

Placing German Energy-Conserving Electrical Household Appliances in the Chinese Market

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Abstract

This paper focuses on internationalizing German electrical household appliances companies into the Chinese market. The contents cover target market selection, timing of entry, market entry modes and special aspects of the Chinese economic, political and cultural environment. It also includes geographical clustering, customer segmentation and marketing-mix suggestions: product-, distribution-, promotion- and price-policy.

Basis of the empirical part is an actual study of the Chinese government and an own survey with a sample questionnaire in Beijing.

As electrical household appliances directly relate to families and individuals, we mainly studied Chinese customers' purchasing behaviour. We divided Chinese market into urban area (1-class market) which is in regeneration period and in rural area (2- and 3-class markets) which is in popularization period. We further divided customers into young couples (new-purchasing) and middle age couples (re-purchasing).

The data shows, that Chinese customers today have an awareness and understanding of the importance of saving energy. The customers are willing and – in a lot of cases – also able to invest more for energy-conserving household appliances.

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1 Introduction

In the first chapter, we introduce the background of the Chinese electrical household appliances market, followed by a problem description, from which the target of study will be generated. After that, we will present the process of this work. At last, the structure will be presented based on the target we want to study.

1.1 Background

Nowadays, energy has become one of the key factors for the healthy and continuous development of the Chinese economy. The rapid popularization of electrical home appliances makes China a huge consumer of energy, which occupy more than 15% of the countrywide electricity. The scarcity of electric power is severe, especially in summer. Therefore, the Chinese government advocates using energy-conserving electrical appliances and customers also pay more attention on these kinds of products.

The market of electrical home appliances has gone step to the steadily developing phase. And the energy-conserving devices already occupied a certain proportion of the market. There are enormous opportunities in this field, as the Chinese economy is developing rapidly. In the next two or three years it is exactly the regeneration period for the electrical home appliances in cities and the popularization period for them in rural areas.

1.2 Problem Description

The electrical home appliances market in China today is very jumble with hundreds of local and global brands. Every company uses different strategies, attracting customers to buy their products. The manufacturing capacity expanded sharply. However, the quality and functions of these products are actually very similar. It is not easy for a company to break through the status quo. Supply is greater than demand in this market.

Although the Chinese government encourages customers to buy more energy-conserving electrical home appliances in order to ease the energy crisis, there are many kinds of identifications in the Chinese market. Customers have no idea which one is credible and effective. The government just took effect new efficiency identification from March 1st, 2005, which gives a uniform countrywide identification for the electrical home appliance market. However, this identification is not developed yet. Customers know little about it and they have no idea what is the meaning of these rank criterions.

Along with the development of Chinese economy, price is already not the most important factor to effect the consumption. Chinese people are realizing the importance of saving energy and prefer high technology and quality. That means customers will consider much about the ratio of capability-price. However, energy-conserving devices cost more than normal appliances and the price of the normal devices is going down rapidly because of the furious competition. How we can convince customers that energy-conserving devices bring more benefits and save more money in the future is the most significant task to be solved. This kind of products can not only save energy for the social benefit, but also bring benefit for customers themselves like comfort, health and consuming less electricity. That is why customers pay for the extra price with pleasure.

While we are studying the Customer behaviour Culture diversity cannot be ignored. Developing the global business consonant with indigenous thought is essential to furthering the understanding of Chinese culture. As the differences between eastern and western cultures are obvious, it is necessary to combine them together. There is no correct or the best way, but the balancing of science and humanities.

Finally, as everyone known, China is a big country with multi-culture and unbalance developed economy. Some big cities like Beijing, Shanghai are developed with high consumption level and high-educated people, but some areas are still unenlightened.

1.3 Target of Study

The central target of this study is how to attract and retain customers of the Chinese electrical household appliances market. For this purpose, we should significantly study the customers' behaviour: what customers' need, why they change their purchase trend, which kind of product or brand they prefer and what the potential field customers will choose in the future. Knowing more about consumers enable companies give better offering and win benefits for themselves.

Before achieving this central target, we should also study the entire environment around consumers which influences companies' success of marketing. Firstly, every company has to prepare the initial step of internationalization: whether to do global business, where and when to go, and the basic theories of the entry strategies.

Another main target of this study is the analysis of external and internal environments. After companies decided to go to the Chinese market in the initial step, we should check what we have in our companies to offer to this market and how we can improve to fulfil this market. Except the strength and weakness of internal environment, it is also necessary to analyze opportunities and risks of the external environment, namely, the Chinese market. The factors influencing the marketing strategy and customers' purchasing behaviour, especially the culture environment, should be significantly studied.

As we mentioned before, china is a big country with multi-culture and unbalance developed economy, so we cannot consider China as one market. We should do geographical clustering and customer segmentation. Besides that, marketing-mix will also be analyzed, which is the connection between enterprises and consumers.

All factors above are used for meeting our target customers. As the situation we are going to face, becomes clear, it is possible to give the corresponding strategies for entering Chinese market successfully. The final target of this study is to give a guideline for German electrical household appliances companies entering the Chinese market and to help the global marketing managers making a comprehensive marketing plan with suitable strategies.

1.4 Process of Study

At the beginning, all the available literature concerning this study will be reviewed which includes the selection of the target market, motives and timing for entering the Chinese market, entry mode strategy, factors influencing the entrance, market segmentation and marketing mix.

Based on all literatures studied it is possible to create the criteria for analysis. This part is like a summary of the reviewed literature, from which we can obtain an overview of the strategy development. It will also give a guideline for collecting data. The results derived from this framework will lead to the empirical study, namely, data collection methodology. After analysis we will know which kinds of data are necessary for this study. Therefore in this step all the possible actual data will be collected through report, research or interview.

As the situation described by others' work and the real data from the Chinese market are already collected, it is possible to analyze the external and internal environments (includes case study) which is the actual nowadays situation for our study. According to the complete analysis we can finally develop the strategy guiding for entering the market successfully. When we do comparison of the actual data and the reviewed literature we will find out the strategies still suitable for today Chinese market. Some strategies should be developed or changed along with the variable situation and some new strategies can be detected for new market.

Lastly, reliable suggestions for entering into the Chinese market will be provided to the international marketing managers of German electrical household appliances companies.

1.5 Structure of Study

The thesis is divided into seven chapters as shown in figure 1.1. The **first chapter** begins with a background of the Chinese electrical household appliances market,

followed by a problem description, from which the target of study will be generated. At last, the structure will be presented based on the target we want to study. In the **second chapter**, the available articles and studies will be reviewed which includes the selection of the target market, timing of entry, entry mode strategy, factors influencing the entrance, market segmentation and marketing mix. In the **third chapter**, the situations mentioned in the second chapter will be analyzed and summarized, which leads to the way of collecting data in the next part. **Chapter four** includes all methods and processes for data collection, from which we choose what are suitable for our study. In **chapter five**, all real data collected from Chinese market will be presented and analyzed in detail. In the **sixth chapter**, the situation in the second chapter will be compared with the actual data in the fourth chapter which will lead to the analysis of the actual situation in the nowadays market. Corresponding strategies will also be developed in this section. At last, conclusions will be done in **chapter seven**, in which the results regarding this study will be discussed and the future implementation will be suggested.

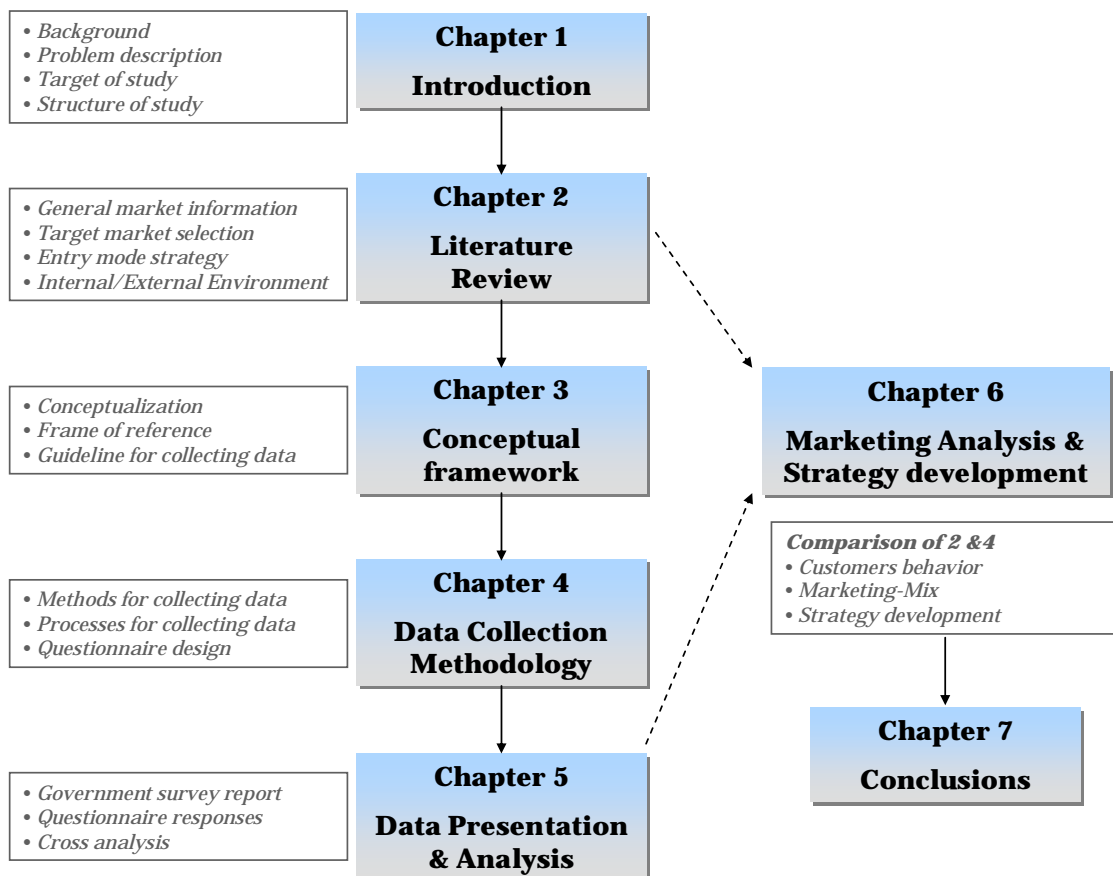


Figure 1.5.1: The structure of the thesis

2 Literature Review

In the previous chapter, we introduced the general topic of this study which ended with the target and structure of this thesis. In this chapter, the literature review concerning to this topic will be presented. We will begin with the questions whether to go abroad and why to enter into the Chinese market. Then the target market selection will be studied, followed by the timing of entry. After that, we will give reader the choices of market entry modes and the special cases in China will come to heel. The factors influencing entry modes have to be analyzed before the marketing strategies are given. Internal factors mainly explain the situation inside a company, what we have and what we can do for our customers. The Chinese market we are going to enter into is the external environment which includes economic, political and cultural factors, followed by clustering and segmentation of this customer market. At last the strategy for marketing our product will be illuminated with 4 Ps: Product policy, Distribution policy, Promotion Policy and Pricing policy. (See figure 2.1)

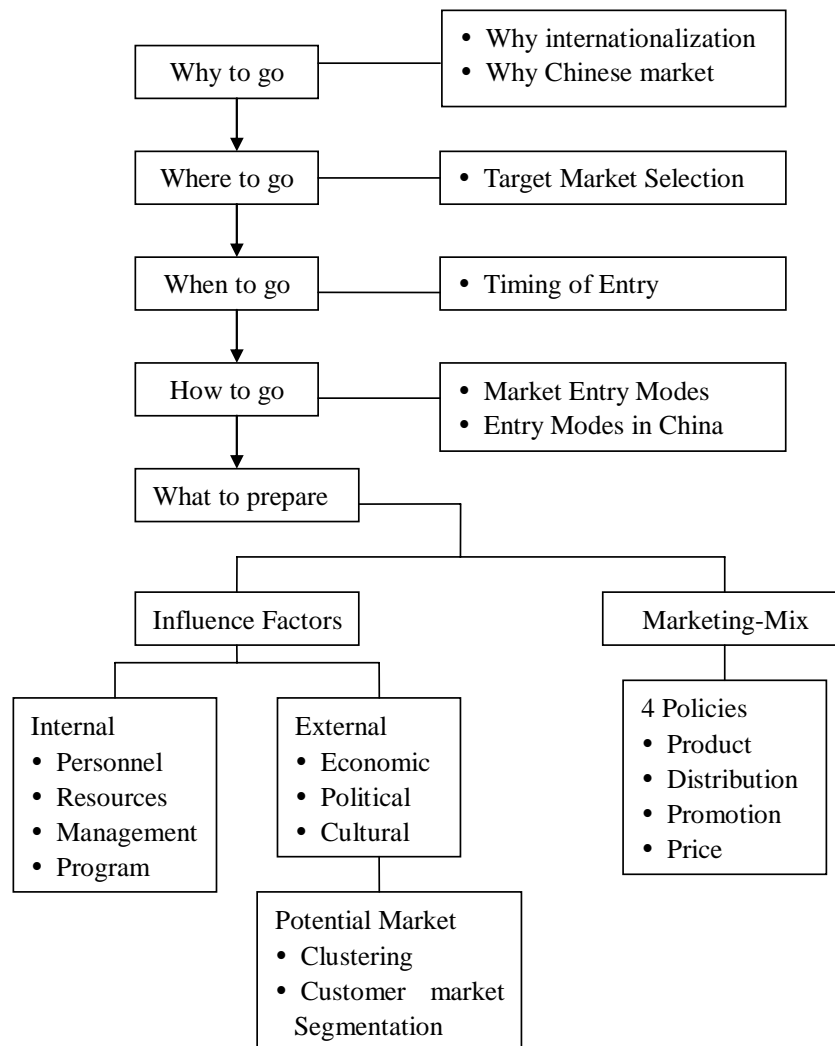


Figure 2.1: General Framework of Literature Review

2.1 Why Internationalization

2.1.1 Why go abroad

Most companies would prefer to remain domestic if their domestic market were large enough. Managers would not need to learn other languages and laws, deal with volatile currencies, face political and legal uncertainties, or redesign their products to suit different customer needs and expectations. Business would be easier and safer. Yet several factors are drawing more and more companies into the international arena:

- Global firms offering better products or lower prices can attack the company's domestic market. The company might want to counterattack these competitors in their home markets.
- The company discovers that some foreign markets present higher profit opportunities than the domestic market.
- The company needs a larger customer base to achieve economies of sale.
- The company wants to reduce its dependence on any one market.
- The company's customers are going abroad and require international servicing.

Before making a decision to go abroad, the company must weigh several risks:

- The company might not understand foreign customer preferences and fail to offer a competitively attractive product.
- The company might not understand the foreign country's business culture or know how to deal effectively with foreign nationals.
- The company might underestimate foreign regulations and incur unexpected costs.
- The company might realize that it lacks managers with international experience.
- The foreign country might change its commercial laws, devalue its currency, or undergo a political revolution and expropriate foreign property.

Because of the competing advantages and risks, companies often do not act until some event thrusts them into the international arena. Someone—a domestic exporter, a foreign importer, a foreign government—solicits the company to sell abroad, or the company is saddled with overcapacity and must find additional markets for its goods. (Kotler 2003, pp.384-385)

2.1.2 Why go to China

Since the adoption of the Open Door reform policy and the opening of the China market in 1978, numerous firms have sought to establish themselves as leading players in the market. Often, they have been willing to write off heavy initial investment and operating costs with a view to establishing long-term market share. In some cases, unexpectedly fierce domestic competition, the effects of the Asian crisis and unrealistic assumptions have combined to persuade firms to withdraw. With a vast population and a rapid rate of growth and economic and social development, China is becoming a very important arena for the study of international business. It is

sufficiently important for questions to be asked about whether the current understanding of international business is sufficiently mature and sophisticated to be acceptable. (Alon 2003, p.3)

Powered by the world's most rapidly changing large economy, China is an ever increasing presence and influence in our lives, connected to us by the world's shipping lanes, financial markets, telecommunications, and above all, by the globalization of appetites. China sews more clothes and stitches more shoes and assembles more toys than any other nation. It has become the world's largest maker of consumer electronics, pumping out more TVs, DVD players, and cell phones than any other country. And more recently, it has ascended the economic development ladder higher still, moving quickly and expertly into biotech and computer manufacturing. It is building cars (there are more than 120 automakers in China), making parts for Boeing 757s, and exploring space with its own domestically built rockets. (<http://www.inc.com/magazine/20050301/china.html>, 15/10/2005)

China's entry into the WTO will make China's door even more open. Both foreign investment and foreign trade are expected to increase. Foreign firms will begin to penetrate China's financial and telecommunication sectors. Trade will increase in both directions and Chinese tariffs will be lowered and Chinese goods will have better access to world markets open to members of the WTO. Using foreign competition to stimulate the domestic economy is a major objective in seeking to join WTO, as explicitly stated by Premier Zhu Rongji.

What are the prospects of continued reform and progress in the future? There are three sets of forces that determine institutional changes in China. These are the role of the government, incentives generated in the market sectors and inertia inherent in economic institutions. In the last twenty years the government has guided the changes in economic institutions. In the future the government will remain active, especially in the following areas. First, science/technology and education for the betterment of the economy was stated to be the main theme. Second, the building of infrastructure, in connection with the plan for Western development in particular, will be of top priority. Other areas of serious government attention include the improvement of technology in agriculture, environment protection, social welfare system, health care and housing reform. There will be plenty of opportunities for foreign investors to invest in all these areas.

Secondly, concerning the market forces we can expect that private enterprises, joint ventures and foreign owned enterprises, under a better legal system and in an improved economic environment with China a member of WTO, will contribute positively to growth in the next two decades. These enterprises will play the role of township and village enterprises in serving as the most dynamic sector of the economy. They also will provide competition to the state and collective enterprises, making them more efficient.

Thirdly, inertia will prevent economic institutions from changing rapidly. Institutional inertia comes from lack of information, lack of knowledge, social and political pressure affecting economic decisions and simply persistence of customs and habits. Inertia explains the difficulties encountered in reforming the state enterprises and the banking system. One most important problem common to both institutions is the lack of well-trained managers and staff. The second element of inertia is the tendency to retain the old ways of doing things.

When the above three sets of forces are balanced out, the Chinese economy will continue to grow at a substantial rate, say over seven percent annually, in the next two decades. I have come to this conclusion by observing the growth experience of the past twenty years. The negative factor, namely institutional inertia, has not prevented the economy from growing at an average rate of about 9.5 percent per year. There is no need to have "perfect" institutions to grow rapidly as long as important market incentives are allowed to operate in important sectors of the economy. Foreign investors can take this continued growth into account in their investment decisions. (http://www.oycf.org/Perspectives/7_083100/china.htm, 15/10/2005)

2.1.3 Why go to Chinese electrical household appliances market

China's electrical household appliance industry has developed rapidly since the 1980s. The output value of the industry had topped 150 billion Yuan by 1999, up from only 860 million Yuan in 1980, and the number of home electrical appliance makers had reached 2,675. Generally speaking, China's home electrical appliance industry has entered a period of slow growth and structural adjustment since late 1990s, following a rapid growth in the 1980s and early 1990s. The home electrical appliance market has also become balanced in demand and supply and has been expanding at a moderate pace. In the meantime, there has been a full range of home electrical appliance products, capable of satisfying the demand of multiple aspects and levels in both variety and capacity. At present, more than 100 kinds of home electrical appliances are made in China.

There will be a broader market space for home electrical appliances as China's macro economy is now at the stage of recovery and development and boasts bright development prospects, and the home electrical appliance market is extending from the urban market to international market and rural market. Based upon these factors, China's home electrical appliance market will generally keep on growing steadily.

2001 is the first year of China's Tenth Five-Year Plan. The state has put forward a series of plans and policies to push forward economic development. The development of residential housing industry, the development of rural economy and the western China development drive will all provide fresh opportunities for development of domestic home electrical appliance industry. However, such growth will be uneven among different home electrical appliance products, the price pressures will remain great, the market competition will be fiercer and the home electrical appliance

industry will manifest a pattern of competition different from the past. (<http://www.friedlnet.com/0009-017.html>, 15/10/2005)

In the recent two or three years, the phenomenon of lack of coal, electricity and oil, which is called “three famines”, has appeared in many places in China. The most important reason is that the industrialized progress in China started to speed up; residential consumption move from the original consumption of “clothes and food” into the consumption of “residence and travel”, and the escalation and generation tendency of consumption pattern is high lightly appears; meanwhile the urbanization movement starts to speed up. (<http://cdm.ccchina.gov.cn/english/NewsInfo.asp?NewsId=53>, 15/10/2005)

The Chinese government in recent years has begun setting standards for energy efficiency of household appliances, with substantial technical assistance from the Lawrence Berkeley National Laboratory (LBNL) and other US organizations. To date, grantees have supported the development of six mandatory energy efficiency standards: refrigerators, air conditioners, fluorescent lamps, clothes washers, TV sets, and gas appliances (Chongqing). Energy savings from these standards will reach about 300 million tons of coal equivalents and reduce 200 million tons of carbon cumulatively through 2020. (http://www.efchina.org/documents/CBP_Project_Updates_Jun2005.pdf, 15/10/2005)

China Consumers Association (CCA) has always encouraged consumers to choose energy-efficient products. In the comparative tests, conducted by CCA on household appliances, such as home-use air conditioners, televisions, DVD video players and vacuum cleaners, the energy efficiency ratio and power consumption of the products have been tested and compared. Consumers are urged to choose low energy-consuming and high-efficiency products when their requirements can be satisfied with the same type of products. (<http://www.unescap.org/esd/energy/publications/psec/guidebook-part-three-cca.htm>, 15/10/2005)

2.1.4 Who to go

❖ General situation

The household appliance industry has been grown up to one of the largest markets for electro technical and electronic products. Over the last decades the technical requirements on appliances have been increased, and the customers expect improved functionality, as well as reduced and carefully controlled consumption of water, energy or detergents.

The European turnover of the appliance industry is about 35 billion € of which about 2/3 come from large appliances, 17% from small appliances, and about 20% from heating, ventilation and air conditioning appliances. In Germany the large appliance business amounts to about 4.5 billion € (-2% in 2003 compared to 2002), and a small increase of +1 to 2% is expected for 2004 (according to ZVEI). The small appliance

market in Germany amounts to 1.7 billion €(-2%). Growth has been seen in case of coffee machines and steam irons, a declining was observed in water cookers and irons. The European production figures for large appliances comprise about 20 million units of washing machines, 18 million of refrigerators, between 6 and 7 million units of microwave ovens, dishwashers⁸⁰ and cookers. Because of the high saturation level only moderate growth of these production figures can be expected. More than 90% of all households in Germany are equipped with washing machines, cookers or refrigerators, around 60% with microwave ovens or freezers. (http://www.polymicro-cc.com/site/pdf/POLYMICRO-markets_household.pdf, 14/10/2005)

❖ German saturated market

The market saturation ratio for most product segments is high in Germany, making it increasingly difficult for suppliers to open new sales opportunities.

In 2002, German consumers purchased domestic electrical appliances worth approximately USD 10 billion, a minus of 8.3% compared with 2001. Sales from suppliers to the German trade were reported at USD 6.6 billion, a decrease of 4%, in the same time period. Estimates for 2003 indicate that this negative trend will continue, with sales decreases between 1% and 2%. These losses were partly offset by a positive development in foreign sales, with exports from Germany increasing by 7%, to USD 6.2 billion in 2002.

With over 38 million households, Germany is the largest market for domestic electrical appliances in Europe. However, the market outlook for small and large domestic appliances remains gloomy, due to a number of reasons. The downturn in the global economic climate at the beginning of 2001, rising oil and raw material costs and an unstable Dollar - Euro exchange all reflected negative on the order situation. Adding to these factors is the high market saturation for electrical appliances in Germany, as well as the continuing crisis in the construction industry. With fewer houses and apartments being built, fewer kitchens and appliances are bought. Other issues, such as the ongoing political debate on the future of Germany's social security system, the continuing economic stagnation in Germany and decreasing consumer confidence all weigh on the electrical appliance industry in the last 2-3 years. Industry analysts believe that only an enduring economic upturn with positive growth figures and renewed consumer confidence can lead the domestic electrical appliances industry out of its crisis. (<http://strategis.ic.gc.ca/epic/internet/inimr-ri.nsf/en/gr110181e.html>, 14/10/2005)

❖ Competition

The German market for domestic electrical appliances is dominated by a few major players. Bosch-Siemens as the market leader holds a market share of 26%; the Swedish Electrolux-Group ranks second with 16.8%, representing brand names such as Jancker, Juno and Zanussi; the Nuremberg-based manufacturer AEG, also a part of

the Electrolux-Group, has a market share of 11%. Combined, these companies represent almost 54% of market revenues and unit sales.

Imports of domestic appliances into Germany continue to increase. While in 1999, about 47% of the domestic supply was met by imports, this figure boosted to 57%, or USD 3.7 billion, in 2002. Estimates for 2003 indicate a further growth of imports of approximately 4 to 6 percent. Although the European Union is Germany's major import partner - about 40% of all imported domestic appliances come from EU-countries - this growth rate is largely to be attributed to imports from Asia. Asian competitors are putting increasing pressure on the German household appliance market, especially in the low price segment. In 2002, for example, about 25% of all domestic appliances imported into Germany came from China. In reaction to this development, almost all German large appliance manufactures are currently attempting to build their presence in Asia with joint ventures and other types of partnerships. (<http://strategis.ic.gc.ca/epic/internet/inimr-ri.nsf/en/gr110181e.html,14/10/2005>)

2.2 Target Market Selection

The reactive market selection approach characterizes a situation where the exporter acts passively in choosing markets by filling unsolicited orders or awaits initiatives on the part of foreign buyers, foreign representatives (importers, agents and so on) or other export change agents who indirectly select the market for the company. The selection process then remains very informal, unsystematic and purchase-oriented, making export marketing more or less sporadic.

The proactive market selection approach is, in contrast to the reactive approach marketing-oriented. The exporter is active in initiating the selection of foreign markets and the further customer segmentation of these markets. Since active market selection is systematic and formalized, rather heavy organizational burdens are put on the exporter requiring personnel with international experience and access to international market information. (Albaum and Strandskov 1994, p.94)

Another approach discussed by Albaum is the contractible method. When using a contractible method the optimal market selection starts with the total number, or a large number, of national markets, which are eventually broken down into regional groupings on the basis of political, economic, language, or other criteria. Contractible methods involve a systematic screening of all markets leading to immediate elimination of the least promising and further investigation of the more promising. In doing this, relevant elimination or 'knock-out' factors have to be stipulated. Two sets of factors, as discussed previously, are (1) general market indicators and (2) specific product indicators. Although the overall approach appears to be complex, the procedure involves three stages:

1. Preliminary screening criteria for examining countries are identified. The result is a list of feasible countries.
2. The second stage determines which country characteristics are to be used in evaluating opportunities and how each should be weighted. Four variables are examined: operating risks, market potential, costs, and competition.
3. Countries are evaluated on the basis of the criteria selected in the second stage, and they are rank ordered on the basis of scores derived. (Albaum and Strandkov 1994, p.97).

This approach is also explained by root. We decided to explain root’s point view more as most researchers are based in his discussion.

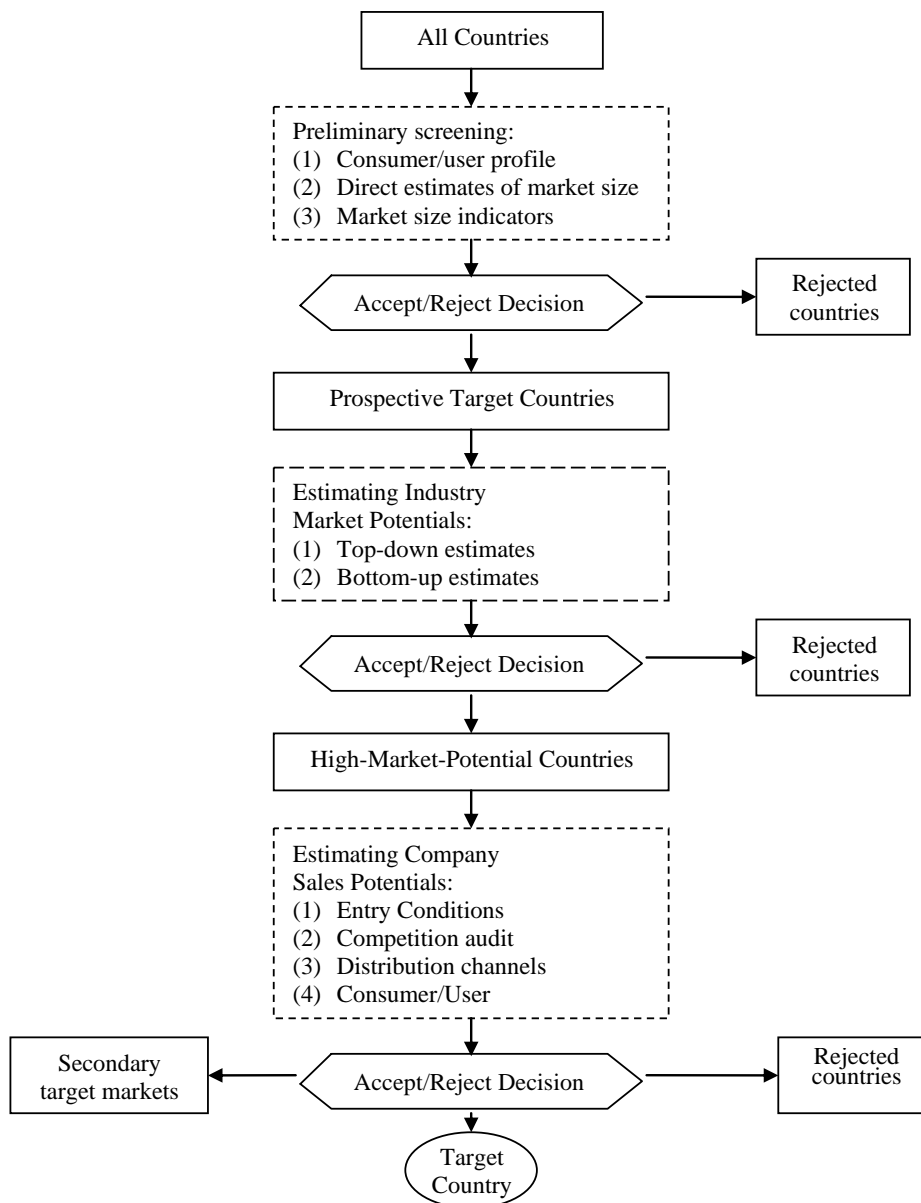


Figure2.2.1: Model for Selecting a Target Country, source: adopted from Root 1994, p.56

The purpose of preliminary screening is to identify country markets whose size warrants further investigation. Preliminary screening tries to minimize two errors: (1) ignoring countries that offer good prospects for a company's generic product, and (2) spending too much time investigating countries that are poor prospects. To minimize the first error, which is by far the more common, preliminary screening should be applied to *all* countries. Too often, managers start with assumptions or prejudices that rule out certain countries (or even regions) as possible target markets. Self-imposed constraints, such as "We will consider only markets in Europe," can lead to the choice of an inferior target market. To minimize the second error, preliminary screening should be quick and economical, using quantitative data that are readily available from public sources. At the same time, the data used as screening variables should discriminate among countries with respect to market size.

