Marketing in China

Before the reforms, under the command economy, Chinese companies took order from the state in production and push the products through state-controlled distribution systems. They never had to advertise, to do consumer research, and to think about marketing strategies. For years, even after the opening and reforms, many Chinese still consider marketing western concept of a dubious practice, something that may be not valid or applicable in China.

Marketing proves to be one of the most challenging parts of China operations, perhaps more so than other areas such as accounting, finance, or research & development. For several reasons, First, infrastructure in marketing is under-developed, including transportation systems, media development, labyrinth of multi-tier distribution channels, and the severe shortage of qualified marketing personnel. Firms attracted to the long-term potential of this vast country must remember to pay sufficient attention to the basics of producing, distribution and marketing a successful product (Country Commercial Guide 1998),

Marketing Strategies

In the early 1980s when MNCs first came to China, many thought of China as a huge market with a homogeneous culture and felt standardized global marketing would be effective in capturing the opportunities and improving efficiency. These feelings were confirmed by the desire of Chinese to acquire western technologies and their fascination with products from the West. After living in an economy of scarcity and shoddy products, the "foreign image" was synonymous with better quality, and very appealing to the Chinese. In many cases, the foreign brand advertising was sufficient to command the attention and to win the admiration of potential customers.

Since in many cases, MNCs are introducing a new product or brand name in a foreign market, the evolution of their marketing strategies is largely analogous to the Product Life Cycle (PLC) and the diffusion process. However, marketing in China presented unique challenges for MNCs and some deviations from the PLC framework. Media systems there were relatively underdeveloped. Lack of advertising space led to rate hikes and auctions. MNCs have deployed various *strategic levers* to achieve their objectives in creating consumer awareness and stimulating demand. Training seminars, demonstrations, and fliers along with a lot of outdoor advertising were popular promotion tools. Instead of straightforward advertising, many firms found event sponsorship just as cost-effective for long term image building in China. However, while some US and European companies considered it a waste of money to advertise before securing the distribution network, many Japanese companies already enjoyed brand recognition by spending literally on “preemptive advertising” -- introducing their names long before products became available in the stores. the Japanese dominate foreign advertisers in China[1].

As China continues its path of economic reforms, its marketplace will become increasingly fragmented. With diverging needs and aspirations, Chinese consumers will demand more choices and greater varieties. Whether MNCs can establish profitable operations depends on in-depth understanding of various consumer segments and their ability to adapt to the local context.

As MNCs expand in China, the marketing infrastructure in the country has also experienced dramatic transformations. In China, as part of economic reform, various western marketing practices have been introduced into the economy. Today, MNCs can deploy a variety of Western style marketing techniques: advertising, sales promotion, personal selling, and public relations. Large TV networks and quality programming that can cover the entire country, and program ratings similar those in the West, have appeared. Consumer promotion has become more frequent as companies try to gain customer loyalty. Sweepstakes and contests with hefty prizes such as cars and overseas trips are popular promotion tools (Table 1). As competition stiffens and Chinese consumers become more sophisticated, marketing in China increasingly looks like how it is practiced in the West. In stead of using the mass marketing approach, more MNCs today have found it necessary to focus on a specific target market and to position the products accordingly.

Many had the feeling that the Chinese would buy anything foreign since they had been deprived for so long. While it is true that the Chinese regard most foreign goods as having good quality and they have been exposed to new product ideas that symbolize modern lifestyles, they would not simply buy anything foreign. Thus, China does not resemble closely the market structure of a developed economy and is unlikely to duplicate the market development process, firms cannot simply duplicate their home-tested marketing programs in China.

As the "mass" market of China has become more fragmented, meaningful market segmentation has grown increasingly important for successful marketing operations. Increasing diversity among China's urban consumers clearly lends support to differentiated marketing strategies. Disparate income and divergent lifestyles and consumption patterns result in different levels of consumer readiness and responsiveness to marketing efforts, and necessitate differentiated marketing strategies, including selection of target market(s), new product introduction and positioning, sales and distribution, and growth and expansion strategies.

For foreign companies that supply consumer goods to the China market, the profiles of the four distinctive consumer groups discussed in Chapter 4 can service as a good starting point for selecting the appropriate target market(s) for the company's products. Depending on the product category and price, firms can determine the target market, estimate its market potential, and enact a proper marketing mix. Consumer demographics such as income and education largely determine their readiness and frequency of purchase of foreign goods. Targeted marketing or the concentrated strategy may well be advised for upscale luxury products. Foreign firms entering the market are recommended to start with Yuppies, who are better educated, wealthier and more receptive. The focused strategy should help penetrating this attractive market segment, including repeat buyers, 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. On the other hand, if a foreign marketer can deliver a line of products at a full range of quality and price points appealing to groups at different income levels, 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 or "stitch-niche" marketing. 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. In this case, a foreign marketer needs to stress quality as well as value of the product, because these consumers do not have enough money to spend frivolously. Likewise, cost containment is essential for lower prices and better turnovers. Today, many foreign products have moved from department stores and boutiques into discount stores and supermarkets, which have become immensely popular among many China's urban families.

Since most domestic Chinese brands are based at the provincial and municipal levels and have a long history, they understand the local markets well and have a loyal customer base. Foreign marketers need to pay more attention to consumer psychographics as they position their brands versus those of competitors. Emphasis of the "foreign made" image is definitely appealing to Yuppies, but also to many households from the Little Rich and Salary Class segments. Meanwhile, Yuppies have become more sophisticated, Little Rich families feel less secure, and Salary Class households have less to spend. Foreign marketers need to address these concerns and adapt their marketing strategies, perhaps by emphasizing greater value, product durability, warranties and services. More MNCs today have set up customer service and call centers in China.

Thus, in recent years, localized approach to marketing has gained momentum in China. As many MNCs have realized that China is far from an extension from their home markets or that of another market such as Hong Kong and Taiwan, duplication of previous marketing approaches would not effective in China. Coca-Cola, for instance, have developed several local brands, and adopted message appeals relevant to the Chinese market. Localization requires ingenuity and creativity, and deployment of local talent, using local celebrities to endorse their products.

MNCs tend to globalize to coordinate its worldwide marketing operations, and at the same time localize certain aspects to be effective in the local market context. Thus, the strategy of "glocalization" represents an effort to localize to the Chinese context. More MNCs today views China as a part of the emerging markets around the world, and in the close context of its Asian neighbors such as India and Indonesia. However, due to its sheer size and growth potential, China has commanded more attention and attracted more investment from MNCs.

Product Selection and Development

The first lesson any businessman learns is: know your market. Yet it is surprising how often even the largest companies misread the Chinese public's appetite for their products. A number of companies have stumbled on the first step of marketing. Take General Motors. The US car maker had wanted to break into the Chinese market for some time. Volkswagen had been doing very well there with its small cars and demand looked certain to rise. Because of the poor state of the roads, GM was certain that its two-seat pick-up truck would prove popular. It turns out that GM knew the roads but not the drivers[2]. As a matter of principle, Chinese drivers do not like to unload the vehicles themselves; that is the job of laborers. With only two seats, there was no room for any laborers. The pick-up truck was a disaster and the model never made a profit. General Motors will be hoping that things go considerably better with the four-wheel-drive vehicle assembly contract that it recently won in Shanghai.

Many products considered inexpensive in the West continue to be a treat for the average Chinese family. This strategy worked for many MNCs in the early period. Prior to the 1980s, and for years after that, quantity of goods was never a top priority for the Communist industrial planners under the command economy, and got lost in the process of just making enough to provide for the exploding population. Thus, for decades, Chinese consumers took whatever was provided as good products, which were shoddy, lacking durability, service, variety, or any aesthetic appeals. There are other reasons to support the proposition that products of medium quality would be good for the China market. China's dismal records of protecting intellectual property rights led to reluctance to transfer technology and to introduce the most advanced products. The fear that their Chinese partners may use these advanced technologies to make their own products, have also heightened the perceived risk in investing in advanced technologies. In addition, making top quality products in China requires substantial investment in advanced technologies and manufacturing equipment, which will inevitably put tremendous pressure on operations and perhaps a longer time to recoup the investment.

Over time, however, several cases have proved this perception wrong. In the 1980's, foreign consumer goods were better and more expensive than Chinese items and were equated with quality. However, many foreign manufacturers exploited this perception by shipping factory seconds and rejects to China, and Chinese consumers quickly noticed the deterioration of quality[3]. Both Whirlpool and Peugeot, for instance, introduced outdated products to the Chinese market. This was attributed partially to the failures of their joint ventures in China. In the last two decades Chinese consumers' perception of quality has undergone dramatic transformation. They have been exposed to a variety of imported goods, which are often of better quality than those made domestically, making it easier for them to do comparison shopping among the slew of top-notch foreign companies vying for their disposable income. As the emerging middle class feel more secure and ready to spend, they are demand products of superior quality, more choices, and reasonable prices. Even though only a small group of wealthy elites can afford high quality products which often come with hefty price tags, Burberry umbrella, Italian suits and leather. For most Chinese, they demand the best quality from the best companies when it comes to purchasing "foreign goods" with their long term savings. Today, Chinese consumers, government agencies, and potential partners would frown upon foreign companies who introduced outdated technologies. In contrast, it would be easier to win the support of government and the heart of consumers with the introduced of the most advanced technologies, such as General Motors. VW protested as GM entered China.

Meanwhile, as the quality of local goods improves and imported goods lose scarcity value, markets initially favoring global consumer marketing may turn inward and favor local products or lead to a backlash of global brands (Alden, Steenkamp and Batra 1999; Arnold and Quelch 1998). In 1995, Sony received numerous consumer complaints because the replacement parts for its televisions were not available in China. The ensuing response compelled Sony to improve post-sale services by establishing a maintenance center in China, its largest in Asia. To avoid similar costly mistakes, many MNCs followed suit in strengthening after-sale service. Meanwhile, an increasing number of Chinese manufacturers have met the "international level" quality standards and acquired prestigious certifications including ISO 9000. For instance, Changhong has over the years become the most popular brand of television in China. As they usually have to spend family savings on durable goods, the ordinary Chinese consumers are rather value-conscious and have become in recognizing good values in domestic products.

The combination of these factors has led to a phenomenon, common to many other emerging markets -- frog-leap in technologies and products, such as in telecommunication and information technologies. Today, China is the third largest mobile phone market in the world only after the U.S. and Japan, even though many Chinese households have yet to install a regular fixed line phone at home. The China market also skipped the 286 and 386 computers, and leapfrogged to 486 and Pentium computers within a few years. The time-frame has been compressed to a matters of years for many sectors of the China market to acquire what took the industrialized nations decades to fully saturated their markets.

In addition, competition from multinational and domestic firms has led to the shorter product life-cycle. The home appliances market is a prime example of market competition and its effect on product selection and development in China. According to a 1996 *Appliance* magazine report, Shanghai today exemplifies China's future appliance market, with increasingly sophisticated consumers wading through a plethora of *global brands*. These consumers are eager to stock their homes with electronics and appliances sporting American, Japanese or European nameplates[4]. The household appliance sector in China has boomed in recent years as incomes have risen and families acquire everything from televisions to washing machines. Yet many of the foreign multinationals which jumped in to try and profit from the demand have found the going tough. It seems that no sooner had demand been identified than an oversupply was created[5]. Over the years, this has quickly resulted in over-supply[6].

As competition intensifies and the product life cycle becomes shorter, timely introduction of new products represents another challenge. To speed up new product introduction, Motorola established an R&D center in China, the only one outside the United States. Coca-Cola has developed several local brands to compete with the Chinese firms. Product line and product mix, line extension.

