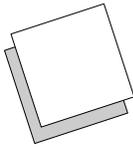


An executive summary for managers and executive readers can be found at the end of this article



Regional market segments of China: opportunities and barriers in a big emerging market

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Abstract *As one of the big emerging markets, China's enormous population and rapid increase in consumer spending have attracted many multinational corporations (MNCs). Meanwhile, the misconception of China as a homogeneous market often leads to difficulties in assessing market demand and enacting effective strategies. Examines the diversity among Chinese consumers across seven regional markets. Data from a national survey suggest that consumers from various regions are significantly different from one another in terms of purchasing power, attitudes, lifestyles, media use, and consumption patterns. MNCs need to take a cautionary approach when expanding into the inland regions, and must adapt to the local market conditions and devise sustainable strategies.*

Introduction

During the last two decades, foreign direct investment (FDI) has become the largest source of external funding for investment in developing countries (Weigel *et al.*, 1997). As social and economic events bring about unraveling opportunities in the big emerging markets (BEMs) such as India, Brazil and China, many multinational corporations (MNCs) have made substantial investment in these countries as an integral part of their global expansion strategies (Garten, 1998). As many MNCs have entered these markets and moved beyond the stage of initial entry, they are facing stiff competition, unstable environment, and escalating cost. Overall, MNCs have achieved only limited success in penetrating the local markets (Prahalad and Lieberthal, 1998). Amid the dynamic social and economic changes in these societies, two major challenges facing MNCs are to understand the base line market conditions in these countries and to enact effective marketing strategies (Batra, 1997).

As one of the BEMs, the advent of China as a consumer society has attracted many MNCs, including at least 200 of the top 500 global companies. MNCs from various industries have all taken positions in the country to serve the pent-up consumer demand and to block out the slow-moving competitors. Some global companies engaged in rapid capacity building and expanded from coastal areas to inland regions. As MNCs have increased their stakes in the country, performance of FDI projects has become an important subject of investigation. While some companies have established nationwide distribution networks and recorded impressive sales growth, others suffered from sluggish sales and chronic sub-optimal performance (Rheem, 1996). A number of well-known firms have scaled back or eventually withdrawn from this fabled market. The status of MNCs in China has encapsulated the experiences of global companies in the BEMs.

Largest source of external funding

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Diversity among the indigenous customers

As MNCs are attracted to the size and growth of consumer markets in these countries, they have largely overlooked the diversity among the indigenous consumers. The popular misconception of a BEM country as a huge market with homogeneous consumers often leads to difficulties in assessing demand and devising effective marketing strategies. In reality, the BEMs often have large geographic areas with significant regional disparities and multicultural consumer groups. As more MNCs converge in these markets and expand their operations, regional disparities in economic development, market infrastructure, and consumer purchasing power represent formidable barriers for smooth expansion and efficient operations. Thus, understanding the diversity among consumers and its implications for marketing strategies is essential for success in these emerging markets (Batra, 1997; Swanson, 1998). This study explores the regional markets of China based on consumer characteristics and consumption patterns, and draws marketing strategy implications for MNCs.

China's regional markets

During the last two decades, societies of the BEMs have undergone dramatic transformations toward privatization, liberal trade policies, and free market forces (Garten, 1998). While foreign direct investment has become a major force driving economic growth in developing countries, foreign funded projects have not always led to profitable enterprises (Weigel *et al.*, 1997). While many MNCs have engaged in infrastructure projects, a significant number of them invested in local manufacturing to explore the untapped market potential, ranging from luxury condominiums, family cars, appliances and consumer electronics, to food and beverage products. While some MNCs have enjoyed rapid growth and increasing revenues in these markets, they also encountered a whole array of problems, which eluded even some of the biggest global companies (Prahalad and Lieberthal, 1998). Some companies have taken heavy losses from their operations in the emerging markets, which reached the climax in the aftermath of the recent Asian financial crisis.

Understanding the market structure

While much research has focused on investment strategies for MNCs to enter these markets, not enough attention has been given to understanding of the market structure and local consumers. Despite the preponderant reporting of the surge in consumer power in these countries, they have stayed at the level of descriptive information such as rapid urbanization and other macro-economic statistics, and sometimes led to a distorted view of the marketplace and misreading of consumer demand. While the ongoing economic transformations in these markets are revolutionary in nature, researchers have yet to translate such information into actionable strategies for multinational corporations. Lack of valid and reliable data, compounded by rapid changes in these societies, has contributed to the paucity of in-depth analysis that MNCs desperately need to make informed decisions (Batra, 1997).

Attracted by the concept of a “global consumer”, including those in the emerging markets, MNCs foresaw incremental sales and soaring profit. The assumption is that consumers regardless of their country of residence migrate toward the same aspiration: high quality goods to enhance the quality of life. However, recent research suggests that market evolution in these emerging markets is less likely to replicate the development process that happened in developed nations (Arnold and Quelch, 1998). To compete effectively, MNCs need to define the consumers of emerging markets – which are significantly different from those in the West – and to develop an approach

Geographic diversity and economic disparity

to serving their needs (Prahalad and Lieberthal, 1998). Assessing effective market size and consumer purchasing power and understanding their attitudes toward new and Western products are among the critical issues that remain significant challenges for multinationals (Batra, 1997).

