>
<td>50.8%</td>
<td>46.1%</td>
<td>29.6%</td>
<td>16.9%</td>
</tr>
<tr>
<td>Refrigerator</td>
<td>91.7%</td>
<td>94.9%</td>
<td>74.7%</td>
<td>69.6%</td>
<td>64.2%</td>
<td>39.6%</td>
<td>24.7%</td>
</tr>
<tr>
<td>Microwave oven</td>
<td>18.2%</td>
<td>51.3%</td>
<td>6.0%</td>
<td>4.5%</td>
<td>3.6%</td>
<td>2.7%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Color TV</td>
<td>100.0%</td>
<td>97.5%</td>
<td>90.8%</td>
<td>85.4%</td>
<td>79.0%</td>
<td>87.3%</td>
<td>44.3%</td>
</tr>
<tr>
<td>VCD</td>
<td>41.7%</td>
<td>28.2%</td>
<td>10.2%</td>
<td>6.7%</td>
<td>9.6%</td>
<td>5.3%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Private phone</td>
<td>75.5%</td>
<td>80.0%</td>
<td>59.2%</td>
<td>47.9%</td>
<td>40.5%</td>
<td>27.9%</td>
<td>8.5%</td>
</tr>
<tr>
<td>Personal phone</td>
<td>18.2%</td>
<td>7.7%</td>
<td>4.5%</td>
<td>3.2%</td>
<td>4.5%</td>
<td>2.7%</td>
<td>2.9%</td>
</tr>
<tr>
<td>Ice cream</td>
<td>33.3%</td>
<td>35.9%</td>
<td>31.4%</td>
<td>31.0%</td>
<td>20.0%</td>
<td>20.4%</td>
<td>4.3%</td>
</tr>
<tr>
<td>Soft beverage</td>
<td>58.3%</td>
<td>72.5%</td>
<td>35.3%</td>
<td>39.7%</td>
<td>30.9%</td>
<td>22.1%</td>
<td>12.9%</td>
</tr>
<tr>
<td>Beer</td>
<td>45.5%</td>
<td>61.5%</td>
<td>77.8%</td>
<td>59.6%</td>
<td>42.0%</td>
<td>44.2%</td>
<td>18.6%</td>
</tr>
<tr>
<td>Life insurance</td>
<td>33.3%</td>
<td>51.3%</td>
<td>30.2%</td>
<td>32.3%</td>
<td>36.4%</td>
<td>8.9%</td>
<td>12.7%</td>
</tr>
<tr>
<td>Credit card</td>
<td>20.5%</td>
<td>24.1%</td>
<td>11.2%</td>
<td>6.5%</td>
<td>9.8%</td>
<td>1.1%</td>
<td>0.6%</td>
</tr>
</tbody>
</table>
may create tremendous hidden barriers between these markets that MNCs seek a national marketing and distribution strategy. Such degree of complexity makes entry decision and distribution strategies more complex. The economic disparity between coastal areas and interior provinces is also a potential factor for social unrest. Acutely aware of the perils of regional disparities, Chinese government has recently reduced the special privileges granted only to the coastal SEZs, launched a "jitupin" (help the poor) campaign, and encouraged more investment in the hinterland areas. The gap between regions will be smaller as government tries to reverse the disparity and may clear away the barriers for regional cooperation. Hoping to alleviate the growing prosperity gap between China’s rich coastal cities and its poor inland provinces, has started an investment drive that will see cities such as Chongqing in Sichuan province spearhead a new phase in the country’s economic development10. More recently, China also turned its attention to the rural areas as its urban sectors become apparently depressed by the mounting problems of SOEs and no clear signs of any relief in the near future (Asian Wall Street Journal 1998).

In fact everybody knows that while the central government has certain policies, the localities often have countermeasures to circumvent those policies. Even some Chinese would admit that some people in state enterprises make a fortune just by finding loopholes (in government policies). For companies following the letter of the law, missing out on business opportunities can be agonizing. America’s rigid litigiousness often collides with China’s “soft wall” of legal ambiguities (Scaling the Wall of China).

Consumer Behavior

There has been tremendous increase in brand recognition for market leaders, and a growing convergence of agreement on top brands among Chinese consumers. Yet most products, including the market leaders, show large percentages of trial and swaying buyers, thus low brand loyalty. Despite the high brand awareness and recognition, top brands often command hefty prices, thus are beyond the reach of ordinary Chinese. Brand recognition and purchase vary by age and region. Overall, most Chinese consumers still purchase local domestic brands.