Distribution and Logistics

Before 1986, distribution in China was very difficult due to the rudimentary market infrastructure. Under the central planning system, there are several levels of distribution channels: central level distributors. provincial level companies, city and town distributors. As much as 80% of all goods in China traveled through the multi-level State-run system. To begin with selling directly was not viable because new entrants did not have access to foreign exchange, were not familiar with purchasing procedures, and lacked contact with the government apparatus. Most MNCs had to deal with State-owned trading companies that were exclusively licensed to operate in certain product areas. For a long time, state-controlled import/export companies were the only game in town. In deciding whether to appoint an agent or distributor, the firm must balance the degree of control it desires against the risk of acting as a principal in a foreign jurisdiction.

China's restrictive regulatory regime prohibits foreign firms from setting up straightforward distribution networks with clear legal standing and forces them to seek creative ways around the restrictions or to rely on Chinese firms, which typically are cash-strapped, unfamiliar with modern marketing techniques, lacking modern facilities and information technology, and highly localized[7]. The limited number of distribution channels was limited and the rudimentary level of marketing expertise of local companies led some MNCs to rely some more direct and more traditional methods. For some MNCs, television advertising was not the front line of marketing offensive in China. In a country dominated by mom-and-pop retailers and sidewalk consumers and where bicycles are sometimes used as delivery "trucks," MNCs such as Avon Cosmetics and Wrigley relied on "grassroots marketing" with some proven effectiveness. Hiring locals as sales associates or franchise dealers to blanket a regional market seemed to work for these companies. In the Chinese culture, which places great emphasis on extended family networks and relatives, "grassroots marketing" would seem a particularly useful marketing approach.

In 1986, China began to reform its state distribution system by relaxing requirements and reducing the number of import licenses and price control. The import process and the wholesale and retail distribution channels may be managed by entities totally separate from the State. Private enterprises in retailing have blossomed. Manufacturers began to sell goods directly to end-users through channels independent from the State. Even in product categories controlled by the state, goods in excess of the state quota can be sold to consumers without passing through the state distribution system. Starting in 1992, the new policy welcomed broad-based foreign participation in the retail sector. Joint ventures in wholesale and trading companies have also appeared. These new developments give MNCs more distribution options and also necessitate the development of an efficient sales force, more effective management of distributor relationships, and improvement of post-sale service. Today, MNCs such as Motorola, Proctor and Gamble and Intel have devoted much resource to developing their own sales force, distribution system, and call centers. Therefore, MNCs started with traditional approaches and have progressed to more innovative systems as the market infrastructure improves over time and new policies allow more flexibility for them to control the distribution of their products in the country.

However, distribution and logistics remain the biggest challenge for many MNCs. The US-China Business Council surveyed 53 US companies that do business with the PRC to learn how they view the distribution climate in China. The late-1997 survey found that an overwhelming majority (around 80 percent) reported that distribution was among the top three problems their firms face in the mainland[8]. Overall, consumer goods companies were far more likely than industrial companies to find distribution problems serious. This frustration reflects the fragmented, regional nature of consumer-product distribution in China, a situation that forces foreign suppliers to spend far more time and resources developing and maintaining distribution networks than they originally envisaged. Companies with 1-3 investments in China report greater difficulties than those with more than 3, indicating firms with multiple investments are benefiting from their greater experience and perhaps finding it easier to consolidate their marketing and distribution functions. The survey reveals that US firms are experimenting with a variety of methods both to structure their networks and physically distribute their products in China. Though one company indicated it employs five different distribution means, the average firm uses two or three. Privately owned Chinese firms are far more popular than those that are State-owned (used by 71 percent and 38.5 percent of respondents, respectively), as they tend to be more flexible and market-oriented. A sizable portion of the companies in the sample (65 percent) report they handle some sales and distribution themselves; this option ranked second only to the use of privately owned Chinese firms. Foreign "distributors" are used by slightly more than one-third of the sample, but respondents indicated these firms typically account for a fairly low percentage of overall sales. Consumer product companies use private Chinese firms most often, while industrial manufacturers are more apt to handle things themselves. These findings are understandable, given that many industrial products are designed for specific processes or industries and may be built-to-order; even those that are mass-produced typically pass through no more than one or two intermediaries, which facilitates in-house distribution. The desire to provide after-sales service and maintenance also probably provides an incentive to industrial producers to take distribution into their own hands. Nearly all of the respondents report they work with one to five distributors in major cities; industrial firms are more likely than consumer product manufacturers to work with a sole distributor in a given city.

The Chinese market has many barriers and bottlenecks that make it extremely difficult for foreign firms to realize the vast potential of the market. Foreign firms looking to enter China must balance the tremendous potential of the market against the daunting barriers to success. Given China's size and diversity, some MNCs find it makes sense to hire many local agents to cover different areas. Lack of warehouse space and adequate equipment such as refrigeration and air-conditioning, poor sanitation conditions, present the biggest problems, and the situation may worsen further inland. Poor warehouse conditions requires careful scrutiny and sometimes extra packaging.

A local partner with established distribution channels and proven marketing ability is valuable. But it is necessary to first research the cargo-handling abilities of the local ports and transport systems in local markets. MNCs must scrutinize the ability of local distributors and transporters to handle customs clearance, intermodal transit, warehousing and inventory management. Alliance with international and domestic transportation companies can help solve some of the problems and avoid the bottlenecks.

Many Western companies also find managing their China supply chains extremely challenging due to long distances and cycle times, and the large number of parties involved. Problems are often compounded by poor inland infrastructure and organizational integration, a lack of adequate resources, and the difficulty in leveraging available information technology. The result in many companies is significant supply chain inefficiency resulting in higher inventory levels, longer cycle time, and higher costs. As a result, the cost of distribution can be very high in China. A report comes from the results of a December 1996 EIU survey of 72 foreign-invested enterprises[9]. The survey revealed that a majority of respondents found distribution costs in China more expensive than in their home countries (most respondents were US- or EU-based companies, roughly split between consumer and industrial product manufacturers).

Following the adoption of the open door policy in the retail sector in 1992, China is now considering to make the same move in the country's wholesale sector. This policy will further dismantle the traditional distribution system created in the planned economy and attract more foreign investors to enter the vast Chinese market. There is an optimistic belief that China will be forced to remove restrictions against foreign participation in distribution activities as part of its accession to the World Trade Organization, and that this move will spur competition that will help consolidate the distribution industry and thereby enable suppliers to streamline their distribution activities. The system may become more stable as weaker state-owned wholesalers are replaced by private Chinese companies or foreign-funded transportation ventures. Until then, China's inefficient distribution processes, antiquated and overcrowded infrastructure will remain barriers to successful market expansion for MNCs in China.

In the past many foreign consumer product companies have relied on Hong Kong agents and distributors, experienced in getting goods into Chinese stores through their connections. The other alternative for importing goods is to use Chinese foreign trade corporations which have permission to import foreign goods. Formerly restricted to a few state-run companies, there are now more than 1,000 companies with import rights for general consumer products, some run by China's new entrepreneurs[10]. Now there is a greater variety of agents and distributors to choose from and competition and industry specialties among the trading companies are starting to emerge.

In recent years, billions of dollars have been spent on infrastructure improvement in China over the past decade. An estimated $7 billion is planned for port development by the year 2000, and an additional $2.4 billion on developing the inland waterway network[11]. There have also been vast improvements in China's rail and road infrastructure. In the long term, as China's infrastructure continues to develop, more and more shippers, consolidators and ocean carriers will build their China capabilities. These developments allow shippers to use ports closer to the customers and suppliers. The shift in cargo traffic has already affect Hong Kong, where the container traffic was up a mere 5.6% in 1996, compared with a growth of 13.7% in 1995. Hong Kong may be further at risk if it fails to provide superior port services at comparable costs.

For consumer goods, discount stores and chain stores are leading a new wave of foreign retailers into China. French retail giant Carrefour is an example of one of the newcomers[12]. It recently opened its first JV--a 4,000-square-meter store in Beijing--and plans to launch about 30 more stores in the coming 10 years. Carrefour must get a separate business license in each city. Overheads in large coastal cities are high, and market information, which often changes from one neighborhood to another, is scarce. Competition has intensified, especially in major cities, because of the emergence of many private operations along with joint ventures. Continued tight credit and lack of consumer confidence make things worse. Several new retail ventures aimed at the nouveaux riches in China have had to position downwards. However, such situation would suit Carrefour, which plans to source 99% of its goods locally and sell them 10% to 15% cheaper than other supermarkets.

Roughly one-third of respondents reported that their products may be purchased in 51-100 cities around the country[13]. The sample is similarly split in the number of provinces firms have targeted; roughly one-third may be found nearly nationwide, one-third are in less than 10 provinces, and the rest fall in between. These companies have already covered China's major cities and many secondary cities. There are over 50 cities in China with a population over 1 million people.

A new form of retailing – TV shopping – has emerged in China and grown rapidly. Zhujiang and Guandong TV stations introduced the concept to China in 1992. The advent of a large population with television sets attracted foreign investors. In 1994, for instance, San Diego-based International Shopping Network (ISN) entered a joint-venture with China Central Television (CCTV) to run American-style infomercials and a number of US brand manufacturers signed up[14]. Since then, its popularity has spread nationwide. Now over 100 TV stations have established shopping shows. The Beijing TV station, for instance, specializes in more the 100 categories of products, which are mainly upscale household items. In 1997, the show generated 120 million yuan ($14.5 million) in sales.

Comparing to department stores and discount stores, free market retailing has been overlooked. In each China's cities and small towns, there are at least several "free markets," often set up by local city districts and leased to individual merchants to provide convenience to local residents and also help increase employment. The ordinary people frequent these free markets daily to buy fresh produce and many other things. Although many foreign made products, especially household items such as soap bars, detergent, and cigarettes, find their way to the stalls in these free markets and other sidewalk shops, the channel system is unclear and has never been studied. By one account, in the late 1980s, there were over 6 million retail and service shops in nearly 60,000 specially designated free market areas[15]. Chinese free market retailers exhibit a wider breadth of competitive strategies and a more complex price competition. Many free market sellers also have developed substantial wholesale businesses.

Advertising and Promotion

In China, advertising for domestic and foreign products was reinstituted in 1979 after a ban during the Cultural Revolution. Advertising volume has since been growing at about 30% annually. Despite the positive function of advertising, the Chinese government does, in fact, have regulations in place designed to control advertising practices. The regulations stipulate that advertising must be clear and truthful and may not "hoodwink or deceive end users and consumers." Nor may advertisements include contents that contradict state policies, divulge state secrets, and be harmful to the dignity of China's nationalities (Luo).

As part of economic reform, various western marketing practices have been introduced into China. But marketing in the Central Kingdom is still difficult due to the rudimentary level of marketing infrastructure. The media systems are still relatively underdeveloped and fragmented, limiting the extent of regional standardization. Lack of advertising space often lead to rate hikes and auctions. MNCs often have to resort more creative methods including training seminars, demonstrations, fliers and outdoor billboards along with print and television advertising. Thus, advertising is another challenge.

A variety of media have been used by the foreign ventures to advertise their products and services in China. Although the foreign appeal still suggests quality and status, the message needs to be localized that it can effectively relate to Chinese consumers. Today, advertising in Chinese language and Chinese themes are becoming more popular. Marketing research is also needed. Promotion responses of Chinese consumers are also different from those in the West. Sweepstakes, and lotteries are particularly popular among Chinese consumers. At shopping malls, small family cars are often given away as prizes for lottery winners. Other promotional techniques such as samples and coupons are also gaining popularity. Chinese Stores Learn the Art of Coupons to Fight Wal-Mart [16].

Almost all major ad agencies have followed their multinational clients to China and have set up shops there. There are thousands of local agencies. However, they are not as well trained. Most Chinese advertising agencies lack the trained personnel and production facilities to help advertisers plan and execute campaigns, and advertisers believe their own staff can do a better job[17]. The major media in China often compete directly with agencies for advertising billings. Advertisers who do not use direct placement may find themselves on a long waiting list for time or space.