One of the delusions that impaired many MNCs is the assumption of a BEM country as a huge and single market. In reality, geographic diversity and economic disparity are prevalent among the BEMs like China, Brazil, India, and Indonesia. While metropolitan areas in these countries such as Shanghai, São Paulo, and Bombay have become the hotly contested markets, the vast areas of these countries show quite a different picture. In fact, a BEM usually includes a number of smaller sub-markets that are distinctive from one another in many ways including language, culture, and economic development (Prahalad and Lieberthal, 1998). Regional disparities in economic infrastructure, consumer purchasing power, and distribution channels often pose significant barriers for MNCs to adopt uniform strategies in these markets (Batra, 1997). Thus, understanding of regional diversity within the emerging markets can help firms assess the opportunities and risks there and enact effective strategies.

Like other BEMs, China is attractive to multinational corporations for two reasons: substantial size and high growth rate of its consumer market. With a geographic area comparable to that of the USA, China has 1.3 billion people, who represent one-fifth of the world population. Most Chinese reside in the eastern provinces, making it a highly concentrated market. With a birth rate higher than those of Western nations, the country has a relatively younger population. Their common language and cultural heritage, reinforced by decades of Communist rule, give the appearance of a homogeneous market (Landry, 1998). With a growing economy, an enormous and presumably homogeneous population, China promises many opportunities for rapid growth and expansion with efficient marketing operations.

Sixth largest economy in the world

In the last two decades, the Chinese government has reformed its economy, installed market forces, and opened one industry after another to foreign investors. As part of its 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. At the macro-economic level, its GDP reached \$954 billion in 1998, making the sixth largest economy in the world (US-China Business Council, 1999). Since 1992, China has welcomed broad-based foreign participation in the retail sector. Rapid increase in consumer purchasing power and changing spending patterns have driven up sales of many consumer goods (Gavin, 1994; Piturro, 1994). The retail market of China grew from \$200 billion in 1996 to \$351 billion in 1998.

Attracted by these quickly multiplying figures, many MNCs have dreamed of turning every Chinese into a customer. Today, China is the second largest recipient of FDI with more than 320,000 foreign investment projects operating in the country. Global companies such as Coca-Cola and Kodak have established a significant presence in China with multiple production sites and distribution networks that can reach even the remote parts of the country (Yan, 1998). Meanwhile, many MNCs in China have encountered daunting challenges and found the market elusive. They have over-estimated the demand for their products while underestimated the level of competition in China (Davies, 1994). As some MNCs expand aggressively into inland regions, incremental sales from these new markets have not kept up with the

Indication of market readiness

escalating costs, resulting in lackluster performance. A significant number of foreign firms operating in China were not profitable (Rheem, 1996).

In spite of the well-publicized emerging “middle class” consumers with increasing income and a craze for foreign goods, focusing on sheer size of the population and rising income alone as an indication of market readiness creates an inaccurate perception of the opportunities and risks there. The profile of a “super consumer” found in some coastal areas hardly reflects the diversity among the majority of Chinese (Gavin, 1994). Such misconception has led many MNCs to engage in rapid capacity building and in deferrable projects, which would help them take preemptive positions or keep competitive parity but only led to overshooting the local demand. For instance, competing with its archrival to expand in China, PepsiCo established three bottling plants in China, yet they have been running below capacity and bottling for local producers (Yan, 1998).

Contrary to the popular belief, China is largely a developing country and consists of multiple markets segmented by regional economic development and local culture (Swanson, 1998). While residents in China’s coastal areas and major cities are increasingly better off, most people in rural areas are still living from hand to hand. Following the “open door” policy, coastal areas of China were the first to attract outside investment and have benefited the most from economic reforms. The vast interior provinces are lagging behind in economic development (Yeung and Hu, 1992). Furthermore, the Chinese also have diverse cultural patterns exhibited by variations in dialects, values, lifestyles, traditions, and customs. Regional differences in consumer purchasing power, distribution channels, and transportation logistics, can erect major barriers for MNCs to exercise a uniform approach to the local markets (Batra, 1997).

Conglomeration of markets

For MNCs seeking entry and expansion in China, it is important to recognize that China is actually a conglomeration of markets divided by such factors as level of economic development, industrial priorities, and local cultures. While several studies have focused on specific groups of Chinese consumers including women and youth (Ariga *et al.*, 1997; Sum, 1997), they were limited in geographic coverage and sample validity. Most of the studies focused on urban consumers in a few big cities. Research to date has not explored the regional variations in consumer characteristics and their marketing implications. As MNCs continue to increase their stake in the country, understanding of regional differences in consumer purchasing power and lifestyles are critical for MNCs to assess local market demand accurately and to enact effective marketing strategies.

Swanson (1989) first noted the importance of regional disparities for marketing operations in China, and proposed the “Twelve Nations of China.” Lately, several authors have suggested geographic segmentation of China based on location, economic development, and local culture (Schmitt, 1997; Swanson, 1998). While these geographic divisions have significant implications for understanding the Chinese consumers and improving marketing strategies, geographic segmentation studies based on empirical data and representative samples of Chinese consumers are non-existent. Based on economic development and consumer purchasing power, this study proposes to examine seven regional markets in China: South, East, North, Central, Southwest, Northwest, and Northeast (Figure 1). Several groups of provinces have been used to designate the various regions of China in both historical and modern times (Batson, 1996). Close to one another in terms of physical proximity, and economic and cultural similarity, these regions represent the “natural markets” in China. While resource endowment and



Note: The regional boundaries are simplified, thus do not reflect the actual demarkations

Figure 1. China's seven regional markets

"Growth markets"

historical development partially explain the regional differences, the tremendous economic disparity between coastal cities and hinterland regions is also the creation of recent government policy to "let some people get rich first" (Khan *et al.*, 1993).