Consumer perception plays a role in their purchase behavior. In the US, Hong Kong and Taiwan, McDonald’s succeeds because its food is fast and cheap. In China, McDonald’s hamburgers are luxury items. Despite competition from KFC, Shanghai should be McDonald’s most lucrative market in China. The problem is getting the relative affluent Shanghai residents to pay about $2.41 for a lunch at McDonald’s, when they can pick up a Chinese lunchbox for $0.6014.

Across the board, media spending goes hand in hand with market share. The surveys probed respondents’ perception of the extent to which media played a role in their purchases. Media impact is perceived by purchasers to be very high in low purchase volume products such as fruit juice and coffee. In comparison, consumers see media impact on some household products such as toothpaste and detergent as low. Among various consumer segments, media impact is reported the highest among the self-employed entrepreneurs. Although there has been some debate about which has more impact, television advertising or interpersonal influence, on Chinese consumers’ purchase behavior, this study suggests that television advertising is seen as having a substantially greater impact than any other media channels.

Increased spending in some product categories indicates improved standards of living and changing lifestyles. In light of increasing income disparity and market fragmentation, consumer spending priorities and preferences will continue to diverge. On the other hand, there has been an increasing agreement on the top brands in many product categories. Income and age obviously affect the purchase of well-known brands.

Most Chinese consumers still equate foreign products to better quality. That is also true for service organizations. They are attracted by the its decorations, toys, clean environment, and ambience in western restaurants such as McDonald’s and Kentucky Fried Chicken. The level of preparation McDonald’s done is amazing: working with farmers to grow vegetable and tomatoes. Today, McDonald’s suppliers have opened 52 farms and pastures with total investment of $165 million in China. The major contribution McDonald’s has made to China, however, is the creation of job opportunities. Its 51 outlets in 28 Chinese cities have employed more than 20,000 local people at the end of 199812. Its chief foreign competitor Kentucky Fried Chicken (KFC) has opened more than 280 outlets in 65 Chinese cities. The company’s total sales hit 1.42 billion yuan (US$171 million) in 1996.

Market Fragmentation, Competition, and Consolidation

“Muddling one’s way through China’s economic, political and legal power structures can be sometimes taxing that companies sometimes forget the check the market,” commented a consultant on the Asia automotive market33.

Despite China has been an economy based on central planning, China in many industries is a
very fragmented market. Under the command economy, it was desired that each province and city has a producer in each product category -- small yet with everything (Xiao Er Quan), resulting in inter-provincial protectionism and a large number of producers. Thus, local markets are largely controlled by provincial- or city-level producers, each with its own brands. Thus, there is a large number of brands in each product category, and the number have been growing. For instance, based on findings from a CVSC survey, between 1995 and 1996, the number of brands for consumable products grew from 5059 to 5744, an 13.5% increase. The number of brands in durable goods increased from 1462 to 1651, or by 12.9%. Thus, the market has been characterized by increasing market fragmentation and competition. Specifically, the number of brands increased in diary products, alcohol, beer, cooking oil, detergent, and skin care items. Meanwhile, the number of brands decreased in instant noodles, cola, ham and roll film. The data show no change in air conditioners, washing machines or stereos.

Although many products experienced increasing sales, the number of manufacturers and brands also has grown substantially. For instance, among 7 types of beverages alone, there are 1355 brands. In many product categories, the top brands have very low market share. For instance, the leading brand in liquor has barely penetrated 2% of the households. In most local market, the market is still dominated by the brands of city and provincial level companies. The data also show notable regional variations in purchase of consumable products and ownership of durable goods. On the consumer side, growing income disparity, divergence of consumer preferences, and regional differences in dialects and culture also contribute to fragmented market.

The survey data, containing the brand names of products, suggest that a three-way competition among foreign, joint venture and domestic brands, has taken shape. Overall, most product markets are dominated by local and domestic brands. Among the 1355 brands of beverages, for instance, domestic brands are 1198, or 88.5%. In some fast moving consumer goods such as MSG, sausage and liquor, there are virtually no major foreign brands. Among durable goods, domestic brands have begun to dominate the market in appliances: color TVs, refrigerators, and air conditioners. In baby formula, non-alcoholic beverages, athletic shoes, toothpaste and detergents, competition between domestic and foreign brands is intense, making it difficult to determine the dominant brands. Top ten brands often occupy close to 70% the market. In some cases, foreign brands have penetrated 35%-45% of the market. In other categories such as carbonated soda, roll film and coffee, foreign brands dominate the market. A few top brands often occupy up to 80% of the market.