In screening foreign markets for first-time entry, managers are most probably looking for an *export* target market. Nonetheless, it is a mistake to make a first-time screening solely for export markets. To do so could mean the rejection of a country that offers a good market for non-export entry. Instead, preliminary screening should identify prospective target countries without regard to entry mode. Prospects can later be screened for export entry. (Root 1994, p.55)

2.2.1 Consumer/User Profile

Before undertaking preliminary screening, managers should first construct the *consumer/user profile* of the generic candidate product: the attributes of the individuals and/or organizations that are actual or potential customers. In drawing up the consumer/user profile, managers in companies just entering international business must rely mainly on their experience in the home market. For industrial products, it describes the size, input-output relationships, organization, and other features of typical customers in industries or government agencies that use or can use the candidate product.

The consumer/user profile guides managers in the selection of multi-country statistics that are most useful as indicators of market size. (Root 1994, p.57)

2.2.2 Direct Estimates of Market Size

Preliminary screening requires a quick assessment of the market potential facing the candidate product in scores of countries. Estimates of market potential need to be only good enough to identify prospective target countries

For most products, multi-country sales statistics are simply not available from published sources nor are managers likely to have access to the statistics needed to calculate the apparent consumption of the candidate generic product in the many countries undergoing preliminary screening, namely, local production *plus* imports *minus* exports. Even in the comparatively few instances when they are available, sales and apparent consumption figures may not be good indicators of market potential,

because they are historical in nature. As observed earlier, a product is usually in different phases of its life cycle in different countries, and it may not even be present in some countries. When using sales or apparent consumption data, therefore, managers also need to estimate their likely values in the future. To do so, they can project sales or apparent consumption trends (based, say, on figures for the last three years) and check on their agreement with economic and social indicators.

Import/export data may also be used for direct estimates of market size. Ideally, managers would have easy access to statistics on imports of the candidate generic product for all countries, as well as on their country origins. They could then construct a global export/import matrix that would identify key import markets and key competitors. International managers, however, are seldom blessed with such data.

To conclude, international trade statistics are at best only a partial measure of market potential; their usefulness is limited by a historical bias, distortions created by trade barriers, and broad product categories. Low imports do not necessarily imply a small market potential: import restrictions or local production may be the explanation. In preliminary screening, trade statistics are most useful when combined with economic and social indicators. (Root 1994, p.58)

2.2.3 Indirect Estimates of Market Size

Because of the general paucity of multi-country data on product sales, and because of their historical bias, a manager must rely on quantitative economic/social statistics as indicators of market potential. For preliminary screening, these market indicators should be readily available for all countries and be comparable across countries. Many such multi-country indicators appear in publications of the United Nations, the International Monetary Fund, the World Bank, and other international agencies. A partial list of economic and social statistics available from only a few United Nations sources follows. The most commonly used general indicators of market size are GDP (or GNP), GDP per capita, average growth rates of GDP, and imports.

Other statistics include: National Account Statistics, Population and Manpower, Production, International Trade, Other Economic Statistics and Social Statistics. (Root 1994, pp.58-60)

2.2.4 Accept/Reject Decisions

The fundamental accept/reject decision rule used in preliminary screening may be expressed as follows: If $S_{i,j} > a$ (where $S_{i,j}$ is the market size for product i in country j and a is a threshold value in dollars, units, rank order, or an index), then accept the country as a prospective target country for further investigation. But since $S_{i,j}$ is estimated by using several indicators, managers can interpret this rule in more than one way.

One interpretation is to establish minimum values for *all* the selected market indicators, rejecting those countries whose indicators fall below them. This interpretation assumes that a country's market size is critically dependent on each indicator and that a high value for one indicator cannot offset a low value for another one. If this assumption is false, then faulty screening is a likely consequence.

A second interpretation is to consider one or a few indicators as decisive and reject all countries whose decisive indicators fall below minimum values, regardless of the values of their other indicators. If the indicator or indicators are truly decisive measures of market size, then this approach is defensible, but then there is no need for managers to collect information on any other indicators in screening for market size.

In most instances, the most satisfactory interpretation of the accept/reject rule is a weighted average of the selected indicators. The weights assigned to the individual indicators reflect the judgment of managers as to the relative influence of those indicators on market size. To calculate a weighted average, managers need to express the values of the indicators in a common unit (say, as percentages). One approach is the construction of a multiple-factor index. Accept/reject decisions are then made in terms of a minimum index value or in terms of a country's rank order. (Root 1994, pp.60-61)

2.3 Timing of Entry

As technologies change and market environments evolve, firms introduce new products to create or satisfy new market demands or to substitute for existing products. A key strategic decision for firms contemplating entry into emerging product markets is the timing of their entry. Firms may choose to enter earlier and hope to preempt critical strategic resources, but they take the risk of premature entry. On the other hand, firms may prefer to enter later and wait for technical and market uncertainties to subside, but they face the potential problem of being frozen out of a profitable market by participants who risked earlier entry (Lieberman and Montgomery 1988; Mitchell 1989, 1991; Lilien and Yoon 1990; Robinson et al. 1992).

Two streams have emerged in the research on entry timing. The first stream treats entry timing as an exogenous variable, that is, researchers regard entry timing as a predictor variable that determines performance (Moore et al. 1991). Kerin et al. (1992) reviewed 13 empirical studies examining the effects of entry timing or entry order on performance. They found substantial support for the theory of first-mover advantage. From their review, it appears that first-movers, although moderated by such factors as industry type, market conditions, and government regulation, perform better in terms of market share, product quality, and cost position than later entrants. The second stream of entry-timing research emphasizes the differences in firms' skills

and cost structures and treats entry timing as an endogenous variable, that is as a firm's strategic choice (Lieberman and Montgomery 1988; Moore et al. 1991).

Studies in the endogenous stream have linked a firm's internal assets and capabilities to entry-timing decisions (Teece 1986; Wernerfelt and Karnani 1987; Mitchell 1989; Robinson et al. 1992). Teece (1986) argues that possession of complementary assets may allow a fast second-mover or even a third-mover to outperform the first entrant. Depending on the product market, these complementary assets may include marketing services, competitive manufacturing, and after-sale support. In addition, a firm's knowhow in product innovation can be a key complement to the timing of entry in determining eventual performance outcomes. Moreover, there appears to be some theoretical and empirical support indicating that firms that command sufficient quantities of relevant resources such as capital, reputation, and favorable cost structures can snatch first-mover advantages from less well-endowed early entrants (Wernerfelt and Karnani 1987).

Mitchell (1989) extends the argument of the role of specific assets to suggest that firms make entry-timing decisions based on within-industry comparisons of their own assets and products to those of their competitors. He argues that the greater the threat of emerging products to a firm's existing products, the earlier a firm will enter this emerging product market. He also suggests that tacit collusion plays an important role in entry timing: oligopolists will enter emerging subfields slowly so as to maximize return on investment. Nevertheless, his empirical results indicate that oligopolists with relevant proprietary assets will break from industry norms and seek earlier entry to secure competitive advantage.

Robinson et al. (1992), drawing on the work of Porter (1980), Lambkin (1988), Lieberman and Montgomery (1988), and Lilien and Yoon (1990), developed a theory relating functional capabilities to entry timing. They established four categories of market entry: (1) first-mover, (2) pioneer, (3) early follower, and (4) late entrant. They argued that R&D skill was key for success for first-movers and pioneers, that manufacturing ability was critical for early followers, and that marketing capability was key for late entrants. Robinson et al. (1992) found some empirical support for their theory in that late entrants were found to be stronger in marketing and manufacturing skills than earlier entrants. (http://www.findarticles.com/p/articles/mi_qa3913/is_200012/ai_n8911939,16/10/2005)

2.4 Market Entry Modes

Once a company decides to target a particular country, it has to determine the best mode of entry. (Kotler 2003, p.390) One of the most important characteristics of the different market entry methods is the level of involvement of the firm in international operations. The level of involvement has significant implications in terms of levels of control and risk and this is shown diagrammatically in Figure 2.4.1.

2.5 Market Entry Modes in China

A foreign firm must choose an appropriate market entry strategy for China depending on a number of factors including: 1) how the Chinese "view" the foreign firm's product entering the market; 2) the demand for its product; 3) the future growth of demand for its product; 4) the firm's resources; and commitment to entering this market and 5) the timeframe to enter. (<http://www.pacificbridgemedical.com/publications/html/China1995.htm>, 06/09/2005)

The detail description of market entry modes in China is referred in Appendix VI.

2.6 External Environment

2.6.1 Economic Environment

The centre of gravity and dynamism of the Asia Pacific economy in the decade ahead is most likely to be the Chinese economic area. This consists of China, Hong Kong and Taiwan. This is a prediction that could conceivably fall flat due to political circumstances. The implosion of China driven by the huge income discrepancies that are emerging within social groups and between regions on the one hand and the increasingly apparent illegitimacy of the Communist Party on the other is not a totally implausible scenario.

However, the past decade has seen a phenomenal rate of growth in China itself. China's GDP is estimated to be around US\$750 billion – driven by an average growth rate of 8 per cent between 1978 and 2000. Moreover, according to a study by China's Academy of Social Science (CASS), by 2030 it will have become the world's largest economy, surpassing even the US with a GDP of \$155 billion. Some western studies have even estimated that China's economy will have achieved top spot a decade earlier than this.

The World Bank report China 2020, estimates that China will achieve an annual growth rate of 6.5 per cent for the next 20 years – making it the world's second largest exporter after the US. This in itself has meant western firms when selling export goods on world markets are themselves facing new marketing challenges.

British exports to China are worth £740 million. The top five UK exports to China are: specialized machinery (£112.5m), general industrial machinery and equipment (£98m), telecommunications and sound recording equipment (£91.5m), power generating machinery and equipment (£73m) and electrical machinery and appliances (£38.5m).

China has recently opened previously closed service sectors on an experimental basis such as: banking, retail, accounting, trade, real estate, tourism and insurance. For

example, joint ventures between foreign accounting and inspection companies and Chinese companies are now possible.

Also levels of direct investment in China remain strong. Indeed, Britain is the largest European investor in China. The UK is pledged to invest US\$11.93 billion in the next three years. However, all this investment has helped China to achieve rapid economic development but it has been spread unevenly across the country. For example, the southern coastal regions of China, typified by Guangzhou Province, have grown out of all recognition with the rest of the country.

Figures supplied by the Chinese authorities underline this regional disparity; the eastern seaboard produces 53 per cent of China's GDP, the middle provinces 31 per cent and the western provinces 16 per cent.

Companies that have succeeded in China include Siemens, Johnson, Motorola and Volkswagen. It should come as no surprise that companies, however, have faced severe difficulties in establishing themselves in China and some car manufacturers especially have suffered huge losses. The main problems they have faced centre around the following problem areas: Chinese bureaucrats pushing for over-capacity, inconsistent regulations, red tape leading to significant increases in costs, and insufficient protection of intellectual property. (Doole and Lowe 2001, p.60)

2.6.2 Political Environment

One of the most undeniable and crucial realities of doing business in a foreign country is that both the host and home governments are partners. Every country has the recognized right to grant or withhold permission to do business within its political boundaries and to control where its citizens conduct business. A government controls and restricts a company's activities by encouraging and offering support or by discouraging and banning its activities—depending on the pleasure of the government. A country's overall goals for its economic, political, and social systems form the base for the political environment. Thus, the political climate in a country is a critical concern for the international marketer. (Cateora 1996, p.139)

China's political system here refers to the political structure, fundamental laws, rules, regulations and practices that are implemented in China's mainland and regulate the state power, government, and the relationships between the state and society in the People's Republic of China since its founding in October 1949.(<http://www.chinaknowledge.com/govt-political.as>, 12/10/2005)

The Chinese Government has always been subordinate to the Chinese Communist Party (CCP); its role is to implement party policies. The primary organs of state power are the National People's Congress (NPC).

The CCP's structure parallels and supervises that of the government and the legislature. Its main decision-making body is the central committee. Currently having 198 full members and 158 alternate members, the central committee meets in plenary session about twice a year. In the interim most of its power is vested in the politburo, which currently has 24 members. Above the politburo stands the politburo standing committee (PSC), the most powerful political institution in China, which currently has nine members. Membership of the central committee, the politburo and the PSC are decided upon at the CCP's national congress, which is held every five years, normally in the months proceeding the first session of a new NPC. ([http://www.economist.com/countries/China/profile.cfm?folder=Profile-Political%20Force, 12/10/2005](http://www.economist.com/countries/China/profile.cfm?folder=Profile-Political%20Force,12/10/2005))

For the global marketer, the most important dimension of the political environment is the stability of the nation's political system. Events like the military coup in Burkina Faso or the continuing civil war in Sri Lanka produce changes in the "rules of the business game." Political instability makes the business environment far less predictable—and predictability is a key to long-term business success. (Dahringer and Mühlbacher 1991, p.134)

Unpredictable and drastic shifts in government policies deter investments, whatever the cause of the shift. As a result of the Chinese government's hard-line response to the student rebellion in 1989 at Tiananmen Square in Beijing, questions of stability caused many firms to postpone future investments and put those already underway on hold. The government was not overthrown and, when stability was re-established, businesses resumed investments. (Cateora 1996, p.141)

Immediately after the government had embarked on a programme of economic reform in 1978, the legitimacy of the CCP raised the standard of living of ordinary people improved rapidly. Since then, the popularity of the party has faltered. Endemic official corruption has been a major cause of the party's popularity woes. In recent years the resultant discontent has been exacerbated by economic changes that have led incomes in rural areas to stagnate, and by government attempts to reform SOEs that have resulted in large numbers of lay-offs. In an example of this disgruntlement, in March 2002 thousands of former state workers took to the streets of two cities in China's north-east, complaining about the non-payment of welfare, income and severance benefits, and the enrichment of party officials. These were perhaps the largest worker-initiated protests in the history of the PRC. ([http://www.economist.com/countries/China/profile.cfm?folder=Profile-Political%20Force, 12/10/2005](http://www.economist.com/countries/China/profile.cfm?folder=Profile-Political%20Force,12/10/2005))

State-run businesses and private enterprise run side-by-side in China. Behind this, China is still a state-controlled economy supervised by powerful ministries in Beijing. The first step for any firm going to China is to find out which government agencies are in charge of their industry. Foreign investment projects need government

approval—local, provincial and central. Without support from the right government authorities, even very attractive projects fail. (Fletcher and Brown 2002, p.110)

Most importantly, Beijing's leadership has committed itself to eliminating the inefficiencies that plague China's economy and to abiding by international trading rules—reforms that will boost trade flows and help restore global economic health. China's economy doubtless remains backwards, at least the standards of the industrialized world. Banks still favour enterprises with close party connections. Piracy remains a huge problem: walking the streets of Shanghai last winter, I was offered knockoffs of the new Harry Potter movie. Chinese firms still engage in massive off-the-books transactions. In January, Wang Xuebing, former head of the Bank of China, was placed under house arrest for financial irregularities during his tenure at the bank. Additionally, Beijing's still-draconian restrictions on the Internet and on print media will retard the development of a truly adventurous Chinese high-technology industry capable of discovering groundbreaking technologies that would benefit the world.

Yet, the upper echelon of the Chinese government is not backing down, even though economic liberalization could unleash a time bomb of unemployed labourers, potentially costing President Jiang Zemin, probable successor Hu Jintao, and their cohorts their jobs—or their heads. On joining the WTO, Beijing pledged to slash subsidies for state enterprises, reduce tariffs, and ultimately allow wholly owned foreign ventures to operate unimpeded in China. Indeed, the government has made *qing li men hu*, “getting our [economic] house in order,” its mantra and has spent so much time hyping WTO accession that decidedly unsex books on trade rules have become hot sellers at Beijing bookstores. The government is downsizing the firms it owns and today employs less than 20 percent of China's population. Top bankers who pilfer from the till are prosecuted (and, unfortunately, sometimes executed); fifteen years ago, Wang never would have faced censure. The Chinese police slowly are cracking down on piracy, greatly pleasing U.S. corporations. “Three years ago, there were so many stalls selling pirated software outside our office, even government officials would stop ... and buy from them,” Ma Ping, a leading Internet entrepreneur in Shanghai, said. “Today, the stalls are gone.”

In countries like China, where the political and business environments have been perceived by the west as particularly uncertain, high stability and success rates of western JVs have been reported. (Davidson 1987, Newman 1992, Beamish 1993, Yan 1993)

Generally speaking, China's trade and investment systems lack transparency. Policies and regulations are not readily accessible. Even when central government has clear policies, they are often applied inconsistently and can vary between regions. Both foreign nationals and Chinese officials themselves lack a solid understanding of

China's policies. The key policies which act as barriers to entry relate to foreign exchange control policies and foreign investment policy.

Foreign exchange control policies: China's central government has pursued a policy of 'centralised control' over foreign exchange. This means that the state is responsible for formulating and promulgating the principles, degrees and regulations for foreign exchange control. The acquisition of foreign exchange is a significant non-tariff barrier to doing business in China. The foreign exchange regulations for foreign invested enterprises (FIEs) required that profits be remitted, imported components or raw materials be purchased, and foreign personnel be compensated in foreign currency rather than in Chinese currency. FIEs for the Chinese domestic market often cite the fact that Chinese currency is not convertible as a serious problem in the conduct of business. The Chinese government strongly encourages exporting as a primary means. The other method is selling goods in the domestic economy for foreign exchange, which is unrealistic, because few customers in China have access to foreign currency. Foreign exchange swap centres enable firms to obtain foreign exchange. In theory, foreign exchange is permitted to flow from one swap centre to another to equalize supply and demand, but in practice, local authorities often block the flow of foreign exchange from centres in their jurisdiction. Some centres refuse to sell foreign exchange to companies outside their own area.

Foreign investment policies: there are three major forms of direct foreign investment: equity joint venture, contract joint venture, wholly foreign-owned enterprise. Most legislative attention has been paid to the equity joint venture. During China's economic reform, one of the key foreign investment laws is the Joint Venture Law (JVL), which was promulgated in July 1979 and revised in 1990. JVL created the single investment vehicle of a Sino-foreign equity joint venture with the parties owning shares in a newly created company.

Under the provisions of the original JVL, the management required the president to be a PRC national, with unanimous board of directors' approval for major corporate acts and for the fixed duration of the joint venture. All joint ventures must be approved by the local government affiliate of the Ministry of Foreign Economic Relations and Trade (MOFERT), after the agreement is finalised within one month of gaining the MOFERT's approval. The representatives of the joint venture must register with the local branch office of the State Administration for Industry and Commerce. This agency reviews the joint venture and issues a business license. Wholly foreign-owned ventures have become increasingly numerous. Previously, enterprises with 100 per cent foreign ownership were allowed to set up operations only in the Special Economic Zones, but enactment of the law on enterprises makes it possible to set up a venture of this type in most parts of China. However, the law still requires such a venture to be export oriented and to employ advanced equipment and technology.

China encourages foreigners to invest in such capital-intensive industries as energy, transportation and telecommunications, whilst investment in labour-intensive industries is common. Despite China's ongoing process of trade liberalization, the complex system of administrative controls and regulations affecting foreign investment and trade still reflects the time when the country was largely closed to the rest of the world. (Doole and Lowe 2001, p.128)

2.6.3 Cultural environment

Perhaps the most widely accepted definition of culture is that of Ralph Linton (1945): 'a culture is the configuration of learned behaviour and results of behaviour whose component elements are shared and transmitted by members of a particular society'. Or perhaps, more appropriately: 'the way we do things around here'. In relation to international marketing, culture can be defined as: 'the sum total of learned beliefs, values and customs that serve to direct consumer behaviour in a particular country market'. (Doole and Lowe 2001, p.64)

At first, we will talk about the main components of Chinese culture that will influence the marketing.

❖ Belief

The situation in China concerning about education and religion is special. We cannot simply say that Chinese culture today is strongly influenced only by religion or education. So we will combine these two factors to illuminate what is the belief of Chinese people.

The level of formal primary and secondary education in a foreign market will have a direct impact upon the 'sophistication' of the target customers. A simple example will be the degree of literacy. The labelling of products, especially those with possibly hazardous side-effects, needs to be taken seriously for a market that has a very low literacy rate. In developed countries its main form of communication is advertising and printed matter. In developing countries they rely heavily on training and verbally based educational programmes to get their message across. (Doole and Lowe 2001, p.65)

The dominant religious values in a society determine many other values and norms of behaviour. Morality, etiquette, gender roles, and attitudes towards individual achievement and social change are all derived from religious values. (Mühlbacher, Dahringer and Leih 1999, p.191)

However, most of the Chinese people today do not have explicit religion (like Buddhism or Lamaism). The moral education from school is also very little. The belief which ultimately influences Chinese people's behaviour comes from a kind of philosophy. The most important two are Confucianism and Taoism.

Confucianism, major system of thought in China, developed from the teachings of Confucius and his disciples, and concerned with the principles of good conduct, practical wisdom, and proper social relationships. Confucianism has influenced the Chinese attitude toward life, set the patterns of living and standards of social value, and provided the background for Chinese political theories and institutions. It has spread from China to Korea, Japan, and Vietnam and has aroused interest among Western scholars. (<http://www.connect.net/ron/confucianism.html>, 10/09/2005)

Confucianism formed the basis for the social order in China since 200 BC. It provided the working rules and ethical precepts for Chinese to follow. Even today majority of Chinese still behave according to these rules.

Confucianism views individual as a social creature obligated to each other through relationships. These may include the relations between sovereign and subject, parent and child, elder and younger, husband and wife, or even friend and friend. Confucianism defined the rules in the engagement, action, and responsibilities in all these human relationships and interactions. Proper conduct proceeds not through compulsion, but through a sense of virtue and self-consciousness achieved by learning, observing and practicing.

Confucianism has a lot of similarities with socialism today. Both promote collective interests and community welfare. Both emphasize the educational or remoulding process in serving the common good of the society. These concepts may be quite different from the West that every individual is a completely independent entity. Individual freedom is well above the social order and welfare.

Confucius is one of the greatest educators. He insisted that in education there should be no class distinctions. He established an education system for training in administrative and diplomatic arts. The system was later adapted as a central government examination system in selecting senior officers. For years, all students and scholars alike worked very hard for the annual examination in the hope that they might become senior officers in the government.

Confucianism is not a religion. Warship of Confucianism can be seen in some of the temples but mainly as a form of memory and respect towards the scholar. Confucianism has no clergy leadership and it does not promote the believing in god or gods. The Confucian temples in China today are treated as historical rather than religious sites, and one seldom, if ever, finds worshipers there. Confucianism is viewed as a moral teaching and ethical humanism rather than as a religion. (<http://www.index-china.com/index-english/Confucius%20and%20Confucianism.htm> 1, 10/09/2005)

Taoism emphasizes social phenomena as multilevel “living” systems organized in hierarchies of complexity and involving self-organizing “consciousness.” The eastern archetype can be described as favouring an aesthetic rather than scientific construction (Lessem & Palsule 1997, 48) and does not seek an absolute Truth. An aesthetic construction is oriented toward virtue. This means that action is not determined by the rationalist identification of what is “true” and proven, but by a nominalist consensus about what is acceptable and what “we” can work with. The wisdom of virtuous leadership lies in the humanistic capacity to harmonize the imagination of the family, group, clan, or nation. In this sense, it is a social constructivist worldview. (Alon 2003, p.7)

Eastern organizational forms and management styles are substantively different from the scientific organization traditionally adopted in the west (Lessem & Palsule 1997, 51), which characteristically involves diffused network structures and roles with flexible goals and qualitative judgment. Aesthetic Chinese management styles are heavily dependent upon relationships and informality, with “fuzzy” accountability and authority based on trust. Fuzzy thinking stresses that structure is temporary and process of change is immanent. Consequently, everything is in the process of changing form. As a result, nothing is black and white, as everything is in a constant process of changing from one shade of gray to another. As opposed to the scientific world of either-or antinomies, fuzzy thinking considers contradiction and paradox essential and normal. Rigid, rigorous, black-and-white Truth is replaced in the Chinese mind by Virtue, which is contextual, pragmatic, adaptive, dialectic, fuzzy, paradoxical, and gray. (Alon 2003, p.9)

Virtue differs from Truth comprehensively and fundamentally. Virtue accepts multiple truths in terms of shades of gray that can coexist. Action for the virtuous is oriented toward coherence in order to adopt the particular truth or combination of truths that is most acceptable to the group and, as such, most workable and harmonious. (Alon 2003, p.10)

In order to explain the consequences of these differences in Western and Chinese business cultures, Table 2.1 provides a comparison of stereotypical Western and Overseas Chinese business characteristics.

Table 2.6.3.1: Stereotyping Western and Chinese Organizations, source: adapted from Alon 2003, p.12

| Western | Overseas Chinese |
|---|--|
| <i>Individualistic</i> | <i>Collectivistic</i> |
| Individual self-control (through guilt). | Collective social control (through shame or <i>face</i>) |
| Governance through legal system. | Personalistic governance through <i>guanxi</i> |
| <ul style="list-style-type: none"> ■ Contract/transaction is business focus. ■ Market is principal mechanism of organizing. | <ul style="list-style-type: none"> ■ Relationships are business focus. ■ Network is principal mechanism of organizing. |
| Negotiation focuses on contract. | Negotiation is contingent upon nature of relationship. |
| Importance of efficiency and professionalism | Importance of reciprocity, personal integrity, trust, and other qualities of gentlemanly conduct |
| <ul style="list-style-type: none"> ■ Model is society. | <ul style="list-style-type: none"> ■ Model is family/community. |
| Conversation focus is your job. | Conversation focus is your sons. |
| <i>Democratic</i> | <i>Autocratic</i> |
| Power through achievement | Power through ascription |
| Participation encouraged | Follow the rules of patron/paternalism |
| Team orientation | High status consciousness |
| <i>Rationalistic</i> | <i>Intuitive</i> |
| Analyze information objectively before acting. | Inductive action reveals what works best. |
| <ul style="list-style-type: none"> ■ Divide issues into variables that can be measured. ■ Employ due diligence. | <ul style="list-style-type: none"> ■ Treat problems as wholes. ■ Cultivate unfolding change. |
| Truth | Virtue |
| <ul style="list-style-type: none"> ■ Win the argument with proof/facts. | <ul style="list-style-type: none"> ■ Discover what works for us. ■ Maintain harmony and consensus. |
| Man's control over nature or "inner directness" of scientific progress | Fatalism: fortune, luck, spirit of <i>ch'i</i> (e.g., as in feng shui) |
| <i>Competitive</i> | <i>Cooperative</i> |
| Survival of the fittest | Survival of those fitting |
| Personal interest/reward | Group interests |
| <i>Short-Term</i> | <i>Long-Term</i> |
| Entry and exit strategies | Family wealth, welfare, and succession |

❖ Social organisation

This relates to the way in which a society organises itself. How the culture considers kinship, social institutions, interest groups and status systems. (Doole and Lowe 2001, p.66)

Social organization provides the framework of a culture. It includes virtually every aspect of how people live together from day to day, the assignment of social tasks, and how and why people join together to meet their shared needs. Because the social

organization of a society is so basic in terms of what consumers and organizational buyers are expected to do or not to do, information on social organization is extremely important to international marketers. (Mühlbacher, Dahringer and Leihls 1999, p.207)

The traditional Chinese family, called a "chia" by a few English writers, was a patrilineal, patriarchal, prescriptively virilocal kinship group sharing a common household budget and normatively extended in form.