To remain competitive in a market constantly showered with new brands, some foreign companies are choosing to capitalize on the Chinese desire for status symbols. According to a recent Dentsu, Young & Rubicam report, urban young people tend to be more brand conscious than other age groups. The heaviest shampoo purchasers, for instance, are young women aged 12-25, many of whom favor established foreign brands, according to the CVSC survey. Other surveys show that Chinese consumers in general are becoming noticeably more brand conscious and use brand names as a convenient way to select products. Overall, men are much more pragmatic about shopping and less impressed with brands. Young women are more impressionable than .

With competition among brands heating up, advertising has become crucial to foreign consumer products' success. In his recent book Building Strong Brands, University of California at Berkeley Marketing Professor David Aaker suggests that the key to successful brand-building is to develop a brand identity that effectively conveys what the brand represents. For instance, the marketing efforts of US fast-food companies in China are aimed at selling not only hamburgers and fried chicken, but also a slice of American life. Since turning a new brand into a household name in China does not happen overnight, companies also should consider advertising a product even before it reaches store shelves. While US and European companies tend to begin advertising heavily in China only after securing a distribution network for a new product, many Japanese companies engage in preemptive advertising to introduce and establish brand names long before the products are actually available in China.

Successful advertising in the Chinese market also involves paying particularly close attention to the sentiment conveyed to customers. Louis Tong of Survey Research Group (SRG - now owned by ACNielsen), a division of Nielsen Media Research, Inc., suggests that the most effective advertisements for the China market are those that balance a product's lifestyle images with information on how the product can be used (see The CBR, July-August 1997, p.40). Other studies such as those that appeared in the Journal of Consumer

Research and conducted by Bernd Schmitt, a marketing professor at the China Europe International Business School (CEIBS) in Shanghai, indicate that Chinese consumers consider informative or hard-sell commercials boring and prefer messages with striking visual imagery and emotional appeal. For example, one foreign soft drink company recently aired a commercial featuring a young man gazing into a bank of television screens, imagining what might lie ahead of him-graduating from college and enjoying a luxurious lifestyle playing tennis and waterskiing. The advertisement appears to be based on the fact that many young people in China today are optimistic about their future.

While strong product identification and testimonials are acceptable in the West, advertising in Chinese cultures is more accustomed to subtle and symbolic appeals with few direct arguments. Comparing to straightforward advertising, event sponsorship is often more cost-effective for long term image building. Consumer responses to promotions are also different from those in the West. Sweepstakes and contests with hefty prizes such as cars and overseas vacations are often more effective in Chinese markets than samples or coupons.

Other companies have lined up celebrity endorsements and sporting event sponsorships to promote a certain brand image. The Procter & Gamble Co. has enlisted tennis champion Michael Chang to promote sales of its shampoo in China, and Omega International has signed model Cindy Crawford to assist in the company's marketing of watches in Shanghai. Louis Vuitton plans to sponsor a car race from Dalian to Beijing in May 1998. Meanwhile, foreign toothpaste brands are maneuvering to win an endorsement from China's National Committee on Oral Health, and to be the first to air a commercial demonstration of their products.

As the Chinese economy has become more market-oriented and disposable incomes in the country have risen, the Chinese population has evolved into an increasingly discerning group of consumers, showing clear preferences both in terms of product quality and how a particular product fulfills individual needs[18]. Following the lead of foreign firms, some Chinese companies now link well-known persons or characters to their advertising displays to differentiate their products from other brands. The Haomen Brewery in Beijing, for example, recently used a photo of the brewery s president standing with President Clinton for a display in the Wangfujing shopping district. But as the importance of advertising has risen, so too have advertising rates. In general, PRC television networks sell air time at set rates. For special occasions, however, the networks auction off air time. A year ago, the PRC distiller of

Kongfu brand liquor paid Y40 million ($4.8 million) for the prime commercial spot during the Chinese New Year celebration program.

Other firms in China have also begun to realize the usefulness of associating their product with heroes - whether celebrities or mythic figures - to convey a clear message about the specific product to potential customers. Many Western companies such as Nike have created global markets for their products in part through advertising campaigns that use powerful figures like basketball superstar Michael Jordan. In China, four specific image types may have a strong influence on consumer behavior and purchasing patterns. Marketers may be able to capitalize on the Chinese sentiment that their elders are the bu dao weng, using indirect references to well-known political figures is a possible marketing strategy. Similar to Smith Barney ads that featured well-known actor John Houseman proclaiming that the firm "makes money the old-fashioned way," a trustworthy Zhou-like elder could, for example, deliver a pitch for a foreign financial services firm about the value of dealing with a reliable, consistent investment firm.

The business tycoon is a more recent phenomenon in China. Tycoons familiar to many in China include overseas Chinese such as Acer Inc. President Stan Shih and Hutchison Whampoa founder Li Kashing, as well as mainland businesspeople who have made their fortunes through their connections with established political and business channels. The vision of the "good life" has potential appeal for Chinese, who aspire to become rich and flaunt their wealth. Chinese athletes have won medals in numerous Olympic events, including swimming, diving, and gymnastics, and are now considered heroes by many of their compatriots. Two-time Olympic diving champion Fu Mingxia have been awarded high-profile endorsements from several Chinese companies. Foreign firms hoping to gain market share also stand to benefit from enlisting prominent Chinese athletes to endorse products or appear in advertisements.

Chinese parents adore and pamper their children and are willing to make sacrifices for their children's benefit. Wahaha beverage derives much of its appeal from its link with a heroic image, that of the devoted parent doing everything possible to ensure the well-being of his or her only child. As Chinese parents are faced with far more buying choices than those of previous generations, marketing strategies that appeal to the parental desire to facilitate their children's educational, nutritional, or social development are more likely to succeed. McDonald's Corp., Kentucky Fried Chicken, and McCormick & Co., Inc. are just some of the foreign firms that have set up marketing campaigns aimed at Chinese children and their parents.

For example, much of the success of mao-tai, the traditional Chinese distilled grain liquor, can be attributed to the fact that it was the preferred drink of Zhou Enlai. For many years, mao-tai was not heavily advertised, but nonetheless reigned supreme as the ceremonial drink of choice at government-sponsored banquets. It continues to function as a "social lubricant," a beverage drunk to signify sincerity and, therefore, is often consumed at deal-signing ceremonies. Cognac, the liquor of choice today, has strong links to the modern-day tycoon. Chinese, including overseas Chinese, now account for one-fourth of global cognac sales. Expensive imported cognac has been positioned as a "social marker," a liquor consumed by China's newly rich. In 1994, Joseph E. Seagram & Sons, Inc. introduced Martell Noblige, a mid-priced cognac. Just days after the brand was launched, it had become a house brand in more than 60 clubs in China.

In years to come, China's beverage sector is hardly likely to be the only sector in which heroic imagery is used to promote products. Finding the right image for each product will be important. Foreign insurance firms, for instance, could acquire a competitive advantage in coming decades by running ads that show trustworthy, happy elders discussing their new insurance policies. In contrast, those hoping to advertise expensive foreign-made products, including watches, cars, and pens, might find the tycoon image useful. Marketers should be aware, though, that not all expensive goods can be marketed as "exclusive." Red wine, for instance, has become popular in China primarily because of its alleged health benefits; marketers would likely be better off trying to advertise their wines as healthful, rather than exclusive. And, in the end, many consumers may find distasteful the growing reports of tycoon behavior-such as burning money and smashing expensive liquor and wine bottles-and may avoid buying "tycoon"-associated products. In the short and long terms, countless opportunities exist for foreign firms to market their products using the appeal of the athlete, without the down sides associated with the tycoon image.

Products that possess scientifically documented nutritional benefits, such as Tang, have become popular in China. Instant cereals and other breakfast or healthy snack products could also be marketed as products that appeal to children-as well as something a devoted parent would want to provide for his or her child.

When marketers select an appropriate hero to advertise their product, they also must ensure that the overall image associated with the hero seems genuine. A television advertisement for a fast food restaurant chain in Shanghai, for example, should feature actors speaking the correct dialect and wearing region-specific clothing. Ultimately, though, what sells a product need not be a celebrity testimonial. Marketing research, in fact, has shown that celebrity testimonials can backfire if consumers feel that the celebrity has been bought or if the advertisements lead the consumer to remember the celebrity rather than the product. And, while using the right imagery to meet perceived consumer needs may be enough to sell a product today, China's heroes may well change over time. Foreign companies that want to continue marketing their products successfully in China will need to keep an eye on the heroes of tomorrow.

SRG China's research experience is used to study the changing faces of Chinese women[19]. Overall, women in China have earning power. They are the major grocery decision buyers and have major financial responsibilities within the household. As individuals, women have consumption power and their roles as financial controllers make them the prime target audience for fast moving consumer foods marketers. Regionally, these women have different behavior and attitudes. Marketers have to understand the pragmatic side of the northerners, the ethnocentric nature of the Shanghainese, and the quick goal getting mentality of the southerners. While the markets are different regionally, it does not mean that a different advertising strategy has to be devised for each market. Humor has been identified as one unifying common theme that appeals to women of different regions.

Public Relations

Given the importance of guanxi in business in China, public relations plays an important role for MNCs' operations. Due to the ubiquity of government influence in every aspect of foreign investment, the PR operations in China is inevitably closely related to government relations. The importance of hierarchy and ceremony in the PRC, moreover, puts visits by high-level foreign corporate officials to China in a class by themselves. Planning a successful CEO visit requires a China-based manager who is well-versed in cultural as well as commercial nuances and able to handle banquet etiquette, logistics, and media operations[20]. Typically, CEO visits have one or more of these objectives: to lobby for Chinese government support for a project, to promote the company's image in China, or to put stalled negotiations back on track. Foreign companies who intend for their CEO to meet with ministerial-level officials still should have a Chinese host organization for the visit. Executive visits should be timed to coincide with a banner event, such as a contract-signing ceremony, product unveiling, high-profile conference, facilities tour, or office opening. The CEO's presence at such events serves the dual purpose of sealing the event's impact and demonstrating the company's commitment to its China operations. Among the possible events to be arranged are meetings with Chinese officials, plant tours, at least one banquet, and press briefings. While any whirlwind CEO tour to China is unlikely in and of itself to guarantee the success of the company's China operations, if nothing else it will almost certainly introduce the CEO to the landscape of China's rapidly changing economy. Whether it hires a PR firm or taps in-house resources, the Chi-a staff also should decide on a communications strategy for the CEO visit. Dumont advises that publicity for the CEO visit should emphasize the contribution the company has made to China, such as developing the country's human resources or fostering the growth of a new industry. Burson-Marsteller, Edelman Public Relations Worldwide, and Fleishman-Hillard Scotchbrook Link.

Doing business in China is no longer a case of learning banquet protocol and signing hopeful friendship agreements. Western marketing techniques are being used every day to promote products in China. Mass market publicity targeted at the country's 1,700 daily and weekly newspapers is now a common media relations tactic. Sports sponsorships, direct mail, TV advertising and sponsored programs, and point-of-sale promotions are also being used to reach audiences, the study found[21].

One group of researchers even tested the "animosity model" in China and found that Chinese consumers have certain attitudes towards companies from different countries[22]. Some Chinese consumers thought Japanese products because the great pains that the Japanese army inflicted upon the Chinese people during the World War Two.

In the early period, any project is newsworthy. Thus, most FIE projects have a lot of publicity from the local and even national media. Being the first, the biggest or the newest makes sense. Winning government approval to sell their toothpaste, Colgate battled with P&G's Crest to win the approval of the national oral health agency. On August 6, 1998, the CEO of Colgate Palmolive became the first foreigner to be admitted to the Chinese Society of Oral Medicines[23]. Colgate Palmolive product is the first to be certified for treating gingivitis, gum diseases, and cavities.

With more than 33 million customers and almost $93 billion in assets, Aetna is one of the United States' leading health care benefits companies, and a global insurance and financial services organization. In October of 1997, Aetna finally got approval from the People's Bank of China to operate a joint-venture insurance business in Shanghai, and became the second US insurer allowed to operate in China following the American International Group, which had been granted wholly owned licenses in Shanghai and Guangzhou, the two Chinese cities open for overseas insurers. However, Aetna has come a long way to win this license. Much of what the company did was countless public relations programs . First, Aetna opened an office in Beijing in 1992 and currently has three additional representative offices in Shanghai, Shenzhen and Guangzhou[24]. Together with the World Bank, the Bank of China and other related financial institutions, it formed a $85 million China Growth Fund for investing in China.