The same is also true to new products such as computers. In 1995, foreign brands accounted for 50% of China’s domestic PC market, and 15% was taken by home-produced products. The rest was made up by smuggled imports and components. But these figures changed radically in a short period of time. In 1996, China’s PC manufacturers started a price war that helped domestic brands to take a bigger share of the home market. For instance, the Legend cuts its retail prices for PCs by an average 20% in March and several months later, and sold more than 30,000 pcs. The other two local brands, Great Wall and Beijing Founder, have followed suit. Some foreign suppliers, such as Dell and Philips, also began to follow suit, but they could only go so far. China’s PC market is expected to grow 30%-35% annually in the following years. But the Chinese are learning fast and well. With growing competition from national suppliers, it is hard to see foreign companies will maintain market share. -- together with coupon against Wal-Mart, make good case for one of the misconceptions about Chinese enterprises.

Today, China has become a very competitive market place, perhaps even more competitive than some Western countries, because all major MNCs want a piece of the market. Increasingly, MNCs treat China as an integral part of their global strategies. That means that any firm wishing to remain viable must get a firm foothold in this market -- growth at any cost, outspending and outmaneuvering each other. Today’s winners may be the losers tomorrow. The early entry advantage is not guarantee for continuous success in the future. In fact, many late entrants to China have learned from the early arrivals and managed to gain a competitive advantage later. Kodak, for instance, were late in comparison to Fuji, in terms of developing the Chinese market. After seeing Fuji’s success with minilabs in China, Kodak went to its deep pockets, increased its investment in China, and established 3000 Kodak minilabs in China, by outspending its arch rival (according to Rick Yan). Consumption of film products in China increased by more than 50% between 1994 and 1997. The company also moved its headquarters of consumer photo products from Hong Kong to Shanghai. Despite a sharp decline in revenue from Kodak’s global business, sales in China have increased 31% and earning are up 41% in 1997. Yet profits of the company’s global business declined more than 20%. Fuji launched an aggressive sales campaign in the US. Lower production costs enabled Fuji to sell products 30 to 50% cheaper than Kodak. As a result, Fuji’s share of the US market rose to 10% to 16%, while Kodak’s dropped from 80% to 75%. In November
In 1997, Kodak announced a layoff of 10,000 of its workforce. Kodak first came to China in 1981 and has since established 11 officers in major Chinese cities.

However, Kodak’s rapid expansion in China came at hefty prices. In April 1998, after three years of negotiation, Kodak announced a US$1 billion package of investment in China’s photographic industry. As the proposal involved four provinces and two municipalities, a special coordination group from the State Council was put in charge of the negotiations. Under the terms of the agreement, Kodak will inject money into all the country’s photographic companies except for Lucky, the only profit-maker in the sector. Kodak formed two joint-ventures in China: one with two film producers in Shantou and Xiamen, and the other with the Wuxi Aermei Film and Chemical Corp. With US$380 million investment, Kodak holds controlling stakes in both ventures. Kodak also channeled several hundred million yuan in compensation to three photographic companies in Liaoyuan, Tianjin and Shanghai in exchange for their pledge not to cooperate with a third partner before December 31, 2001. Chinese newspaper lauded Kodak’s effort as the first foreign company to work with the Chinese authorities to build a large, world-class industry by co-operating with the nation’s existing State enterprises. Yet such cooperation not only saves the debt-ridden enterprises but also avoids laying off thousands of workers. China’s photographic industry is crippled by poor performance, with most companies losing money or struggling to make ends meet. For instance, Shantou Era Photo Materials and Xiamen Fuda Photographic Materials are in debt totaling 7 billion yuan (US$843 million). Shantou Era’s huge debt nearly dragged the Guandong Provincial Trust and Investment Co., a major shareholder in the company, to the brink of bankruptcy.

Others also paid dearly for the entry permit. British insurance company, the Eagle Star Group invested L500,000 in cooperative program to provide actuarial sciences for Chinese, and hold a conference for millions.