‘Normatively extended in form’ means that it ideally included a descent line of men and their wives and children. The usual Chinese term was simply "big family", which is somewhat less precise than the English term, which is sometimes placed in contrast to "stem family" to provide a technical term for cross-cultural application.)

‘Patriarchal’ means that the family is hierarchically organized, with the prime institutionalized authority being vested in the senior-most male. No two members of a Chinese family were equal in authority. Officially at least, senior generations were superior to junior generations, older people were superior to younger ones, and men were superior to women. Normatively (that is, in what most people thought of as the ideal form), a family would be headed by a man who was older and/or of more senior generation than anybody else.

In actual practice, there is no known family system in which members do not contribute to the collective welfare and decision making, with their differential knowledge, perspectives, and skills. Thus patriarchy is a "jural norm," but is differentially salient in different families. Obviously, personality has much to do with how the members of a family actually behave. In China there were always families dominated by women, old people whose lives were run by their children, and so on, just as elsewhere.

Patrilineal: A person was descended from both a mother and a father, of course, but one inherited one's family membership from one's father. China was extreme in that a woman was quite explicitly removed from the family of her birth and affiliated to her husband's family, a transition always very clearly symbolized in local marriage customs, despite their variation from one region to another.

‘Kinship’ means that members of the family were related genealogically, i.e. either by having common ancestors or by being married. The "group" part means that they had known boundaries and shared activities or resources with each other that they did not share with outsiders. (http://weber.ucsd.edu/~dkjordan/chin/hbfamilism-u.html#jia_13/09/2005)

Although most of the conceptions regarding family are still remaining today, some changes can already be seen which are important for the way of consumption today.

Since the implementation of the policy of family planning in China, profound changes have been taking place in people's concepts of marriage, birth and family along with the reform and opening to the outside world as well as socio-economic development; the traditional ideas of "early marriage and early births," "more children, greater happiness," and "looking up on men and down on women" are being discarded by more and more people at the child-bearing ages. Late marriage and late births, fewer and healthier births, viewing male and female children as the same, establishing happy, perfect and harmonious small families and seeking a modern, scientific and civilized way of life have become an irresistible trend of the times. At the current level of economic development and living standards in China, the reduction of family size and fewer children to support have obviously reduced the economic burden and the burden of family chores on the families and improved their quality of life. (<http://www.china-un.ch/eng/bjzl/t176938.htm>, 14/09/2005)

The consumption behaviour of the urban youth in China is a problem attracting more and more attention. Along with the implementation of the policy since 1979 the western way of life as well as its conceptions of consumption have exerted an imperceptible influence on the ideas of the young people; after entering into the 1990s, the Chinese economy has registered 8% to 10% growth rate annually, which, on the one hand has enhanced the people's living standard and quality of life; and on the other hand has created a great group of white collar youth so that the behaviour change of the consumption turned into reality; moreover, the first generation of China's only children began to enter the stage of youth, this generation who looked as the "Small Emperors" in the families when having entered into the adult society, a considerable of them pursue famous-brand goods in fashion for a time. The three social backgrounds are the starting points in studying the consumption problems of the urban youth in contemporary China. (<http://www.alli.fi/nyri/nyris/nyris5/xu.htm>, 14/09/2005)

❖ Language

Language is much more than a formal written and oral structure that permits communication. It is an essential element of culture. Understanding another language not only allows one to conduct business in that language but, perhaps more important, it also provides insight into the social organization and values of those who speak it. In addition, because of its obvious connection to advertising and other forms of promotion, language is a central consideration in the execution of a marketing plan. (Mühlbacher and Dahringer 1991, p.179)

Language divided into two major elements. The spoken language of vocal sounds in patterns that have meaning and silent language is the communication through body language, silences and social distance. This is less obvious but is a powerful communication tool. Language to many commentators interlinks all the components of culture and is the key to understanding and gaining empathy with a different culture. (Doole and Lowe 2001, p.69)

The Chinese language is a tonal language and often regarded as a member of the Sino-Tibetan family of languages. Although Chinese is often mistakenly thought to be a single language, its regional variation is comparable to that of the Romance languages; variants of Spoken Chinese can be different enough to be mutually incomprehensible.

About one-fifth of the people in the world speak some forms of Chinese as their native language, making it the language with the most native speakers. The Chinese language, spoken in the form of Standard Mandarin, is the official language of the People's Republic of China. (http://en.wikipedia.org/wiki/Chinese_language,11/09/2005)

Unless you speak fluent Mandarin, using interpreters and translators with technology know-how will be an inevitable part of doing business in China. Beware that there are big differences between Mandarin and Cantonese. Make sure your interpreter is fluent in the language desired.

Written material must be translated. Be sure your translator uses the appropriate written style for your destination (simplified Chinese characters for mainland China; full Chinese characters for Hong Kong, Macau, Taiwan and overseas Chinese). (<http://www.smallbiz.nsw.gov.au/smallbusiness/Exporting/Markets/Exporting+to+China/,16/09/2005>)

The question, 'Can you speak some Mandarin Chinese?' tends to produce a variety of answers. Among the more standard responses are 'no need', 'Chinese people speak English', 'not if we can help it' or, perhaps most common, 'too difficult'. However, the ability to speak Mandarin, and to read and write the language, is becoming increasingly important in today's fast-changing environment. More and more business people are beginning to embark on the process of acquiring at least a little Mandarin, and the number of children learning Mandarin in mainstream secondary schools is increasing significantly.

The language barrier is the first obstacle to overcome. Western languages codify words in written script whereas each Chinese character represents a word. So any brand moving into China has to decide how it will be rendered in Chinese—both phonetically and visually.

According to Bing Ho and Hal Fiske of Baker & McKenzie, about half of the foreign brands used in Chinese-speaking jurisdictions are translated phonetically, half conceptually. Phonetic transliterations include Louis Vuitton ("lu yi wei den") and Nokia ("nuo ji ya"). Shell and Nestlé, meanwhile, have opted for literal translations of their names: "bei ke" (a shell) and "que chao" (a swallow's nest) respectively.

But a name is only the beginning. Marketing and advertising is equally tricky in the

Chinese market. You may have a thoroughly researched brand strategy for Western markets, you may know your positioning and your key messages, but there is no guarantee that any of it will work in China.

“In terms of messages, some Western brands make the mistake of addressing personal or individualistic things in their promotions,” notes Fuchs. “But the Chinese think in terms of community. They look at group issues; they see themselves as members of a group.

“Chinese society is a relationship society. The Chinese are not so easy with big bang advertising. They listen to recommendations, and emotional appeals. They are phenomenal readers and talkers and branding works well using word of mouth. Brands therefore must tell a story and have a strong identity and history.”(http://www.brandchannel.com/features_effect.asp?pf_id=246, 14/09/2005)

China has been building a complete, new legal framework. Many business laws and regulations have been introduced in recent years as the country is moving towards a market economy. To be successful in China, foreign business people must know the relevant laws and regulations. Because of the language barrier, business people need authoritative, parallel English translation, so they can cross-check terms to better understand the Chinese legal thinking. (<http://www.friedlnet.com/0011-012.html>, 14/09/2005)

❖ **Golden hints for doing business in China**

- **Take all the time in the world**

Western business visitors are often deadline-driven and unwilling to slow down to the Chinese pace when discussing business. But in China the pace can be fast and slow simultaneously. Those involved in negotiations know how long they can drag on when the Chinese side is consulting internally or has other reasons for delay. But Chinese negotiators can move with lightning speed on other occasions. Part of this feeling is subjective. Any chess player knows how long you have to wait for the other player and yet how fast you must move yourself. Nevertheless, Chinese negotiators use time more consciously than do their Western counterparts.

- **Separate fact from fiction**

Virtually everything you hear about China is true, and so is the opposite. Western thought is dominated by linear logic whereas Chinese thinking is influenced by early philosophers, who saw a paradoxical balance of opposites in all things. Where Westerners tend to look for clear alternatives (option A instead of option B), Easterners may examine ways to combine both option A and option B. This difference in approach may make a Westerner think that a Chinese negotiator is being illogical, evasive or devious, when he believes he is being quite straightforward.

- **Build relationships**

Westerners normally build transactions and, if they are successful, a relationship will ensue. However, the Chinese believe that prospective business partners should build a relationship and, if successful, commercial transactions will follow. This difference underlies many misunderstandings arising from business negotiations. Virtually all successful transactions in China result from careful cultivation of the Chinese partner by the foreign one, until a relationship of trust evolves.

- **Cultivate guanxi**

The logical development of close relationships is the Chinese concept of guanxi, pronounced gwan shee. According to business analyst Tim Ambler of the London Business School, the kernel of guanxi is doing business through value-laden relationships. In a highly centralised, bureaucratic state, the use of personal contacts was the only way to get things done. Guanxi is the counterpart of a commercial legal system. Where the latter is relatively weak, as in China, the need to rely on guanxi will be strong. As long as the relationship is more valuable than the transaction, it is logical to honour it. The idea of a friendship leading to business is attractive. But Easterners who are familiar with guanxi are more cautious than Western converts. The obligations of guanxi are very real. In the wrong place, at an inappropriate time, with unsuitable people, the obligations can become a trap it is hard to escape.

- **Take care with contracts**

Chinese and Westerners often approach a deal from opposite ends. To a Westerner, starting with a standard contract, altering it to fit the different circumstances, and signing the revised version, seems straightforward. Commercial law is ingrained in our thinking. But traditionally, commercial law scarcely existed in China and certainly indicated bad faith. The early appearance of a draft legal contract was seen as inappropriate or, more likely, irrelevant, because it carried no sense of commitment. The business clauses might form a useful agenda, but obligations came from relationships, not pieces of paper. Today, returning home with a signed piece of paper is a symbol of progress, but nothing more. The Chinese may be signing a contract to humour their guests. To them, a completed contract may merely be the proof that both sides have grown close enough to develop a trusting relationship. Further concessions may then be requested - a difficult prospect for the Westerner who has shaved his margin down to the bone.

- **Mobilise local assets**

The challenge of learning to speak Chinese fluently, the complexities of the Chinese way of doing business, and a strong sense of national pride mean that a foreigner will only extremely rarely be accepted by Chinese interlocutors on equal terms. The solution is to find a reliable Chinese ally to work with you. An effective Chinese colleague will often be able to analyse body language at meetings, work out whom in the other negotiating team holds real power - not always the boss - and help smooth

out any inadvertent wrinkles. Conversely, the presence of a Westerner should be exploited to the full. Chinese interlocutors will often see a visit by a foreigner as an indication of sincerity and commitment by the Western company. Perversely, they often do not accord mainland Chinese or Hong Kong representatives the same status as a foreigner. The ideal sales team, therefore, is often a Chinese to take care of the working level contacts, and a foreigner to do honour to the higher echelons.

- **Respect face**

Face is an essential component of the Chinese national psyche. Having face means having a high status in the eyes of one's peers, and is a mark of personal dignity. The Chinese are acutely sensitive to gaining and maintaining face in all aspects of social and business life. Face is a prized commodity which can be given, lost, taken away or earned. Causing someone to lose face could ruin business prospects or even invite recrimination. The easiest way to cause someone to lose face is to insult an individual or criticise them in front of others. Westerners can unintentionally offend Chinese by making fun of them in a good-natured way. Another error can be to treat someone as a subordinate when their status in an organisation is high. Just as face can be lost, it can also be given by praising someone for good work before their colleagues. Giving face earns respect and loyalty, but praise should be used sparingly. Over-use suggests insincerity on the part of the giver.

- **Accept the pecking order**

Mao Zedong's thoughts on discipline published in 1966 provide a valuable insight into structures which persist in Chinese organisations even to this day: "The individual is subordinate to the organisation. The minority is subordinate to the majority. The lower level is subordinate to the higher level." This quotation, which underlies the way China was governed for over 20 years, indicates why Chinese society and companies are very hierarchically organised, and why Chinese people seem to be more group oriented than individualistic and often do not like to take responsibility. Similarly, people are seldom willing to give an opinion before their peers as it might cause loss of face with a valued ally.

- **Know the tricks of the trade**

Chinese negotiators are shrewd and use a wide variety of bargaining tactics. The following are just a few of the more common stratagems:

- *Controlling the meeting place and schedule*

The Chinese know that foreigners who have travelled all the way to China will be reluctant to travel home empty-handed. Putting pressure on foreigners just before their scheduled return can often bring useful benefits to the Chinese side.

- *Threatening to do business elsewhere*

Foreign negotiators may be pressured into making concessions when the Chinese side threatens to approach rival firms if their demands are not met.

- *Using friendship to extract concessions*

Once both sides have met, the Chinese side may remind the foreigners that true friends would reach an agreement of maximum mutual benefit. Make sure that the benefit is genuinely mutual and not just one-way.

- *Showing anger*

Despite the Confucian aversion to displays of anger, the Chinese side may put on a display of calculated anger to put pressure on the foreign party, who may be afraid of losing the contract.

- *Attrition*

Chinese negotiators are patient and can stretch out discussions in order to wear their interlocutors down. Excessive hospitality the evening before discussions can be another variation on this theme.

• **Play the game yourself**

Foreign negotiators dealing with Chinese may find some of the following tactics helpful:

- *Be absolutely prepared*

At least one member of the foreign team must have a thorough knowledge of every aspect of the business deal. Be prepared to give a lengthy and detailed presentation, taking care not to release sensitive technological information before you reach full agreement.

- *Play off competitors*

If the going gets tough, you may let the Chinese side know that they are not the only game in town. Competition between Chinese producers is increasing. There may be other sources in the country for what your counterpart has to offer.

- *Be willing to cut your losses and go home*

Let the Chinese side know that failure to agree is an acceptable alternative to making a bad deal.

- *Cover every detail of a contract before you sign it*

Talk over the entire contract with the Chinese side. Be sure that your interpretations are consistent and that everyone understands their duties and obligations.

- *Be patient*

Chinese generally believe that Westerners are always in a hurry, and they may try to get you to sign an agreement before you have adequate time to review the details. (<http://chinese-school.netfirms.com/goldenhints.html>, 11/09/2005)

2.7 Internal Environment

As we have seen so far, a thorough assessment of the external environment includes an overview of opportunities and threats in the market under consideration. But the firm will not be in a position to take advantage of all the opportunities in its environment, nor are all threats equally serious. The marketer must identify the most promising opportunities and the most significant threats for the firm. A detailed analysis of the company's internal environment, of its strengths and weaknesses, will reveal its potential for responding effectively to those opportunities and threats. (Dahringer and Mühlbacher 1991, p.203)

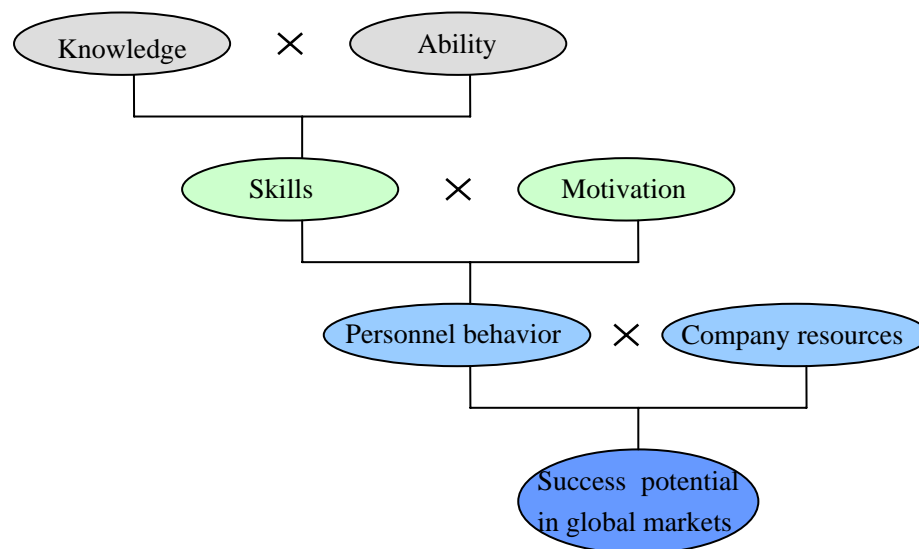


Figure 2.7.1: Key characteristics that influence a company's potential for success in a global market, source: adapted from Dahringer and Mühlbacher 1991, p.204

It is possible to identify some key characteristics of companies that have succeeded in the global arena (see Figure 2.7.1). A company's ability to conduct business in global markets depends primarily on how closely the skills of its personnel match the opportunities present in the market. Skills are a blend of superior knowledge and ability to apply this knowledge appropriately. Managers and employees with distinctive skills may truly set a company apart from its competitors, who will have a hard time acquiring the skills on short notice. Other company resources that are of major importance for successful globalization include financial, production, and organizational elements. Both the skills and resources of a company largely determine its corporate policy, strategy, and internal structure.

But global success depends on more than skills and resources. It is also strongly influenced by the motivation of company personnel to adjust to new environments, based on the dominating values and social norms that form the firm's corporate culture. That is, will the people who work for the company be motivated to apply their

skills globally? This may not be the case, for example, if the compensation system does not reward foreign assignments, or worse, if it acts as a disincentive in terms of opportunities for promotion.

Personnel behaviour includes the interactions occurring inside the firm and between it and its external environment. It can be expressed as the product of skills times the motivation to apply those skills in ways desired by top management. If either personnel skills or motivation is insufficient, the resulting behaviour will not lead to achievement of company goals. Overall, the internal factors that determine a company's potential for global success can be described as the product of the company's resources times personnel behavior. If personnel behavior is not globally oriented, or if corporate resources are insufficient, success is unlikely. Thus, when analyzing a firm's global potential, a marketer must look at the "hard facts" (company resources) and the "soft facts" (personnel behaviour) within the company. (Dahringer and Mühlbacher 1991, p.204)

Clearly, the business does not have to correct all its weaknesses, nor should it gloat about all its strengths. The big question is whether the business should limit itself to those opportunities where it possesses the required strengths or whether it should consider better opportunities where it might have to acquire or develop certain strengths. (Kotler 2003, p.104)

2.8 Potential Market

2.8.1 Geographical clustering

The procedure used in market clustering consists of the following steps:

- 1) Splitting the global product-market into groups of geographic submarkets so that the resulting clusters are more homogeneous than the global market as a whole.
- 2) Describing the 'typical' member in each cluster.
- 3) Evaluating the attractiveness of each cluster.
- 4) Choosing the most attractive clusters for further analysis.

Country-markets will be most effectively clustered with criteria that consider the specifics of the served product-market. Characteristics often used include the product-related purchasing power of potential customers, the product-market growth rate, profit generation potential, transferability of funds, number and size of competitors (intensity of competition), availability of intermediaries, and local subsidies readily available to the company. For example, Japanese and US companies, such as Dell computers, entered the markets of the European Community via Ireland. They did so because wages are relatively low and the Irish government offers high subsidies for new industrial plants. Assessment and market selection in such a case depend on strategic consideration, not just on easily accessible, general data about the macro environment of potential markets.

The country-markets that fulfil the set conditions will remain in the group of attractive markets to be further investigated. If the number of these markets is still too big to allow a quick and cost-efficient analysis of details, a scoring procedure can be used to rank the markets according to their relative attractiveness. Only for the best ranked markets will future opportunities and threats be estimated. (Mühlbacher, Dahringer and Leih 1999, p.294)

❖ Regional economic clustering

The Chinese economy can be divided into three regions: eastern coastal region, central region and western region. The eastern region encompasses eight coastal provinces and three municipalities directly under the central government – Liaoning, Beijing, Tianjin, Hebei, Shandong, Jiangsu, Zhejiang, Shanghai, Fujian, Guangdong and Hainan; the central region consists of eight provinces – Shanxi, Jilin, Heilongjiang, Anhui, Jiangxi, Henan, Hubei and Hunan; and the western region comprises six provinces, five autonomous regions and one municipality directly under the central government – Chongqing, Sichuan, Guizhou, Yunnan, Tibet, Shaanxi, Gansu, Ningxia, Xinjiang, Inner Mongolia and Guangxi. (See Figure 2.8.1.1)

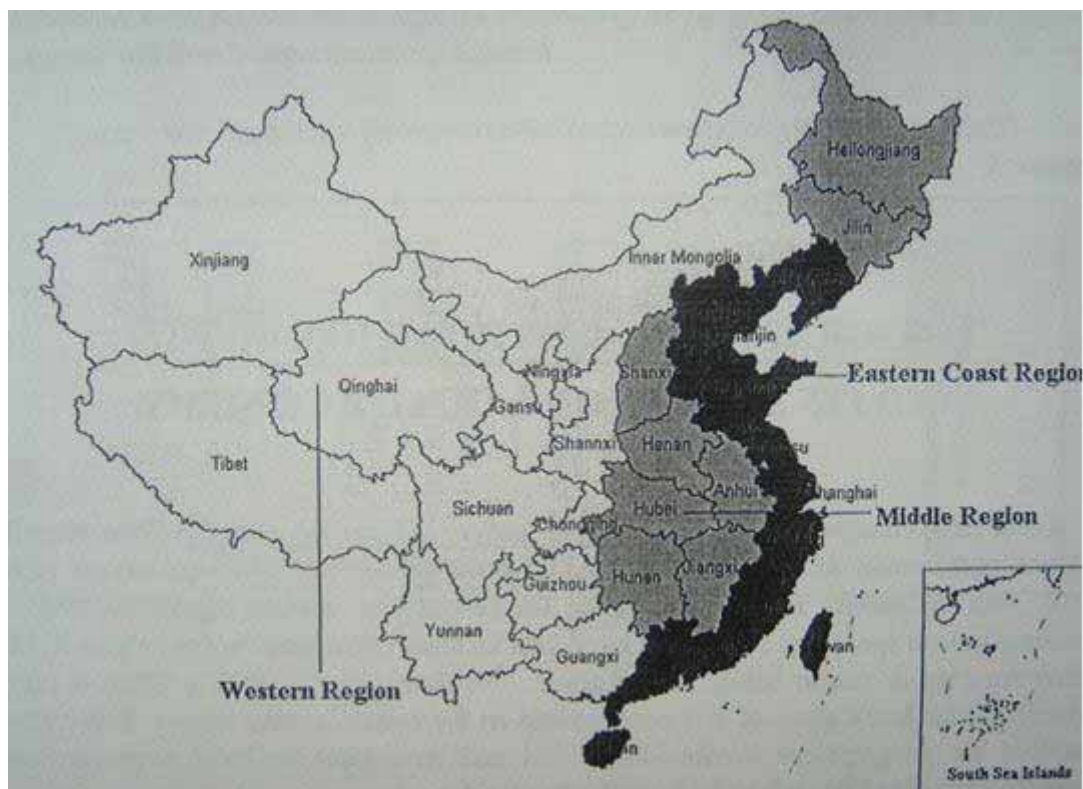


Figure 2.8.1.1: Three economic regions, source: adapted from Jiang Xiaojuan 2004, p.80

Uneven regional distribution has been an outstanding problem in the development in the development of the Chinese economy in the last 20 or so years. In terms of developmental level, the eastern region is the most developed, the central region comes second, and the western region is relatively backward. In 2000, China's GDP amounted to 8940.4 billion RMB – 5752.7 billion RMB for the eastern region, 2625.0

billion RMB for the central region, and 1309.1 billion RMB for the western region. The eastern region accounts for 13.5% of the national territory and 42% of the national population but it contributes 64.3% of the nation's GDP. Take the average per-capita income in the eastern region as 1, then the average per-capita income of the central region is 56.2% of what it is in the eastern region and that of the western region is only 41.3%. The tremendous gap between these three regions in economic development is there for all to see. (See Table 2.8.1.1)

Table 2.8.1.1: Basic facts concerning three regions, source: adapted from Jiang Xiaojuan 2004, p.81

| Index Region | Square | | Population | | GDP | | Per capita GDP | |
|---------------------|---|--------|------------------|------------|--------------------------------|--------|----------------|---------------------------|
| | Total (10000 square kilometer) | Share% | Total (10000) | Share % | Total RMB 100 million | Share% | Total RMB | Take East as 100 |
| East | 129.8 | 13.5 | 53595 | 42.3 | 57527 | 64.3 | 10734 | 100 |
| Central | 285.35 | 29.7 | 43482 | 34.4 | 26250 | 29.4 | 6037 | 56.2 |
| West | 544.84 | 56.8 | 29506 | 23.3 | 13091 | 14.6 | 4437 | 41.3 |

Twenty years ago the gap among the eastern, central and western regions was relatively narrow, but it has been growing steadily in the recent 20 years, as is shown in Table 2.8.1.2.

Table 2.8.1.2: Shares of three regions in the GDP, source: adapted from Jiang Xiaojuan 2004, p.81

| Year | East | Central | West |
|------|------|---------|------|
| 1978 | 52.5 | 29.7 | 17.8 |
| 1992 | 56.6 | 28.6 | 14.8 |
| 1995 | 59.6 | 26.5 | 14.5 |
| 1998 | 56.0 | 29.1 | 14.6 |
| 2000 | 64.3 | 29.4 | 14.6 |

Most of the lion's share of FDI inflows has been distributed in the eastern coastal region in the last 20 years or so. In the 1980s, over 90% of the FDI found its way to the coastal region. In the 1990s the situation remained largely the same despite of a slight improvement. Towards the end of 2001, 86% of the realized FDI in China was made in the coastal region, and only 14% of it found its way to the central and western regions. (Jiang Xiaojuan 2004, p.82) See Table 2.8.1.3.

Table 2.8.1.3: Regional distribution of aggregates of foreign investment in China, source: adapted from Jiang Xiaojuan 2004, p.81

| Region | Number of Project | Share % | Contractual FDI value | Share % | Realized FDI value | Share % |
|---------|-------------------|---------|-----------------------|---------|--------------------|---------|
| Total | 390025 | 100.00 | 7452.91 | 100.00 | 3952.23 | 100.00 |
| East | 315053 | 80.87 | 6439.23 | 86.46 | 3397.26 | 85.96 |
| Central | 46713 | 11.98 | 565.21 | 7.58 | 346.93 | 8.78 |
| West | 28259 | 7.24 | 448.47 | 6.02 | 208.04 | 5.26 |

❖ Market changes in the distribution

Since the 1990s, foreign investment has been concentrated in the coastal region, but marked changes have taken place in the distribution of foreign investment within the coastal region. For a look at such changes we have divided the eastern coastal region into northern, central and southern coastal areas. The northern coastal area includes Liaoning, Hebei, Beijing, Tianjin and Shandong; the central coastal area includes Shanghai, Jiangsu, and Zhejiang; and the southern coastal area encompasses Fujian, Guangdong, Guangxi and Hainan. See Figure 2.8.1.2.

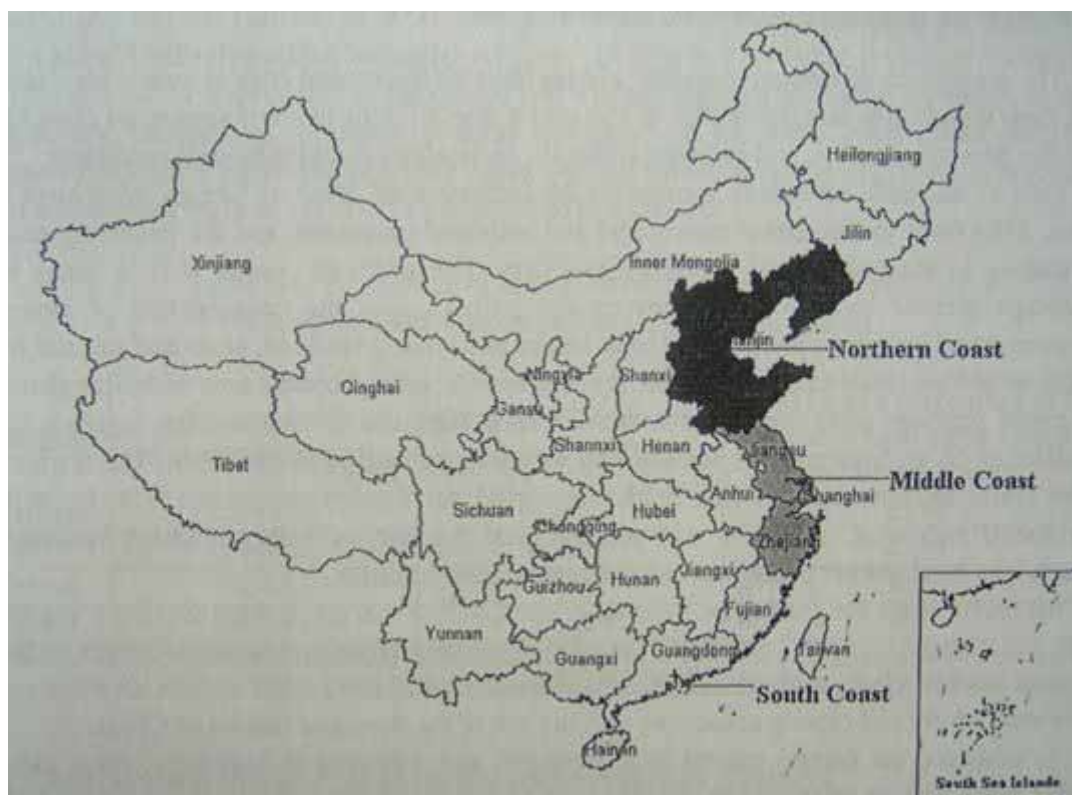


Figure 2.8.1.2: Three coastal areas, source: adapted from Jiang Xiaojuan 2004, p.83

Table 2.8.1.4 indicates that since the 1990s, the foreign investment in the coast region has been gradually shifting from the southern area to the central and northern areas. The share of foreign investment in the southern area was 56.06% during the period 1983-1990, 42.74% during the period 1991-1999, and 38.09% in 2001; the central coastal area's share of foreign investment was 13.28% during the period 1983-1990, 24.17% during the period 1991-1999, and 27.77% in 2001; the northern coastal area's share was 20.76 %, 20.81% and 21.97% respectively.