First, Aetna vowed to earn a share of China's market by its long-term strategy of winning the people[25]. The company put its money where its mouth is last week when it granted another $15,000 scholarship to a group of students and scholars at Zhongshan University in Guangzhou. So far, its total sponsorship of China's education adds up to $170,000 since 1991. A computer system worth over $50,000 has also been donated. During the last five years, nearly 700 students, 173 young scholars and 64 subjects in both Beijing University and Zhongshan University have benefited from these grants. In addition, Aetna and Jiaotong University have decided to redevelop the university's management school, raising its standard to the international level.

The venture is expected to open for business within six months and will join hands with the China Pacific Insurance Company. The first Sino-American life insurer, China Pacific Aetna Life Insurance Shareholding Co Ltd, is scheduled to open for business in April 1998 after six months' preparations. The life insurance joint venture, between Aetna Insurance Co of the United States and China Pacific Insurance Co Ltd which is headquartered in Shanghai, will be registered in Pudong and may have its office in Aetna Tower now under construction in Shanghai's modern Hongqiao area, said executives from Aetna International Inc during a visit to Shanghai last week. On October 22, Aetna was granted approval to operate a joint venture insurance business in Shanghai. The approval was given by the People's Bank of China, a regulatory body for China's financial industry.

Even the announcement itself was a great PR success for the company. The announcement was made at a ceremony in New York City attended by five of China's minister-level officials and Aetna representatives. The Chinese delegation was in the United States to seek commercial contracts. The Bank of East Asia, the biggest local bank of Hong Kong and Aetna's partner in Hong Kong, has played an important role in assisting Aetna win the license and may also buy a share in the joint venture. China Pacific, China's second largest insurance company as partner. Aetna is the biggest health care insurance seller in the United States and the third biggest company dealing in life insurance.

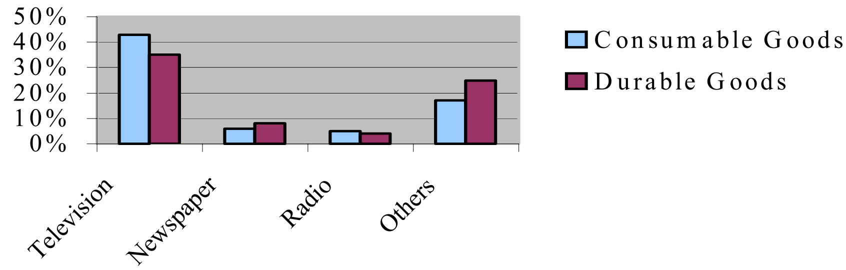
Make a big fanfare

Media Planning

In the early 1980s, advertising is still very much in its formative stage in China. The Chinese made considerable efforts to establish an infrastructure for the development and placing of advertising. This included setting up for-profit corporations to handle the business generated by advertising and developing regulations to guard against abuses. Then, advertising was a $100 million business[26]. At the break-neck speed of growth, by late 1990s, advertising has become a major industry in China. Ad spending climbed to $5.6 billion in 1997. With the proliferation in recent years of new television stations, newspapers, magazines and outdoor promotion venues throughout the country, advertisers in China are gaining access to new channels through which to reach consumers. Using all available means, foreign advertising firms are serving both foreign and Chinese clients, though they may operate in China only by forming joint ventures with a Chinese counterpart or through a representative office[27].

Although there has been some dispute about which is more influential, CVSC (the media research arm of CCTV) data suggest that overall, television is perceived by far as having the biggest impact on consumer purchases (41%), more than newspaper (7.2%), radio (4.6%) and other channels (21%). However, the findings in Figure 1 indicate that impact of television advertising is higher for consumable products (42.5%) than for durable goods (35.2%). Other media such as billboards and promotion materials still present an important advertising vehicle in China (Figure 1). During 1996, more than 950 million Chinese people spent time in front of the television. According to industry analysts, 40 million Chinese households subscribed to cable TV services. By 2000, industry reports estimate that cable TV will reach 60 million households and nearly 300 million viewers[28].

Figure 1. Perceived Media Impact on Consumer Purchase



Anyone who saw Chinese TV commercials back in the early 1980s would have to agree China has come a long way. Still shots of generators-factory name and address printed below-have been replaced by a new generation of slick commercials that can compete with the best of Madison Avenue. Today, there are about 2,100 TV, cable and satellite stations, reaching into all corners of the country[29]. Other advertising venues include radio, cinema and outdoor billboards. China's 1,200 cable stations alone have more than 70 million households and other subscribers with multiple viewers, a number expected to reach 80 million by 1999. By then, 30% of all China's people will have access to cable TV.

Information on print (magazines and newspaper) and radio are still scarce. One need only flip through the wide variety of newspapers and magazines plastered across news-stands to see the change that is going on. China has more than 2,000 newspapers, from morning and afternoon dailies to business papers to life-style weeklies and trade publications[30]. Newspapers such as the Beijing Youth Daily, Beijing Evening News and Guangdong's Southern Weekly have attracted loyal followings by being more innovative in their reporting. The Beijing Evening News, for example, has a daily circulation of 1 million. Chinese editions of regional titles, such as Businessweek China and Elle China, and imported Chinese editions of other English-language magazines from Taiwan, Hong Kong and Singapore, such as Esquire and Marie Claire, have also been successful. These glossy publications are full of ads for top brand names, such as Cartier, Tiffany's, Gucci and Christian Dior.

Cinema advertising offers potential, too, though it is currently under-used. There are roughly 69,000 cinemas in China, and foreign-invested multiplexes are also under construction in a number of cities. Advertising space is available by the month, and specific movie sponsorship. However, only a limited number of imported movies is allowed into the country each year and foreign advertisers, who find the quality of local films poor, avoid using this medium. However, things could change. As FM broadcasting penetrate the metropolitan areas, all music stations have become popular in major cities, such as the Beijing No. 2 Music Radio.

Despite racking up double-digit growth over the past decade, advertisers complain that the industry is still immature, with long booking lead times for ads-from a few weeks to a whole year-and with dates and positions difficult to guarantee. As advertisers try to overcome several serious obstacles, cable television will become one the China's most important advertising media. China has a reputation as one of the world's most tightly controlled media environments, and as well as fragmented[31]. The cable TV is very fragmented as there is regional cable networks. Many of the cable networks are set up various government agencies and even the "work units" for their employees, acting sort of like close-circuit television. However, most cable system carry the national networks like those of CCTV stations.

While CCTV has the means to buy or barter foreign programs itself with companies like CBS, regional broadcasters form "program purchasing leagues" to pool funds to buy foreign TV programs[32]. Foreign shows tend to attract the highest audience ratings and thus command higher ad rates than those charged for domestic shows[33].

As TV advertising prices in China escalate, one important aspect seems to have been overlooked: how TV stations justify their advertising rates. The answer is not clear. CVSC-Sofres of CCTV, and ACNielsen are the two major providers of media information. Sofres Media China (SMC) - a joint venture between Sofres and China Viewers Survey & Consulting Centre[34] - hopes to clarify the issue by establishing a national ratings system across 52 cities and 11,300 households, to which stations can peg their rates and advertisers their spending. Detractors say that as China's media system loses government funding, cash to pay for SMC's high-priced services may dry up. TV advertising revenues in China have been skyrocketing because of burgeoning viewership. Some 83.4% of the population has access to a TV set. SMC's main competitor is SRG China, a subsidiary of Nielsen of the US.

Started its Peoplemeter panel in Shanghai in 1997, ACNielsen can now measure TV viewing habits in the three most important urban markets in China including Beijing and Guangzhou. By the end of 1999, ACNielsen will have invested in Peoplemeter services across China's 10 major cities, covering over 60% of the fast-growing TV advertising market and 35 million Chinese consumers[35]. The other seven cities are Chengdu, Fuzhou, Hangzhou, Nanjing, Shenyang, Tianjin and Wuhan. Sofres-By comparison, SVSC-Sofres ratings are still based on the diary method.

Advertising is one of China's fastest-growing industries. Competition among television stations in leading Chinese cities and an expected slowing of economic growth are responsible for moderate rate increases posted by Beijing, Shanghai and Guangzhou television stations. Demand for television advertisement time has created a seller's market in China. While higher rates will create some short-term pain for advertisers, they could stimulate a more professional media and make new media outlets more viable. Government network China Central Television hiked the rate of an average 30-second spot for joint venture advertisers 108%. Similar increases are slated for local stations in Beijing and Shanghai. Joint venture companies - foreign advertisers with a local manufacturing partner - pay twice as much as locally owned advertisers, while fully foreign-owned marketers pay double the joint venture rates[36]. There is a maximum of 5 minutes of advertisement time between programs. The government expanded a pilot program that requires advertisers to place ads only through licensed agencies[37].

The increase in media channels has helped to gradually wrestle down price inflation. Ad rates shot up 105% in Beijing in 1995, 40% in 1997 and just 25% in 1998. Shanghai rates climbed 100% in 1995, 80% in 1997, but just 25% in 1998. It's a question of supply and demand. The Chinese media are beginning to realize that they just can't hike up prices any way they like and that they need to tag their rates to audience size[38].

BRAND MANAGEMENT

In the last two decades, Chinese consumers have enjoyed unprecedented improvement in their standard of living. They have higher expectations for the quality of life and increasingly desire the niceties symbolized by the global brands. Global brands often symbolize superior quality and can enhance one's social status (Alden, Steenkamp and Batra 1999). The emerging middle class consumers have become attractive due to their increased exposure to western products and lifestyles in the media. Many MNCs foresaw soaring sales and growing profit from these markets by relying on their global brand power and global marketing strategies (Prahalad and Lieberthal 1998). Many global brands have been successful in raising awareness and in penetrating the local markets. Results of this survey indicated high level of awareness of international brands among Chinese consumers, such as Coca Cola (81%), Head & Shoulders shampoo (Proctor & Gamble, 72%), and Panasonic (Matsushita, 70%). All four segments have high ownership of traditional durables such as Color TV and washing machine, ranging from 69% among Working Poor to over 90% among Yuppies (Table 6). A significant percentage of them have foreign brands (50% - 63.5%).

Although many consumers in these markets desire international brands and associate them with superior quality, reports of macro-economic statistics and higher consumer expectations have not translated easily into actionable strategies for MNCs. The results of this study, however, also indicates while most Chinese urban consumers prefer to purchase brand name products (43%-67%), they are much less likely to buy prefer foreign brands (21.8%-47.8%, Table 2). Except for the traditional durables such as TV and washing machine, for instance, only a small percentage of Little Rich families actually own foreign brands in many new products, for instance 8.8% for microwave oven and 14.9% for air conditioning (Table 6). Most Chinese still buy domestic brands. Besides the apparent lack of spending power and concern with job security, several other factors influence the level of interest in international brands.

Although Yuppies rank the highest in preference towards foreign brands, they do not always purchase foreign brands at a higher rate than other groups, for instance color TV and VCD. As some Chinese manufacturers have closed the quality gap with foreign companies, some Chinese consumers have become more sophisticated in recognizing good values. As consumers are still at the formative stage of brand loyalty, brand switching is prevalent as they try out many new products (Prahalad and Lieberthal 1998).

Meanwhile, many Chinese brands wield such prominence despite the fact that they spend significantly less on advertising than their foreign counterparts. With a few exceptions, many of the established Chinese brand names are made by State- or provincially owned firms, and enjoy a long-standing, loyal customer base because of their long operating histories, reasonable quality, and lower prices relative to newcomers. The CVSC report suggests that although foreign brands overall enjoy better reputations, most domestic brands win hands down in terms of sales volume. The distinction between foreign and domestic brands, however, is becoming less clear. For instance, 90 percent of the household detergent market is dominated by roughly 30 PRC brands, of which most are owned by foreign joint ventures.

