

A MARKETING PROFESSOR LOOKS AT MARKETING IN CHINA

by
LAURENCE W. JACOBS
Professor of Marketing
University of Hawaii
2404 Maile Way
Honolulu, HI 96822
(808) 948-8504

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China is a land of contradictions. It is a nation which has a nuclear navy. China has silk worm missiles and many successful space shots. China is also a country in which donkey and horse carts are still a major form of commercial transportation.

China is a place which is difficult to know. The Chinese have a long tradition of "putting their best face forward." As a short time visitor, one may see only those things that the Chinese want seen. Many tourists return from China with raves of the up-to-date facilities. They stay in joint venture hotels. They travel on air conditioned buses. Their moves are programmed from early morning until late evening. They see the souvenirs of 5000 years of a great culture. They come back to their hotel at night, tune in CNN or an American movie, and tell each other that China is certainly modern.

There can be no denying that China has come a very long way in a relatively short time. Ten years ago, for example, there was only one television set for every 75 homes. Today there is one set for every two homes.

It was my privilege to spend one year in China. During that time I traveled to more than 30 cities in 20 Provinces. As a special guest of the government, I visited three areas which are not normally open to Westerners. I was able to pull back the "silk curtain" for a brief look at what many Westerners never get to see. What follows is a marketing look at China.

PRODUCT

Domestic Markets

For the most part there is little active competition within the domestic markets of China. By Western or Japanese standards things are pretty mild. There are only a few alternatives in each product category. Fixed prices are common in most of the government owned stores which cater primarily to local Chinese. There is little selling or promotional effort. There is a general attitude that if something sells, good; if it does not sell, also good. There are, however, a growing number of

exceptions to this generalization. Bicycles, televisions, and radios have recently become more competitive. Bicycles are the major form of transportation in China. In Beijing, a city of about 9 million people, there are 6.7 million bicycles. The basic need for bicycles has past the "critical shortage" stage. Consumers are now seeking higher quality alternatives such as Flying Piggin or Phoenix brands. These higher quality products command a higher price.

Most factories in China are still judged by output rather than sales. In many product categories, production of large quantities of poor quality products is still the rule. Radio and television production, however, has now reached a high level of sophistication. Some domestically produced products even begin to rival the Japanese sets. Japanese products still command a somewhat higher price in the market place.

It must be noted that the prices of foreign made products are higher than those of domestic production for two reasons. First they are priced somewhat higher because of higher costs. Second their true price is higher because the purchase of these products requires the use of Foreign Exchange Certificates. China has a two money system. The purchase of any foreign made good requires Foreign Exchange Certificates (FEC). This applies to candy bars as well as television sets. People's money (RMB) is used to purchase domestically produced items. Workers receive only RMB which means that FEC is difficult to obtain. There is an active black market in which the FEC sells for a 50 - 60% premium. Therefore even though the Japanese product may appear close in price to the domestically produced alternative, the foreign item will require FEC with its built in premium.

For most product categories, demand in China still greatly exceeds the supply. In these cases the emphasis remains upon production rather than sales. This also results in little product differentiation. Brand names, for example, are often either city names (Beijing Beer or Shanghai Soap) or some national symbol (Great Wall Computers or Panda brand of almost anything.) Most of the food product labels seem similar to the generic labels of US supermarkets; that is, plain, simple, and descriptive.

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Cultural Revolution the phrase to govern business was, "To Serve The People." This has influenced business in many ways. For example there are no exclusive right of manufacture and no real incentives to be a more aggressive marketer.

Export markets

Like most developing nations, China has a very great need for foreign exchange. (The need of the general public to use FEC to purchase foreign made goods is a part of this problem.) The three major products upon which China depends most heavily for foreign exchange are: textiles (especially silk), petroleum, and tourism. China also relies heavily upon joint ventures to supply both technology and investment capital. Today there are more than 11,000 joint ventures in China. Approximately 90% of these are with Hong Kong based businesses. Among the more visible non-Hong Kong joint ventures are hotels (Sheraton, Hilton, Holiday Inn); service businesses (Consulting and Accounting firms); food and household products companies (Proctor and Gamble, General Foods, Heinz, Keo); and textile manufactures (Calvin Klein, Liz Clairborne). There is also a relatively small amount of counter-trade. The Russians, for example, currently trade iron and steel for textiles and "Thermos" type bottles.