Table 2.8.1.4: Changes in the distribution of realized FDI in coastal areas (%), source: adapted from Jiang Xiaojuan 2004, p.84

| Year | 1983-1990 | 1991-1999 | 2000 | 2001 |
|-----------------------------------|-----------|-----------|-------|-------|
| National Total | 100 | 100 | 88.07 | 87.83 |
| The Northern Coastal Area's Share | 20.76 | 20.81 | 20.47 | 21.97 |
| The Central Coastal Area's Share | 13.28 | 24.17 | 26.63 | 27.77 |
| The Southern Coastal Area's Share | 56.06 | 42.74 | 40.97 | 38.09 |

2.8.2 Customer segmentation

Families in China are currently categorized mainly into four types according to their structure:

- 1) Nuclear families, or small families, consisting either of a married couple (or a divorced or widowed parent) with unmarried children or of a married couple without children;
- 2) Lineal families, consisting of two or more generations with each generation composed of one married couple (or a divorced person, widow, or widower);
- 3) Joint families, consisting of two or more married couples (or divorced persons, widows, or widowers) of the same generation;
- 4) Other types, including single-person families or families consisting of siblings, relatives, and/or friends.

Table 2.8.2.1: Family type and age of household heads, urban China, 1986

| Age group | Nuclear | Stem | Joint | Joint-stem | Other | Total | N |
|-----------|---------|------|-------|------------|-------|-------|-------|
| 15-19 | 42.6 | 8.2 | 1.6 | 1.6 | 45.9 | 100 | 61 |
| 20-24 | 62.6 | 7.6 | 1.2 | 0.5 | 28.2 | 100 | 433 |
| 25-29 | 82.1 | 6.9 | 1.4 | 1.1 | 8.5 | 100 | 1,619 |
| 30-34 | 84.9 | 7.2 | 1.5 | 0.8 | 5.6 | 100 | 2,963 |
| 35-39 | 84.5 | 9.0 | 1.1 | 0.6 | 4.8 | 100 | 2,794 |
| 40-44 | 82.8 | 11.4 | 1.0 | 0.7 | 4.1 | 100 | 2,303 |
| 45-49 | 76.8 | 16.4 | 0.8 | 1.3 | 4.6 | 100 | 2,475 |

| | | | | | | | |
|--------------|-------------|-------------|------------|------------|------------|------------|---------------|
| 50-54 | 63.7 | 24.8 | 1.3 | 4.5 | 5.7 | 100 | 2,883 |
| 55-59 | 51.4 | 32.0 | 1.6 | 6.7 | 8.3 | 100 | 2,584 |
| 60-64 | 48.9 | 32.1 | 2.0 | 7.6 | 9.3 | 100 | 2,158 |
| 65+ | 34.6 | 41.5 | 1.8 | 6.0 | 16.1 | 100 | 3,378 |
| Total | 66.4 | 20.8 | 1.4 | 3.3 | 8.1 | 100 | 23,651 |

Source: CASS Migration Survey, 1986

Note: A third of household heads (permanent residents) were female, but the distribution of family types by age did not differ appreciably according to whether the head was male or female. This table presents combined figures for both sexes.

In the 1986 CASS survey, the nuclear family was predominant at all but the youngest and oldest ages of household heads (Table 2.8.2.1). In the prime years of child-rearing, more than 80 per cent of household heads were in nuclear family households, consisting of a married couple and their unmarried children. "Stem families", which include a married couple plus at least one of their parents, were the next most important family type and were most frequent where the household head was aged 50 years or more, reflecting that the younger generation had taken up residence in the parent's home. Stem families represented 25 per cent of families among heads aged 50-54 years, rising to 41 per cent at ages 65 and over. A variation on this type, the "joint-stem family", was also most common at older ages of the household head; it was characterized by the presence of two adult generations with two married couples in the same generation. "Joint families", with at least two couples in the same generation, nowhere accounted for more than 2 per cent of family types. The remainder, "other" households, had no married couples and included persons living alone. These households, many of which do not strictly qualify to be called "family" households, occurred mostly at the youngest and oldest ages. Overall, the figures suggest that while it is common in urban China for married couples to form separate households, co-residence of different adult generations occurs frequently as a result of the movement of the younger generation into the older generation's home as well as through older people joining the household of a son or daughter. (<http://www.unescap.org/esid/psis/population/journal/1992/v07n1a1.htm,21/12/2005>)

2.9 Marketing Mix

2.9.1 Product policy

The reason that the majority of companies initially develop international markets is to provide a cost effective way of generating new market opportunities and increased demand for a new product, a successful domestic product range or to simply off-load excess capacity. However, the product must be seen as a bundle of satisfactions providing people not just with products but with satisfying experiences in terms of the

benefits they provide rather than the functions the products perform. These concepts are particularly important in international marketing. (Doole and Lowe 2001, p.291)

In creating a suitable and acceptable product offer for international markets, it is necessary to examine first, what contributes to the ‘total’ product, and second, decide what might make the product acceptable to the international market. Kotler (1997) suggested three essential aspects of the product offer, which should be considered by marketers in order to meet consumer needs and wants:

- *Product benefits*: the elements that consumers perceive as meeting their needs and providing satisfaction through performance and image.
- *Product attributes*: the elements most closely associated with the core product, such as features, specifications, styling, branding and packaging.
- *The marketing support services*: the additional elements to the core product which contribute to providing satisfaction, and include delivery, after sales service and guarantees.

These elements form the augmented product, an extended version of which is shown in Figure 2.9.1.1. Moving down and to the right of the diagram shows the elements that are relatively more difficult to standardise in different country markets.

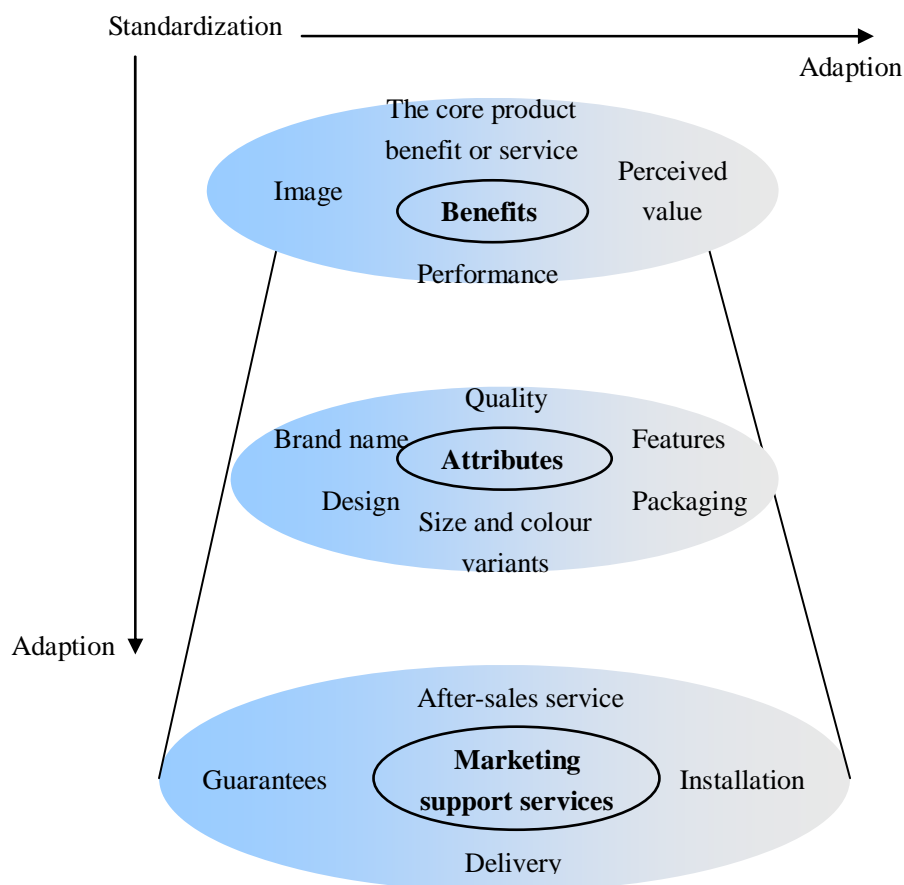


Figure 2.9.1.1: The three elements of the product or service, source: adapted from Doole and Lowe 2001, p.295

In planning its market offering, the marketer needs to think through five levels of the product: core benefit, basic product, expected product, augmented product and potential product. Each level adds more customer value, and the five constitute a customer value hierarchy. The most fundamental level is the core benefit: the fundamental service or benefit that the customer is really buying. A hotel guest is buying “rest and sleep.” The purchaser of a drill is buying “holes”. Marketers must see themselves as benefit providers.

At the second level, the marketer has to turn the core benefit into a basic product. Thus a hotel room includes a bed, bathroom, towels, desk, dresser, and closet. At the third level, the marketer prepares an expected product, a set of attributes and conditions buyers normally expect when they purchase this product. Hotel guests expect a clean bed, fresh towels, working lamps, and a relative degree of quiet. Because most hotels can meet this minimum expectation, the traveller normally will settle for whichever hotel is most convenient or least expensive. At the fourth level, the marketer prepares an augmented product that exceeds customer expectations.

Today’s competition essentially takes place at the product-augmentation level. (In less developed countries, competition takes place mostly at the expected product level.) Product augmentation leads the marketer to look at the user’s total consumption system: the way the user performs the tasks of getting and using products and related services. (Kotler 2003, p.407)

2.9.2 Distribution channel

In every country and in every market, urban or rural, rich or poor, all consumer and industrial products eventually go through a distribution process. The process includes the physical handling and distribution of goods, the passage of ownership (title), and—most important from the standpoint of marketing strategy—the buying and selling negotiations between producers and middlemen and between middlemen and customers.

A host of policy and strategy channel-selection issues confronts the international marketing manager. These issues are not in themselves very different from those encountered in domestic distribution, but the resolution of the issues differs because of different channel alternatives and market patterns.

Each country market has a channel structure through which goods pass from producer to user. Within this structure are a variety of middlemen whose customary functions, activities, and services reflect existing competition, market characteristics, tradition, and economic development. In short, the behaviour of channel members is the result of the interactions between the cultural environment and the marketing process. Channel structures range from those with little developed marketing infrastructure found in many less-developed countries to the highly complex, multilayered system found in Japan. (Cateora 1996, p.439)

China's large population and lucrative economic growth has always fascinated many consumer-goods producers. But many foreign companies have found getting a share of the cake frustratingly difficult. It is not the product, but getting the product to reach their customers proved to be the most critical success factor. For one thing, government interference and legal restrictions pose numerous hurdles. Besides, regional disparity creates varied demand and requires a multiple of distribution strategies, which complicates companies' distribution arrangements. Moreover, despite the rapid growth of the economy after the reform, Chinese market is still not a mature one. Many distribution channels common in the developed countries, e.g. superstores, mail order are still rather new to the Chinese consumers. Meanwhile, the primitiveness of the market also leaves large room for maneuver. With recent liberalization of her distribution system, in particular to comply with the WTO agreement, the chances and competition will certainly be intensified. Firms that succeed in establishing effective distribution networks will get a head start in this fast-growing market. (http://retailindustry.about.com/library/uc/uc_chung1.htm,26/09/2005)

2.9.3 Promotion policy

The American Marketing Association defines a brand as: a name, term, sign, symbol, or design, or a combination of them, intended to identify the goods or services of one seller or group of sellers and to differentiate them from those of competitors. A brand is much more than a name, logo, colours, a tagline, or symbol. These are marketing tools and tactics. (Kotler 2003, p.420)

❖ Brand-building

Heidi and Don Schultz believe that instead of the Consumer Packaged Goods (CPG) model companies in the new economy should use a different paradigm to build their brands.

- Companies should clarify the corporation's basic values and build the corporate brand.
- Companies should use brand managers to carry out the tactical work, but the brand's ultimate success will depend on everyone in the company accepting and living the brand's value proposition.
- Companies need to develop a more comprehensive brand-building plan to create positive customer experiences at every touch point—events, seminars, news, telephone, e-mail, person-to-person contact.
- Companies need to define the brand's basic essence to be delivered wherever it is sold. Local executions can be varied as long as they deliver the feel of the brand.
- Companies must use the brand-value proposition as the key driver of the company's strategy, operations, services, and product development.

- Companies must measure their brand-building effectiveness not by the old measures of awareness, recognition, and recall, but by a more comprehensive set of measures including customer-perceived value, customer satisfaction, customer share of wallet, customer retention, and customer advocacy. (Kotler 2003, p.421)

❖ **Brand-name decision**

There are four strategies for manufacturers and service companies to choose brand names: Individual names, Blanket family names, Separate family names for all products, Corporate name combined with individual product names.

Among the desirable qualities for a brand name are the following:

- It should suggest something about the product's benefits.
- It should suggest the product or service category.
- It should suggest concrete, "high" imagery qualities.
- It should be easy to spell, pronounce, recognize, and remember.
- It should be distinctive.
- It should not carry poor meanings in other countries and languages. (Kotler 2003, p.429)

Advertising is any paid form of nonpersonal presentation and promotion of ideas, goods, or services by an identified sponsor. (Kotler 2003, p.590)

❖ **Advertising objectives**

Advertising objectives can be classified according to whether their aim is to inform, persuade, remind, or reinforce.

- *Informative advertising* aims to create awareness and knowledge of new products or new features of existing products.
- *Persuasive advertising* aims to create liking, preference, conviction, and purchase of a product or service.
- *Reminder advertising* aims to stimulate repeat purchase of products and services.
- *Reinforcement advertising* aims to convince current purchasers that they made the right choice.

The advertising objective should emerge from a thorough analysis of the current marketing situation. If the product class is mature, the company is the market leader, and brand usage is low, the proper objective should be to stimulate more usage. If the product class is new, the company is not the market leader, but the brand is superior to the leader, then the proper objective is to convince the market of the brand's superiority. (Kotler 2003, p.591)

❖ **Media selection**

The media planner has to know the capacity of the major media types to deliver reach, frequency, and impact. The major advertising media along with their costs, advantages, and limitations are profiled in Table 2.9.3.1. (Kotler 2003, p.601)

Table 2.9.3.1: Profiles of Major Media Types

| Medium | Advantages | Limitations |
|--------------|---|--|
| Newspapers | Flexibility; timeliness; good local market coverage; broad acceptance; high believability | Short life; poor reproduction quality; small “pass-along” audience |
| Television | Combines sight, sound, and motion; appealing to the senses; high attention; high reach | High absolute cost; high clutter; fleeting exposure; less audience selectivity |
| Direct mail | Audience selectivity; flexibility; no ad competition within the same medium; personalization | Relatively high cost; “junk mail” image |
| Radio | Mass use; high geographic and demographic selectivity; low cost | Audio presentation only; lower attention than television; nonstandardized rate structures; fleeting exposure |
| Magazines | High geographic and demographic selectivity; credibility and prestige; high-quality reproduction; long life; good pass-along readership | Long ad purchase lead time; some waste circulation; no guarantee of position |
| Outdoor | Flexibility; high repeat exposure; low cost; low competition | Limited audience selectivity; creative limitations |
| Yellow Pages | Excellent local coverage; high believability; wide reach; low cost | High competition; long ad purchase lead time; creative limitations |
| Newsletters | Very high selectivity; full control; interactive opportunities; relative low costs | Costs could run away |
| Brochures | Flexibility; full control; can dramatize messages | Overproduction could lead to runaway costs |
| Telephone | Many users; opportunity to give a personal touch | Relative high cost unless volunteers are used |
| Internet | High selectivity; interactive possibilities; relatively low cost | Relatively new media with a low number of users in some countries |

❖ Marketing public relations

Company must not only relate constructively to customers, suppliers, and dealers, but also relate to a large number of interested publics. Public relations (PR) involve a variety of programs designed to promote or protect a company's image or its individual products. The main tools of marketing public relations are described as following.

- Publications: Companies rely extensively on published materials to reach and influence their target markets. These include annual reports, brochures, articles, company newsletters and magazines, and audiovisual materials.
- Events: Companies can draw attention to new products or other company activities by arranging special events like news conferences, seminars, outings, trade shows, exhibits, contests and competitions, and anniversaries that will reach the target publics.
- Sponsorships: Companies can promote their brands and corporate name by sponsoring sport and cultural events and highly regarded causes.
- News: One of the major tasks of PR professionals is to find or create favorable news about the company, its products, and its people, and get the media to accept press releases and attend press conferences.
- Speeches: Increasingly, company executives must field questions from the media or give talks at trade associations or sales meetings, and these appearances can build the company's image.
- Public-Service Activities: Companies can build goodwill by contributing money and time to good causes.
- Identity Media: Companies need a visual identity that the public immediately recognizes. The visual identity is carried by company logos, stationery, brochures, signs, business forms, business cards, buildings, uniforms, and dress codes. (Kotler 2003, p.618)

❖ Sales promotion

Whereas advertising offers a reason to buy, sales promotion offers an incentive to buy. Sales promotion includes tools for *consumer promotion* (samples, coupons, cash refund offers, prices off, premiums, prizes, patronage rewards, free trials, warranties, tie-in promotions, cross-promotions, point-of-purchase displays, and demonstrations); *trade promotion* (prices off, advertising and display allowances, and free goods); and *business* and *sales-force promotion* (trade shows and conventions, contests for sales reps, and specialty advertising). (Kotler 2003, p.609)

2.9.4 Pricing policy

Many organizations believe that pricing is the most flexible, independent and controllable element of the marketing mix and that it plays a major role in international marketing management. This is largely based on the fact that pricing changes appear to prompt an immediate response in the market. However, despite the apparent simplicity of using pricing as a major marketing tool, many managers find

pricing decisions difficult to make. This is in part due to the fact that whilst most firms recognize the importance of pricing at a tactical level in stimulating short-term demand, far fewer recognize the importance of the strategic role of pricing in international marketing. (Doole and Lowe 2001, p.408)

❖ Pricing Objectives

Before setting a price, the company must decide on its strategy for the product. If the company has selected its target market and positioning carefully, then its marketing mix strategy, including price, will be fairly straightforward. For example, when Honda and Toyota decided to develop their Acura and Lexus brands to compete with European luxury-performance cars in the higher-income segment, this required charging a low price. Thus, pricing strategy is largely determined by decisions on market positioning.

At the same time, the company may seek additional objectives. Common objectives include survival, current profit maximization, market share leadership, and product quality leadership. (Kotler and Armstrong 2004, p.347)

❖ Price-quality segments

A firm must set a price for the first time when it develops a new product, when it introduces its regular product into a new distribution channel or geographical area, and when it enters bids on new contract work. The firm must decide where to position its product on quality and price.

There can be competition between price-quality segments. Figure 2.9.3.1 shows nine price-quality strategies. (Kotler 2003, p.472)

| Price | | | Product Quality | |
|-------------------------|--------------------------|------------------------|-----------------|--------|
| High | Medium | Low | | |
| 1.Premium strategy | 2.High-value strategy | 3.Super-value strategy | | High |
| 4.Overcharging strategy | 5.Medium-value strategy | 6.Good-value strategy | | Medium |
| 7. Rip-off strategy | 8.False economy strategy | 9.Economy strategy | Low | |

Figure 2.9.3.1 Nine Price-Quality Strategies

❖ Price Sensitivity

The way in which price affects demand is influenced by many factors. Some products are characterized by having elastic demand and being extremely price sensitive, so that sales volumes increase significantly as prices are reduced.

By contrast, other products are characterized by inelastic demand. For example, suppliers of power generation equipment cannot significantly stimulate demand in individual markets by reducing the price. For such firms, an increase in business revenue is largely determined by changes in external factors, such as an improvement in the economy.

A second situation of inelastic demand occurs if a firm finds that it has reached saturation in its home market, so that even if prices were reduced, there would not be significant extra sales to off-set the loss of profit. The firm might conclude that exporting would provide an alternative method of increasing sales and thereby generate additional profit. (Doole and Lowe 2001, p.413)

❖ Analyzing Competitors

Within the range of possible prices determined by market demand and company costs, the firm must take the competitors' costs, prices, and possible price reactions into account. The firm should first consider the nearest competitor's price. If the firm's offer contains positive differentiation features not offered by the nearest competitor, their worth to the customer should be evaluated and added to the competitor's price. If the competitor's offer contains some features not offered by the firm, their worth to the customer should be evaluated and subtracted from the firm's price. Now the firm can decide whether it can charge more, the same, or less than the competitor. The firm must be aware, however, that competitors can change their reaction to the price set by the firm. (Kotler 2003, p.480)

In recent years, too, it has become more apparent that customer tastes have become much more sophisticated, and so purchase decisions are made less frequently on the basis of price consideration, but are increasingly influenced by wider expectations of product performance and perceptions of value. This has particular implications for international products, which are often perceived to be of significantly different value – higher or lower – than locally produced products. Pricing strategies are also strongly influenced by the nature and intensity of the competition which exists in the various local markets. (Doole and Lowe 2001, p.408)

After decades of buying poor-quality goods from state-run factories, Chinese consumers and private industrial buyers almost always prefer foreign-made goods and services when there is a choice. Capitalizing on that prejudice, an increasing number of companies have adopted foreign-sounding names or trademarks. But not everybody is content with such development. (Mühlbacher, Dahringer and Leihs 1999, p.210)

❖ Price war cooling off for household appliances producers

China's household appliances are increasing investment in mid- and high-end products instead of engaging in another "irrational" price war, Economic Information Daily reported. With the price rises in raw materials and the government's requirement of energy labels for household appliances this year, the manufacturers have stopped trying to under-price the competition and focused on developing products to win back the declining the market shares.

This year the cost of making an air conditioner will be up 20 percent as raw material costs make up one-third of the total cost. The iron and steel price has risen 70 percent this year compared with the price in last October. The price of plastics is up 73.9 percent and that of galvanization plate, up 39 percent and copper, up 1,600 yuan (about 180 US dollars) per ton. As the hot season for selling air conditioners is drawing near, both domestic and overseas producers have worked to increase their sale prices. According to the report, majority of some 40 new kinds of LG air conditioners that target Chinese consumers this year are high-end and new products. Gelanshi in south China's Guangdong Province, well-known for its low price strategy, also has been thinking of winning another expected wave of war by high technology.

The call by producers to raise the price of household appliances was echoed by China's leading retailers such as Dazhong, Suning and Yongle. According to a forecast of Suning, the average price increase for an air conditioner would be 220 yuan this year, up 11 percent. The average sales price of air conditioners by Dazhong was also up 316 yuan compared with 2004, the report said.

Despite the price increases, industry insiders predicted the overall price of household appliances will remain comparatively low this year, because of the large stockpiles of products after domestic makers expanded their production last year.

Price war, as a double-edged sword, played a vital role in the growth of China's household appliances industry. The fierce competition reduced the prices of the products to the benefit of consumers. Meanwhile, it greatly cut companies' profits and made it hard and almost incapable for them to develop high-end and new products. (http://english.people.com.cn/200503/25/eng20050325_178205.htm, 15/10/2005)

3 Conceptualization and Frame of Reference

A conceptual framework is described as a set of broad ideas and principles taken from relevant fields of enquiry and used to structure a subsequent presentation (Reichel & Ramey, 1987). When clearly articulated, a conceptual framework has potential usefulness as a tool to assist a researcher to make meaning of subsequent findings. Such a framework should be intended as a starting point for reflection about the research and its context. The framework is a research tool intended to assist a researcher to develop awareness and understanding of the situation under scrutiny and to communicate this. As with all investigation in the social world, the framework itself forms part of the agenda for negotiation to be scrutinized and tested, reviewed and reformed as a result of investigation (Guba & Lincoln, 1989).

The conceptual framework of this study is based on the literature review detailed in the last chapter. We will order and summarize the verbose theories into a logical and simple way. This framework will lead to the dependence of collecting data in the further step. We will start with the theory conceptualization, which is followed by a graphical frame of reference.

3.1 Conceptualization

In the following sections we will summarize the theories detailed in the last chapter in a logical and simple way.

3.1.1 Internationalization Decision

At the very beginning, the manager of a company should take a deep consideration whether to go abroad. In this part we talk about why a firm would like to do global business and which kind of risks should be taken into account. After that, we give reasons for investment in China. At last the situations of electric household appliance market in both China and Germany are drawn. Considering all the matters above, we suggest German electric household appliance companies go to Chinese market to win more opportunities.

3.1.2 Target Market Selection

The reactive market selection approach characterizes a situation where the exporter acts passively in choosing markets by filling unsolicited orders or awaits initiatives on the part of foreign buyers, foreign representatives (importers, agents and so on) or other export change agents who indirectly select the market for the company. The selection process then remains very informal, unsystematic and purchase-oriented, making export marketing more or less sporadic.

The proactive market selection approach is, in contrast to the reactive approach! Marketing oriented. The exporter is active in initiating the selection of foreign

markets and the further customer segmentation of these markets. Since active market selection is systematic and formalized, rather heavy organizational burdens are put on the exporter requiring personnel with international experience and access to international market information.

Another approach discussed by Albaum is the contractible method. When using a contractible method the optimal market selection starts with the total number, or a large number, of national markets, which are eventually broken down into regional groupings on the basis of political, economic, language, or other criteria. Contractible methods involve a systematic screening of all markets leading to immediate elimination of the least promising and further investigation of the more promising. This approach is also explained by root.

3.1.3 Timing of entry

Entry is early when a firm enters a foreign market before other foreign firms and late when a firm enters after other international businesses have established themselves. Earlier entry presumes more opportunities with more risks as well. Later entry is safer but facing more competitors

First, there must be a scarce resource in the market and second, the entrant company must be able to tie in that scarce resource so that it is not available to competitors. In addition, Susan Peters (pp.51-52) concludes some factors, which affect the timing of the entry mode as following:

- As firm size increases, entry is earlier
- The more multinational a firm is, the earlier the entry.
- The larger the host market size, the earlier the entry.
- The lower the cost of labour, the earlier the entry.
- The closer the cultural distance between home and host country, the earlier the entry.

3.1.4 Market Entry Modes

The concernful market entry mode strategies sorted by authors are drawn in Table 3.1.4.1. In some authors' opinion, however, joint venture is probably the best long-term strategy to penetrate the Chinese marketplace. And Chinese direct distribution channels are considered to be the easiest and quickest way to export to China.

Table 3.1.4.1 Market Entry Modes

| Entry Modes | Authors |
|----------------------------|---|
| Indirect Exporting | <p>Piggybacking (Doole and Lowe 2001)</p> <p>EMCs/EHs (Doole and Lowe 2001)</p> <p>Trading Companies (Dahringer and Mühlbacher 1991)</p> |
| Direct Exporting | <p>Agents and Distributors (Doole and Lowe 2001)</p> <p>Management Contract (Bennett 1995), (Kotler and Armstrong 2004)</p> <p>Franchising (Paliwoda 1993), (Doole and Lowe 2001), (Mühlbacher, Dahringer and Leih 1999), (Dahringer and Mühlbacher 1991)</p> |
| Indirect Investment | <p>Contract Manufacture (Kotler and Armstrong 2004), (Doole and Lowe 2001), (Cateora 1996)</p> <p>Licensing (Hutt and Speh 1998), (Bennett 1995), (Doole and Lowe 2001), (Kotler 2003)</p> |
| Direct Investment | <p>Joint Ventures (Kotler 2003), (Hutt and Speh 1998), (Dahringer and Mühlbacher 1991), (Hutt and Speh 1998), (Bennett 1995), (Doole and Lowe 2001)</p> <p>Assembly (Doole and Lowe 2001), (Paliwoda 1993),</p> <p>Acquisitions and Mergers (Paliwoda 1993), (Mühlbacher, Dahringer and Leih 1999),</p> <p>Wholly Owned Subsidiary (Mühlbacher, Dahringer and Leih 1999), (Dahringer and Mühlbacher 1991)</p> |

3.1.5 External Environment

We choose SWOT analysis to evaluate our marketing environment, which is defined according to Kotler as the overall evaluation of a company's strengths, weaknesses, opportunities, and threats. We analyze the main external factors influencing entering Chinese market as below:

❖ **Economic Environment**

We discuss in this part mainly about the current Chinese economic under the atmosphere of global economic system.

❖ **Political Environment**

The right to do business in any country is controlled by its government and granted through the political process. As declared by Kotler political environment includes law, government agencies, and pressure groups that influences and limit various organizations and individuals. In this section, we introduced the general political environment in China. Although the overall posture is good, there are unstable elements as well. The Chinese bureaucracy is so powerful that a company has to get ready with all relative government and local organizations.

❖ **Cultural Environment**

Cultural environment is the most important factor influencing marketing, especially for the Chinese market. Chinese culture is different from western culture basically, which is required for communication and successful strategies. Culture is the groundwork shaping the whole society, the way people behave, the idea they do business and the logic managers organise the companies. Culture influences marketing so broadly that it forms the basis of economic and political environments as well.