In addition to their premium global brands, several multinationals including Coca-Cola and Kodak have developed or acquired local brands to target the value-conscious consumers in China. Maytag, for instance, Rongshida's joint venture partner, decided to market its appliances under the Rongshida brand, which is already established in China. Unilever's Wall's ice cream and its acquisition of the Jinghua Tea in Beijing. Coca-Cola developed a Chinese brand called Tian Yu Di and later sold the name to its Chinese partner as a gesture of good will.

In 1995, PRC authorities launched a campaign at both central and local levels to improve product quality and increase visibility of PRC brand names. To complement the 1993 Product Quality Law the Beijing Technology Supervision Bureau issued notices in 1995 stipulating that product names appearing on package labels in Beijing conform to national standards (see The CBR, September-October 1995, p.32). In addition, the State Technology Supervision Bureau and the State Economic and Trade Commission have initiated a national campaign to select and promote "famous brands." To obtain such status, a company must apply to and receive approval from the technical supervision office of the local economic and trade commission, and the local administration of industry and commerce. In March and June 1997, SAIC awarded "famous Chinese trademark" status to 42 brands including the Forever bicycle, Hero pen, Jialing motorcycle. Jianlibao soft drink. Little Swan washing machine, Phoenix bicycle, and Tsingtao beer.

Foreign brands hoping to penetrate China's increasingly competitive market should begin with accurate and thorough market research. Foreign companies first should ensure that a product's brand image and message are neither offensive to PRC authorities nor in conflict with Chinese culture. Fortunately scanner data, retail measurement, and television program ratings such as those provided by SRG are now available, making accurate brand tracking feasible for the first time in China. After establishing a brand name, foreign marketers should carefully "leverage" it-build, manage, and position the name. The Campbell Soup Co., for example, markets its Swanson-brand chicken broth as a cooking aid rather than as a substitute for the home-cooked meals that Chinese deem irreplaceable. While Campbell distributes free recipe booklets and holds in-store sweepstakes to cultivate brand loyalty (see The CBR, July-August 1993, p.31), Avon Products Inc., Amway Corp.. and Mary Kay Inc. have relied on a personal approach-direct salesperson-to-customer sales-to ensure customer loyalty.

In China, perhaps more than in other countries, language is key to a brand's success. According to CEIB's Bernd Schmitt, while the phonemic quality of a brand name-how the brand name sounds-is significant to European consumers, the pictorial characteristics of a brand name-how its Chinese characters look in the written language-are more important to Chinese consumers. To capitalize on the illustrative strength of the language, some international brands use advertising strategies based on the visual appeal and meaning of the product's Chinese name. For instance, the insurance company Prudential selected Pu Tian Shou, or "long life for everybody under the sky." as its Chinese name. Other companies aim to select a name that highlights the foreign origin of a product to retain its quality-based appeal.
Coca-Cola which holds nearly 20% share of China’s beverage market, also developed its own Chinese name brands. PepsiCo found a powerful partner in Beijing, which produces the well-known Beibingyang (Artic Ocean) brand soft drinks.

A 1994 Coopers and Lybrand study found that while Chinese consumers were willing to pay more for quality, service and convenience, they felt that foreign goods were overpriced by as much as 20% relative to their merchandise and service quality levels[39]. Given this perception, the typical Chinese consumer prefers domestically produced merchandise. The Chinese display a strong suspicion of cheap products combined with a desire for bargains. The typical Chinese shopper engages in habitual comparison shopping rather than impulse buying, typified by the saying, "Never make a purchase until you have compared three shops;" nonetheless, shoppers quickly snap up items perceived to be good bargains.

Sales Management

Many MNCs suffer from an efficient sales force. As businesses continue to expand into this socialist (but evolving) market economy, many multinational companies have begun employing host country nationals to sell to their Mainland customers rather than utilizing Hong Kong Chinese sales personnel-which traditionally has been the norm. Because the salary of Chinese workers is still low, Chinese employees typically consider salary and pay raises to be important motivators. Yet, since Mainland Chinese organizations tend to follow socialism's equality ideology, Chinese employees feel that rewards must be fair; consequently, they are willing to accept small difference in wages across the spectrum of positions in the organization. Therefore, although some Mainland Chinese employees are high performers, they may be reluctant to receive salaries and bonuses that are substantially higher than those of their colleagues, especially when such information is made to the colleagues.

One study found that salespeople from Mainland China consider Support and Managerial Encouragement to be especially important factors in their job motivation[40]. They place comparatively less emphasis on Recognition for High Performers. Employees are under the influence of collectivism and the ideology of socialism, and therefore tend to desire equality in rewards. Individual Incentives seemingly is the least important factor in motivating the PRC salespersons. They seemingly perceive the recognition of the group's performance to be a more accurate assessment of their own contribution, and hence suppress the importance of their own recognition. Mainland Chinese employees' focusing their attention on personal and extrinsic rewards that can be immediately exchanged for material comforts. In fact, a number of PRC salespeople now receive bonuses that account for as much as forty percent of their total remuneration package.

SELLING IN CHINA can be a complex and murky process, as many companies have discovered. It involves building long-term relationships, calling on numerous decision makers and influencers, and being prepared to spend a considerable amount of time and money entertaining. To get a bank in China's Sichuan province last year to buy more than 100 ATMs, Diebold had to offer the bank 23 units for free. Diebold's distributor was coerced into buying a floor in a building the bank had invested in[41]. The gesture of friendship and reciprocity are important factors. It took six months and four visits to Sichuan to close the $2.5 million sale. Sales cycles are longer, more people are involved, and political chaos. out for lunch and dinner, and karaoke.

Seasoned China hands recommend that enthusiastic American companies should avoid taking an overly aggressive attitude toward Chinese customers and joint-venture partners. In stead, they should be patient and learn to master the protocols and establish good Guanxi – personal relationships with the customers. This relationship goes beyond taking your prospect out for a fancy dinner or a few drinks. They should even spend some quality time with the prospects and maybe even their families. In China, you must become friends before you do business. Sending top performers to wow the Chinese business people with savvy sales pitches, the salesperson of the year may come back empty-handed[42]. So never talk business on the first meeting because it is disrespectful.

: Xian-Janssen's success in China has largely been attributed to the effectiveness of its sales force. To learn how Janssen conducted its sales training program in China, please refer to the case-in-point at the end of this chapter.

Chinese industrial purchasers' perceptions of foreign products coming from a variety of source countries have changed dramatically in the recent past. With the exception of electronics and telecommunications equipment, German products were rated as best by most respondents[43]. US products were viewed as equal or similar to those of Japan on a product quality basis, with the exception of vehicles and motorcycles.

With an economy that continues to grow at more than 10% a year, China's demand for foreign commodities, especially industrial and agricultural inputs, will only continue to grow. Unfortunately, access to the Chinese markets is not an instant formula for success. For one, China is not one market, but several, and regional blockades effectively discriminate against certain goods. In addition, distribution channels are undeveloped, and infrastructure bottlenecks stifle the flow of goods. However, the experiences of Shanghai Ingersoll-Rand Compressor Ltd. (SIRC) and Xerox of Shanghai show that money can be made by American firms operating in the market. SIRC is a 50-50 joint venture between New Jersey-based Ingersoll-Rand and Shanghai Compressor Factory. Instead of using agents, SIRC managing director Douglas S. Dawson built his own direct sales team motivated solely by profit and commissions. Xerox of Shanghai, in contrast, established a dealer network that relies more on relationships[44].

Pricing

Pricing is one of the main factors contributing to successful distribution and sale of goods in China. In the past, manufacturers and retailers had little freedom to manipulate prices because the State controlled the entire distribution process, including the manufacturer's ex-factory price, the wholesale mark-up, and the retailer's end price to consumers.

Since fixed pricing has been abandoned for all but 30% of goods - primarily industrial products and commodities that the state still considers crucial to the national economy, including coal, agricultural fertilizers, and steel - manufacturers now have much more latitude to use pricing to affect distribution patterns. Some foreign companies are able to determine target end-user prices first, and then negotiate profit margins and costs with distributors and wholesalers[45]. As the State pricing monopoly has dissolved, a more liberalized, market-oriented economy has taken shape in China. Foreign products now fill store shelves, reflecting the magnitude of foreign investment in China. As foreign products have become more commonplace, standardization of labeling and packaging is being enforced in some localities.

Pricing, however, has remained largely unregulated, leaving foreign manufacturers of most goods free to price according to market trends. Although suppliers who price high risk pricing themselves out of the market, many foreign-invested enterprises (FIEs) in China and overseas manufacturers usually believe that they have no option but to price their goods at a premium to make a profit. These manufacturers have managed to capture a significant market share by providing better packaging, marketing, supply, and after-sales service support, justifying Chinese consumers' belief that foreign products are superior to local products.

In the early days, many have used the skimming policy based on scarcity and novelty effect. But recently, competitive pressure has made it necessary for foreign marketers to justify their premium prices. The downward pricing pressure has been tremendous. Chinese consumers are very price-conscious and are always looking for better bargains. Penetration strategy. Lacking other sophisticated marketing strategies, domestic firms often resort to pricing competition to retail market share, and will not hesitate to do so. Legend, China's leading computer manufacturer, have slashed prices several times, to become the market leader -- please see the Case-in-point. Price competition led to state controls.

Despite increasing numbers of people able to afford Rolex watches and Mercedes-Benz automobiles, price continues to be a major determinant in most purchasing decisions for the vast majority of the population, which has a per capita annual income of $594. Some foreign manufacturers are tempted to price retail goods low to reach the maximum number of potential consumers. May FIEs and overseas producers have opted to price low position themselves as direct competitors to State firms. Having lower overheads and perhaps receive State subsidies, the State firms are likely to enjoy higher profit margins than foreign firms at a given price point and will likely be able to lower their prices to gain more market share. Pricing low can also damage the cachet of exclusivity that foreign and joint-venture products hold in the minds of Chinese consumers. To walk the tightrope between exclusivity and sales volume, foreign suppliers should research their target markets thoroughly and then determine an appropriate price range to maintain market share.

Swiss watch manufacturer SMH Ltd., for example, entered the China market in the early 1980s, selling its least expensive line of Rado brand watches, at a retail price of approximately $420. As Chinese income levels increased and Rado gained a stronger market position, the company introduced more expensive lines and removed the lower-priced watches to maintain its stylish image. The bulk of Rado watches sold in China today range in price from Y8,000-Y20,000 ($964-$2,410). This strategy appears to be working as SMH sold approximately 20,000 Rado watches in 1993, and a 1994 survey of Chinese consumer preferences revealed that Rado watches were the most popular among imported and domestic brands alike.

Another way to price products in the China market is to work backwards -- using demand backward pricing -- a method perfected by some Japanese firms. This method can be advantageous in the China market because Chinese consumers do have the income comparable to middle class consumers in the developed economies. Some foreign companies are able to determine target end-user prices first, and then negotiate profit margins and costs with distributors and wholesalers. To the pleasant surprise of foreign investors, many Chinese distributors and retailers are unusually obedient in following pricing decisions and leads set by other participants in the distribution chain, testifying to the legacy of a State-imposed distribution system. Industries such as foodstuffs, watches, and photographic products tend to be well organized and efficient, and are generally the most compliant when it comes to pricing directives.

Another trend that can work both to the advantage or disadvantage of foreign investors is that a single wholesaler can act as a control point in the distribution of a given product in China. If distributors do not respect agreed-upon wholesale markups and prices, the wholesaler can easily curtail supply to a specific company or individual. Having too much power vested in the hands of one point in the chain, however, can backfire on occasion. Many companies that contract with one wholesale agent for the China market often discover that their chosen agent cannot adequately service the entire market.