Regional markets in the South and East represent China's "growth markets". They are more advanced in economic development and have more affluent consumers than hinterland provinces. South China (Hua-nan) includes Guangdong, Fujian, and Hainan Provinces (Figure 1). This regional economy was the first to attract foreign investment with its four original special economic zones (SEZs), and become the most outward-oriented. In recent years, it has embarked on transforming itself from labor-intensive operations to high tech manufacturing. Guangdong has become more integrated with the economy of Hong Kong. Fujian has many investors from Taiwan, and is renewing its ties with the island. This region also represents the 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 percent of the country's population, are among the most prosperous in China. Close to Hong Kong and Taiwan, they have long been exposed to foreign products and tend to emphasize conspicuous consumption (Ariga *et al.*, 1997).

East China (Hua-dong), around the mouth of the Yangtze River, consists of the municipality of Shanghai and the provinces of Zhejiang and Jiangsu (Figure 1). This regional market is densely populated and highly urbanized. The most prosperous in Chinese history, this region is productive in both agriculture and industries. In recent years, it has become China's industrial powerhouse, boasting 30 percent of the country's industrial output (Batson, 1996). The delta area is also sprawling with medium-size cities such as Wuxi and Suzhou that specialize in textile and light industry manufacturing. Known as the "head of the dragon," Shanghai is the industrial and financial center of China and the gateway to the 200 million consumers in East China. 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. Consumers in this regional market are the most innovative and cosmopolitan, setting trends in fashion and lifestyles.

“Emerging markets”

The “emerging markets” in North, Central and Southwest of China have become increasingly attractive to global companies. North China (Hua-bei), including Beijing, Tianjin, and the provinces of Hebei and Shandong, historically has been the geopolitical base of this country (Figure 1). This regional economy has been growing fast over the last few years and attracted investment from many countries (Batson, 1996). Close to the center, with access to key government agencies, this region is making tremendous investment in industries such as telecommunications, computer technology, and pharmaceuticals (Child and Stewart, 1997). With a number of port cities, this regional economy is increasingly open. Shandong is the biggest agricultural province in China and has some of the best township enterprises in China. Beijing as the nation’s capital also represents the culture of North China – the Jing-pai culture – attaching great value to the Confucian doctrines of hierarchy, stability and control. Consumers here are relatively conservative and emphasize intrinsic satisfaction, yet are still open to new product ideas (Ariga *et al.*, 1997).

Central China (Zhong-yuan) includes the provinces of Henan, Hubei, Hunan, Jiangxi and Anhui, is the heartland of China with heavy emphasis on agriculture (Figure 1). The perennial flood and drought pose a great threat to its natural resources, and make some parts of the region the most impoverished in the country. Despite its industrial base, this region is relatively less developed due to its landlocked location. In recent years, these provinces have been trying to energize their economies and catch up with coastal areas. Headed by the industrial city of Wuhan, they have shown more respectable growth than in the past and emerged as an excellent opportunity for foreign investment. This region also has diverse local cultures in dialects, cuisine, and operative styles, etc. With limited purchasing power, consumers in this region largely follow the trends in major metropolitan and coastal areas.

Of interest to foreign companies

Southwest China (Xi-nan), including Yunan, Guizhou, Guangxi and the most populous province of Sichuan (over 110 million people), has always been of interest to foreign companies (Figure 1). Despite its industrial output and tremendous population, most foreign firms find the consumer market there sluggish (Batson, 1996). The topography of plateau and basin makes this region closed-in and less accessible. Headed by the new municipality of Chongqing, this region is expanding its economic base to develop various industries. Its subtropical forest in the far south is as exotic as the Shangri-La, attracting a huge influx of tourists every year. With rich endowment of natural resources and better transportation infrastructure, this region has great potential as both a manufacturing base and a consumer market. Many of the country’s ethnic minorities reside in this area, making it the most culturally diverse region of the country. Relatively isolated from other parts of China, consumers have a slow pace of life and are less exposed to foreign goods.

Northeast and Northwest remain the “untapped markets”, still waiting to be explored by foreign firms. Northeast China (Dong-bei) refers to the three provinces of Heilongjiang, Jilin and Liaoning, with the port city of Dalian. This region emphasizes heavy industries such as mining, automobile and machinery manufacturing found in its old industrial cities. In the far north of China, this region has the longest winter, limited agricultural output, and little variety in food products. As the “rust belt” of the country, this regional economy has been slow in reforming its economy and state-owned enterprise. People here are still struggling with the remnants of the command economy and have been slow in reaping the benefits of reforms. Manchurian and Koreans are the biggest ethnic minorities in the region and have great impact on local cultures.

Overall market potential of China

Northwest China (Xi-bei) includes Shanxi, Shan'xi, Inner Mongolia, Gansu, Ningxia, Xinjiang, Qinghai and Tibet. Among the high mountains and expanding desert, this region has the largest geographic area yet limited arable land and industrial output. The "Empty Quarter" of the Far West, sparsely populated and the least accessible, is relatively backward and poor (Barnett, 1993). Xi'an, the nation's ancient capital and a tourist hot spot, is the cultural capital of the region. Mongolians, Muslims, and Tibetans are the major ethnic minorities in the autonomous regions. To close the gap between the interior and the coastal areas, central government has launched a "Fupin" (help the poor) campaign and encouraged more investment in this region. Foreign investors have been given the same privileges previously available only in coastal areas and access to industry sectors restricted in other regions (Verma, 1995).

It is important for MNCs to understand the overall market potential of China as well as regional differences (Aguignier, 1988). Each regional market has its unique geographic topography, economic base, and cultural heritage. Consumers in various regions are also known to differ in income, values, lifestyles, and extent of contact with the outside world. These differences in turn affect people's perception of foreign goods and their purchase readiness, and present tremendous hidden barriers between the markets, making it difficult for MNCs to exercise a national marketing and distribution strategy (Verma, 1995). Thus, for MNCs striving for a nationwide presence, understanding the impact of regional variations can improve planning and marketing strategies. Since sales of foreign goods are limited to the cities, a national survey representing the entire urban population and containing data of those dimensions would be necessary for such a study.