- **Belief**

Most of the Chinese people do not have explicit religion, so we use belief as the thing between religion and education which decide the way of Chinese people's thinking. It mainly roots in Confucianism and Taoism, which prefer collectivistic to individual, prefer cooperative to competitive and use fuzzy inside of black-and-white truth.

- **Social organization**

Social organization is important for a company to know its customers, in particular when we are talking B2C in this study. We are facing directly to our customers in this household appliances market in China. It is necessary to know the family size, the one who make decision in a family and their consumption behaviour.

- **Language**

Chinese is not an easy language which is complicated by multi-way for expression, elusive potential meaning and more than one hundred kinds of dialect. It can be divided into spoken and body languages. Language barrier is the first obstacle to overcome which is indispensable for branding, negotiation, promotion, and so forth.

3.1.6 Internal Environment

As all the important factors in the Chinese marketing environment have been discussed, we can depict an overview of chances and risks. But a firm cannot cover all the opportunities in this market, and then it observes its own aim. The business' internal strengths and weaknesses must be evaluated. The internal factors influencing internationalization include four main sectors shown as following:

- Personnel behaviour
- Company resources
- Management and organization
- Marketing program

3.1.7 Potential Market

❖ Clustering Chinese market

Because of the unbalanced development of economy and the huge area of China, we use geographical or regional economic clustering. According to Jiang Xiaojuan 2004, the Chinese market can be divided into three regions: eastern coastal region, central region and western region. Statistical data (p.52) shows that the eastern coastal region with the least area possesses the highest GDP value and attracts most of the foreign investment. The numbers of GDP and FDI for central and western region reduced greatly, but there are bigger potential markets in these areas.

❖ Customer Segmentation

A company cannot serve all the customers in a broad market as China. The customers are too numerous and diverse in their buying requirements, so a company needs to identify the market segments effectively. For the electrical household appliance market, customer segmentation significantly depends on the family type. We segment the Chinese electric household appliance market as shown below which is subdivided by various age groups in matrix.

- Nuclear families
- Lineal families
- Joint families
- Other types

3.1.8 Marketing-mix planning

- ❖ Product
- ❖ Place
- ❖ Promotion
- ❖ Price

Kotler considers product as the basic marketing-mix tool which includes the product quality, design, feature, branding, and packaging. Place is the various activities the company undertakes to make the product accessible and available to target customers.

Promotion is the way the company to communicate and attract its customers which ties up to culture. Price is the most critical marketing-mix tool, the change of which is sensitive for the demand of the market and the profile of the company.

3.2 Frame of Reference

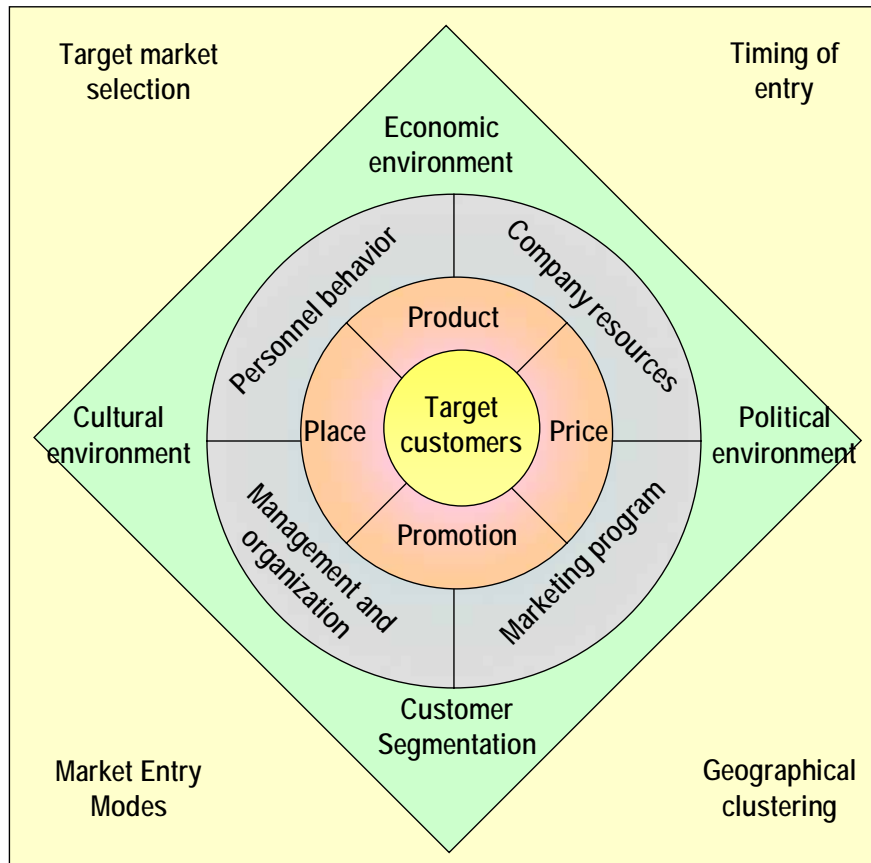


Figure 3.2.1: Frame of Reference

4 Data Collection Methodology

Successful products come about from understanding consumer decision making and through careful planning based on solid research. This chapter discusses both these issues with particular emphasis on developing the stages in planning a marketing research study. Because every marketing research problem is in some way unique, the steps undertaken in planning a particular research study will vary. However, there is a sequence of stages called the research process that provides a general framework to follow when designing and implementing a research study. (See Figure 4.1) (Dillon, Madden and Firtle 1994, p.31) We already formulated all problems in the previous chapters, so we will begin from stage 2.

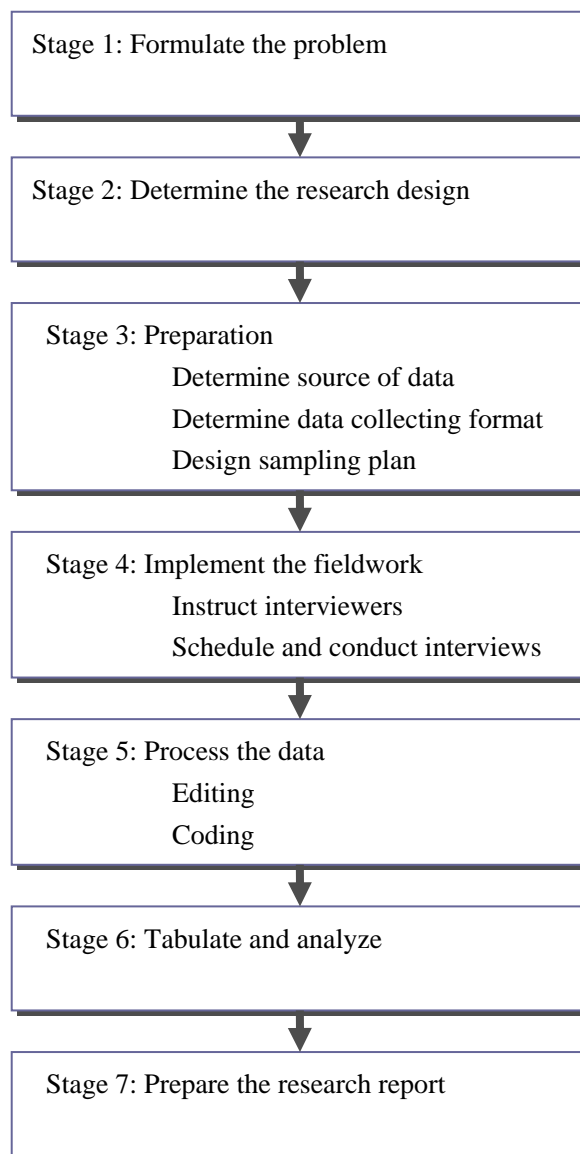


Figure 4.1 Research Process, source: adopted from Dillon, Madden and Firtle 1994, p.32

4.1 Research Objective

There are many research design frameworks. One very useful classification is in terms of the fundamental objective of the research: exploratory, descriptive, or causal.

As previously stated, the general objective in *exploratory research* is to gain insights and ideas. The soft drink manufacturer faced with decreased sales might conduct an exploratory study to generate possible explanations. The research should be as flexible as possible and conducted in such a way as to provide guidance for procedures to be employed during the next stage.

The *descriptive research* study is typically concerned with determining the frequency with which something occurs or the relationship between two variables. The descriptive study is typically guided by an initial hypothesis. An investigation of the trends in the consumption of soft drinks with respect to such characteristics as age, sex, geographic location, and so on, would be a descriptive study.

A *causal research* design is concerned with determining cause-and-effect relationships. For instance, our soft drink manufacturer may be interested in ascertaining the effectiveness of different advertising appeals. One way for the company to proceed would be use different ads in different geographic areas and investigate which ad generated the highest sales. (Churchill 1995, pp.145-150)

The three basic designs can be looked at as stages in a continuous process. Figure 4.1.1 shows the interrelations. Exploratory studies allow a more precise statement of the problem to be formulated, which in turn will allow causal or descriptive research designs to be used.

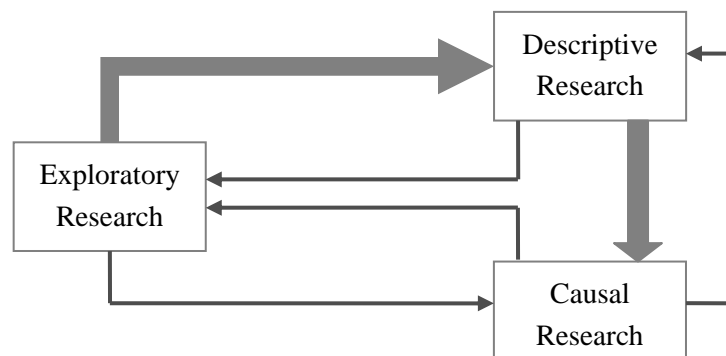


Figure 4.1.1 Relationships among Research Designs, source: Churchill 1995, p146

This study is not for cause-and effect relationships, so we prefer exploratory and descriptive research to causal one. We explore why the price of electrical household appliances in the Chinese market is going down rapidly and what we can do to attract consumers. I will describe the Chinese consumers by different groups of age, family member, living area and family income.

4.2 Research Strategy

There are many ways to classify research strategies or source of data. Here we use the simple classification sorted by Yin (1994). The five major research strategies in the social sciences are experiments, surveys, archival analysis, histories, and case studies. The three conditions consist of (a) the type of research question posed, (b) the extent of control an investigator has over actual behavioural events, and (c) the degree of focusing on contemporary as opposed to historical events. Table 4.2.1 displays how each condition is related to five strategies. (Yin 1994, p.4)

Table 4.2.1 Relevant Situations for Different Research Strategies, Source: Adapted from Yin (1994), p.6

| Strategy | Form of research question | Requires control over behavioral events? | Focuses on contemporary events? |
|-------------------|--------------------------------------|--|---------------------------------|
| Experiment | how, why | yes | yes |
| Survey | who, what, where, how many, how much | no | yes |
| Archival analysis | who, what, where, how many, how much | no | yes |
| History | how, why | no | no |
| Case study | how, why | no | Yes |

An experiment is not appropriate in this study because we have no intention to investigate cause-effect relations, which an experiment often is used for. Another reason for not selecting experiment is that it demands control over behavioural event, which is not possible in a study like this. Archival analysis and Histories considered as secondary data and lack focus on contemporary events.

Statistical surveys are used to collect quantitative information in many fields including political polling and government, health, social science and marketing research, which is usually too expensive in terms of time, money, and personnel. So it is not possible for me to do a survey all over the Chinese electrical household appliances market. However, the Chinese government did this field survey in the first half of 2005, which is of high quality with detailed information. It is convenient to use part of the report as reference.

However, because of the bureaucracy and confidentiality of the Chinese government, it is quiet difficult for individual to get this report without purchasing. The data I can get is only little part of it. Therefore, I decide to undertake a case study as well.

According to Yin (1994), a case study approach should be used when how or why questions are being posed about a contemporary set of events over which the researcher has little if any control. This study is based on research questions of how character (e.g. how to enter the Near East market successfully) and focuses on contemporary sets of events; Furthermore, case studies can be done by interviews, which is the tool used in this thesis. Therefore, we thought that a case study was the most suitable research strategy for this study. (Yin 1994, pp.6-12)

4.3 Data Collection Method

4.3.1 Survey research methods

According to Fowler (1994) the choice of data collection mode—mail, internet, telephone, personal interview, or self-administration—is related directly to the sample frame, research topic, characteristics of the sample, and available staff and facilities; it has implications for response rates, question form, and survey costs. (Fowler 2002, p.58) A summary of the strengths and weaknesses of the main approaches to collecting data is shown in Table 4.3.1.1.

Table 4.3.1.1 Comparison of survey methods, Source: Fowler (2002), p. 71-74

| Modes | Advantages | Disadvantages |
|------------------------|--|---|
| Personal Interviewing | <ul style="list-style-type: none"> • implemented some sample designs the best • the most effective way of enlisting cooperation • multimethod • advantages of interviewer administration • rapport and confidence building • longer survey instruments | <ul style="list-style-type: none"> • more costly • need a trained staff of interviewers that is geographical near the sample • longer total data collection period |
| Telephone Interviewing | <ul style="list-style-type: none"> • lower unit costs • Random-digit-dialing (RDD) • better access to certain population • shorter data collection period • advantages of interviewer administration • easier interviewer staffing & management • better response rate from a list sample than mail | <ul style="list-style-type: none"> • sampling limitation • higher nonresponse associated RDD than personal interviews • constrained questionnaire or measurement • less appropriate for personal or sensitive questions |
| Self-administered | <ul style="list-style-type: none"> • ease of presenting questions requiring visual aids | <ul style="list-style-type: none"> • need especially careful questionnaire design |

| | | |
|---|---|---|
| | <ul style="list-style-type: none"> • long or complex response categories • batteries of similar questions • respondent needs not to share answers with an interviewer | <ul style="list-style-type: none"> • useless open questions • need good reading and writing skills by respondents • no quality/personnel control |
| Mail Procedures | <ul style="list-style-type: none"> • low cost • minimal staff and facilities • widely dispersed samples • enough time for respondents to give thoughtful answers | <ul style="list-style-type: none"> • ineffectiveness of enlisting cooperation • no involved interviewer • need for good mailing addresses for sample |
| Dropping off questionnaires at households | <ul style="list-style-type: none"> • designate a household respondent • response rate similar to personal interview study • more thoughtful answers • not require trained interviewing staff | <ul style="list-style-type: none"> • cost as much as personal interviews • require a field staff |
| Internet Surveys | <ul style="list-style-type: none"> • low unit cost • high speed of returns • all advantages of a self-administered instrument • all advantages of a computer-assisted instrument • more thoughtful answers | <ul style="list-style-type: none"> • limited to samples of internet users • need for good address • challenges of enlisting cooperation • no involved interviewer |

As I mentioned above, we decide to use the survey from Chinese government, cost and research period are no more problem. The government possesses special field investigators who have connection with all provinces, cities and even communities. They are kind of using the compulsive power from the central government to get high rate response with high quality. Besides, they also have professional researchers who do statistical analysis.

4.3.2 Case Study research methods

According to Yin (1994) the source of evidence discussed here are documentation, archival records, interviews, direct observation, participant-observation, and physical artifacts. No single source has a complete advantage over all the others. In fact, the various sources are highly complementary, and a good case study will therefore want to use as many sources as possible. Table 4.3.2.1 shows a useful overview of the six major sources considers their comparative strengths and weaknesses. (Yin 1994, p.79)

Table 4.3.2.1 Source of Evidence Strengths and Weaknesses, Source: Yin (1994),p.80

| Source of Evidence | Strengths | Weaknesses |
|-------------------------|---|--|
| Documentation | <ul style="list-style-type: none"> ▪ stable—can be reviewed repeatedly ▪ unobtrusive—not created as a result of the case study ▪ exact—contains exact names, references, and details of an event ▪ broad coverage—long span of time, many events, and many settings | <ul style="list-style-type: none"> ▪ retrievability—can be low ▪ biased selectivity, if collection is incomplete ▪ reporting bias—reflects (unknown) bias of author ▪ access—may be deliberately blocked |
| Archival Records | <ul style="list-style-type: none"> ▪ [Same as above for documentation] ▪ precise and quantitative | <ul style="list-style-type: none"> ▪ [Same as above for documentation] ▪ accessibility due to privacy reasons |
| Interviews | <ul style="list-style-type: none"> ▪ targeted—focuses directly on case study topic ▪ insightful—provides perceived causal inferences | <ul style="list-style-type: none"> ▪ bias due to poorly constructed questions ▪ response bias ▪ inaccuracies due to poor recall ▪ reflexivity—interviewee gives what interviewer wants to hear |
| Direct Observations | <ul style="list-style-type: none"> ▪ reality—covers events in real time | <ul style="list-style-type: none"> ▪ time-consuming ▪ selectivity—unless broad coverage ▪ reflexivity—event may proceed differently because it is being observed ▪ cost—hours needed by human observers |
| Participant Observation | <ul style="list-style-type: none"> ▪ [Same as above for documentation] ▪ Insightful into interpersonal behavior and motives | <ul style="list-style-type: none"> ▪ [Same as above for documentation] ▪ bias due to investigator's manipulation of events |
| Physical Artifacts | <ul style="list-style-type: none"> ▪ insightful into cultural features ▪ insightful into technical operations | <ul style="list-style-type: none"> ▪ selectivity ▪ availability |

Documentation can take many forms and should be the object of explicit data collection plans. There is a variety of documents such as letters, agendas, administrative documents, etc. For case studies, the most important use of document is to corroborate and augment evidence from other sources. Because of their overall value, documents play an explicit role in any data collection in doing case studies.

For many case studies, archival records often in computerized form may also be relevant. These can be service records, organizational records, maps and charts, lists of names, survey data, and personal records. These and other archival records can be used in conjunction with other sources of information in producing a case study.

Direct observation and participant observation was not of interest because of the lack of time and costs. Another reason for not using direct observation and participant observation is that the character of this thesis is not to focus on events in real time but instead to focus on the respondents views in market entry events. Physical artifacts are a technological device, a tool or instrument, a work of art, or some other physical evidence. Such artifacts have less potential relevance in the most typical kind of case study. (Yin 1994, pp.86-87)

One of the most important sources of case study information is the interview. The interview may take several forms. Most commonly, case study interviews are of an *open-ended nature* in which you can ask key respondents for the facts of a matter as well as for the respondents' opinions about events. The more that a respondent assists in this latter manner, the more that the role may be considered one of an "informant" rather than a respondent. Key informants are often critical to the success of a case study. The second type of interview is a *focused* interview, in which a respondent is interviewed for a short period of time—an hour, for example. In such cases, the interview may still remain open-ended and assume a conversational manner, but you are more likely to be following a certain set of questions, derived from the case study protocol. Yet a third type of interview retained more structured questions, along the lines of a formal *survey*. Such a survey could be designed as part of a case study. The difference would be the survey's role in relation to other sources of evidence.

Overall, interviews are an essential source of case study evidence because most case studies are about human affairs. These human affairs should be reported and interpreted through the eyes of specific interviewees, and well-informed respondents can provide important insights into a situation. They also can provide shortcuts to the prior history of the situation, helping you to identify other relevant sources of evidence. However, the interviews should always be considered verbal reports only, since they are subject to the common problems of bias, poor recall, and poor or inaccurate articulation. In this study, we have decided to rely on interviews to collect the data. (Yin 1994, pp.81-85)

At last, we choose interview for this study which is the most suitable way as we discussed above to know our customer best. We will set questionnaire for the Beijing consumers. Our questions will focus on air-conditioner consumption. But the purpose of this questionnaire is to know consumers' general buying behaviour and purchasing trend of electrical household appliances, as air-conditioner is the biggest electricity consuming device which can lead the developing trends of other home appliances as well.

4.4 Questionnaire Design

Although much progress has been made, designing questionnaires is still an art and not a science. Much of the progress has come from admonition such as “avoid leading questions” or “Avoid ambiguous questions”. (Churchill 1995, p.396) By the time the researcher arrives at the questionnaire design stage of a given study, the marketing problem has probably been expressed in a set of appropriate research questions. Now these questions must be translated into the language of the respondent and then arranged in a questionnaire in a valid, logical fashion that will produce meaningful results. Hence, we can view questionnaire design in terms of four interrelated activities: (1) preliminary considerations, (2) asking questions, (3) constructing the questionnaire, and (4) pretesting the questionnaire. Figure 4.4.1 provides a summary of these activities. (Dillon, Madden and Firtle 1994, p.331)

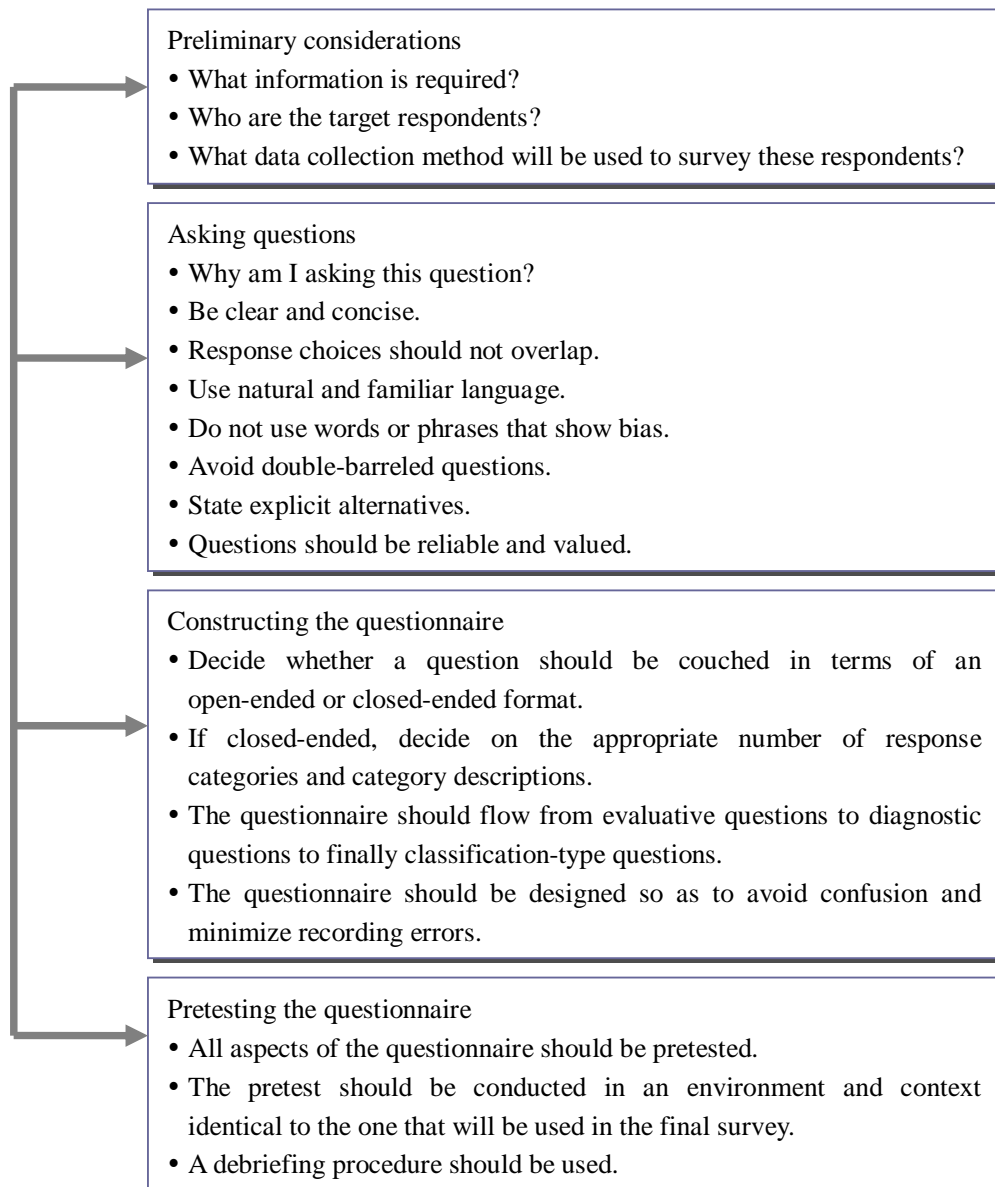


Figure 4.4.1 Questionnaire Design Considerations, source: adapted from Dillon, Madden and Firtle 1994, p.334

According to Chisnall (1997), five classes of information are generally useful for marketing decisions, that is:

- 1) Facts and knowledge: The present beliefs, perceptions, and knowledge the respondent holds regarding the research object.
- 2) Opinions: Existing attitudes towards the research object.
- 3) Motives: What motives underlie specific types of market behaviour?
- 4) Past behaviour: How have the respondents' beliefs changed over time?
- 5) Future behaviour: What are they planning to do in the future?

As we are studying the marketing of household devices, this questionnaire aims at our target consumers directly. All questions are concerning about air-conditioner which is the biggest electricity-conserving device at home. This questionnaire I designed includes five parts which is ordered from general information to the special field questions for this study. It has both open-ended and closed-ended questions and covers all five classes of information above.

The first part contains some general questions about family background. Actually these four aspects (Age, family member, living area and family income) are the most important basic factors influencing a family's buying behaviour of electrical household devices. And they are also the main elements for customer segmentation.

Family Background

1. Age
2. How many members in your family? (living together)
3. Your living area? (cm²)
4. Your family monthly income? (Yuan)

The second part is concerned about consumers' purchasing behaviour in the past: if a family already possesses air-conditioner, how many, and which are the traditional brands customers preferred. These two questions are tightly connected to the family background.

Past Behavior

5. Does your family already have air-conditioner? How many?
6. Brand names:

The third part is about consumers' future behaviour: what do they plan to do under the given condition in the questions. This part is also related to the second part, which gives us chance to compare consumers' past and future behaviour and find out the changes and trends.

General buying behavior

7. Do you/family, plan to purchase/change air-conditioners in the next 2 years?
8. If you want to buy air-conditioner, what are the main factors you will consider? (maximum 4)
9. Which distribution channel will you choose?
10. Do you prefer domestic or foreign brand?

After knowing consumers' general purchasing behaviour we will carry on to look at their opinions of energy-conserving products in part four. We will see how good the Chinese consumers realize the importance of saving energy. However, awareness is not equal to the behaviour. So we also have question 15 to check their real behaviour when they have to pay money for their consciousness.

Awareness vs. Behavior

11. In your opinion, are the energy-efficient household appliances important and help in continuous development of energy condition in China?
12. What do you think of the energy-conserving technology for household appliances in our country?
13. Do you know how to differentiate energy-conserving identification?
14. Will you choose normal or energy-conserving air-conditioner?
15. What is the maximum percentage of price you can accept for buying energy conserving appliances compared to normal?

There are some extra questions in the last part. We tried to know our customers in the previous questions. In the 16th question, we care what they want to know about our products. And at last they can express their own opinion freely in question 17.

Others

16. What kinds of technical questions do you have before you want to buy an air-conditioner?
17. Other suggestions?

Most of the questions above are close-ended, because our research objective is individuals who may give hundreds of ways to answer one question. Besides, most questions are simple with answers of yes/no or 3-5 comparative levels. So I designed restrictive selections which will conduct to easier calculation and tabulation. The 10th, 14th, 16th and 17th questions are open-ended. For these questions, it is necessary to know consumers' own opinion.

Before I sent this questionnaire sample to China, I tested it with some Chinese people online in order to prove that there is no misunderstand without explanation from researchers and it is easy for them to give clear answer in short time. Then I can get high rate responses if the questionnaire does not bother responders too much.

This questionnaire has both Chinese and English versions. All interviewees will receive Chinese questionnaires and answer in Chinese. I will arrange all responses into English as exactly as possible.

4.5 Implement the fieldwork

4.5.1 Instruct Interviewers

Before the data can be collected, the interviewers must be properly acquainted with various aspects of the study. Field instructions are prepared by the research supplier and sent to the local field services. These instructions generally provide details on how the questionnaire should be administered and often provide instructions on a question-by-question basis. (Dillon, Madden and Firtle 1994, p.44)

4.5.2 Schedule and Conduct Interviews

The field department also prepares another set of instructions, this time covering how the fieldwork should be organized and controlled. These instructions typically go to interviewing supervisors and, among other things, provide guidance concerning (1) how to screen respondents, (2) sample quotas, and (3) when and where the sample should be selected. For example, if the plan is to intercept individuals while they are shopping at local malls, the instructions would cover which malls are to be used, how many individuals are to be intercepted at each mall, and where in the mall prospective respondents are to be intercepted. (Dillon, Madden and Firtle 1994, p.44)

Firstly, for this study I choose Beijing to be the sample data collection area, because Beijing is the capital city of China and its geographical position decides that it is jumbled by people from all other provinces with different purposes and cultures. People residing in Beijing are representative to do this electrical household device questionnaire.

As I was in Germany when this questionnaire was implemented, the only way to do questionnaire in Beijing was by email. But the response from email questionnaire is very low, as most of the people would refuse to answer it or even throw it as junk mail without opening. Therefore, I appealed to my family and friends. They were not only my responders, but also my researchers. They sent this questionnaire to their acquaintances and sent answers back to me. This way caused high rate responses by 90% with high quality answering.

Before my researchers went to ask people, I explained the purpose and the organization of this questionnaire. I also required the way they supposed to collect data and send me back. But I did not control the type of responders in order to get data from random individuals with random ages. I restricted the deadline of responses to be in three weeks after the day I gave the sample. Then the number of responses could be confirmed for final analysis.