In addition to manipulating end-user prices, foreign companies can use pricing decisions to minimize conflicts between potentially competing dealers. For example, Seiko Epson, a Japanese computer and peripherals manufacturer, allows all of its China distributors to sell the company's low-end and low-margin goods. However, to segment the distributors into separate groups, Epson Hong Kong, the branch sales office responsible for Seiko Epson's China operations, offers different distributors different prices for its expensive, high-margin products. Epson Hong Kong first transfers ownership of products to its China distributors at the gates of its warehouses in Hong Kong. Its mainland distributors are then responsible for all costs related to the product, including Customs duties and transportation expenses. If Epson Hong Kong does not want a certain distributor selling a particular high-end product, it raises the price to that distributor while simultaneously selling the exact product at a lower price to a second distributor. The second distributor can then take over the first distributor's targeted market by selling at a lower price. To compete successfully in the second distributor's market, the first distributor must accept a much smaller, often inadequate margin.

Differing transportation costs must also be considered when setting pricing strategies. Simply selling goods at a fixed price throughout China may entice distributors, who often must cover transportation costs, to sell to markets they can reach most cheaply, ignoring more inaccessible areas that are nevertheless important to the manufacturer. As a result, the manufacturing company must review its sales structure with regard to transportation costs for existing and new distributors. If, for example, a Shanghai manufacturer starts to sell to a new distributor approximately 1,850 km away in Chengdu, transportation costs will be significant. The transportation expenses will cut either the manufacturer's profit or the Chengdu distributor's profit margin, or result in a loss for both parties.

Overseas and local suppliers can, however, manipulate prices along geographic lines by negotiating the relative amount of transportation costs paid by the manufacturer and the distributor for the transportation of goods. Both parties should first attempt to estimate the transportation fees involved and then try to reach a compromise ex-factory price. Frequently, the manufacturer can lower his ex-factory price in exchange for the dealer assuming responsibility for transportation costs. This works to both parties' advantage--the manufacturer does not have to worry about transportation difficulties, and the dealer can improve his profit margin by identifying less costly means of transportation. Many companies manufacturing outside of China use this method when their China distribution point is Hong Kong because they are inexperienced in exporting to the China market and do not want to be responsible for their products' physical distribution when based overseas.

Besides contending with pricing conflicts, perhaps the most serious concern that FIEs and firms manufacturing outside of China face is the challenge created by differential tariff rates and duties. Many unaccounted-for goods often find their way into China because PRC Customs treats goods differently depending on their components' country of origin, the manufacturing site, and the destination market. These goods are often considered parallel imports, products destined for other markets that end up in China because the manipulation of tariffs can result in higher profits. Parallel imports and exports, however, can upset or undermine a company's pricing strategy and always give foreign marketers something to worry about.

Import tariffs on the foreign components of goods manufactured in China, for example, can be waived if the final product is targeted for export, but not if the good is sold on the domestic market. Consequently, products sold as exports often re-enter China to be sold on the domestic market. Even with additional transportation costs and import duties, the reimported goods may sell for a lower price than the same goods sold legitimately through domestic channels. Chinese distributors who re-import these goods may make a profit regardless of the additional transportation costs. Quasi-legal channels through which personal connections can be used to reduce high import duties makes parallel importing even more attractive for some distributors.

FIEs and wholly foreign-owned enterprises, in particular, suffer competition from parallel imports of their own goods. The Singer Co., for example, cannot sell its joint-venture manufactured sewing machines to the domestic market in Shanghai because its own machines destined for export to other countries end up for sale in Shanghai-at a price against which Singer cannot compete. Offshore manufacturers also find their distribution in China disrupted by parallel imports. To achieve larger profits, a given company's overseas distributors, who may have connections in Hong Kong or China that facilitate cost-effective transportation into China, might sell their products to the China market rather than their company's intended export market. For all manufacturers, the problem of parallel goods disrupting distribution is much more severe in south China where transportation costs from Hong Kong--the exit and entry point for many of the parallel imports--are lower.

The amount by which parallel imports undercut their domestic competition is difficult to estimate as both import tariffs and transportation costs differ among products. Distributors are reluctant to divulge too much information on the cost-effective import channels they have found. The profits are substantial enough, however, to create a flourishing industry and headaches for manufacturers who often lose control of their products enroute, sometimes finding them marketed in a manner they had not intended.

Like parallel imports, parallel exports--goods that are destined for the China market but end up being exported to other markets—most often occur when the price in China is less than the price these same goods command in other countries. Chinese distributors have been quick to take some goods intended for the Chinese market and sell them overseas to reap greater profits. As a result, some foreign companies have raised the prices of their China-bound products to be on a par with prices elsewhere, in an attempt to decrease the practice of parallel exports. These companies risk losing market share, however, if all other companies in the market do not follow suit. Other foreign firms resort to packaging their China-market goods distinctly so they can be identified easily if found outside of China. Once the goods are identified, the manufacturer must then follow the trail of the goods backward to the source of the problem. To discourage distributors from parallel exporting, some foreign firms now require Chinese distributors to pay a deposit on the products to be delivered. The deposit is refunded upon the arrival of the entire shipment when the manufacturer can verify that no goods were sold in transit or re-exported.

While pricing strategies may help firms avoid being undercut by parallel imports and exports, pricing is not a cure-all for slow sales. For example, after conducting extensive market research, one company introduced an improved model of a successful existing product, but despite apparent demand for the new product, sales were flat. Fearing that its higher price had scared consumers away, the company priced the new product at an even lower level than the original model, but was disappointed to see no corresponding jump in sales. Only later did the company learn that the weak sales were attributed to the conservative buying habits of Chinese consumers, not its pricing decisions (see p.19).

Nevertheless, while a well-planned pricing strategy does not guarantee that foreign companies' goods will arrive at the checkout counter, adopting a comprehensive pricing strategy to orchestrate distribution patterns can facilitate the transfer of goods from the factory to the store shelf and grant China-based manufacturers some control over the distribution of their goods. Given the vagaries of China's marketplace, companies that price strategically may achieve faster delivery times between the factory and store shelf, and maximize sales and market share. In a sales environment where there are few hard and fast rules, companies with well-researched pricing strategies are already one step ahead of the competition.

In light of increasing deregulation by the government, China's recent reversion to price control signals a discerning trend. In late 1998 and early 1999, Chinese government re-institute price controls for several industries from electronic appliances, pharmaceuticals to sugar processing. The aim was to stop the price wars that threaten to destabilize the Chinese industries, particularly the State-owned enterprises. Before that, China’s leaders were praising competition as a means of weeding out the inefficient companies. Yet price control again was used to keep unemployment from rising and stave off political problems[46]. In some industries such as automobiles, minimum prices were set to keep competitors from hurting each other. In other sectors like pharmaceuticals, maximum prices were set for medicines, presumably would hurt the profit of foreign pharmaceutical companies. These price caps will probably drive some multinationals out of the $12 billion market and push the others into the red. Over the five years, foreign drug companies invested nearly $500 million in almost 1,500 joint ventures in China. Instead of fixing permitted prices, the new caps will specify profit margins[47].

The downward pressure, caused by increasing capacity, mounting competition and slower demand, has been apparent in many sectors, photo film, ice cream, and automobiles. In fact, China had suffered from a deflationary pressure in the past few years since the beginning of 1996. For instance, Nestle in 1998 reduced its ice cream prices by 20 to 30% and managed to maintain its profit after the price cut by reducing production costs and the costs of raw materials and packaging. Nestle’s move was clearly aimed at Wall’s of Unilever, the only international competitor that challenges Nestle in China. Wall’s in response launched new products and announced price cuts[48]. The Chinese market, which laps up about 800 million liters of ice cream every year, is expected to expand by 3 to 6% annually. After Wall’s blitz campaign it offered its special refrigerators to retailers in 50 cities and planned to so the same in other cities. In 1997, Wall’s sales went up 60% over the previous year. To remain competitive, Wall’s will reinforce its key strategies for China: in-depth consumer understanding, heavy and consistent support, product innovation, wide distribution network, and emphasis on value pricing. Currently, Wall’s has 20 varieties of ice cream in China[49]. The company will reinforce its relatively ice-water sector, as China remains a functional market rather than an emotional one, i.e., most people are looking for low-cost thirst-quenching products, especially in the summer. About more than half of its products are priced bellow 2 yuan ($25).

The increasing popularity of discount stores is another sign of the mounting competition and downward price pressure in several product categories. The main strategic focus is on keeping cost and prices low and turnover high. Chinese consumers are known to give up quality and convenience for lower prices. An emerging middle class with growing purchasing power. Many foreign retailers are opting to take the risk. Wal-Mart opened its first superstore in China in August 1996 in Shenzhen, and then Sam’s Club as well. They offer shoppers even more of the American “warehouse” feel – the aisles are wider, the selection of televisions, stereos and cosmetics is more high-end, and the buying is almost exclusively in bulk. Wal-Mart's expansion in China accords with its tradition of starting in small and medium-sized cities and towns. By the end of 1998, Wal-Mart already had several store in Shenzhen, one in Zhongshan, Luohu, Futian, plus three Sam's Clubs in this area[50]. Wal-Mart has had the same effect on its neighboring businesses as it had in the US. Today, China is also home to many discount chains from other countries, including Vanguard store, Macro, Home Way (a cousin of Home Depot from the US) in Tianjin, and Pricesmart (an duplicate of Price Club), and Carre Four from France[51].

Warehouse clubs offer lower prices because most Chinese consumer do not have cars and lack mobility. Local retailers can be formidable rivals, because most of them don't pay rent, issue lower wages, thus have lower cost and prices. While many of these new "group" corporations are nothing more than a loose federation of unrelated businesses, some homegrown Chinese Department Stores have expanded rapidly nationwide. Comparing to local retailers, the foreign companies will incur higher expenses in rent, import duty and wages. Preferential tax treatment for foreign investment disappeared in 1996, putting even more pressure to keep cost low. Foreign good retailers particularly international chain fast food restaurants are more successful in China because they are strategically located to serve the local palate, standardize products and procedures, and explore the economy of scale to achieve low cost and lower prices that meet the growing demand and changing life styles.

As China is approaching the final stage of entering WTO's effect, many multinationals have been waiting to gauge the effect of this entry on their pricing strategies in China. Even though, China did several across-the-board cut in tariffs, the tariff rates in many product categories remains substantially high and put foreign marketers at great disadvantages. For instance, the U.S.-China WTO agreement covers all agricultural products, all industrial goods, and all service areas. China's industrial tariffs will fall from an overall average of 24.6% in 1997 to an overall average of 9.4% by 2005. On U.S. priority industrial products, tariffs will fall to 7.1% with the majority of tariff cuts fully implemented by 2003. Tariffs will fall on a range of products including: wood, paper, chemicals, capital and medical equipment. In information technology, tariffs on products such as computers, semiconductors, and all internet-related equipment, will fall from an average of 13.3% to 0% by 2005. On U.S. priority agriculture products, tariffs will be reduced from an overall average of 31.5% to 14.5% by January 2004, at the latest. Tariffs cut to an average of 9.4 percent overall and 7.1 percent on U.S. priority products.

China will participate in the Information Technology Agreement (ITA) eliminating all tariffs on products such as computers, telecommunications equipment, semiconductors, computer equipment and other high technology products. In the auto sector, China will cut tariffs from the current 100% or 80% level to 25% by 2006, with the largest cuts in the first years after accession. Auto parts tariffs will be cut to an average of 10% by 2006. Significant cuts will also be made in the wood and paper sectors, going from present levels of 12-18% on wood and 15-25% on paper down to levels generally between 5 and 7.5%. China will also be implementing the vast majority of the chemical harmonization initiative. Under that initiative, tariffs will be at 0, 5.5 and 6.5 percent for products in each category.