PLACE

Transportation of Goods

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Intercity transportation is mainly by rail. A high proportion of this is by steam locomotive. China exports much of its petroleum production but she has a rich supply of coal. Except for pollution, a major problem in this coal burning country, the steam locomotive provides an alternative to diesel.

The intercity road system is narrow and slow. Bicycles, donkey and horse carts, and tractor-type vehicles fill the roads. Most speed limits are low. Forty eight miles per hour (60 kilometers) is strictly enforced on most major highways.

Intracity transportation is also slow. The streets of most cities are crowded with people, donkey and horse carts, flatbed bicycles, and bicycles. Trucks, vans, and cars add to this congestion and result in many traffic problems. Even Beijing, with its wide divided streets, is not immune from these problems. In this regard the major cities of China are similar to major cities throughout the world. In China, however, the disproportionately high number of very slow moving vehicles exacerbates the situation.

The communication system in China also has some interesting effects upon marketing. China's international telephone system is excellent. They use state-of-the-art digital equipment.

However the local system is not so advanced. According to an article in the China Daily, the official English Language newspaper, only 11% of the phone calls are completed in Beijing. The article also estimates that it takes an average of three days to complete a phone connection. According to this same source, approximately .02% of the private homes in Beijing had telephones in 1987. This was up from .006% in 1986.

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Retailing is small by Western standards. The largest supermarket in Beijing, for example, is less than 10,000 square feet. The main department stores are less than 40,000 square feet. Much of the retailing is done in small shops and in the free markets. The free market system is China's major move to the free enterprise system. Entrepreneurs can lease space to establish a "stall." These "stalls" are about 7 feet long and 12 - 13 feet deep (2 x 3 meters.) While there are many things sold at these free markets, clothing and food markets are the most common. The clothing markets offer a wide variety of items ranging from locally produced shirts, pants, sweaters, dresses, and skirts to the over runs and seconds of the joint venture designer factories. These markets also offer services such as shoe repair and tailoring. The food markets sell fresh fruits and vegetables, some meats, and some cooked foods. Also household products, such as pots and pans and plastic mixing bowls are sold in these food markets. The facilities range from portable, free standing stalls to covered markets. The selling in all free markets is very aggressive. This is in sharp contrast to selling in the government owned store. These merchants expect to bargain.

On the other side of the spectrum are the stores like the Beijing Department Store or the Xidan Department Store. These two stores are among the largest in China. Both are less than 35,000 square feet. Both are extremely crowded during business hours. There are many differences between these two stores and Western Department Stores. The first point of difference is the grayness or lack of colorful merchandise displays. These stores are very similar in appearance to the US department stores of the 1930's and 1940's. That is they are large three or four floor buildings. Stairways provide vertical traffic. The ceiling are very high and the floors are dirty cement or tile. During the summer months employees sprinkle the floors with watering cans to keep the dust under control. There is no air conditioning but these stores are heated in winter (between Nov. 15 and March 15.)

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and automatic cash control, there is another difference. Not only are there no scanners, but there are not even cash registers. Money is thrown into a drawer or box. There are no bags for the purchases. However many of the items will be wrapped with paper and string. The Chinese do not use credit cards and checks in this "cashful" society.

Shopping in these stores can be very frustrating for foreigners. Merchandise is usually not available in all sizes or in all colors. Therefore the shopper often finds an item but the needed size or the desired color may not be available. Most items are not displayed on racks. Merchandise is usually either hung on the wall or shown in display cases. The general rule of shopping in China is, if you see it, like it, find it in your size, buy it because it probably will not be there tomorrow. Another shopping inconvenience is there is no place to try anything on. Some outer garments are tried on over the existing clothes, but a great deal of buying is done with the aid of a tape measure. Most stores and free markets appear willing to accept returns if there are size problems.

While the upper floors of these two department stores are semi-organized, the main floor is not. The ground floor of each of these two stores contains more than 60 major displays of unrelated merchandise. For example, umbrellas are shown in the middle of the luggage, medical laboratory equipment is next to the candy, the liquor and the portable fans are displayed together, the cigarettes are shown in the art supply area, and welding helmets are next to the cookies. All of these displays are in an 8,000 square foot area.