Despite the growing markets, numerous brand names with small shares occupy the market. Some top brands increased their market shares, leading to market consolidation and suggesting the growing importance of effective marketing strategies to enhance brand equity and consumer loyalty. Foreign and domestic companies seem to have distinctive advantages, due to the strength of individual operators. Boom and bust has been characteristic of China’s business environment, with buying binges leading to foreign currency shortage, hyperinflation followed by austerity and policy changes. This cycle has repeated itself several times, first in consumer electronics, then hotel services and so on. Hasty investment without accurate forecast of demand often over-shoots the local markets. The increasing number of contenders soon saturates the market, leading to a round of scaling down and back. In light of limited short-term demand for many products, the "flying geese" syndrome has contributed to much of the over-capacity that is apparent in a number of sectors. According to the Third Industrial Census, capacity utilization for manufacturers of refrigerator, color television, washing machine, air conditioning equipment, and automobile ranged between 50% and 70%. The Chinese government has urged consolidation of several key industries. The evolving three-way competition the MNCs, contenders from other countries, and domestic firms will lead to an inevitable shakeout.

The industry has entered a phase of both consolidation and intense competition. According to Zhong Shunhe, director of research and development of China Household Electric Appliance Research Institute, the industry, which had 40-50 large players a few years ago, will soon be dominated by only 4-5 companies, and growth will moderate over the next few years. Chinese government encouraged consolidation among enterprises, in automobile sector.

**Other Notable Market Characteristics**

In addition to income stratification and regionalism, there are two other notable characteristics of China's consumer market. First, China is still largely a developing country and has been playing “catch up” with other industrialized nations. The consumer market in China seems to have taken the form of "consumption waves," meaning that a particular product is a priority purchase for only a period of time. For instance, color TV was the among the first products crazed by Chinese consumers, but soon became unfavored due to saturation and over-production. The waves have been followed by VCRs, washing machine, air conditioner, electric heaters, kitchen appliances, and most recently interior decoration and karaoke machines. Many foreign products have reached the growth or mature stage of the product life cycle in China. Ownership of "traditional" durables such as color television and washing machine is as high as over 90% in China's urban households, while new products such as microwave oven and hi-fi stereo only penetrated 20% of the households. Understanding the mechanics behind China's consumer trends can assist MNCs in making informed and timely decisions about product introduction in China. As MNCs expand into the emerging market areas, they must meet the new success requirements, such as forging closer ties with dealers and establishing a national distribution network.
In addition to the level of economic development and consumer readiness, purchase of certain products may be subject to the influence of topographic and climate conditions in various regions. While income exerts a great impact on purchase of foreign products, ownership of air conditioning equipment is apparently much higher in the South where the climate is hot and humid during the summer. On the other hand, purchase of cosmetics is higher in the Northeast and Northwest, which have harsh climates. Cosmetics are purchased less frequently in the South where its sub-tropical climate makes wearing cosmetics less feasible. Thus, understanding the impact of seasonal and climate variations on purchase of various products can improve marketing planning in terms of promotion and distribution intensity.

China's business is extremely subject to the boom and bust cycles. Government policies on foreign investment and climactic conditions that affect harvest can significantly alter the demand for various products. When easy credit mixed with a shortage of supplies led inflation, and buying binges created foreign exchange crises, the Beijing government has in the past retracted some of the reforms, tightened credit and re-centralized foreign trade and investment policy. Understanding this nature of China's developing economy, and constant monitoring of the market environment and political events can help MNCs discover market opportunities, seize them in a timely manner, and avoid become a casualty of China's austerity program to cool the country's overheated economy. The most dangerous fallout of austerity is unemployment. It is especially pernicious in this would-be workers’ paradise as there isn’t any real social safety net for the jobless until recently.

At a macroeconomic management level, China is prone to "boom-bust" cycles -- expansionary periods of double-digit growth characterized by massive increases in investor and consumer spending and facilitated by a very loose monetary policy, growing central government deficits, and increased local government initiative. During central government-induced "recessions," growth dips to single-digit levels, but always well above U.S. indicators recorded even in the best of times. Business opportunities for foreigners--be they importers or local providers--come under greater scrutiny during these periods, and local autonomy in promoting economic development is curtailed. But time is on the side of interest groups pushing for expansionary policies that seek to accommodate localities and their vision of the future. Therefore, "boom"-period policies recur every two to three years.