4.6 Data Processing

The purpose of analysis is to obtain meaning from the collected data. All previous steps in the research process have been undertaken to support the search for meaning, which can take many forms. However, the preliminary analytical steps of editing, coding, and tabulation are common to most studies.

The basic purpose of **editing** is to impose some minimum quality standards on the raw data. Editing involves the inspection and, if necessary, correction of each questionnaire or observation form. Inspection and correction are often done into two stages: the field edit and the central office edit. The field edit is a preliminary edit, designed to detect the most glaring omissions and inaccuracies in the data. It is typically followed by a central office edit. This involves more complete and exact scrutiny and correction of the completed returns. (Churchill 1995, p.736) In all cases, the editor follows the editing instructions in resolving any ambiguities and may consult with the interviewer or recorder. (Dillon, Madden and Firtle 1994, p.369)

Coding is the technical procedure by which data are categorized. Through coding, the raw data are transformed into symbols—usually numerals—that may be tabulated and counted. The transformation is not automatic, however; it involves judgment on the part of the coder. (Churchill 1995, p.740) For certain types of question formats (such as closed-ended questions), the coding specifications are designated before fieldwork begins (precoding). Coding specifications for open-ended questions are much more likely to be designated after the questionnaires have been returned from the field (postcoding). (Dillon, Madden and Firtle 1994, p.369)

A tabulation plan refers to the orderly arrangement of the data in a table or other summary format by counting the frequency of responses to each question. For example, the researcher may wish to tabulate responses to the question dealing with how many units of a brand have been purchased by each respondent by the income of the respondent. The researcher, in consultation with the supplier, generally specifies what tables will be run. (Dillon, Madden and Firtle 1994, p.45)

4.7 Data Analysis Methodology

Every case study should start with a general analytical strategy. These general analytical strategies with regards to case studies provide the researcher with a system by which she/he can set priorities for what it is they need to analyze and why. As Herriott and Firestone (1983) state, “The evidence from multiple cases is often considered more compelling, and the overall study is therefore regarded as being more robust”. The way in which the data will be analyzed is very important for any research study. For this study, it will involve the analysis of the interviews conducted, as well as the review of any documentation that the firms handed over. These multiple

sources of evidence (i.e. triangulation) are what add to a study's validity (Yin 1994, p.45).

Data display is the second major activity, which the researcher should go through, and this means taking the reduced data and displaying it in an organized, compressed way so that conclusions can be more easily drawn. The following part focuses on methods used for inspecting data before testing the formal research hypotheses related to the specific study objectives. These methods help us understand the nature of the data collected and, consequently, give a preliminary glimpse of what relationships to expect. There are various descriptive statistics. We will also introduce cross tabulations and graphic methods for displaying data. (Dillon, Madden and Firtle 1994, p.397) Figure 4.7.1 shows the classification of data analysis methods.

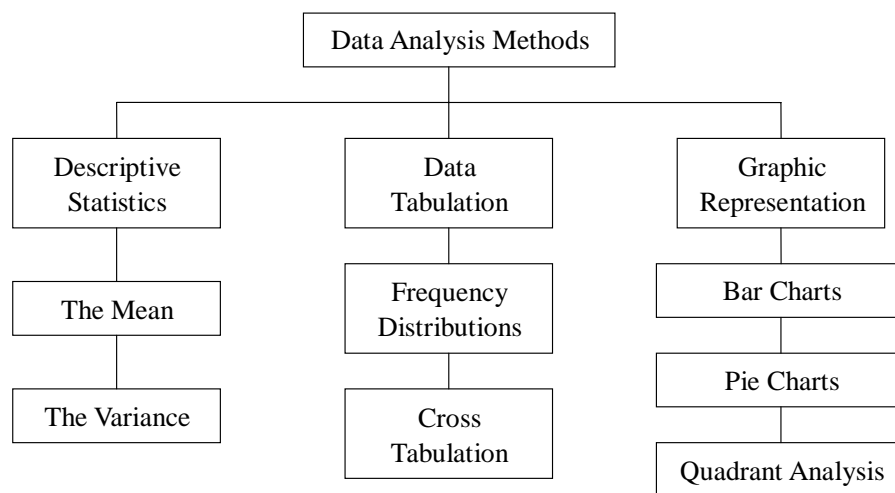


Figure 4.7.1 Data Analysis Methods, source: adopted from Dillon, Madden and Firtle 1994, p.397

We don't use descriptive statistics, because our data were collected as a small sample, which is not statistical enough to use this method. Our case study can only be used as a general insight to give companies some ideas about this customer market.

At the beginning, data must be cleaned. Typically, the initial step is to tabulate responses on a question-by-question basis. At the cleaning stage, these frequencies are sometimes called marginals because they give the number and percentage of respondents who chose each alternative. A cross tabulation is an extension of the frequency distribution and is a common method of describing two or more variables at a time. A table cross classifying the levels of one variable with the levels of some other variable provides the bivariate frequency distribution. These tables are also often referred to as contingency tables. Graphs are a valuable means of summarizing and displaying data. Constructed in certain ways, however, they can be misleading. Improper graphing procedures can produce conclusions that are suspect. Depending on their construction, graphs can hide differences or create them. (Dillon, Madden and Firtle 1994, pp.405-407)

Firstly, we will reduce the collected data by both frequency distribution tabulation and cross tabulation. After that, we will display all data in graphs, especially bar charts. Detailed analysis will follow every chart.

4.8 Methodology Visualization

At last, we give a graphical summary for this chapter which is presented in Figure 4.8.1.

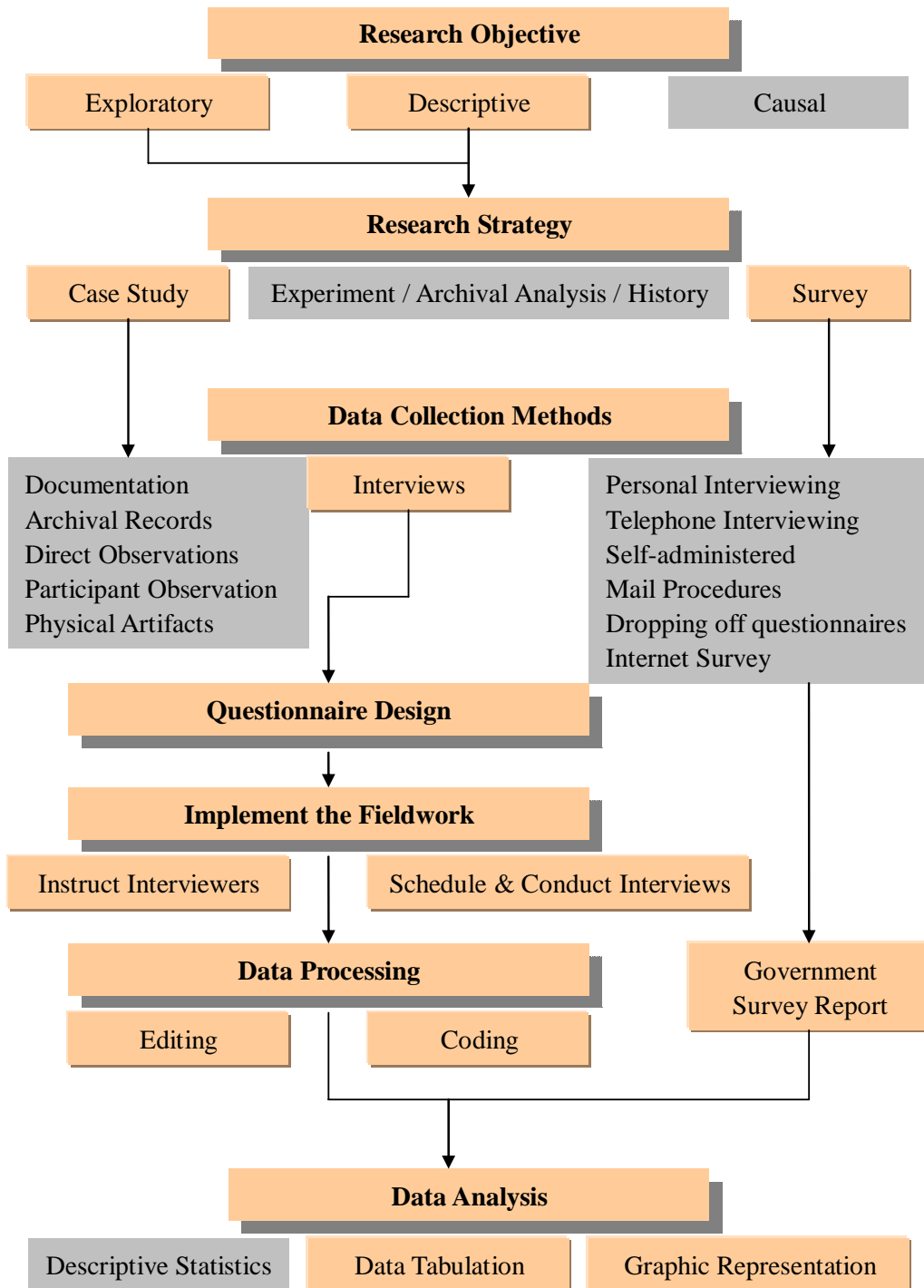


Figure 4.8.1 Visualization of the Methodology

5 Data Presentation and Analysis

In this section, we will present all the collected data and give corresponding detail analysis. The data is divided into three parts: government survey report, sample questionnaire responses from Beijing and extra data used for comparison. The comparing data include one special case of questionnaire and brand market share charts of main electrical household appliances in the Chinese market. At last we will display the visualization summary of this chapter.

5.1 Government Survey

Government survey data were offered by Lu Renbo (Development research center of state council P.R.China). Part of the comments was extracted from "Research consultation report of Chinese city consumer air-conditioner demand condition 2004-2006".

After the price shuffle and market recombination, there are great changes taking place in 2005 to the whole air-conditioner market: Market achievement state and competition mode begin to make the transition; producers, consumers and distributors psychology are moving to be mature with rational. This "Report" gives a synthetically objective judgment for the development trends of Chinese air-conditioner industry in the future. It analyzes from three aspects: trade, consumer market and circulation.

5.1.1 The most significant characteristic of Chinese air-conditioner market 2005: Rapid expansion of producing competence of air-conditioner

In the first half of 2005, the producing competence of the top ten national air-conditioner enterprises already reached 75 million units. The overall producing competence of air-conditioner trade broke through 80 million units, which increased nearly 15 million units compared with 2004, growth ratio is 23%. Chinese air-conditioner industry is turning into the era of rapid expansion.

This rapid expansion of producing competence is going along with the high speed growing of air-conditioner output. Figure 5.1.1.1 shows the average annual increasing rate of air-conditioner output from 2000 to 2004 keeps above 30%.

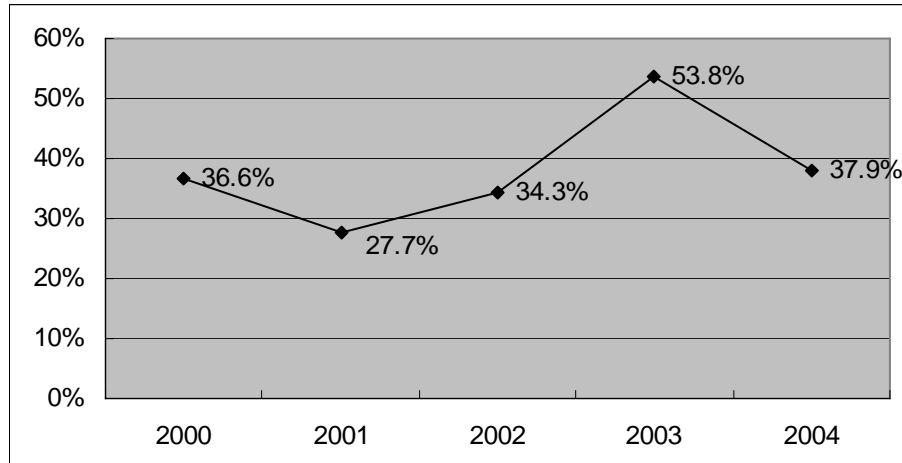


Figure 5.1.1.1: Increasing rate of Chinese air-conditioner output 2000-2004

There are in total 39,104,000 air-conditioners produced domestically from January to May 2005, increased by 24.4% compared with the same period of 2004. The main reason of the increasing is the increasing of air-conditioner export.

5.1.2 Export value of air-conditioner promotes progressively

There are in total 20,920,000 Chinese air-conditioners exported from January to May 2005, export value is 28,660 million Yuan. The export volume of air-conditioners increased by 12.6% in the same term; export value increased by 24.1% in the same term compared to 2004. The increasing degree of value is greater than the increasing degree of volume.

Comparing 2005 with 2004, we found that, the average single-unit price of air-conditioner export shows obvious growing trend. The increasing of the product price in international market proves that the international air-conditioner market is striding forward to the value return of products. (See Figure 5.1.2.1)

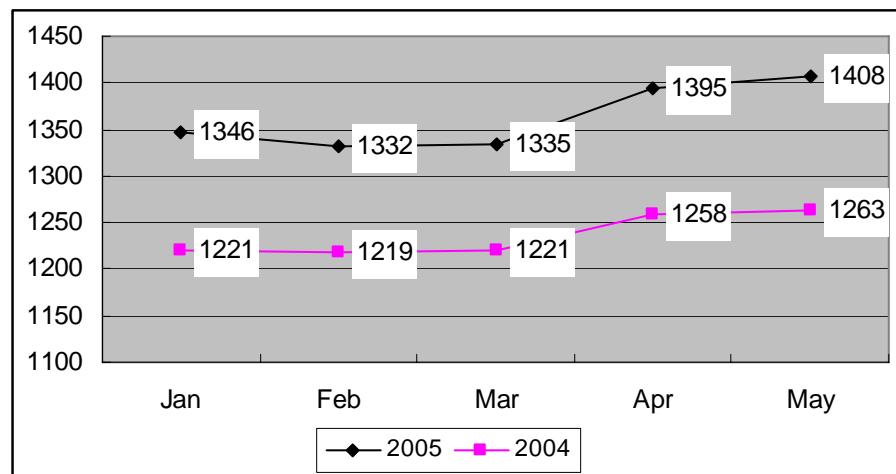


Figure 5.1.2.1: Average single-unit price of air-conditioner export from January to May 2005

5.1.3 Total demand of air-conditioners in China 2005 is not optimistic

Many years data has indicated, the air-conditioner popularization rate of Chinese city inhabitants has reached 53.6% till the end of 2004, grew 2.4% compared to 2003. Among those families possessing air-conditioners, the average number of air-conditioners for each family is 2.53. The possessing rate of the first class city families has already reached a high level with 78.6%. The potential market locates in the demand of re-purchasing and new purchasing apartments. And the consumers of new purchasing apartments are becoming the main demand group of air-conditioner market in the first class cities. Besides that, the possessing rate of the second and third class city families also respectively achieved 58.5%, 40.1%.

Survey data shows that, generally, the total demand of domestic air-conditioner market does not change much. It is estimated to be no more than 18 million units in 2005. Influencing by two major factors (the development of Chinese real estate and pursuing comfortable life of urban people), the total demand of Chinese air-conditioner market is growing steadily in these three years, relatively 15,350,000, 16,500,000 and 17,500,000 units. But the increasing speed is going down, relatively 7.7%, 7.5% and 6.1%. (See Figure 5.1.3.1)

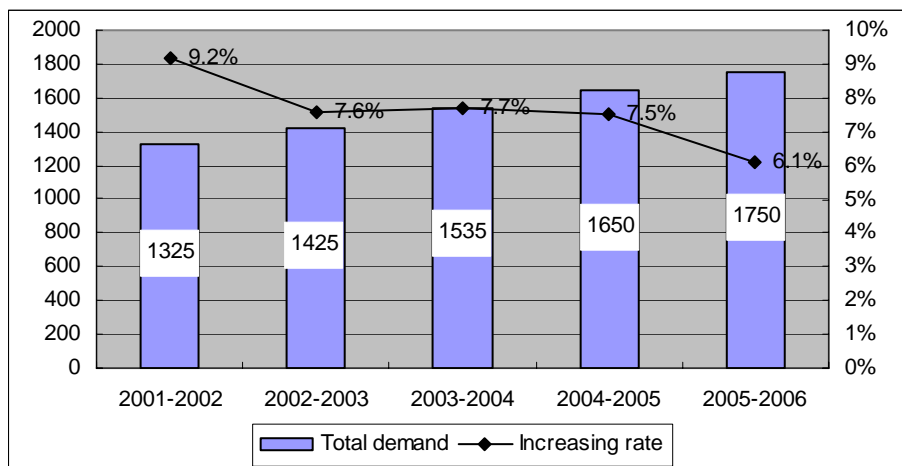


Figure 5.1.3.1: Total demand of Chinese air-conditioner market 2001 - 2006

From January to May 2005, the sales volume of air-conditioners in part of key cities dropped obviously, compared with the same term of 2004. (See Figure 5.1.3.2)

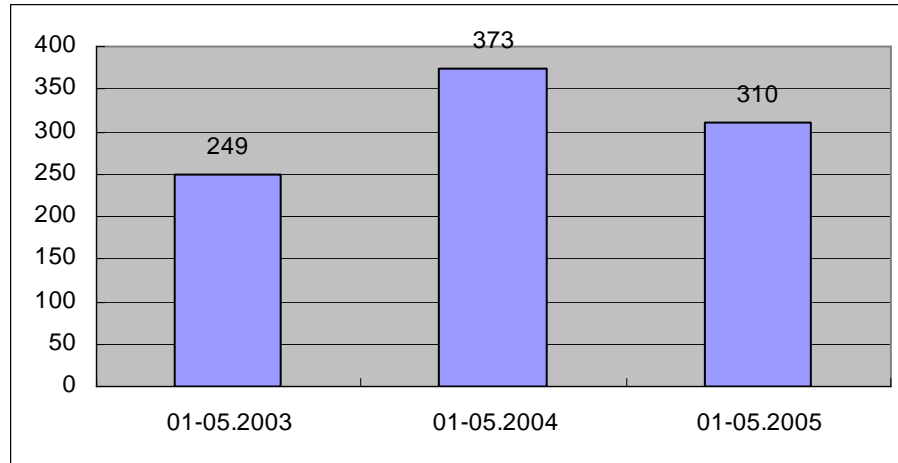


Figure 5.1.3.2: Retail gross of air-conditioners in 15 cities in the latest three years

The main reasons of reduced increasing rate are:

- 1) The temperature in summer generally reduced and the coming of midseason postponed;
- 2) Influence of the real estate situation.

The real estate has certain impetus for the consumption of air-conditioners. However, the appearance of a series of the anti-speculation policies plays an inhibitory role to the real estate property, which eventually causes the reduction of new inhabitants obviously. This result must affect the consumption demand of air-conditioners.

- 3) The transformation of the market. The consumption of air-conditioner began to shift down from 1- and 2-class markets to the 3- and 4-class markets.

The investigation discovers that the sales increasing of air-conditioner markets in the first and second class markets obviously puts slow in 2005. But the sales increasing rate of the third and fourth class markets achieved above 50%.

5.1.4 Centralization is accelerating, technology decides success

Under the environment of rapid producing competence expansion and stable market demand, brand competition of the Chinese air conditioning market will be more intense in second half of 2005. The Chinese air-conditioner industry will enter the crucial time of centralization. In 2005 the competition of air-conditioner market is among big enterprises. Therefore, the eliminated enterprises are relatively small enterprises, which are not many. But whenever one vanishes, there will be intense influence to the market.

There were about 400 air-conditioner brands in China in 2000, but dropped to be about 140 in 2003. The elimination rate was 30%. In 2004, however, main active brands in this market only maintain about 50, elimination rate about 60%. And the

concentrating rate of the top four brands in 2004 was as high as 51.9%, increased 6% compared to 2003. Most eliminated brands were second or third class brands.

According to "Research consultation report of Chinese city consumer air-conditioner demand condition 2004-2006", Haier by 17.9% occupies the first place of air-conditioner brand market holding rate in 2004; Gree by 12.1% occupies the inferior mat, Kelon by 11.0% rows in third and Midea by 10.9% follows closely after that. But other second or third class brands have much lower holding rate from them. (See Figure 5.1.4.1)

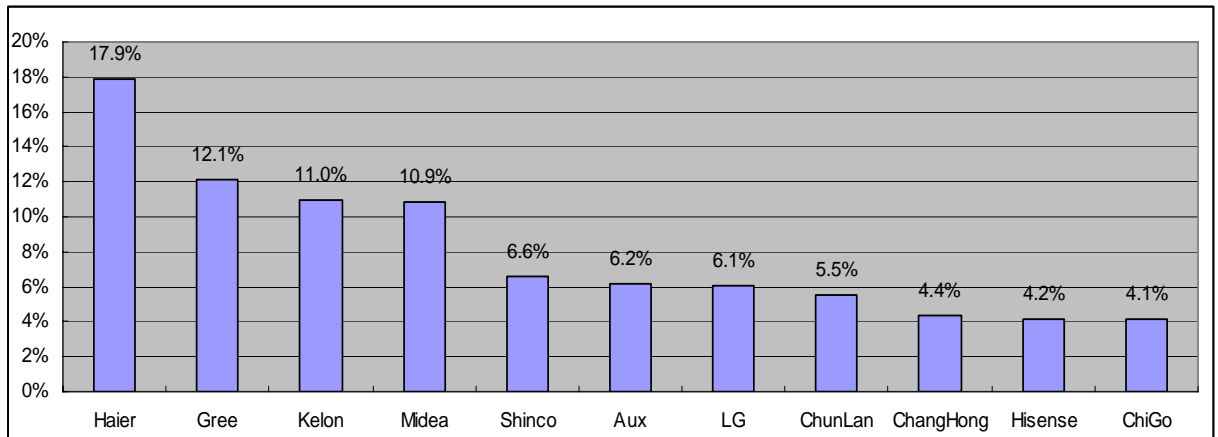


Figure 5.1.4.1: Hold rate of air-conditioner brand market 2004

This indicates that after brutal competition a large number of unqualified brands have already been eliminated. The advantage of this brand concentrating will appear under the development of energy-conserving and healthy air-conditioners. In the opinion of these Chinese researchers, there will be two stages to finish the centralization of the Chinese air-conditioning industry. It will form highly centralized competition pattern of 8-10 air-conditioner brands in 2005. The number will reduce further in the next two years. And technology will decide the success of air-conditioner enterprises.

5.1.5 The market of frequency-conserving air-conditioner increases rapidly

The market share of frequency-conversing air-conditioner in Japan already surpassed 90%, and European frequency-conversing air-conditioner market hold rate also achieves 50%. The technology and quality of Chinese air-conditioners are also promoting, which is developing to frequency-conversing. All the large good enterprises are making frequency-conversing products. There is great developing space for this field in the future.

Although the total sale in Chinese air-conditioner market is going down, the frequency-conversing air-conditioner market actually obtains fast growth. According to the survey data in 15 cities, the market of frequency-conversing air-conditioner is developing rapidly in the past two years. Especially the increasing degree from January to May of 2005 is up to 73%, compared with the same period of 2004. (See Figure 5.1.5.1)

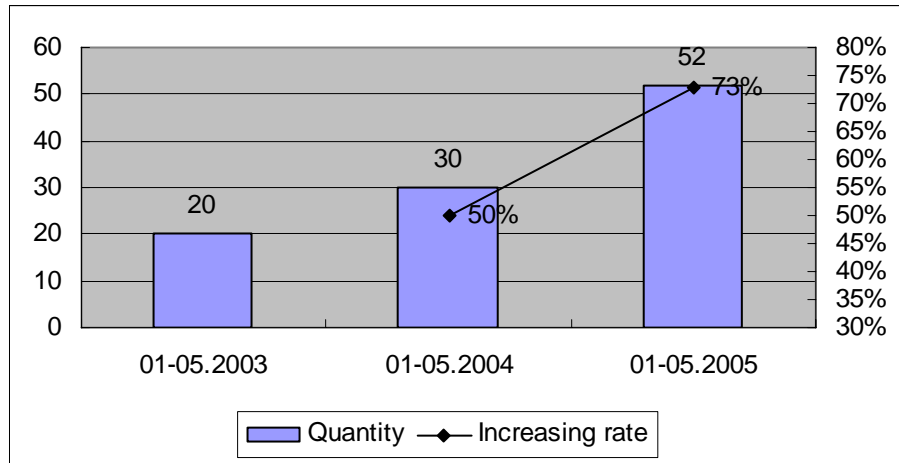


Figure 5.1.5.1: Retail gross of frequency-converting air-conditioners in 15 cities in the latest three years

Meanwhile, the sales proportion of frequency-converting air-conditioner market in 15 cities increased from 8% in 2003 to 16.7% at present. The main competition brands are Hisense, Haier, Daikin, Mitsubishi Electric and Midea. Among them, Hisense has occupied the leading status, whose market occupation rate is up to 68.7%. Survey data still shows, consumers' cognitive degree of frequency-converting air-conditioner is up to 88.6%. The cognition of frequency-converting air-conditioner has already turned from conception to product, knowing more deeply about the energy-conserving function of products.

5.1.6 The air-conditioner distribution channel has changed

"Research consultation report of Chinese city consumer air-conditioner demand condition 2004-2006" presents three major characteristics of the air-conditioner distribution channel as follows:

Firstly, the influence of traditional sales channel (like department store) is unceasingly growing down, while the channel share of chain store (like electronic retail outlets) rises. Especially the market influence of GoMe, Suning this kind of professional household electronic retail outlets cannot be ignored.

Secondly, the specialized stores have diverse forms and huge market potential. At present, the specialized stores are divided into the special brand showrooms, namely managing only one air-conditioner brand, which has high market concentrating rate; and another kind is chain-special stores, namely managing many air-conditioner brands with selectivity. Both have one common characteristic, namely specialization, which is easy to be approved by consumers.

At last, the gravity of the entire air-conditioner market is shifting to the second and third class markets. Part of the nationwide air-conditioner enterprises already realized this huge potential and started to penetrate down with their formidable brand strength

and their own distribution channel. We believe that in the next two or three years, the second and third class markets will become the main competition battlefield for air-conditioner enterprises.

5.1.7 Future trends of Chinese air-conditioner market

- ❖ The centralization of air-conditioner trade will be finished in two stages. In 2005, the competition situation will form to be highly centralized by 8-10 brands. The number will reduce further in the following two years.
- ❖ Because a large amount of goods was stocked up in busy season 2004, the distribution in whole channel is not as good as expected. Therefore companies are more prudent to prepare goods in this year. This large amount of stock will exert an influence on the market price of air-conditioner for the second half of 2005.
- ❖ Air-conditioner trade is changing from price-oriented to value-oriented, which takes technology and quality as the core. Top-grade air-conditioners become the consumption hot spot, especially direct-current frequency-conversing air-conditioners.
- ❖ Air-conditioner price in 2005 will still be reducing. The price of air-conditioner market 2005 depends on two factors: how successful expanding into the international market and how urgent enterprises willing to the scale effect.
- ❖ Cost control is the central issue air-conditioner enterprises focusing on recently. On one hand enterprises should promote channel efficiency and reduce the channel cost; On the other hand, large distributors represented by GoMe give the possibility of reducing the channel cost for air-conditioner enterprises.
- ❖ Consumers concern more about the performance-cost ratio of the air-conditioner. 85% consumers think that frequency-conversing air-conditioner is the best energy-conserving products with the highest performance-cost ratio at present. And the larger frequency-conversing air-conditioner brand is the higher performance-cost ratio of the product is.

5.1.8 Demand forecasting of Chinese consumer market

❖ Key factors consumers care for anticipative purchasing

Based on the survey results, consumers' attention on price has already obviously dropped. In 2004, the whole market and society paid high attention on energy-conserving issue, which brings up consumers' consciousness of saving energy greatly. Furthermore, because air-conditioner itself consumes a large amount of energy, energy-conservation has become the chief factor for consumers' purchase of air-conditioner. Meanwhile, low price is not the only requirement from consumers anymore; performance-cost ratio becomes one of the important criterions. (See Figure 5.1.8.1)

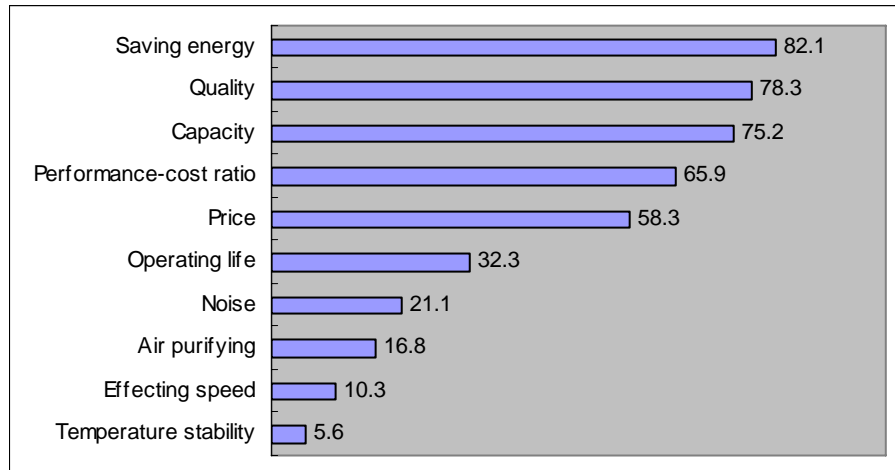


Figure 5.1.8.1: Key factors consumers care for anticipative purchasing

❖ Air-conditioner type consumers expect for anticipative purchasing

Because of the requirement of energy-conservation and comfortable living environment, 86% urban consumers express the willingness of buying frequency-conversing air-conditioner, while they are purchasing air-conditioners again. Meanwhile, the survey data still show that the anticipative purchasing rate of direct-current frequency-conversing air-conditioner is 21.5%. Base on the promising Environment of frequency-conversing air-conditioner market, more advanced direct-current frequency-conversing air-conditioner market is underway too.