Method

The data come from the 1997 national survey of Chinese consumers conducted by the Gallup Research Company Ltd (China), its second such survey in China. Using a pure probability-based sample of 3,727 households, the survey covered all the provinces, autonomous regions, and municipalities, from Heilongjiang in the far north to the southernmost Hainan, and from Shanghai to Lhasa, including 41 major cities in China. Gallup's professional staff conducted hour-long in-home interviews using seven languages and dialects. Each interview comprised more than 400 questions from a structured questionnaire. The survey's scientific sample design and nationwide coverage provided nationally representative findings for various regions and demographic groups.

Demographic information

The data set contains demographic information of the head of household such as family income, age, gender, marital status, and location of residence. The survey also measures a series of consumer attitudes, lifestyle activities, media usage, consumption patterns (ownership of durables, and purchase of consumables in the last month), and recalls of numerous domestic and foreign brands. The survey furnishes 1,620 completed interviews from urban areas of China, thus providing an accurate representation of its urban consumers. Regional differences across various dimensions are tested using Chi-square statistics and the analysis of variance procedure (ANOVA).

Results

Based on average annual household income, these regional markets fall into three distinctive levels of market development. South China and East China, both with average annual household income more than 20,000 yuan (\$2,415), represent the "growth markets" (Table I). In next three regions

Region	South China	East China	North China	Central China	South-west	North-east	North-west
Sample size	12	39	398	226	553	226	70
Demographics							
Household income*	27,481	24,659	12,993	13,831	14,008	8,683	7,770
Age*	41	43	40	39	42	42	38
Education*							
Elementary/less (%)	16.6	7.7	10.7	12.2	28.1	19.0	41.7
High school (%)	66.7	69.3	62.8	69.5	56.2	69.0	46.3
College and beyond (%)	16.6	23.1	26.4	18.3	14.8	12.0	2.8
Occupation*							
Professionals (%)	18.2	12.5	9.3	12.8	12.0	4.8	2.9
Factory workers (%)	18.2	27.5	27.8	34.8	15.2	20.2	5.7
Office workers	9.1	10.0	3.3	3.2	8.4	2.6	1.4
Government officials	0.0	10.0	23.8	6.4	6.3	9.7	0.0
Service	9.1	5.0	2.3	4.8	2.9	5.3	0.0
Other large group	9.1	5.0	3.8	4.8	8.0	15.4	70.0
	(Student)	(Retail)	(Retail)	(Retail)	(Agri-business)	(Home-maker)	(Agri-business)

Note: * Significant at 0.001

Table I. The seven nations of China

including North China, Central China and Southwest China, annual household income falls between 10,000 and 20,000 yuan (\$1,210-\$2,420). They are the “emerging markets” of China, which have begun to enjoy the benefits of reforms. Annual household income in Northeast and Northwest – the “untapped markets” – still falls below 10,000 yuan (\$1,210). The average household size is about four in all regions, which is not surprising due to the strict family planning policy in China.

The results further reveal dramatic differences among consumers of various regions in many dimensions, which are statistically significant mostly at the 0.001 level. First, in terms of educational attainment, most heads of households have high school education regardless of the region (Table I). However, North China and East China lead the nation in attainment of college education, with 26.4 percent and 23.1 percent respectively, followed by Central China (18.3 percent), South China (16.6 percent), Southwest (14.8 percent), Northeast (12 percent), and Northwest (2.8 percent). The percentage of the population with only elementary education is 47.1 percent in Northwest, compared to 7.7 percent in East China. As for occupation of the head of household, factory worker is the largest category in all regions except Northwest, ranging from 34.8 percent in Central China to 5.7 percent in Northwest. Four regions including East China, North China, Central China and Northeast China have over 20 percent in this category. It is notable that South China has the highest percentage of professionals (18.2 percent), East China has the largest number of office workers (10 percent), and North China tops the list in terms of government employees (23.8 percent). Northeast has the largest percentage of home makers (unemployed) while 70 percent of the

Dramatic differences among customers

Notable differences across regions

residents in Northwest still consider themselves to be in the agri-business. These differences reflect not only the concentration of these occupations in various regions, but also to some extent the local economic orientations.

Comparisons of consumer psychographics show notable differences across regions (Table II). Over 80 percent of the consumers in North China, Central China, Southwest and Northeast are satisfied with their lives. However, only some 60 percent of people in South China and East China – the most affluent regions – feel the same way. The same is true for people in Southwest and Northwest. People in the poorest areas, 67.1 percent in Northwest and 44.2 percent in Northeast, feel strongly about wanting to “work hard and get rich”, more so than people in South China (33.3 percent) and East China (31.6 percent). On the other hand, residents from affluent regions are more individual-oriented – to “live one’s own life” – with 41.7 percent in South China and 42.1 percent in East China. North China (12.7 percent) leads the nation in wanting to be “pure and honest” while Northwest ranked the lowest with only 4.3 percent. There is a bipolar distribution in favoring foreign brands in that the richest region ranks the highest (South China with 36.4 percent), and the poorest region ranks the second (Northwest China with 35.7 percent) while all other regions fall under 30 percent.