**Strategic Implications**

A walk down Shanghai's Nanjing Road confirms that China's rising middle class has a taste for international brands. Cosmetics and personal care products, not to mention detergents and cleansers from the likes of Procter & Gamble, Unilever, Colgate, Shiseido, shops sell Fuji and Kodak film, and the latest models from Nikon, Canon, Olympus, and Pentax. Television sets from Matsushita, Hitachi, and Toshiba are trucked out of stores as fast as patient queues of consumers file through. Rolex watches, Motorola cellular telephones, Prada, Hugo Boss, and Burberry raincoats are among the badges that help define status for the upwardly mobile. Foreign brands may sell for 50 per cent to 300 per cent more than their domestic counterparts, but in the eyes of many shoppers there's a quality and an attraction in international brand names that justifies a premium.

For this very reason, foreign retailers rushed to China when they were allowed to set up joint venture stores in 1992. The newcomers come mainly from Japan and Hong Kong, but also include WalMart from the US, French Carrefour, and the Dutch Makro. Marks & Spencer, now scouting sites, may join the list. Most of the first wave of new retailers went for the top end of the market and opened new department stores, reckoning competition would be too difficult and margins too slim at the low end. That has proved a flawed judgement. All the new department stores are reported in the red, and one, Printemps, is for sale. After the initial novelty effect, expensive goods are not selling as well as expected. Rising rents and operating costs push the break-even point further down. The reality is that even when differences in local prices and relative purchasing power are taken into account, China's middle class consumers can not afford the middle-class life styles found in Hong Kong and most other Asian countries or the top end brands new retailers tried to tempt them with.

Now, foreign retailers have learned that Chinese consumers becoming more price conscious and value oriented - a little like middle-class consumers in many more advanced countries. As David Kilburn reports, this has fuelled a switch to selling cheaper goods at discount stores. Instead of luxury stores, they are developing no-frills warehouse stores and value clubs. Makro and Carrefour have both opened hypermarkets that offer bulk buys at prices China's middle class can afford to pay. Wal-Mart, which opened its first Chinese store in Shenzhen last August, sources about 80 per cent of its products within China and the rest elsewhere in Asia and sells at prices that compete with traditional Chinese shops and markets. Foreign marketers are going through a period of adjustment. Western retailers are now focusing on what Chinese consumers can afford,
and using their expertise to deliver this. Retail sales could grow at 20 per cent or more each year until 2000, China still represents a wealth of opportunities for those who can discover what China's rising middle class really wants.

Depending on the product category and price, firms can estimate the effective market size, determine the target market(s), and enact a proper marketing mix. The concentrated strategy may well be advised for upscale luxury products. Foreign firms entering the market are recommended to concentrate on the Yuppies, who are better educated, wealthier and more receptive. The focused strategy should help penetrating this attractive market segment, including repeat, add-on and replacement purchases. As Yuppies clearly represent the early adopters and trend setters, this strategy allows MNCs to identify the upcoming consumer trends in a timely fashion and respond to the changing needs of consumers rapidly and cost-effectively. If a foreign marketer can appeal to groups at different income levels with a line of products at a range of quality and price points, it may opt to employ the differentiated strategy targeting several segments at the same time.

Market segmentation does not automatically lead to the differentiated strategy. When some key consumer characteristics are similar across various segments, companies can resort to counter-segmentation. If a product is comparable to those of domestic manufacturers, a foreign marketer may want to widen its market by including the Little Rich and even the Salary Class. Many products considered inexpensive in the West continue to be a treat for the average Chinese family. In this case, a foreign marketer may stress quality as well as value of its products because these consumers do not have enough money to spend frivolously. Improving workforce efficiency and strict cost containment measures are essential for lower prices and better turnovers. Joint efforts with strong local partners can help firms diffuse the risks and improve performance. Today, many foreign products have moved from department stores and boutiques into discount stores and supermarkets, which have become immensely popular among many Chinese urban families.

MNCs also need to develop advertising appeals that reflect their attitudes and lifestyles and enact placement strategies consistent with their media usage. Once a firm has established its target markets, advertising and promotional mix strategies need to be crafted in a way compatible with the psychographics, lifestyles, and media usage patterns of various consumer groups. Foreign marketers need to position their brands versus those of competitors. Some advertising appeals such as premium quality and prestige of "foreign made" and "modern" may be effective with Yuppies and Little Rich, who have more active lifestyles and prefer branded products and foreign goods. But Little Rich and Salary Class are more concerned with realism and stability. Foreign marketers can address these concerns by emphasizing greater value, product durability, warranties, and services. While television appears to be the most popular medium among all consumer groups, print media usage is higher among the more educated Yuppies and Little Rich families. Radio may still be a good bargain for reaching the Salary Class and Working Poor audience.