Although it is still easy for consumers to be influenced by the product conception from the enterprises' promotion, consumers are having more and more purchasing and using experiences. The indoor air quality is paid more attention by customers, and health and energy conservation becomes the most important element for purchasing. According to "Research consultation report of Chinese city consumer air-conditioner demand condition 2004-2006", the anticipative purchasing rate in the next year will be 9.5% and the proportion of choosing healthy energy-conserving air-conditioner will surpass 50%. (See Figure 5.1.8.2)

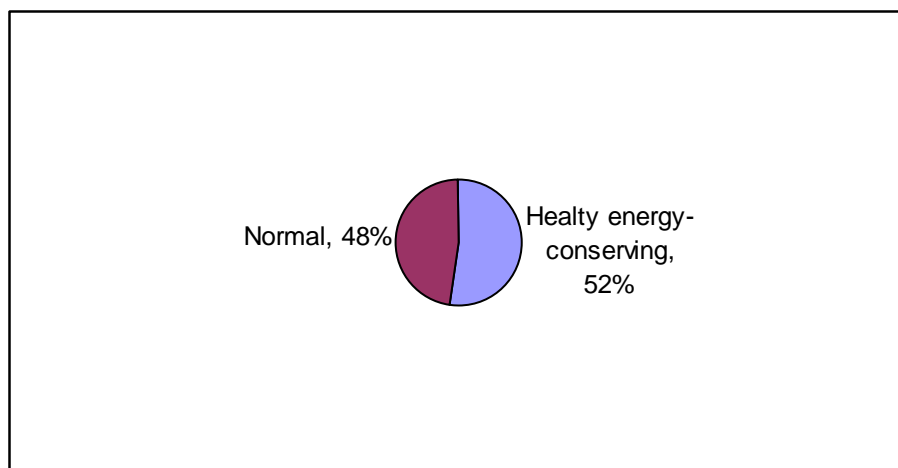


Figure 5.1.8.2 Anticipative purchasing type of air-conditioner 2005

❖ Consumers' quality evaluation of frequency-conversing air-conditioner

Consumers' appraisal on the product quality influences the overall image of air-conditioner brands directly. Knowing the appraisal on the product quality of one's own brand in consumer market contributes to the positioning of brand market. On the whole, urban consumers gave high appraisal to frequency-conversing air-conditioner, among them consumer's appraisal on Hisense is the highest, the integrated grade of which is 92.

❖ Consumers' considering factors for choosing air-conditioner brands

The air-conditioner popularity of consumer's families in first class market is up to 78.6%. 12.5% consumer families among them have entered into the stage of two times purchasing, and multi-purchasing consumer families occupied 6.3%. Abundant purchasing and using experiences enable consumers to be more rational. The concentration degree of brands in air-conditioner market is higher and higher, the competition of brands grows in intensity. Meanwhile, consumers pay much attention on brands as well. While choosing the air-conditioner brands, urban consumers' main consideration includes four respects: technological capability, service, product quality and price.

❖ Consumers' expecting brands for anticipative purchasing

In the following one year, air-conditioner anticipative purchasing rate of urban consumers is 20.3%. The anticipative purchasing of normal air-conditioners is still give priority to those traditional brands as Haier, Gree, Midea and Kelon. Hereinto, the anticipative purchasing rate of Haier is the highest, by 19.5%, Gree by 12.1%, Midea by 10.5%, Kelon by 8.1% and LG, Aux more than 4% as well. In the frequency-conversing air-conditioner market, Hisense is the most famous one, 71.3% consumers indicated that Hisense will be their first choice of frequency-conversing air-conditioners.

The investigation demonstrates, although Chun Lan, Shinco and part of Japanese brands like Hitachi, Sharp and Panasonic are still main purchasing brands for urban consumers, their loyalty to these brands has declined, especially Hitachi and Sharp. If they do not realize the importance of building up market channel, they might be eliminated out of the Chinese market.

By the look of air-conditioner products that families are using at present, the proportion of frequency-conversing air-conditioners is small, less than 1%. Study also shows that, consumers preselect frequency-conversing air-conditioner brands mainly depending on the familiarity of brands. Hisense obtained 35.8% among consumers' choices, but the choices of other brands are dispersive. Many consumers cannot answer their expecting brand of direct-current frequency-conversing air-conditioner.

5.2 Questionnaire Presentation

This questionnaire is a sample study in a small area which only gives a general impression of the Chinese customers market. It is constituted of 17 questions with both open-ended and close-ended forms. Most of the questions are concerned about air-conditioner purchasing. There are many types of electrical household devices, hence it is difficult to ask everything in a short questionnaire. We choose the largest electricity-consuming household appliance, air-conditioner to represent the future trends of all other household appliances. Beijing is chosen as the reference place for carrying on this questionnaire. Not only because Beijing is the capital city, but also because of its multi conditions. The biggest characteristic of Beijing is intermixing. There are people from all over the country with different aims and cultures. People's life in Beijing is representative.

We received in total 155 responses. Because our researchers are the writer's friends or relatives, who have responsibility for controlling before submittal, so we received high quality responses. Only two uncompleted responses were eliminated. Therefore, there are 153 responses, 138 normal answers and 15 as a special case hereinto.

These 15 responses came from China Household Electric Appliance Research Institute located in Beijing. Most of the responders are experts in this field. Their perspectives are more or less different as normal consumers', so these 15 responses will be used as a special case. It is also useful to listen to some special consumers.

Both Chinese and English versions of questionnaire are in Appendix I;

The summary tabulations of questionnaire responses are in Appendix II;

Frequency distributions and cross tabulations are in Appendix III.

All the graphic representations below are based on the tabulations. We will give detail explanation and analysis after each graph.

5.2.1 Question 1: Age?

Age is one of the most important elements for customer segmentation. Along with the rapid development of the Chinese economy, people in different age groups have different life styles, which form different attitudes towards product purchasing.

This questionnaire was implemented randomly, which covers all age groups. 37 responses from age group 15 to 24; 38 responses from age group 25 to 34; 15 responses from age group 35 to 44; 21 responses from age group 45 to 54; 7 responses from age group 55 to 64 and from 65 and above we got 20 responses. The total number of responses is 138 in normal cases.

Chinese vital statistics declares that more than half of Chinese population is less than 35 years old. Our questionnaire result also shows the same trend. We can see from Figure 5.2.1.1 that about 54% responses were answered by people under 35 years old. 15% responders are 65 years old and above. This phenomenon indicates that young Chinese people will be the hard-core for the future and the number of old people will still grow up.

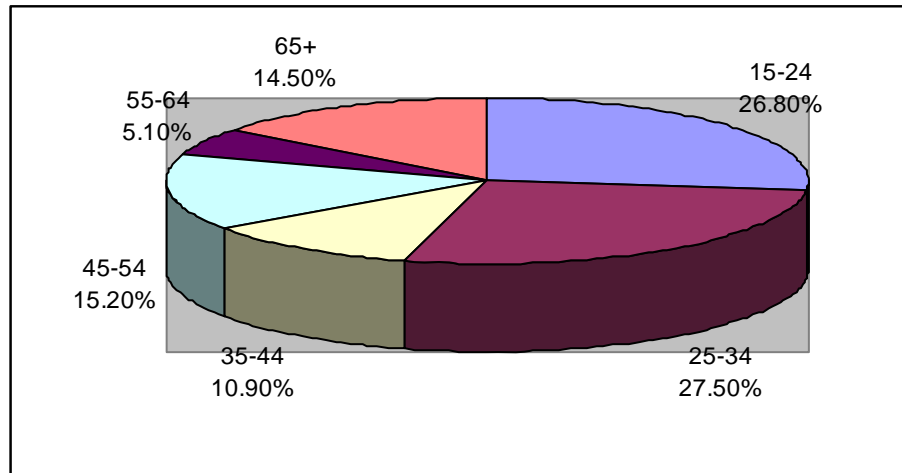


Figure 5.2.1.1: Percentage of age groups

We combine group 35-44 with group 45-55 together and allocate group 55-64 into group 65 and above, because their data features are very similar to each other. And then, there are enough responses in each age group for more convictive analysis. At last, we segment all ages into 4 groups:

- (15-24) New generation consumers, 37 responses
- (25-34) Young consumers, 38 responses
- (35-54) Middle age consumers, 36 responses
- (55+) Old consumers, 27 responses

5.2.2 Question 2: How many members in your family? (living together)

Large family used to be the typical family type in China. Three or four generations, after marriage, lived with children, children's children and other relatives under one financial account. Family types in China, however, changed greatly in the recent 10 years. The size of Chinese family becomes smaller and smaller. Although the family size in rural area might be larger than in urban area, it is still much smaller than before. Young couples would like to move out immediately after marriage. And the family-policy is another important reason.

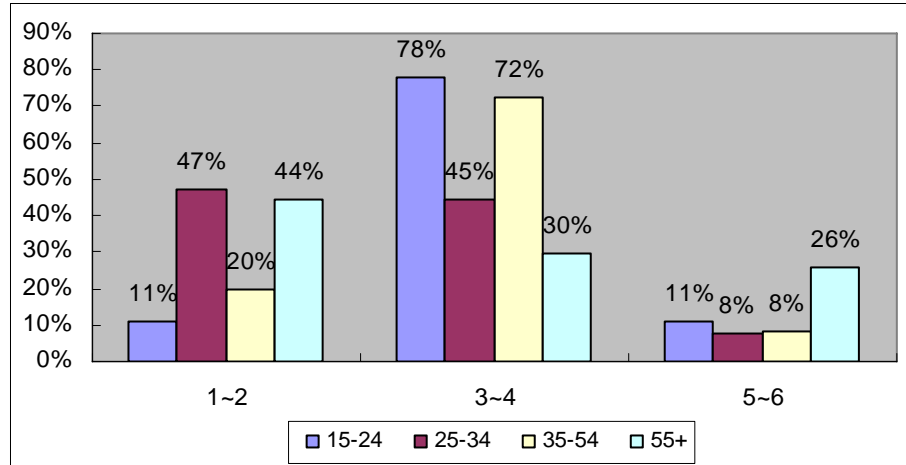


Figure 5.2.2.1: Family members of different age groups

From Figure 5.2.2.1, we can see that all families in this research possess less than 6 members. There is no large family at all. We will describe typical characteristics of each family type segmented by ages as following:

Age 15 to 24: 78% responses in this group chose 3 to 4 family members. Most people in these ages are still student or just began to work. They will live with parents until marriage. Most of them are single child under 25 years old, because of the family-policy actualized 25 years ago in 1980. Therefore, the three-member-family (father, mother and one child) is the most common family type in China nowadays.

Age 25 to 34: 47% responses in this group chose 1 to 2 family members. They might be young married couples without children or single people with stable jobs moved out of parents' place. 45% responses chose 3 to 4 family members. They are also young married couples, but have one small child.

Age 35 to 54: 72% responses in this group chose 3 to 4 family members. They are stable middle-age couples, with 1 or 2 Children. Sometimes they may also take care of one parent.

Age 55 and above: 44% responses in this group chose 1 to 2 family members. They are old couples who are still healthy enough to take care of each other. These age people normally have more than two children who already built up their own family. Their children come to visit very often and give help or even money at any time, but no longer live together. 30% responses chose 3 to 4 family members. They might be widows, taken care by offspring. They also can be old couples living with one grandchild whose parents are busy of working or whose school is near to the old couples' place.

Age mixed: Family with 5 to 6 members is normally family type with three generation living together. Only about 10% under 55 years old and 26% over 55 years old people

are living in this type of family. They might be traditional family or family which has financial or living area problems.

5.2.3 Question 3: Your living area? (m²)

Living area is supposed to depend on the family member or family income. From figure, however, we cannot tell a rule that normally a family with more members lives in a bigger area.

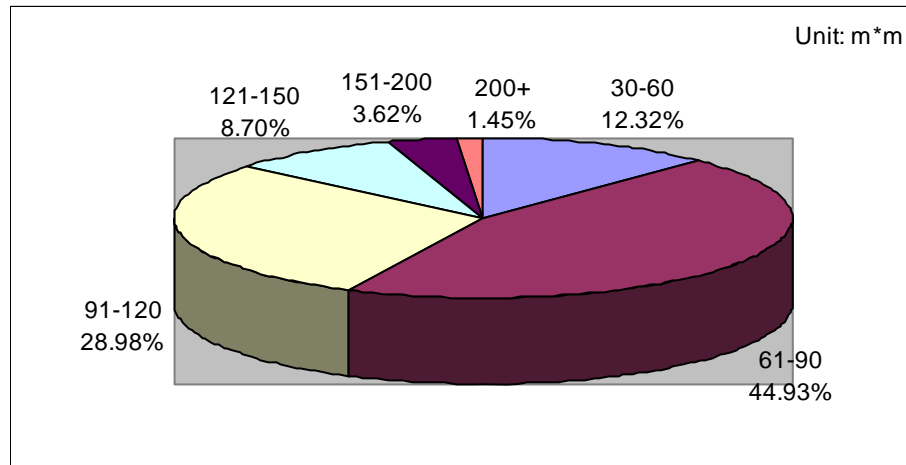


Figure 5.2.3.1: Percentage of living area groups

Figure 5.2.3.1 shows that 45% people's living area is between 61 to 90 cm², which is a typical apartment in Beijing. This kind apartment normally possesses two or three sleeping rooms, one living room, one kitchen, one bathroom and a balcony. People in one community share public lawn and parking.

As everyone knows, China has a large number of populations. Living area is always a problem, hence most Chinese live in apartments instead of houses. It does not depend on how many members in a family. Even a millionaire only can find a nice flat in Beijing instead of a house. A family with three generation may still crowd in one small apartment. Two high salary young couples can buy a big one over 200 cm². However, we still can see from Figure 5.2.3.2 that living area has increasing trend along with more family members.

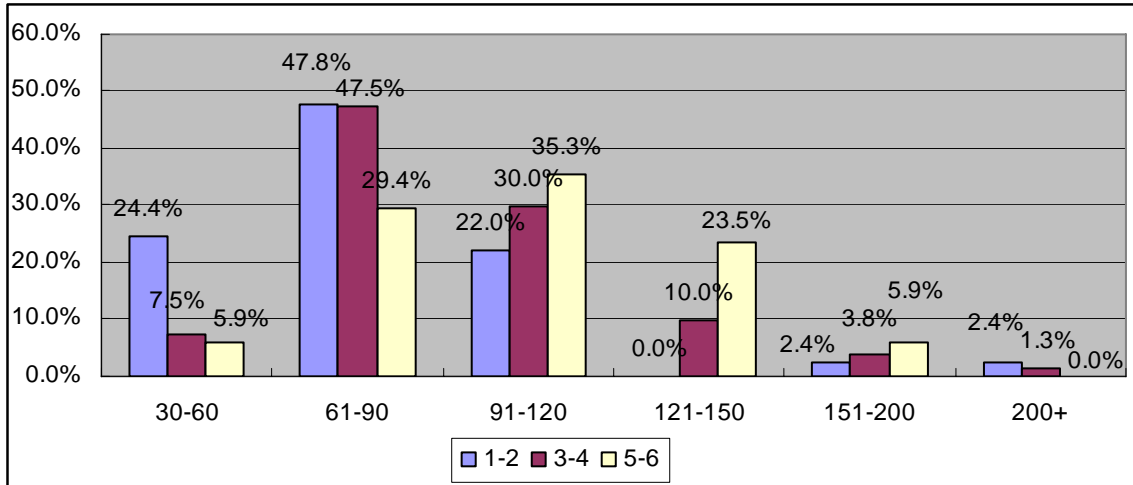


Figure 5.2.3.2: Living area with different family members

5.2.4 Question 4: Your family monthly income? (Yuan)

The result of this question is unexpected. Many responders misunderstood or ignored the exact meaning. Some people present their individual income instead of family income, which we can realize from their answers. Someone lives in a family with 5-6 members or possesses a big flat with 4 air-conditioners, but chose less than 4000 as income, which is obviously personal income. In addition, income is a sensitive question. Many Chinese prefer to answer it conservatively, lower than their true income. Although these data are not suitable for segmentation, we still can do reasonable analysis of Chinese living standard.

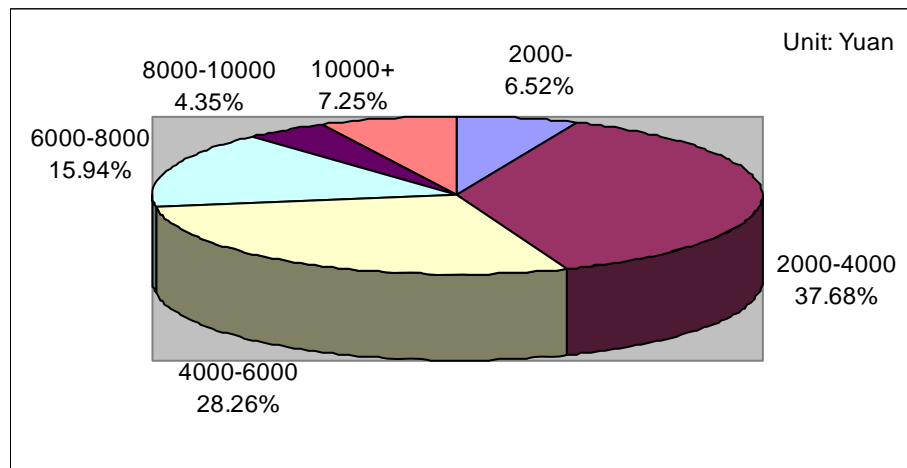


Figure 5.2.4.1: Percentage of family monthly income

Figure 5.2.4.1 shows the percentage of family monthly income group, from which we would like to presume the family living standard as following:

Group (2000-) 6.52%: They are new graduated student, or blue-collar worker living by their own. They also can be temporary living people who come from villages or other poor cities.

Group (2000-4000) 38.4%: responders answered between 2000 to 4000 Yuan as family income. They are blue-collar workers, individual monthly income 1200-1600. They work hard to offer basic family needs.

Group (4000-6000) 27.54%: They work in governmental departments or public organizations (like hospitals or schools). They work a little more easily and pay a small amount of money for enjoyment or higher education.

Group (6000-8000) 16%: They are white-collar, working in companies or in governmental departments as leading position. They are normally high educated. They purchase high quality products and pay extra money for healthier life.

Group (8000-10000) 4.35%: They might ever study abroad or have excellent ability, working in foreign enterprises as department managers. They pay money for high technology and good service.

Group (10000+) 7.25%: They may have their own company. They pay for what they like. Their life can be luxury.

Retired: Retired people get their pension from the place they used to work for. The pension is normally from 1000 to 2500 Yuan per person which is not much, but enough for their simple life.

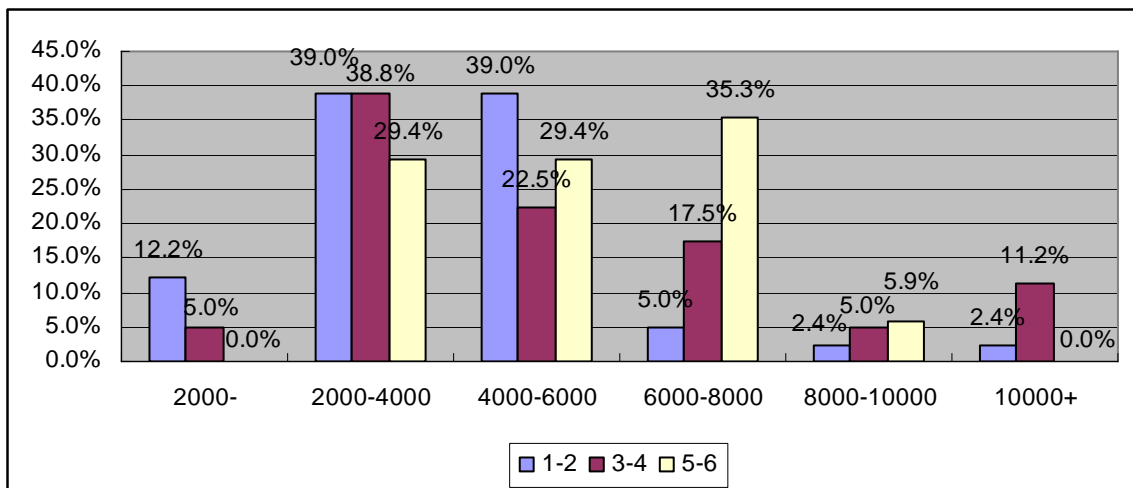


Figure 5.2.4.2: Family monthly income with different family members

Although we can see from Figure 5.2.4.2 that family income has increasing trend along with more family members, we still cannot say that family income depends on age, family type or living area. Just as we mentioned before, because of the unbalance developed economy, Chinese people's income are also quite different, from keeping the pot boiling to luxury life.

5.2.5 Question 5: Does your family already have air-conditioner? How many? And Question 7: Do you/family, plan to purchase/change air-conditioners in the next 2 years?

Question 5 is designed together with question 7 which is concerned about customers' demand.

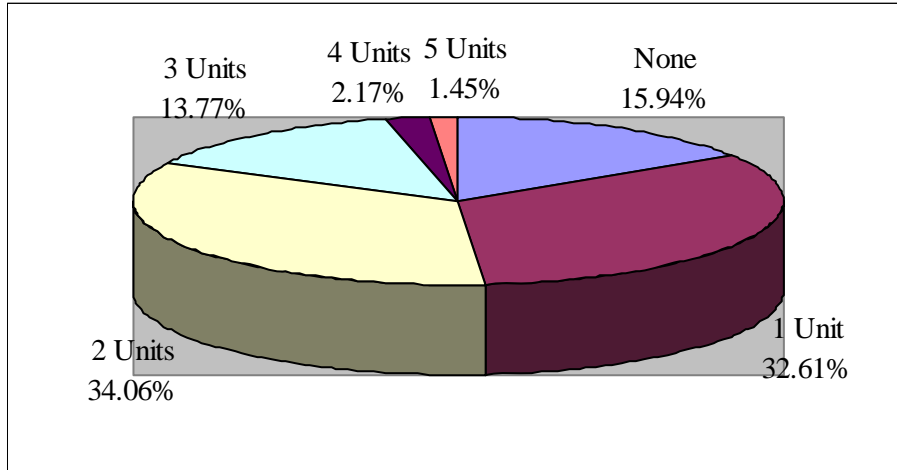


Figure 5.2.5.1: Air-conditioner possession units

Our data in Figure 5.2.5.1 shows that 84% families in Beijing already possess air-conditioners. About 33% and 34% families have 1 or 2 air-conditioners at home, which is typical for a small size family. More than 17% consumers had multi-purchasing experiences. But relatively fewer families have planned to purchase new air-conditioners in the next two years.

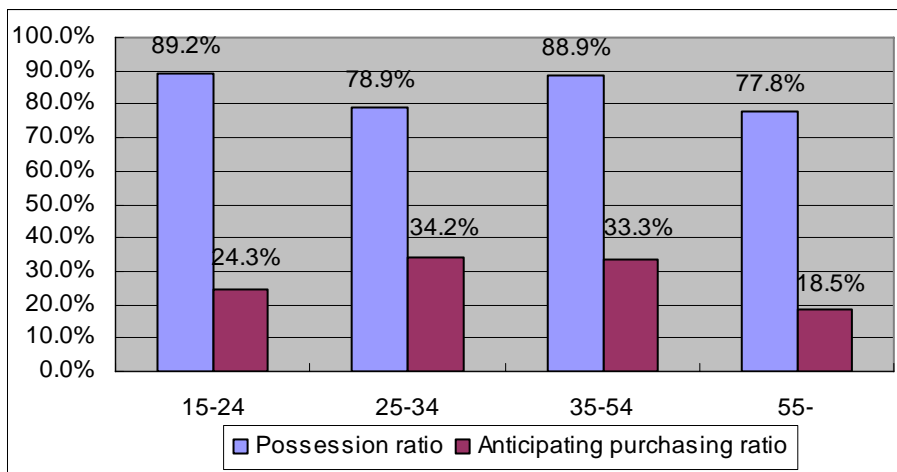


Figure 5.2.5.2: Comparison of possession and purchasing ratio under different age group

Figure 5.2.5.2 shows that there are relatively fewer families (78.9%) in age group 25-34 possess air-conditioners at home, but the anticipating purchasing rate is the

highest (34.2%). They might be new marriage couples, willing to buy new air-conditioners for their new apartment.

Another important feature can be found in this chart is for age group 35-54. 88.9% people in these ages already purchased air-conditioners before, but the anticipating purchasing rate is still high (33.3%). They are middle age couples, whose air-conditioners have been used many years, so they would like to change new ones. These two groups are our main target customers.

5.2.6 Question 6: Brand names: _____

Responders gave brand names of the air-conditioners they purchased before. After gathering all brand names mentioned, we cannot tell any statistical data about market share, but they give us a general impression about the competition in the air-conditioner market. (See Figure 5.2.6.1)

| Foreign Brands | Local Brands | Disappeared |
|-----------------------|--------------|-------------|
| Electrolux (Swedish) | Haier | Dong Bao |
| SAMSUNG (Korean) | Hisense | Rong Sheng |
| Mitsubishi (Japanese) | KELON | Xue Hua |
| HITACHI (Japanese) | Midea | |
| Panasonic (Japanese) | Aux | |
| DAIKIN (Japanese) | GREE | |
| PHILCO (USA) | Shinco | |
| | Chun Lan | |
| | Aucma | |
| | ChiGo | |
| | SANYO | |
| | Xin Ke | |
| | Sharp | |
| | Chang Hong | |
| | AMOI | |
| | Gu Qiao | |

Figure 5.2.6.1: Possessed air-conditioner brands

- We have only 138 responses, but got 26 different brands names. This market was farraginous and the competition was furious.
- Some brands are very great competitions, like Haier, Kelon, Midea, Gree and Mitsubishi. They are repetitious brand names answered in this question. Some family possesses 4 air-conditioners from one brand.
- Hisense doesn't have great market share yet, because it is still a relatively new brand. But it has the best public praise. Some consumers mentioned Hisense as their favourite brand in other open-ended questions.

- Some brands have very small market share, like Gu Qiao, AMOI and Sharp. They are going to be eliminated, if not get effective strategies.
- Some unqualified brands are already disappeared from the market, like Dong Bao, Rong Sheng and Xue hua.
- Most of them are domestic brands. Every foreign brand comes from big companies. Japanese and Korean companies are more powerful competitors.

5.2.7 Question 8: If you want to buy air-conditioner, what are the main factors you will consider? (maximum 4)

It is important to know what customers need. Then we can give better offering to attract more consumers.

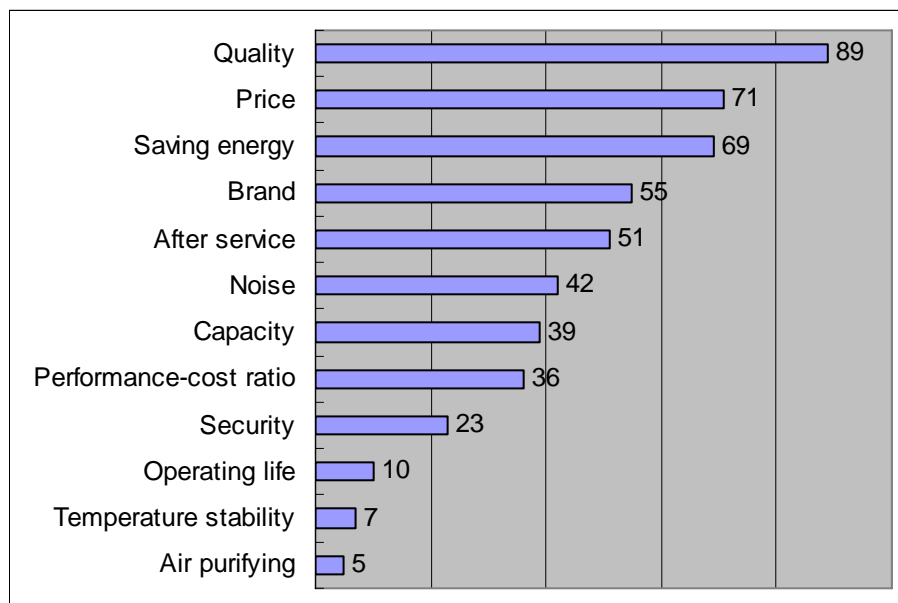


Figure 5.2.7.1: Main purchasing factors of air-conditioner

Data (Figure 5.2.7.1) show that price is still important for the Chinese customers, but already not stands on the first position any more. Quality is the most important factors for them. People pay attention on saving energy as much as price. Brand represents customers' loyalty which is at the fourth position. After service is another key factors customers care a lot, especially young and middle age couples who are our main customers, but more critical, not easy to be satisfied.