This study focuses on several lifestyle activities, including going to the movies and park, dancing, traveling, and listening to music (Table III). Residents in South China and East China ranked the highest in traveling (45.5 percent and 47.5 percent respectively), listening to music (75 percent and 62.5 percent respectively), and going to the park (66.7 percent and 51.3

Region	South China (%)	East China (%)	North China (%)	Central China (%)	South-west (%)	North-east (%)	North-west (%)
Satisfaction with life*	66.6	67.5	81.3	80.2	66.8	81.3	67.6
Work hard and get rich*	33.3	31.6	30.7	34.6	42.3	44.2	67.1
Live one’s own life	41.7	42.1	40.4	38.1	33.6	31.9	20.0
Pure and honest	8.3	10.5	12.7	11.9	9.3	9.3	4.3
Opinion seeking*	66.6	56.4	58.8	57.1	46.8	59.7	47.9
Favor foreign brands*	36.4	27.5	22.2	24.1	19.6	28.1	35.7

Note: * Significant at 0.001

Table II. Psychographics

Region	South China (%)	East China (%)	North China (%)	Central China (%)	South-west (%)	North-east (%)	North-west (%)
Going to movie*	33.3	41.0	40.4	37.2	41.4	2.4	10.0
Going to park*	66.7	51.3	31.8	50.0	37.5	31.6	12.9
Listening to music*	75.0	62.5	42.4	50.0	43.6	35.6	36.6
Traveling**	45.5	47.5	42.1	42.0	38.2	37.6	16.9
Dancing*	25.0	23.1	17.7	27.9	22.3	32.9	4.3

Notes: * Significant at 0.001; ** Significant at 0.01

Table III. Lifestyle activities

The most popular medium for information

percent respectively). Going to the movies is the highest in Southwest (41.4 percent), followed by East China (41.0 percent) and North China (40.4 percent). While Northeast ranked the lowest in going to the movies (2.4 percent), they visit the dancing halls more often (32.9 percent) than residents in the other areas (mostly in the 20 percent range). Overall, consumers from the developed areas enjoy more active lifestyles, and consumers from poorer regions engaged in less costly activities.

Television is by far the most popular medium for information and entertainment among Chinese consumers (Table IV). While most people reported watching cable TV, for instance, 83.3 percent in South China and 68.3 percent in North China, Northeast and Northwest obviously lag behind in accessing this new medium (28.3 percent and 14.3 percent respectively). Most of them still watch mostly broadcast TV (71.6 percent and 53.5 percent respectively). While radio usage is very low in East China (5.1 percent) and South China (8.3 percent), it remains a very popular medium in some other parts of the country, for instance, Central China (46.8 percent) and Southwest (40.7 percent), making it a good bargain as an advertising vehicle for these local markets. Newspaper readership ranks the highest in East China (82.1 percent) and South China (75 percent). Regions in the “emerging markets” fall between 46.1 percent and 54.8 percent. Northeast (29.6 percent) and Northwest (16.9 percent) have the lowest newspaper readership. This is largely consistent with the level of education among the consumers of various regions. Central China leads the regions in magazine readership (44.7 percent), followed by North China (40.1 percent), and Southwest (36.7 percent). Northwest ranks the lowest with only 9.9 percent, next to South China (2.5 percent). However, this survey did not include program content or print titles..

Significant differences in consumption patterns

In most product categories, there are significant differences in consumption patterns across these regional markets (Table V). As for traditional durables such as refrigerator and washing machine, ownership rates largely fall on the income line, headed by the “growth markets” (87.5 percent-94.9 percent), followed by the “emerging markets” (64.2 percent-87.2 percent), and “untapped markets” (24.7 percent-78.7 percent). However, for microwave oven, vacuum cleaner and air-conditioner, which are relatively new in China, East China leads the nation (51.3 percent, 41 percent and 59 percent respectively), followed by South China, North China, and Central China, and so on. One exception is Northeast China, which ranks higher in ownership of vacuum cleaner (12.4 percent) than all other regions except East China. Ownership of the traditional electronics such as color television is largely aligned with the income level – 100 percent ownership in South China while only 44.3 percent in Northwest. Residents in South China rise above the whole nation in ownership of CD player (50 percent), camcorder (8.3

Region	South China (%)	East China (%)	North China (%)	Central China (%)	South-west (%)	North-east (%)	North-west (%)
Broadcast TV*	25.0	52.5	31.3	38.0	43.4	71.6	53.5
Cable TV*	83.3	69.2	68.3	68.9	68.8	28.3	14.3
Radio*	8.3	5.1	24.9	46.8	40.7	23.0	20.0
Newspaper*	75.0	82.1	54.8	50.8	46.1	29.6	16.9
Magazine*	25.0	30.8	40.1	44.7	36.7	32.9	9.9