As China and other transitional economies continue on the path of reforms, their markets will become increasingly fragmented, and consumers will demand more choices and greater varieties that suit their diverging needs and aspirations. Meaningful strategies in advertising, promotion, and distribution are needed to create a critical mass of local loyal customers in a reasonable period of time and in ways accepted by the consumers before the novelty effect wears out and escalating costs put the firm out of contention. While transitional economies still represent one of the best prospects for future growth for global companies, whether MNCs can establish profitable operations depends on their ability to adapt to the local context. By identifying the best practices in these markets, MNCs can leverage their knowledge and experience, minimize risk exposure, and optimize performance.

**Cases-in-point**

**AT&T**

Like most Multinational Corporations, AT&T regards China as a key to the success of its global strategy to be a worldwide leader in communications products and services. To prepare for its entry into China, AT&T opened its first Beijing representative office in 1985. In the beginning, like many MNCs, AT&T spent years courting the Chinese government agencies and the key decision makers by holding banquets, exhibitions, training programs, and free seminars. First, AT&T and its partners in China began to make and sell switching and transmission equipment, and to provide consumer long distance services. In the early 1990s, since Chinese government set new objectives for developing the country’s telecommunication and information industries, AT&T’s businesses in China expanded to include global information solutions, fiber optics, mobile communication, network systems, and multimedia products and services. By the mid 1990s, AT&T’s telephone communication services alone have expanded from regular long distance calls to include 800 toll free services, digital service (Skynet), USADirect, and cellular service. In the expansion process, AT&T also experienced dramatic changes
in many other aspects of its operations. For instance, its number of employees has doubled from 1,000 since 1994. Localization of supplies has been an important part of AT&T’s expansion strategy in China. In 1995, AT&T’s Global Procurement Organization conducted its first suppliers’ symposium in China and selected from 200 domestic companies for printed circuits boards, back planes and metal fabrication, etc.. As competition intensifies, consumer promotion is becoming more frequent. AT&T sponsored the Chinese Olympic team and the broadcasting of the 1996 Atlanta Olympic Games in China, and ran consumer sweepstakes associated with the games. Like many other MNCs in China, AT&T has sponsored educational projects and arts to raise the awareness of its products. Since it was first licensed to operate in China, AT&T China has evolved from a single representative office to what is now a country division, the corporate umbrella for its nine joint ventures and six branch offices (Beijing, Shanghai, Guangzhou, Chengdu, Wuhan and Qingdao). In the course of 15 years, AT&T China has gradually established a truly multi-product and multi-market presence in the country.

PC Market in China

No industry better illustrates the rapidly changing rules of the game than information technology. Skyrocketing PC sales in China are a big reason why Asia now accounts for 21% of Intel's revenue, compared with 11% just a year ago. "China is emerging as one of the great growth markets," says Intel China President James W. Jarrett. Regarding the sector as strategic, Chinese planners in the 1980s and early 1990s limited imports of PCs and software and instead tried to promote homespun industries. But Chinese corporations and government agencies, the biggest computer buyers, preferred smuggled imports of the top U.S. brands to the overpriced, technologically backward PCs made by local manufacturers. So Beijing eventually loosened the restraints, handing a golden opportunity to Intel and other U.S. high-tech companies. Microsoft Corp.’s Chinese version of Windows 95 is rapidly emerging as the dominant PC operating system. And the PC market, growing at a 40% annual clip and expected to reach 12 million units by 2000, is a stronghold of American brands.

IBM has raced to take advantage of this new openness and adopted a much smarter China strategy. In the early 1980s, the giant invested too heavily. Then it cut too far back, and stubbornly insisted on flogging its unpopular PS/2 systems. As a result, when the PC market started taking off, rivals AST Research Inc. and Compaq Computer Corp. zoomed ahead. Then, IBM moved its China headquarters from Hong Kong to Beijing, launched a range of cheaper PCs to replace the PS/2, and hiked China investments in everything from sophisticated manufacturing lines to world-class research labs.

IBM also got serious about reaching customers through service centers, a big challenge for any foreign company in China. Thanks to its joint venture with the Railway Ministry, dubbed the Blue Express, IBM is setting up a national network of service centers, many of them in busy railway terminals. More important, the venture enables Big Blue to ship computer parts via the railroad around the country within 24 hours. Competitors must book cargo space weeks in advance. Plus, the ministry's staff of more than 300 computer engineers helps out in providing customer service on IBM products. Total IBM sales have risen 50% annually for the past three years, to more than $ 500 million, and plans call for tripling the number of service centers by yearend.