Services:

Much of the infrastructure is in place, especially in a city like Shanghai. But while the hardware may be in place, the city is woefully short of what counts most: the software, the people who understand what is expected of a first-class city. People across China simply have no concept of service. One of the most frequent complaints of foreigners in China is about services: courtesy, cleanness, politeness, and basically, a lack of a customer orientation. Government investment in infrastructure and facilities in the mid-1980s failed to reinvigorate foreign tourism. The failure lies in the erratic service standards found in China's tour guides. A study of randomly selected tourists' complaints received by a travel bureau during the 1987-1988 travels season indicated that foreign tourists were more dissatisfied with their foreign guides' attitude and lack of enthusiasm toward their job than they were with any weakness in language, history, or cultural skills[52].

However, over the years, the Chinese have learned the importance of service and the transformation has been dubbed as a "Second Cultural Revolution"[53]. Serving as a role model for service is the 5-star China Hotel in Guangzhou (formerly Canton). Part of the Hong-Kong-backed New World Hotels International group, China Hotel is the mainland's sole mega-hotel. Joachim Burger, a German capitalist, directs the $125-million hotel, which has a staff of 3,000, some 1,200 rooms, and 18 food and beverage outlets that serve 7,000 meals daily. A smiling staff, quality food, and deluxe accommodations have made the China Hotel the most profitable joint venture hotel in the country. The first Westerner appointed to manage a hotel in China, Burger also has set a record for the length of his stay in the country; he has been there since 1981.

However, the lack of customer service is not unique to Chinese companies. Many MNCs suffer from the same problems. Instances of unused or broken equipment lying in China's warehouses are dwindling, thanks to an attitude change in both buyer and seller. Realizing that service is essential to establishing a long-term market, foreign companies have helped set up more than 200 service centers in the Peoples' Republic of China since 1983[54]. Customers have come to expect spare parts, service, and training to be part of any purchase contract. Previously, Chinese customers might act as though everything was satisfactory until investigation uncovered machinery lying useless. Lack of contact between manufacturers and users contributed to this. The Chinese are learning that they must pay for service when the warranty is no longer in effect. Companies are learning that providing service builds their reputation and improves their competitive position. Some companies send field technicians from the US or other bases to China as needed.

Post-purchase service has become an increasingly important component in the expansion stage. Chinese customers are increasingly demanding better services from multinationals. Sony, for example, received a barrage of complaints in the early 1990s when PRC consumers learned that the replacement parts for their Sony televisions were not available in China. After stories in the PRC press publicized Sony's lack of after-sales services in China, the company established maintenance centers in Beijing; Shanghai; Chengdu, Sichuan Province; and Guangzhou, Guangdong Province. In 1995, Sony received numerous consumer complaints because the replacement parts for its televisions were not available in China. The ensuing response compelled Sony to improve post-sale services by establishing a maintenance center in China, its largest in Asia. Having learned from others' experiences, some late entrants attempt to avoid these costly mistakes. Many foreign firms in recent years have established service centers in China, including Clarion, China-Schindler (the Chinese-Swiss joint venture in elevator). Clarion, for instance, recently came to China and immediately opened a service center for its car stereos, but also uses it as its sales branch and a training ground for its dealer-installers. Teleservice and call centers. They need the hardware and software to operate such centers. Foreign marketers have not brought on such problems to themselves. According to PRC law, however, a foreign firm can service only those products that the firm manufactures in China.

Today, Chinese consumers are also demand better services from foreign marketers. While Americans consider buying a new unit more economical than repairing a broken product, Chinese consumers often prefer to have their products repaired. Wu Gaohan of the China Consumers Association observes that Chinese consumers have become more assertive about protecting their interests. Over the past three years, Wang Hai has pioneered a old brand of activism in China. Article 49 of China's 1994 consumer-rights-protection law stipulates that if, in providing a product or a service, a merchant cheats or swindles a customer, the customer can demand double his money back. In that clause, Wang has sought profit and tried to test the law by buying fake products and demanding double what he paid for them[55].

Matsushita Electric Industrial Co. has set up customer call centers in four Chinese cities -- Beijing, Shanghai, Guangzhou and Chengdu. It plans to increase the number to 10 by 2000 to boost customer service, company officials said. IBM also set up an Information Support Center in Beijing in 1998 to provide comprehensive services to its clients and partners in China. The center, the company's largest in Asia, handled 800,000 customer calls during the year[56].

Foreign firms in the service industry are teaming up with Chinese companies to bring better services to consumers. UPS has a joint venture with Sinotrans. All major US airlines have strategic alliance with Chinese airlines to expand their services in China. For instance, United Airlines signed a connection marketing agreement China Southern Airline, and Northwest got together with China Eastern[57]. China Southern is now the biggest airline in China and listed on the New York Stock Exchange?

The Chinese government has put increasing emphasis on tertiary industries and aimed at increasing employment opportunities for those who have been shedded by the SOEs. Internet offers an opportunity. Some have learned really fast. Satisfied customers are a key ingredient to the Haier Group's success. Based in Qingdao, China, the company's stress on after-sales service resonates deeply with consumers in a country where customers' calls for help often go unanswered. Like many enterprise turnaround stories in China, Haier's success can be attributed largely to one man's vision, talent, and determination - Haier President Zhang Ruimin Zhang introduced many modern management practices to transform the loss-making fridge factory into China's leading home appliance manufacturer[58].

In the 1988-1991 period between the 2 waves of economic reform in China, the growth in consumer spending slowed to a halt. Initially, sluggish spending reflected some shrinkage in disposable income. However, because of the mood of post-Tiananmen China, the slowdown in consumption was also a vote of no-confidence in the government's willingness or ability to continue rapid economic momentum. By shunning domestically made consumer durables, shoppers signaled their rejection of the shabby products of state factories[59]. The government is trying to encourage spending in order to improve foundering state industries as well as the public's sense of well-being. However, the buying binge will backfire unless shoppers are satisfied they are getting value for money. Ideas such as quality control and customer service are now touted as essential to improving public enterprises and controlling inflation. Consumer spending has responded to such ideas, with retail sales up by 13.2% to Rmb 940 billion in 1991; sales growth was even faster in the first 2 months of 1992.

Standardized global marketing may also come short when local consumer desire value-added services. By the end of 1998, Legend became the top selling computer in China, with 12% market share, twice its largest competitor IBM. Mighty global brands competitors such as IBM and Compaq have high name recognition and superior software applications. Legend's success was largely attributed to its aggressive pricing strategies and a nationwide network of sales outlets that offered services unique to the first-time Chinese computer buyers, such as installation, utility and tutorial programs in Chinese language, something that global giants were unable to match. Global computer marketers have learned the lesson and scrambled to team up with local computer manufacturers and distributors to enhance their services. By the same token, Haier and Rongshida have become top appliance manufacturers in China by sending their uniformed technicians in minivans to do delivery, installation, maintenance repair, and no-hassle replacement.

Cases-in-point

Sales Force Training at Xian-Janssen

Xian-Janssen provides unorthodox but effective management training[60]. In the 1980s, Beijing Jeep was the standard against which all foreign ventures were measured. In the 1990s, Xian-Janssen Pharmaceuticals Ltd., rated the country's top venture for the last two years by the Chinese government, is receiving similar accolades. The Xian joint venture, which has sponsored medical research awards and educational seminars for Chinese doctors in China and abroad, has emerged as a favorite of China's investment officials and a showcase for the pharmaceutical sector. Its unusual management-training techniques may be the key to the joint venture's success.

Xian-Janssen, 52 percent-owned by a Belgian subsidiary of US medical giant Johnson & Johnson is a Joint venture with four partners under the State Pharmaceutical Administration. Located in China's ancient capital, Xian, the enterprise-the largest pharmaceutical joint venture in China--is run by a management team of more than 50 Chinese managers and a handful of expatriates, who together supervise about 600 staff. After starting production in the inauspicious month of June 1989, Xian-Janssen's sales quickly took off, demonstrating China's demand for high-quality Western medicines such as Hismanal, a non-sedating antihistamine; Daktarin Cream, for fungal infections; and Imodium, for diarrhea. The company consistently ranks among China's top-ten foreign-invested enterprises (FIEs), based on per-employee sales revenues, tax payments, profits, exports, training expenses, and investment in research and development.

Xian-Janssen's nationwide sales success has been the envy of many foreign firms looking to penetrate China's elusive domestic market. The venture has nurtured relationships with the two or three biggest State pharmaceutical distributors in each province by offering them management-training courses and teaching them distribution and marketing strategies. To assure that the company's products are energetically pushed through sales channels, Xian-Janssen salespeople visit hospitals to promote products and solicit feedback from doctors. On one occasion, the company's representatives visited a police officer who had been severely burned, bringing gifts of pharmaceuticals and earning much publicity in the process.

Xian-Janssen managers say that recruitment, training, and retention of staff drive the venture's success. The company's president, Jerry R. Norskog, estimates that he and other senior managers spend up to 70 percent of their time on personnel issues. "A hiring decision is much more grueling than spending $1 million on advertising," he says. "I personally approve every hire; advertising, I delegate."

While most of China's joint ventures recognize that effective management of local personnel is vital, Xian-Janssen's training techniques and attitudes toward management go a step further. The company operates on the assumption that it is in a race against time and the best way to beat the clock is through a "people first" approach. "In the United States, it takes five-eight years to develop a first-class manager," says Norskog. "Here, we don't have five years. Waiting just six months to launch a product in China means your costs will be 20 percent higher and there will be more competition. Without highly skilled managers and sales personnel, the venture's performance would suffer." Therefore, quickly developing leadership in the management ranks and fostering a strong set of corporate values in employees are perceived as critical to the venture's success.

A prospective Xian-Janssen employee goes through a rigorous selection process before being hired by the company. Norskog and his colleagues recruit college graduates from China's most prestigious universities. All must have the poise and language skills needed to get through a battery of interviews in both Chinese and English. The recruits must have some knowledge of computers, be non-smokers, and have outside intellectual interests. They must also demonstrate the competitive outlook that the venture is seeking. If a candidate doesn't know his class rank, for example, Xian-Janssen doesn't want him.

Once on board, all new employees go through a standard training program and spend three-six months on probation before joining the permanent staff. Most of the employees who leave Xian-Janssen--which had an attrition rate of 14 percent in 1993--do so during this period. If the employee's performance during the probation period is satisfactory, he is then given training to develop specific technical and managerial skills. Training--through seminars, coaching, or lectures--is ongoing, and the company uses a computer program to track each employee's training record, test results, and productivity. Once or twice a year, the company also runs a "camp" to give managers a better sense of which employees have independence and initiative. Usually lasting about 10 days, each camp brings together large groups of employees for workshops, lectures, and management games, interspersed with physical exercise.

Last January, 150 employees from the sales and marketing team participated in a camp held in the Fragrant Hills outside Beijing. Each day began with a pre-dawn hike designed to help staff work together. Other programs included role-playing exercises in which participants were awarded points for finding analytic weaknesses in a presenter's argument--a way of overcoming what management sees as a cultural reluctance among Chinese to compete publicly. Follow-on training is provided in areas of weakness uncovered during the camps.

Another Xian-Janssen goal is to stage memorable events in which staff participate. In July, for instance, the company took 200 employees to Tibet for the dramatic launch of a new anti-dandruff product. "Part of creating great companies is having a huge, shared event," says Norskog.

The goal of all Xian-Janssen's training is to reinforce the importance of initiative, particularly among managers and the sales force, members of which operate with a great deal of autonomy throughout the country. Xian-Janssen's top management team tries to find Chinese cultural models for teaching management and sales strategies, sprinkling bits of Sun Tze's war strategy, Mao Zedong's philosophy of heroic self-reliance, and Zhu Geliang's craftiness in Romance of the Three Kingdoms into management-training workshops. The underlying assumption is that there is nothing foreign or Western about management leadership or strategy--it's all documented in Chinese history.

Above all, Xian-Janssen tries to encourage risk-taking. "Fat pigs get promoted," Norskog says, reversing the popular Chinese saying "The fat pig gets eaten," a reflection of the Chinese cultural norm that promotes consensus and cohesion and inhibits initiative. The company tries to give employees new responsibilities as soon as they show ability, rather than wait for an annual review. "Anyone who blinks an eye or raises a hand gets rewarded," Norskog notes. By the same token, Xian-Janssen managers are expected to go easy on employees who make mistakes.