Note: * Significant at 0.001

Table IV. Media usage

Region	South China (%)	East China (%)	North China (%)	Central China (%)	South-west (%)	North-east (%)	North-west (%)
<i>Durables</i>							
Refrigerator*	91.7	94.9	74.7	69.6	64.2	39.6	24.7
Washing machine*	90.9	87.5	77.6	87.2	74.1	78.7	34.3
Microwave oven*	18.2	51.3	6.0	4.5	3.6	2.7	0.0
Vacuum cleaner*	8.3	41.0	7.5	6.4	2.9	12.4	1.4
Air-conditioner*	50.0	59.0	12.0	16.7	9.6	2.3	5.7
Color TV*	100.0	97.5	90.8	85.4	79.0	87.3	44.3
CD player*	50.0	33.3	13.3	9.7	21.1	4.8	4.3
Camcorder*	8.3	5.1	2.7	4.1	2.7	3.5	0.0
VCD*	41.7	28.2	10.2	6.7	9.6	5.3	0.0
Pager*	66.6	61.3	25.0	26.3	29.1	18.1	5.7
Private phone*	75.5	80.0	59.2	47.9	40.5	27.9	8.5
Mobile phone*	9.1	12.5	9.7	10.3	5.0	4.9	2.9
Personal computer*	18.2	7.7	4.5	3.2	4.5	2.7	2.9
<i>Consumables</i>							
Tea*	91.7	97.4	95.8	98.1	86.5	92.9	85.7
Vegetable oil*	91.7	100.0	81.3	96.2	95.9	91.2	80.0
Rice*	100.0	100.0	98.0	99.4	99.6	100.0	74.3
Instant coffee*	25.0	46.2	17.2	10.2	9.6	8.0	4.2
Chocolate*	25.0	43.6	20.8	25.0	11.8	11.1	7.1
Ice-cream*	33.3	35.9	31.4	31.0	20.0	20.4	4.3
Frozen entrée*	33.3	43.6	22.5	26.2	15.4	6.2	8.6
Soft beverage*	58.3	72.5	35.3	39.7	30.9	22.1	12.9
Liquor*	33.3	43.6	71.0	65.1	45.8	84.1	24.3
Beer*	45.5	61.5	77.8	59.6	42.0	44.2	18.6
Wine*	16.7	28.2	33.8	20.8	12.5	16.4	2.9

Note: * Significant at 0.001

Table V. Consumption patterns

percent) and VCD (41.7 percent). Penetration of camcorder and VCD in Northwest is literally nonexistent.

Main determinant in ownership of information appliances

Income appears to be the main determinant in ownership of information appliances including pager, telephone, cellular telephone, and personal computer. Ownership of private telephones and pagers in East China (80 percent and 61.3 percent respectively) is twice that in the “emerging markets” and about ten times that in Northwest China (5.7 percent and 8.5 percent respectively). While 18.2 percent of the households in South China sport a personal computer, only 2.9 percent of families in Northwest have access to a PC at home. Overall, South China leads the nation in ownership of luxury products such as CD player, Camcorder, and VCD, while East China usually pioneers in “lifestyle” products like microwave oven and vacuum cleaner.

Purchase of consumables deals mainly with selected food and beverage products. In terms of traditional food and beverage items including rice, cooking oil, and tea, there are very small variations across regions (80 percent-100 percent). Thus, the basic items for Chinese cooking are the same for all regions. For other new or Western products like instant coffee and ice-cream, discrepancy in purchase is obvious in that penetration rate in affluent regions is much higher than that in poor regions. Consumers in East China

Differences across the regional markets of China

top the list in purchasing instant coffee (46.2 percent), chocolate (43.6 percent), ice cream (35.9 percent), frozen entrée (43.6 percent), and soft (carbonated) beverage (72.5 percent). Households in South China follow closely in these categories. Northeast China, however, leads the nation in purchase of liquor (84.1 percent), while North China ranks the highest in purchasing beer (77.8 percent) and wine (33.8 percent). Overall, purchase rate of alcoholic beverages is much higher in the north than in the south and west (Table V).

Discussion

Major findings

Results of this study show statistically significant differences across the regional markets of China in nearly all dimensions and reveal the heterogeneity among the Chinese consumers. While South China leads the nation in consumer purchasing power and in adopting new and luxury goods, consumers in East China are the trendsetters in “lifestyle” products. While traditional goods such as refrigerator and color TV have saturated these regions, many new products have also penetrated these markets to a great degree, and in many cases, several times the rate in other regions. Consumers in these regions maintain active lifestyles and are more individually oriented. Meanwhile, they feel less content as well as having a sense of uncertainty. This is not surprising as most economic reforms and social experiments started in these regions and consumers here have been undergoing dynamic changes in many aspects of their lives. Yet it is perhaps for the same reason that consumers in these two regions are the pioneers for the rest of China.

Consumers in the “emerging markets” of North, Central and Southwest China are generally satisfied with their lives and relatively conservative. As they attempt to catch up with those consumers in coastal areas, penetration of many new products is much lower. While they rank higher in consumption of certain products such as liquor and beer, there remains a significant gap between them and those from affluent coastal areas in most product categories. Consumers in the “untapped markets” of Northeast and Northwest purchase the traditional products like the rest of China. However, the penetration rate of most “modern” products such as VCD and computer in these regions represents only a fraction of that in the affluent coastal areas, and in a number of cases is virtually non-existent. Although these consumers have a stronger desire to improve their lives and even favor foreign brands, they are largely uninformed and immobile. With barely one-third of the household income of the coastal areas, consumers in these regions still live in relative poverty.

Cost-effective advertising vehicle

As television has penetrated the majority of the households in most regions, it has risen to be the popular medium among Chinese consumers. Although radio listening has declined dramatically in coastal regions, its usage remains high in the emerging and untapped markets, making a cost-effective advertising vehicle for these regions. By contrast, consumers in the “growth markets”, with a higher level of education, spend more time reading newspapers. Foreign marketers need to consider these media usage patterns when planning marketing programs and advertising placement. Furthermore, their distinctive attitudes towards life and work and discrete levels of preference for brand-name products and foreign goods suggest that advertising messages are relevant to local consumers.

While there is little regional difference in purchase of traditional household items, the effect of income is apparent in the consumption of new or western

Notion of a single China market

products and luxury goods. On the other hand, penetration of some products does not always follow the income line. Climate conditions obviously affect the ownership of such products as air-conditioner. In some cases, poorer regions rank higher than affluent regions, for instance, vacuum cleaner and alcoholic beverages. The high ownership of vacuum cleaners in Northeast perhaps derives from in-home carpeting, which is popular in this coldest part of China. As a matter of fact, consumers from Northeast and Northwest prefer foreign goods more than consumers from more developed markets, contrasting their high expectations with limited purchasing power.