Beer Market in China

While the alcoholic sales have been on the decline in Japan, US and Europe, alcohol consumption has been growing rapidly in the last few years. Even microbrews have become immensely popular in China’s coastal cities such as Shenzhen and Zhuhai. Many foresee China as the world’s biggest emerging beer market. The list of joint ventures in brewery include the top brands from around the world such as Asahi from Japan, San Miguel from the Philippines. San Miguel, the largest Pilipino beverage and food company, is also expanding fast in China. San Miguel Bada (Baoding) Brewery Co. Ltd. has achieved an annual capacity of 200,000 tons of beer after its year of operation. Its sales were 200 million yuan (US$24.1 million in 1997), and has acquired ISO 9002 certificate.

Pabst Blue Ribbon is some something close to success in China. CBR Brewing is a US company whose subsidiary companies are engaged in the production, distribution, and sales of Pabst Blue Ribbon Beer in China, via license from Pabst Brewing Company USA. CBR is the largest locally produced foreign brand brewery and the only brewery with nationwide distribution in China, which has recently become the world’s second largest beer producing country. Pabst Blue Ribbon was first introduced in China in 1990 and is now the second leading premium beer in China, behind the 80-year-old Tsingtao. Pabst Blue Ribbon is the leading foreign beer sold in China today. Pabst' success is largely due to its strategy of focusing on the premium market of hotel lounges and clubs. As most ordinary Chinese still prefer their local brands.
However, with about 800 breweries in China, and more coming, the beer market has been growing and becoming very crowded. Continued competition from major breweries in China seeking to protect their market share, and a softening consumer demand, and lower margin products will put more pressure on margins. Recently in 1998, U.S. beer companies have had to scale down their production projects in China after the government ruling that capped foreign-brand beer to 30% of the market (Carla Rapoport). In 1993, the company outbid Netherlands-based Heineken for an 80% share of a brewery in Wuhan, and also purchase a 5% interest in China’s leading brewer, the Tsingtao Brewery Co. Anheuser-Busch launched its Budweiser in China in the summer of 1995. Anheuser-Busch were allowed to distribute posters featuring attractive young women dressed in Budweiser swimsuits for use in bars and stores with an adult clientele.

Fijian Hitachi

This can be illustrated by recounting briefly the experience of one of the earlier joint ventures, Fujian Hitachi Television Limited. This $2.3 million (U.S.) joint venture was established in the city of Fuzhou in the coastal province of Fujian to produce both black-and-white and color televisions. Foreign equity ownership reached 50%. Foreign investment came from Hitachi (38% equity), Hitachi Sales Company (10% equity), and Toei Shoko, a trading company (2% equity). On the Chinese side, Fujian Electronics Import-Export Corporation owned 40% of the equity, and Fujian Investment and Enterprise Corporation, one of the new crop of provincial-level agencies that sprung up along with the JVL to attract and broker foreign investment, owned 10%.

Despite a 300,000-yuan profit in its first year of operation, Fujian Hitachi soon found itself mired in mounting problems. Hitachi, which had previously exported TV sets to China, had established the venture in order to maintain and expand its domestic foothold in the face of a predicted curb on foreign TV imports by Beijing. The PRC was apparently more eager to earn foreign exchange and to protect domestic industries. Beijing actually responded to Hitachi’s request by restricting drastically the areas of the domestic market open to the joint venture’s products and by increasing progressively the joint venture’s export quotas while simultaneously requesting the venture to reduce total output well below planned capacity.

Meanwhile, despite Hitachi’s protests that Chinese components were inferior in quality, incompatible with the Hitachi system, and produced too far away, the PRC stubbornly insisted that the joint venture purchase domestic components for its production needs. In the management realm, even Fujian Hitachi’s PRC president was forced to admit that his own efforts to experiment with advanced Western management techniques were often stymied by the inflexibility of local bureaucrats, many of whom remained fundamentally suspicious of joint ventures. Finally, in early 1983, these problems began to take their toll dramatically. Fujian Hitachi, which paid its employees more than twice the salaries of workers in nearby state-run enterprises, was forced to lay off one hundred workers, one-sixth of its work force -- a truly drastic step in a country where guaranteed employment remains the norm.

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