Most merchandise is displayed. There is very little back stock. Small shelf signs show the price of the item. Often these price signs get lost or removed causing some problems for the customers. The sales help have little incentive to give much service. Most clerks do little more than receive money and answer basic questions. As a Westerner I received two reactions; non-service discrimination and high service discrimination. In the first instance the sales people preferred to help the locals rather than people who were different looking (foreign devils.) The second case often found the sellers ignoring the local customers to better serve the "foreign friends." In some cases they wanted to practice their English. Sometimes the clerks were curious as to what the foreigners would buy. In still other instances they were just very helpful to foreigners. Fortunately the second situation was more common than the first.

PROMOTION

Advertising

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One interesting thing about most of the advertising in the mass oriented media is that it is for industrial products. The People's Daily, the highest circulation mass newspaper in China, reports that at least 75% of advertising is for industrial products. A typical issue will contain ads for products such as industrial type electrical wire or steel rolling equipment. Even television has about 30% industrial ads. The consumer ads are very product oriented. Appeals include information such as; founded in ---, given --- award in ---, made with ---. There is very little user benefit stressed.

Most people in China distrust advertising. The general population seems to feel that it is necessary to advertise only the bad products. The good ones sell themselves. Also since most of the businesses are government owned, they are not operated for a profit. Customers wonder why the product is being advertised.

Personal selling

Selling in China is also different. The most important word in a seller's vocabulary seems to be, "MAI YO" (pronounced "may yoh.") "Mai yo" means "we do not have it," "we are out of it," "no more." It also seems to mean, "go ways and don't bother me!" Selling in China is not aggressive by Western standards. The exceptions are selling in the free markets and selling to

international buyers. The Chinese can be very aggressive in these negotiation processes. However in a fixed price government store, the clerks seems unconcerned with making a sale.

PRICING

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Many of the merchants do not have Western ideas of costs. For example they will say that sending a car to pick you up is "free." The logic is; we have the car, we have the driver, the gas comes from the ministry (government), so it does not cost anything.

The recent trend has been away from rigid price controls. With this relaxation has come inflation. Last year the government was claiming that the inflation rate was only 8%. The Chinese people were saying that food prices were up at least 80%. There is no way to prove who is correct as the government controls the statistics. More recently the Chinese government has revised its estimate to a 50% increase. An interesting policy was to give all employees a pay increase of \$2.00 per month to help off set this inflation. While \$2.00 a month may not seem like a great deal of money, this represents an average 3% increase in wages (from \$67 to \$69 per month.)

Prices are low compared with the US. Most everyday items are about 1/8th of the prices here. The big problem is that the luxury items are even more expensive in China than in the United States. None the less it is amazing the number of people who have televisions sets and stereos and even CD players. On the other hand, there are relatively few refrigerators and washing machines. These products are coming into the culture but it will be several more years before their usage becomes widespread.

CONCLUSIONS

Marketing in China is in transition. Business is changing almost daily. China has her problems but the Chinese leadership is looking for solutions. The next several years will be critical in Sino development. They must control inflation. There is a growing separation in incomes which is in conflict with Communistic doctrine. There is the problem of what to do with all of those people.

Those who have not experienced this population problem first hand may have difficulty in fully appreciating the extent of this situation. China is trying to hold the lid on the population at 1.2 billion people. There are great pressures which will make this very

difficult. First there was a baby boom in China between 1960 and 1964. This population bulge is now coming into the family formation years. Second there is a downward trend in the age at marriage. This has also led to an increase in the number of marriages. Both of these trends will lead to an increase in births even if the "one child" policy is continued.

Most people can not realize what a 1.2 billion population means for China. Imagine 1 billion people in the United States, all living east of the Mississippi River. While China is a big country, much of it will not support a major population. Add to this an economy which is still underdeveloped. There are approximately 4 - 5 people for every job. It takes more than 70% of the population to produce the national food supply. The result is a strong tendency to sit back and let someone else do the work. Unfortunately much of the time things never get done.

China has a long history of making pragmatic decisions. With revision often comes backlash. The next several years will give us clues as to the future. History may say the real Great Leap Forward was not the 1950's. Rather it was in the 1980's.

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