Given the time and expense Xian-Janssen takes to find and train its employees, the venture works especially hard to retain them--a feat that is increasingly difficult as new foreign enterprises throughout China look to "poach" skilled workers. Turnover rates are changing so fast that no reliable averages are available, but most FIE managers would agree that Xian-Janssen's 14 percent is low. The firm's managers believe that being personally supportive of employees is critical to retaining them, because such an attitude permeates the corporate culture and makes Xian-Janssen an attractive place to work. The venture's best potential managers, therefore, may be given advanced academic training at two-year MBA programs in China, the United States, or Belgium; or be placed in internships at other Janssen plants located throughout the world.

The company recognizes that it must also offer more tangible benefits to remain attractive to its employees, and thus offers housing, medical, and other benefits well beyond its legal and contractual requirements. The joint venture has put together a housing-savings scheme to help employees purchase homes that has been particularly well-received. The program is modeled after Singapore's Provident Fund but has been adapted to China. Employees contribute 25 percent of their base pay to the fund, while the company contributes 35 percent of each employee's wages. Xian-Janssen builds or buys the units, then sells them to its employees. The goal is to enable all employees to purchase their own housing.

With this plan, Xian-Janssen employees can own their apartments within 10 years. "It's what our employees need and want," Norskog says. "Providing housing to employees is socially responsible, given China's housing shortage, and it makes good business sense to retain good people." Although Xian-Janssen's housing and training programs are superior to those offered by most FIEs, the wage and benefit packages it offers are about average. But Norskog maintains the most salient factor for attracting and keeping employees is the availability of career-building opportunities.

"The important thing," he says, "is that employees think they're going someplace and are persuaded to buy into the company's ethos."

Coca-Cola -- image building with local brands

The famous American soft drinks company coca cola will have invested a cool 500m us dollars in china by the end of this year. The company today announced plans to expand its market share in inland china by establishing seven bottling factories in the region within next three years as part of a multi-million dollar boost[61]. the seven factories will be located in northeast china's cities of Shenyang and Harbin, northwest china's Taiyuan city, central china's Zhengzhou city, southwest china's Kunming city, and east china's cities of Hefei and Qingdao. after the completion of the factories, coca cola will totally own 23 bottling factories in china. since it returned to the Chinese market at the end of 1970s, coca cola's investment in china reached 100 million us dollars by 1992 with 13 bottling factories, said B.C. Lu, Vice-President Of Coca Cola China ltd. by the end of this year, he said, the total investment of the company will amount to 500 million us dollars. coca cola has until now produced coca cola, sprite, fanta and feixue mineral water in china. with its help, its cooperation partner, Tianjin jinmei soft drink company, began to produce soft drinks with the brand name of jinmeile in 1990. Since coca cola purchases all material from china for its production in the country, the company also brings significant profits to the local economy, according to a survey report on china's joint ventures conducted independently by Peter Nolan, an economist of Britain's Cambridge university. the report said that every job in coca cola's china factory creates six indirect employment opportunities to supply material for coca cola's production. since 1994, the Chinese government began to use the quality standard of coca cola as that of china's soft drink industry, and the production structure of china's soft drink industry is, to large extent, the duplication of coca cola's, which are supplying bases to bottling factories, the report said. at present, the base used by china's coca cola bottling factories is produced in Shanghai.

Marketing PCs: Price Competition in China

The Number One PC marker, Compaq, has met tough competition in China. It became clear in early 1999, the foreign PC makers including Compaq, Dell, IBM, Tulip, AST and others are falling behind the local companies. Legend, led the pack with 13% of China's PC market in 1998 (See Table).

Having tried for five years to operate a joint venture with Beijing's Stone Group—in what is now one of the world's fastest-growing markets--the Houston-based company has little to show for its effort but an anemic 4% market share[62]. As part of its new strategy, the company is cutting deals with personal computer manufacturers around the country--but it's making sure this time that partners will focus on improving Compaq's market share. In October, for example, Compaq signed an agreement to put its brand name on computers made by Dawn, a small PC maker in the grimy city of Shenyang in China's northeast, a part of the country better known for its hulking heavy industry than its high-tech prowess. Tony C. Leung, Compaq's marketing director for Greater China. "We are working with someone who understands the market better than we do."

Foreign PC makers have discovered the hard way that local companies have established distribution networks, provide better service, and offer lower prices. Compaq is just one of many foreign PC makers playing catch-up in China. From IBM (IBM) to Dell (DELL) to Toshiba, companies that dominate other global markets are taking a second look at their strategy for the world's largest emerging PC market. Beijing's recent crackdown on smuggling has changed the landscape for foreign PC makers: They can no longer rely on producing low-priced machines in other parts of Asia that can then be brought into China by third parties. Now, PC makers are working more closely with Chinese partners and are decreasing their reliance on imports.

A few years ago, most analysts envisioned something quite different -- the global powers would gobble up the Chinese market, with locals like Legend stuck in second-tier status--at best. Instead, the foreigners are trailing Legend. Moreover, the foreigners are steadily losing market share. Locals enjoyed sales growth of 65% in the first three quarters of 1998, far outpacing the meager 14% of major foreign players Compaq, Hewlett-Packard (HWP), and IBM. Indeed, the top four foreign PC makers command just 19% of the market, down from 21% in 1997. That compares with 23% for the top four local players, according to International Data Corp.

The grim statistics are making many foreign PC makers recognize the need for a change. Take Toshiba Corp. Like Compaq, the Japanese giant is expanding its ties with local partners. It recently announced a new joint venture with Chinese PC maker Tontru Information Industry Group Co., which is tied with Compaq for fourth place in the Chinese PC market. Meanwhile, IBM has expanded its joint venture with Great Wall Group in Shenzhen, increasing its stake to 70% from its original 51%.

Companies also are trying to break through one of China's biggest barriers: the distribution system. With China's notoriously inefficient transportation system, companies rely on a vast number of local distributors to get their computers to customers, who often turn to the distributor for help with service. Dell Computer Corp. figures that its trademark direct-sales model can help it overcome that disadvantage. It opened a manufacturing plant in the southern city of Xiamen last year and has 300 people working in China. Manufacturing locally, rather than importing machines from a factory in Malaysia, helps Dell compete better with Legend and other Chinese companies. Until Dell opened its Xiamen plant, it had to pay 17% import duty on all its computers sold in the country. Meanwhile, to overcome the idea that foreigners can't offer the kind of service that locals do, Dell also has set up toll-free hot lines to offer technical support. The company even started selling computers over the Internet in China.

State-owned PC maker aims to become a Chinese IBM[63]. Even though its research center can't match the resources of Compaq (CPQ) or IBM (IBM), it is Legend that's turning up the heat on those rivals and others. The $758 million Beijing-based computer company saw its sales grow by 106% last year, making it the biggest seller of PCs in the fastest-growing computer market on earth--a title that foreign rivals had hoped to capture. But with 15% of China's sales, Legend has twice the market share of its closest competitor, IBM. "We plan to be among the top 10 PC manufacturers in the world by 2000," vows Yang Yuan-qing, general manager of Legend Computer Systems Ltd. Legend's goal: to sell 1.5 million computers in 2001, up from 800,000 units today.

Credit the company's low prices, broad product range, helpful software, and vast distribution network. Just as important have been Legend's strong links to the Chinese government, which accounts for 25% of Legend's sales, and the decision to push state-of-the-art PCs, not yesterday's models. That helped remove the stigma associated with buying a local computer. Consumers "stopped being ashamed of buying a Chinese brand," says Sean Maloney, senior vice-president for sales and marketing at Intel Corp. (INTL), which urged Legend to sell the more powerful PCs. "Legend has become synonymous with high tech." So Legend is a local hero.

The computer maker is also benefiting from China's love affair with the PC. Desktop-computer sales there are expected to swell 30% this year--double the growth that's forecast for the U.S. market. If this torrid pace keeps up through 2002, some 10.3 million PCs will be sold in China that year, making it the No. 3 market in the world following the U.S. and Japan. (Sales are higher in the U.S. and Japan.)

But Legend's ambitions go well beyond the PC. The company is aiming for nothing short of becoming China's version of IBM--a full-service provider of computers, software, and high-tech know-how. In the past 12 months, Legend has parlayed its local savvy into development and marketing alliances with Microsoft Corp. (MSFT) and IBM. "As a local company, we have much more insight into the needs of Chinese customers," says Legend's Yang. In China, hand-holding is need No. 1. After all, it is a population of PC newbies with only 1 out of every 175 Chinese currently owning a computer. Legend understands this better than foreign PC makers do. The company has developed a variety of software products for first-time customers that are bundled with its PCs, including tutorial programs on everything from using the World Wide Web to mastering home finances.

Legend will test just how well that formula works in a new market: palm-size computers. After one year of development work with Microsoft, Legend's palm-size computer, called Tianji, will appear this month running Microsoft's Windows CE software. As with PCs, Legend has tailored the product to the local market by including a stylus for entering Chinese characters and English letters and by installing a powerful English-Chinese dictionary. Legend and Microsoft also are working with 10 local software companies to develop applications for the product. And with a price of around $540 in China, the Tianji is $60 less than the price of 3Com's Palm computer.

Just two years ago, Legend might have been viewed as the least likely to survive. The company, founded in 1984, was hemorrhaging $25 million a year and lagging behind multinational rivals IBM, Hewlett-Packard (HWP), and Compaq. Then Legend launched a vicious price war, cutting prices three times in one year. With lower production and distribution costs than its foreign rivals, Legend now sells its desktop PC with a Pentium II chip for about $1,200, or 30% less than IBM or Compaq. State-owned Legend, which is listed on the Hong Kong stock exchange, has something else going for it: a strong distribution network. That's what has stymied foreign competitors (page 78). In the past 10 months, Legend has added 800 distributors and now has close to 1,800 across China. It also has its own retail stores that sell Legend products, make repairs, and offer free training for China's often first-time users—including home visits. With 11 shops now open, Legend plans to have more than 50 by yearend. "They have an extremely well-developed distribution network," says Tony C. Leung, director of Greater China marketing for

Compaq in Hong Kong. "It will take a lot of time to catch up."

That's why no foreign company can afford to ignore Legend. Its superior distribution network and strong government connections spell opportunity. Last summer, Legend inked a deal with IBM to pre-install Legend PCs with IBM software, including a Chinese-language version of IBM's ViaVoice 98 speech-recognition software. IBM and Legend also are developing software for China's telecom, finance, and aviation sectors. "On the one hand, we compete with Legend," says D.C. Chien, general manager of distribution for IBM's Greater China Group. "But on the other hand, they are our second-largest partner in China."

ACHILLES' HEEL. Despite its standing in PCs, Legend needs foreign help to expand into corporate software and service. Last fall, for example, the company signed deals with Lotus Development Corp. and Oracle Corp. (ORCL) to resell groupware and database software to Chinese businesses. "They still are relatively weak in R&D and in software," says Jay Hu, managing director of the U.S. Information Technology Office, an industry association in Beijing.

For now, that is. In late November, Legend and Computer Associates International Inc. agreed to a $3.5 million software joint venture. First task: to create a software development tool to compete with Microsoft's Visual C++. The software will be available in the Chinese market this summer.

Legend isn't relying strictly on the kindness of foreigners to create a software stronghold. It recently invested $4.5 million to become the leading shareholder of Kingsoft, a Chinese software company. The two will develop Chinese word processing, dictionary, and game programs. And in November, the government announced it would send more than 400 researchers from the Chinese Academy of Sciences--a national think tank--to work at Legend's research labs. The move gives Legend much-needed brainpower in its quest to develop better software and more powerful computers.

Table. Sales of PC in China

Legend	13%
IBM	7%
HP	6%
Compaq	4%
Tontru	4%

Based on total 1998 estimated sales of 3.8 million units. Source: International Data Corp

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