These findings suggest that the notion of a single China market is at best inadequate and can lead to misconceptions about the opportunities and risks in China. The increasing regional disparities and consumer heterogeneity present significant challenges for MNCs to exercise a uniform approach to these local markets. On the other hand, these regional characteristics provide a meaningful basis to firms to select target markets, establish an agenda for expansion, and improve marketing effectiveness by considering these local market conditions. The tremendous differences among consumers across various regions may also affect MNCs' operations in other areas such as product introduction, media planning, advertising appeals, and distribution intensity.

Like other economies in transition, the Chinese society continues to evolve along many dimensions, and boundaries of these market segments may shift over time (Batra, 1997). Given the dynamic political, economic and social environment in China, future studies need to pay close attention to changes in government policies and their impact on regional economic development, market structure, and consumer income. At present, studies of Chinese consumers have largely focused on urban residents. As the rural economy continues to develop, studies of rural consumers will make a significant contribution. Findings of this study also provide an interesting basis for comparison with the regional markets in other BEM countries and for formulating a model that incorporates regional variations in MNCs' global strategies.

Increasing openness

Implications for marketing strategies

Despite China's increasing openness and gradual integration into the world economy, and government effort to close the widening regional gaps, local market disparities in the country are persistent and in some cases have grown more pronounced. Discrepant income, various local cultures and lifestyles, and diverse consumption patterns result in different levels of consumer readiness and responsiveness to marketing efforts. Thus, the distinctive characteristics of consumers in various regions can help firms determine the appropriate target market(s). Depending on the product category and its price position, a firm can estimate the effective size of its target market and enact a proper marketing mix. Systematic research of regional variations also can help plan for new product introduction and expansion strategies, and overcome the hidden barriers between the regions.

South and East China represent the growth markets and remain the best prospect for foreign goods. Consumers in these regions are well informed and have become more sophisticated. While there is still untapped potential in these regions for many products, the add-on and replacement markets, and customer services have become increasingly important (Batra, 1997). As MNCs attempt to gain a firm foothold and a competitive position in these markets, mounting competition puts pressure on firms to adopt focused

Income has a direct impact on demand

strategies in order to stay ahead of the rivals. For small and medium-sized companies, the best course of action is to concentrate on a single regional market, perhaps to start with China's major cities – Guangzhou, Shanghai, and Beijing – which have better infrastructure, and relatively affluent and more receptive consumers. People in prosperous coastal cities and major metropolitan areas are considered the trendsetters and opinion leaders for the rest of China. This location allows MNCs to identify the upcoming consumer trends in a timely fashion and respond to the changing needs of consumers rapidly and cost-effectively. Thus, sequential expansion is more feasible than rushing into deferrable projects only to seek remedial measures later. Companies have constantly to monitor their progress, evaluate and modify their expansion strategies as their businesses grow in China.

However, as firms attempt to move beyond coastal areas into inland regions, to explore the local markets or to maintain competitive parity, accurate demand forecast and viable strategies are critical. As firms follow the imperatives of growth and competition, they need to bear in mind that income has a direct impact on demand for most products and the “emerging” and “untapped” markets represent only a fraction of the coastal areas. It will take a longer time and more resources for firms to penetrate the inland regions and see any return on investment. Furthermore, discrepancies in the level of consumer awareness, development in infrastructure such as transportation and communication, education and skill of the local workforce, all present significant challenges. If a firm decides to enter these regions, meaningful strategies in advertising, promotion, and distribution are needed to create a critical mass of local customers in a reasonable period of time before escalating costs jeopardize the company's long-term prospects in the country (Yan, 1998).

Target marketing or the concentrated strategy may well be advised for upscale luxury products. Meanwhile, depending on the product category and available resources, MNCs may opt to employ the differentiated strategy targeting several regions at the same time. Differentiated strategies may also be adopted if a foreign marketer can deliver a line of products at different quality and price points appealing to several segments. Furthermore, foreign marketers need to consider regional variations in consumer psychographics and lifestyles when devising advertising and promotional strategies (Batra, 1997). Integrating local consumers' attitudes and media usage patterns can help improve cost-effectiveness of marketing programs. Thus, MNCs need to “plan nationally and act locally” – focusing the overall market trend while paying attention to regional differences.

Inadequate logistic infrastructure

Owing to the inadequate logistic infrastructure and the “long” channel systems in transitional economies, distribution intensity and a “push” strategy are particularly important for reaching fragmented markets (Batra, 1997). As China's distribution networks continue to evolve along regional lines, a strategy that works in one region may not automatically translate into success in another, or may prove to be a blunder. The whole array of regional disparities warrants a localized approach to distribution strategies. Unilever, for instance, successfully introduced its Wall's Ice-Cream in Beijing and Shanghai using different distribution vehicles adapted to the local environments. As foreign marketers move beyond coastal areas, they are likely to encounter inter-provincial rivalry, trade barriers, and local protectionism. Thus, many MNCs are eventually forced to treat each region separately as they have to negotiate separate partnerships in various regions (Batson, 1996). Although the “wholly foreign owned enterprise” has

Challenge to MNCs

become increasingly popular as a mode of entry and expansion, joint efforts with strong local partners can help diffuse the risks and improve performance in the less developed markets.

MNCs have much to learn about and from these markets, and decisions must be based on intimate knowledge of the marketplace and consumers instead of intuition (Prahalad and Lieberthal, 1998). The continuous evolution of China's regional economies will create a plethora of opportunities as well as daunting challenges for MNCs in the years to come. As MNCs strive to appeal to the divergent needs of consumers across regions, many local firms with a longer operating history and a loyal customer base have quickly learned the rules of the game and become formidable competitors. Thus, before MNCs make incremental commitment of resources to further expansion in the country, firms need to develop a realistic understanding of opportunities and risks in each regional market and to devise sustainable strategies that contribute to long-term superior performance.

While there may appear to be a global segment of middle class consumers in the BEMs, local market conditions in these countries continue to challenge MNCs. Instead of just moving traditional product categories or engaging in "proprietary" practices developed in other markets, global companies should focus on enhancing the value to local consumers. Only in so doing can MNCs increase the economy of scale and strive for increasing returns in these new markets (Vandermerwe, 1997). Firms need to strike a balance between a global orientation and local conditions so that they can maximize market coverage, minimizing risk exposure, and optimize their overall performance (Yavas *et al.*, 1992). MNCs should identify the best practices by leveraging their experiences and knowledge in these countries and develop more effective approaches to the BEMs.

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This summary has been provided to allow managers and executives a rapid appreciation of the content of this article. Those with a particular interest in the topic covered may then read the article in toto to take advantage of the more comprehensive description of the research undertaken and its results to get the full benefit of the material present

Executive summary and implications for managers and executives

Chinese regions – a new frontier for consumer goods investment

China is a huge place – over 1,000 million people spread over a vast land area. It is difficult for those of us in the west and especially people in Europe to comprehend just how big a market China represents. Nevertheless, as Cui and Liu report, the extent of foreign direct investment into China has matched the size of the country in recent years.

The results of this investment are mixed – some companies have succeeded in establishing a firm foothold in China while others have struggled to make their investment pay. Cui and Liu suggest that one factor helping create this mixed picture is the failure by western businesses to appreciate the regional variations within China.

Chinese people are not one homogeneous mass but contain a wide variety of regional variations – in language, in ethnicity and in income and wealth. It is true that the South and East of China – centred respectively on Hong Kong and Shanghai – now have standards of living rapidly approaching those in many western countries. But the remainder of China still lags far behind these developed areas and even further behind the west.

China as a consumer market

The Gallup research described by Cui and Liu shows how the adoption of household durable goods has reached fairly high levels in the South and East of China while the interior – and especially the North West – remains mired in poverty and dominated by semi-subsistence agriculture.

Given this situation and the desires of western consumer goods firms to exploit established markets we can anticipate that the engine room of Chinese economic growth will continue to be the successful provinces around Hong Kong and Shanghai. This is not to say that the benefits of this growth will not be seen in the Chinese interior, but it reflects the fact that, in terms of consumer markets, China is smaller than western firms imagine.

The most sensible approach for the consumer goods firm looking to China as a market is to see the country as a number of distinct opportunities rather than as a whole market. If this approach is adopted the investing firm can identify clear goals that reflect the differences in lifestyle and the variation in economic growth and per capita income.

Infrastructure – the key to economic growth

One factor that has influenced the differential growth rates in Chinese regions is the poverty of much of the country's infrastructure. The further one goes from the coastal strip the more difficult it is to get about. The north west region – including the occupied country of Tibet – is big on mountains and deserts but lacks decent roads, railways and airports.

It is clear that the Chinese government and local businesses are aware of the need to improve transport connections between the coastal provinces and the interior. But such projects are both expensive and difficult to build – it is understandable that the Chinese authorities have focused on encouraging development along the coast since it is here where the majority of Chinese people live.

At the same time the gradual erosion of authoritarian restrictions over travel has heightened the distinctions between the rich and poor parts of China.

Internal migration remains difficult but a growing number of people from poorer parts of China are now aware of the disparities of wealth and income within the country. The long-term stability of China requires that the authorities begin to redress this imbalance through encouraging investment in the less developed regions.

Planning a China strategy

Cui and Liu suggest that businesses investing into China and seeking to develop consumer markets need to “plan nationally and act locally” – “... focusing the overall market trend while paying attention to regional differences.” The authors point out that a successful strategy in one region of China will not necessarily transfer to another region, especially given the problems with distribution.

Cui and Liu also warn that firms moving beyond the coastal provinces “... will encounter tremendous regional differences, trade barriers and local protectionism”. These differences mean that some companies are obliged to treat different regions almost as different countries and to negotiate separate partnerships in each area of operation.

The investor who travels to Hong Kong, goes on a whistlestop tour of the South and perhaps flies to Beijing to contact national government officials is not prepared for entry into the country as a whole. This firm’s strategy may work in the South but its success in the North or North East will depend on negotiations with authorities local to that region and with local distribution networks.

Most businesses have simply chosen to ignore the vast interior provinces in favour of richer pickings along the coast. It would not surprise me if the Chinese government began to point new investors in the direction of interior provinces by making investment there a priority. The extent to which the authorities in Beijing are able to direct matters in this way will be a measure of their ability to control dynamic provincial authorities in the South and East.

Investing in China is a long game, not a way to quick profits

Cui and Liu observe that the most successful investments in China have been those that have set out to create stable, long-term markets for consumer goods rather than those seeking export opportunities or driven by a belief that “we have to be in China”.

For the foreseeable future, China will provide cheap labour for manufacturing and, at present, has a co-operative government. But a time will come – fairly soon in the South and East – when wages and economic expectations undermine the cheap labour/high return on investment proposition that has driven much of China’s inward investment.

Firms that have created a stable presence in China stand the chance of sustaining their success when firms motivated by low labour costs seek opportunities elsewhere in Asia or in Africa. Without doubt, any firm planning a long-term presence in China has to consider how they will expand into the less-developed regions of that country.

(A précis of the article “Regional market segments of China: opportunities and barriers in a big emerging market”. Supplied by Marketing Consultants for MCB University Press.)