5.2.8 Question 9: Which distribution channel will you choose?

Distribution channel has changed in the Chinese electrical household appliances market in recent years. It is important for a company to choose effective distribution channel, which can attract more customers and also can reduce cost. (See Figure 5.2.8.1)

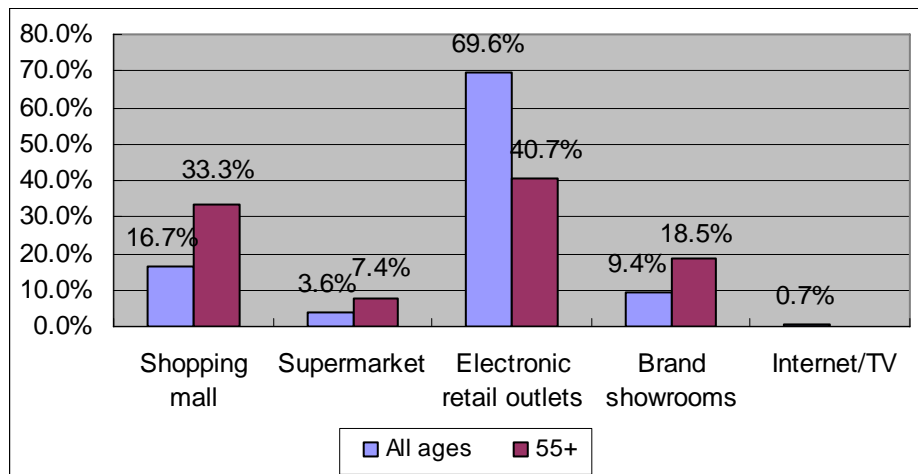


Figure 5.2.8.1: Distribution channel preference

- 70% people choose electric retail outlets which is the most popular purchase channel in Beijing. GoMe, Suning and Dazhong three electric retail outlets are holding the almost monopolized retail position all over china. They offer the best service in chain in this field: the fastest reliable distribution channel, plenty diversiform product, relatively cheaper price and good after-service.
- Some middle or old age people might choose shopping mall which is the traditional purchase channel, but they are losing the superiority.
- Brand showrooms might become the next favourite purchasing channel, which is considered to be more professional and reliable.
- Supermarkets are people's most common purchasing place for commodity, with cheap and handy daily products. This kind of place is only suitable for mini-type electrical devices, like coffee machine or toast machine.
- Almost no people will buy air-conditioner directly from internet or TV. This purchasing media is still quite new for most Chinese. They suspect the authenticity of this kind of channel, especially internet. Furthermore, consumers must choose electrical devices in person, particularly for big-sized products which cost a lot.

5.2.9 Question 10: Do you prefer domestic or foreign brand? (Reasons)

If you ask a Chinese customer preferring domestic or foreign product 10 years ago, you would get a clear answer: foreign products have good quality and Chinese products are cheaper. Nowadays, however, the situation has changed.

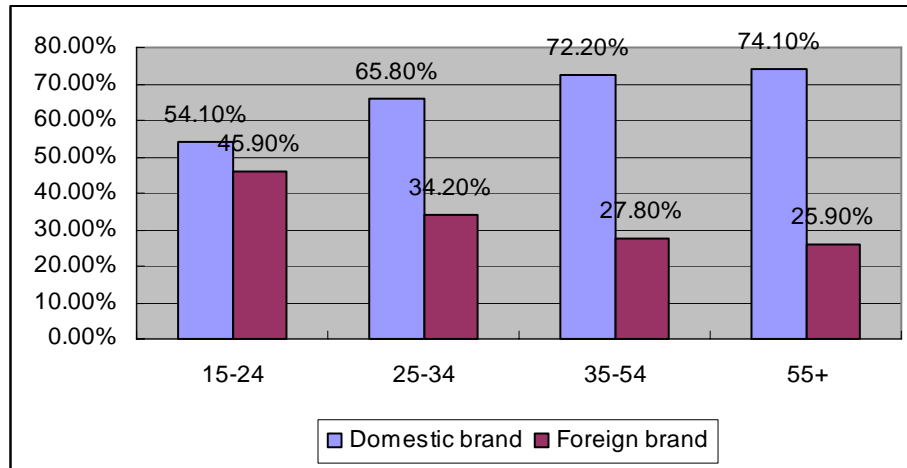


Figure 5.2.9.1: Preference of domestic or foreign brand under different age groups

Figure 5.2.9.1 shows that 66% consumers prefer domestic electrical household device brands, because local companies have developed greatly these years. Products quality of some big enterprises is as good as foreign brands, but with lower price (higher ratio of capability and price). They also offer good after-service. The maintaining is more convenient in plenty branches, because of their larger sale. Another significant reason for purchasing domestic products many consumers mentioned is that they are supporting national industry.

Foreign brands are still holding their predominance: high quality, high technology, durability, modern design, high security, credit guarantee, and so on. This high reputation comes from their long-term reliable offering. However, they should think over how to control their cost, otherwise they will be defeated by domestic brands in some years. Younger people prefer foreign brand more. The reason might be that they like new things, high technology and connect more to the international cultures.

5.2.10 Question 11: In your opinion, are the energy-efficient household appliances important and help in continuous development of energy condition in China?

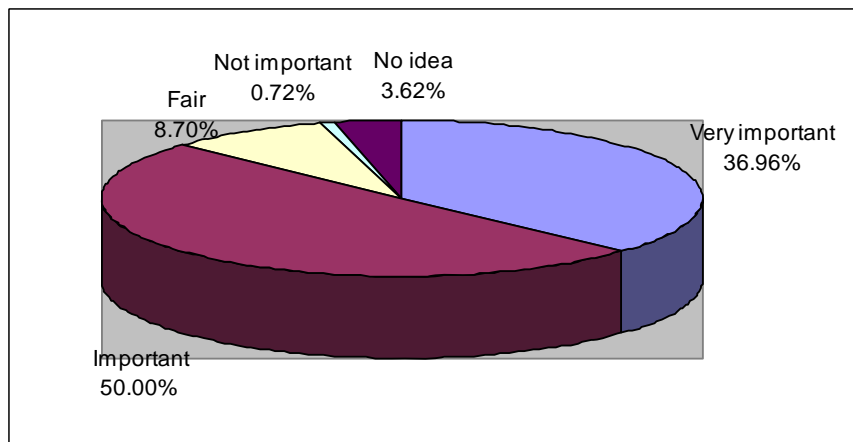


Figure 5.2.10.1: Importance of energy-conserving household devices

We can see from Figure 5.2.10.1 that 87% people chose important or very important. It means Chinese people today have very high consciousness. They recognized already that saving energy is important for development.

5.2.11 Question 12: What do you think of the energy-conserving technology for household appliances in our country?

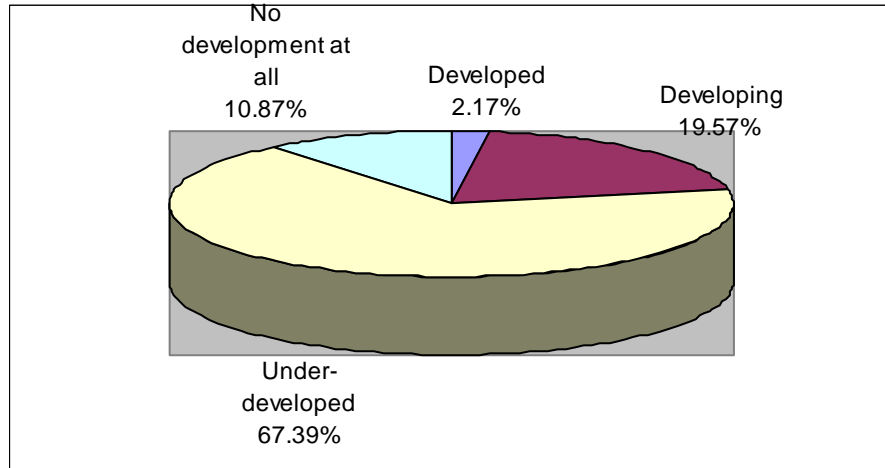


Figure 5.2.11.1: Development of energy-conserving technology in China

Figure 5.2.11.1 shows that 67% people answered “under-developed” which means customers not believe this kind of products in the Chinese market very well.

5.2.12 Question 13: Do you know how to differentiate energy-conserving identification?

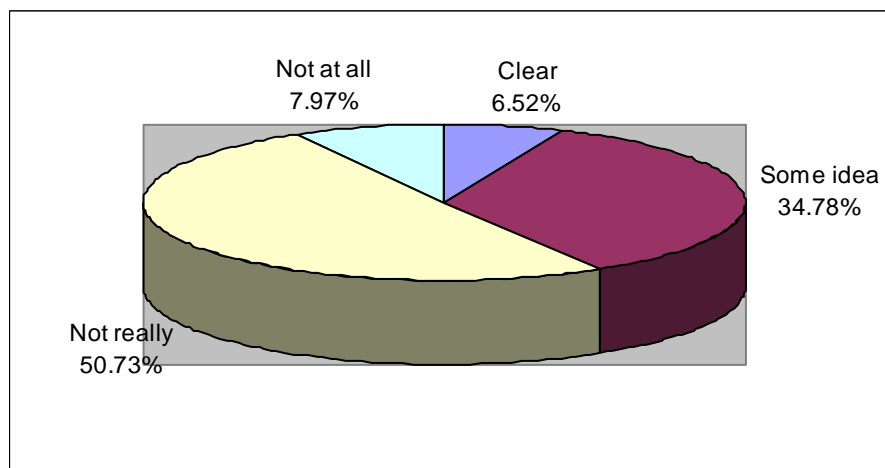


Figure 5.2.12.1: Knowledge of energy-conserving identification

In Figure 5.2.11.1, half of the responders answered “not really”. More young or middle age couples answered “some idea”. Therefore, one of the most important tasks is let customers know how to choose energy-conserving products.

5.2.13 Question 14: Will you choose normal or energy-conserving air-conditioner? (Reasons)

This question is concerned about the willingness of purchasing energy-conserving air-conditioners. From Figure 5.2.13.1, we can see that 90% consumers would like to choose energy-conserving devices, which is consistent with the result of question 11. Chinese people have high awareness of the importance of saving energy, so they also have good willingness of purchasing energy-conserving products.

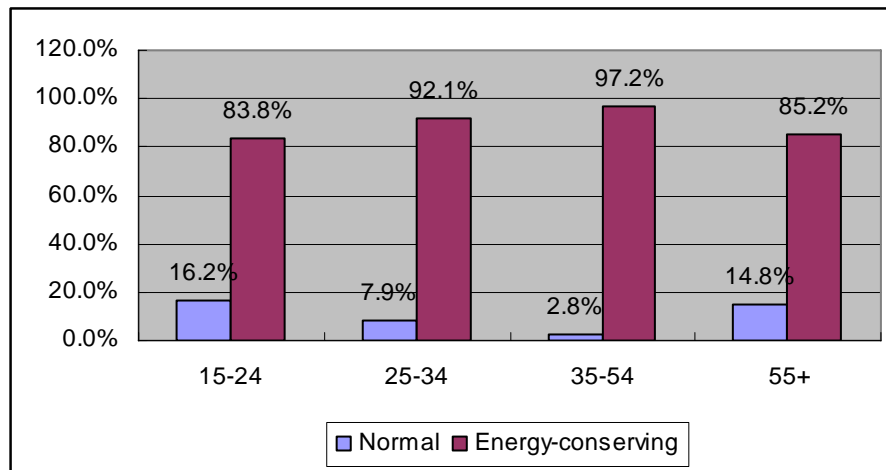


Figure 5.2.13.1: Preference of normal or energy-conserving air-conditioner

There are several reasons of purchasing energy-efficiency products: Protect environment; Save energy; Save electricity; Market trend; Vogue; Benefit for family, country and offspring; Long-term development; Save money in the future. Chinese people really have good high willingness of purchasing energy-efficiency products, but some responses also gave an indication that they would like to buy it, only if the price is reasonable.

A few responders chose normal air-conditioner. The main reason is that energy-conserving air-conditioner is too expensive, which they cannot afford. Also several old age people do not believe energy-conserving devices really save energy.

5.2.14 Question 15: What is the maximum percentage of price you can accept for buying energy conserving appliances compared to normal?

We already got high awareness of saving energy from question 11 and also good willingness of purchasing energy-efficient devices from question 14. However, when we talk about money and ask our customers how much they would like to pay for their awareness, the result might not be in direct proportion.

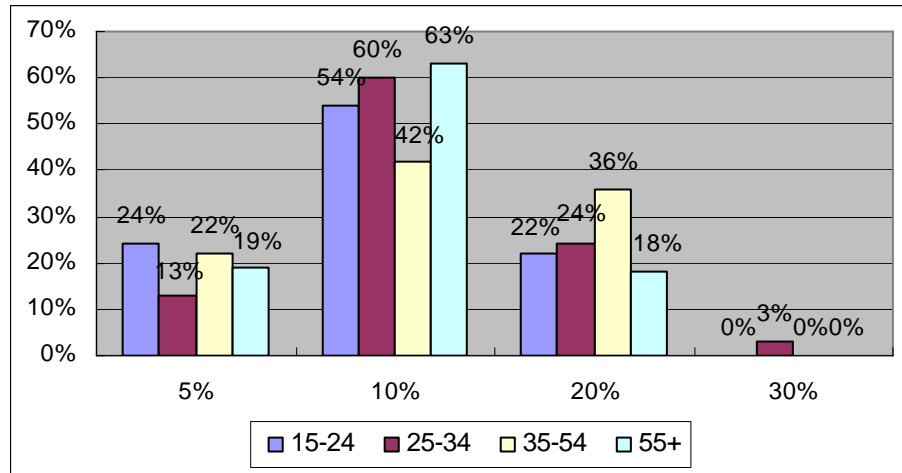


Figure 5.2.14.1: Willingness of payment for energy-conserving appliance

From Figure 5.2.14.1, we can see that more than half of the responders chose 10% as extra price for energy-conserving products. 36% of middle age people also can accept 20% extra price. About 20% people only can accept 5% extra price. This is a satisfying result. It means Chinese people have good willingness and also have ability to pay for energy-efficient products.

5.2.15 Question 16: What kinds of technical questions do you have before you want to buy an air-conditioner?

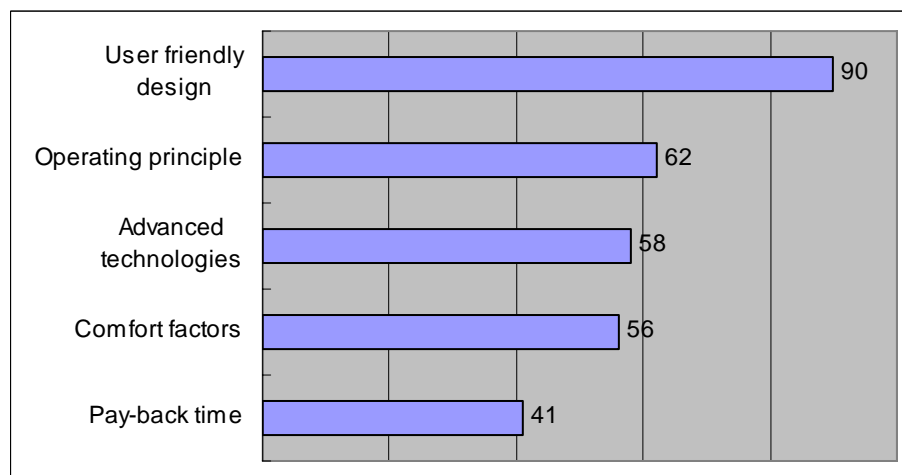


Figure 5.2.15.1: More questions before purchasing

The answers covered all options. Companies should promote their products more practically. Consumers need real technology instead of conceptual exaggeration.

5.2.16 Question 17: Other suggestions

This is the only entirely open-ended question in this questionnaire, which give responders chance to express their own opinions freely. There are mainly five kinds of comments responders gave.

- Electrical household appliances market in China is very messy. There are too many types of products with different criterions. The product standards and after-service should be normative.
- Energy-conserving devices should really save energy. Enterprises do not only play literal games, but improve practical technologies. Real energy-conserving products should be better promoted in order to popularize.
- Several consumers mentioned that they would like to see running machine whiling purchasing. It will be nice, if some products have tryout.
- Companies should let their customers know, which kinds of new techniques are used in the product, what kinds of benefits it can bring, not only put some nouns of high techniques. The introduction should be practical and realistic, instead of exaggerated.
- Companies should design and develop products aiming at the particularities of local environment. Some products just look after entire functions which are not practical for actual using, wasting the resources.

5.3 Cross Analysis of Presented Data

5.3.1 Special case vs. Normal case

When we did questionnaire in Beijing, we received 15 responses from China Household Electric Appliance Research Institute. We prefer to use these responses as a special case, because most of them are expert about electrical household appliances. They are between enterprises and consumers. They test the quality of companies' products before sending into markets and introducing to customers. When companies pay money, they have to consider companies' benefit. When they want to purchase devices, they are customers themselves.

As there are only 15 responses in this case, we cannot do any statistic analysis. We only give comments of some obvious differences in this case. The tabulations of the special case are displayed at the end of Appendix I and Appendix II.

Not every response from this special case is different from the normal case. Their answers for family status and basic purchasing behaviour are quite similar to other Chinese customers, because they are also normal people living in Beijing. We will focus on question 8, 13, 14 and 17 as following.

- ❖ **Question 8: If you want to buy air-conditioner, what are the main factors you will consider? (maximum 4)**

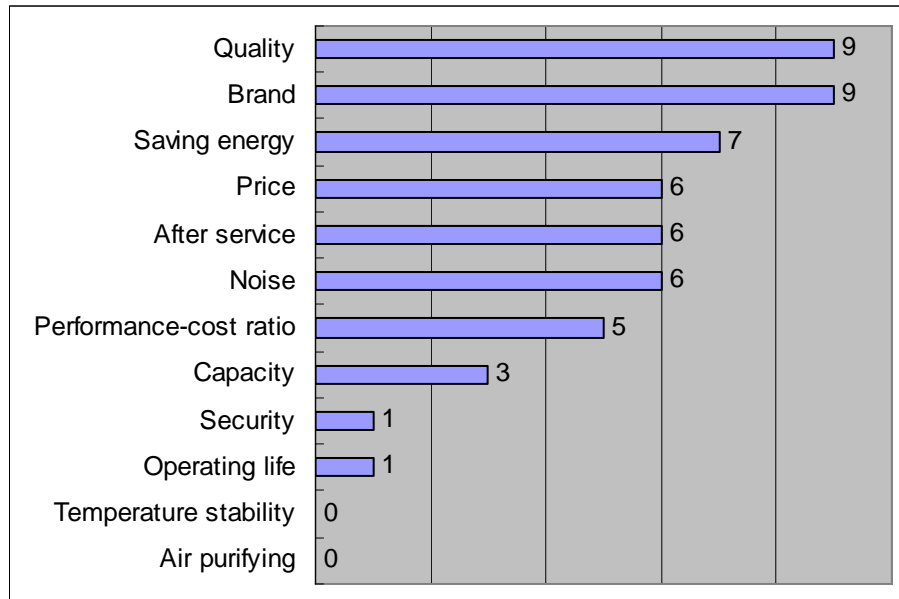


Figure 5.3.1.1: Main purchasing factors of air-conditioner (Special case)

In this case, the price factor moved from the second place to the fourth, and brand quality became the most important elements these people consider when they purchase electrical household appliances. (See Figure 5.3.1.1) The reason might be that they are standing much closer to the products, so they know the truth more than normal consumers. They make purchasing decision not according to any advertising, because they already have their own criterion before products are put into the market.

❖ **Question 13: Do you know how to differentiate energy-conserving identification?**

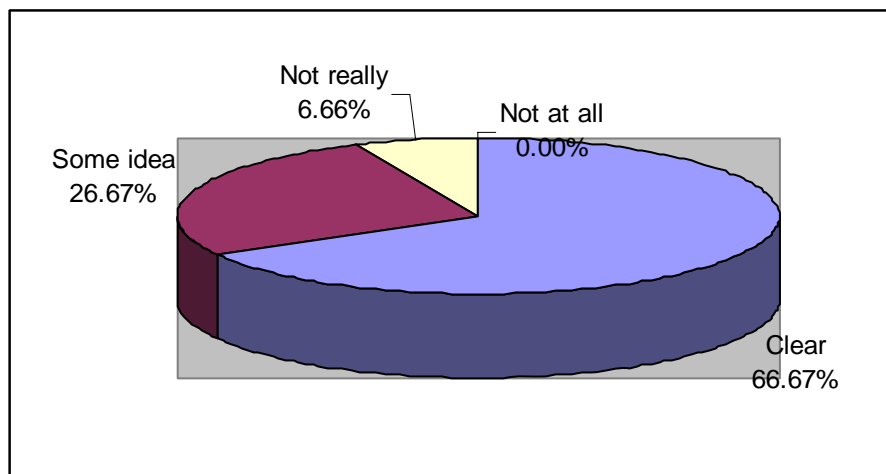


Figure 5.3.1.2: Knowledge of energy-conserving identification (Special case)

Certainly most of them are clear about the identification, because this is their job. However, their responses of the next question give us a surprise.

❖ **Question 14: Will you choose normal or energy-conserving air-conditioner? (Reasons)**

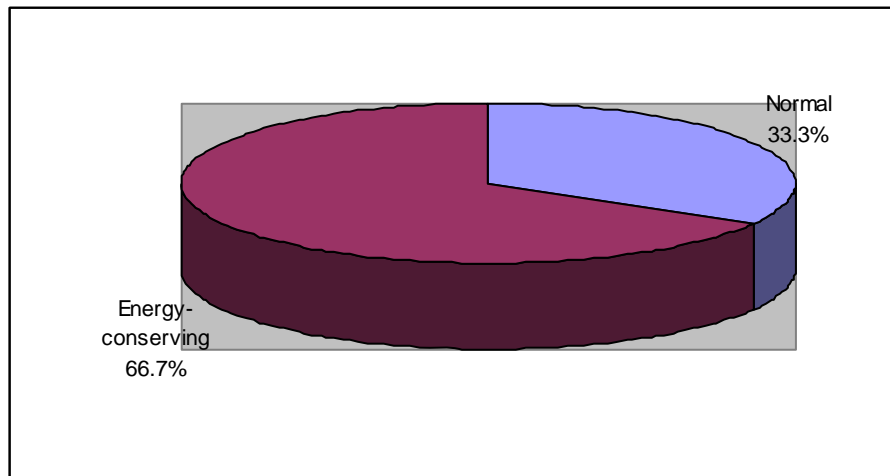


Figure 5.3.1.3: Preference of normal or energy-conserving air-conditioner (Special case)

While there are more than 90% responders in the normal case preferring energy-conserving devices, 33% responders in this case chose normal air-conditioners. (See Figure 5.3.1.3) Their reasons are as following:

- The technology of energy-conserving is not developed. Most of them are exaggerated by enterprises, but the price is very high. If we try to calculate, we will see that it is not worthy.
- If we know the way to use air-conditioners, normal and energy-conserving devices have very similar effect.
- The product promotion in the market is not reliable, and the price is illusively high.
- The difference is very little in not long runtime.

However, normal consumers do not know all the stuffs above. They believe in energy-conserving technology and would like to pay for it. Only a few responses in normal case chose normal device, but because of their poor financial situation. Therefore, we are wondering if energy-conserving appliances will still so popular, when normal people also have good knowledge about electrical devices.

❖ **Question 17: Other suggestions**

In this open-ended question, responders gave suggestions as following:

- Hope domestic enterprises do not cheating on consumers through conceptual promotion, but developing real energy-conserving technology. When the technology becomes developed, it will be accepted by consumers easily.
- Do not pay too much attention on accessional functions when purchasing air-conditioners. Capacity of refrigeration is the most important.
- Only when the price of energy-conserving air-conditioners reduces to be the same level as normal devices, it will be recognized by most people.

5.3.2 Government survey vs. Questionnaire research

Our questionnaire only focused on Beijing consumers, but the government survey was implemented all over China, so the result of government survey is more statistical. The government survey was done at the beginning of 2005, while our questionnaire was sent to Beijing at the end of October, 2005 and we were receiving responses until middle of November. Therefore, the results from the questionnaire are more temporal. We compare the results of government survey and sample questionnaire in Table 5.3.2.1.

Table 5.3.2.1: Comparison between government survey and sample questionnaire

| | Government Survey | Sample Questionnaire | Comments |
|---|--|--|--|
| Elimination rate of air-conditioner brands | 60% in 2004 Most were second or third class brands | (Question 6) Several big brands were repeated; Some unqualified brands already do not exist | Brand centralization |
| Key factors for anticipative purchasing | (1)Saving energy; (2)Quality; (3)Capacity; (4)Performance-cost ratio; (5)Price | (Question 8) (1)Quality; (2) Price; (3)Saving energy; (4)Brand; (5) After service | Low price is not the most important factor for Chinese consumers anymore |
| Distribution channel | Influence of traditional sales channel goes down; The channel share of chain store rises | (Question 9) 70% responses chose electric retail outlets; Old people still prefer shopping mall | Distribution channel has changed |
| Energy-conserving air conditioner | frequency-conserving air-conditioner has promising future | 90% responses would like to purchasing energy-conserving air conditioner | Energy-conserving electrical household appliances are the future trend |
| Popularization rate of air-conditioner | 78.6% in 1-class market | 84% | High popularization rate in urban area |
| Anticipative purchasing rate | 9.5% in the next one year (whole China) | 28% in the next two years | Not bad anticipative purchasing rate |
| Note: The results from government survey and sample questionnaire are consentaneous | | | |

5.3.3 Small-type product brands vs. Big-type product brands

In Appendix IV, we display figures in two parts: Market share of **big-type** electric household appliance brands in main Chinese shopping mall in February 2005 and Market share of **small-type** electric household appliance brands in main Chinese shopping mall in January 2005. From these figures, we can give comments as below:

- Big-type electric household appliance brands are centralized by several big

companies, while small-type brands are still jumbled by many small or middle size enterprises.

- Big brands, like Haier, normally focus on big-type products market, while small companies would like to concentrate on one of small-type products which are ignored normally by big enterprises.
- Some big enterprises also produce one or two small-type appliances. Normally they occupy the largest market share in this field, because of their reputation for all over the electrical household products market.

5.4 Visualization Framework of Researches

5.4.1 Framework of government survey analysis

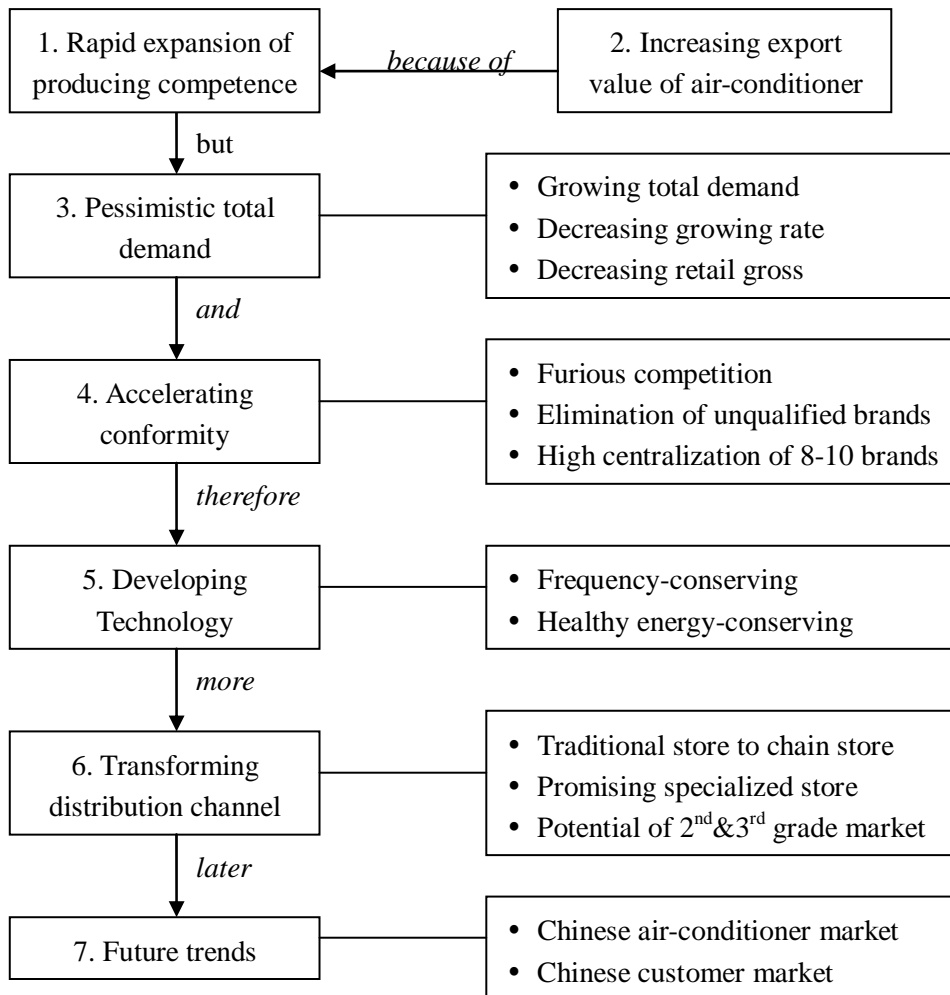


Figure 5.4.1.1: Framework of government survey analysis

5.4.2 Framework of questionnaire analysis

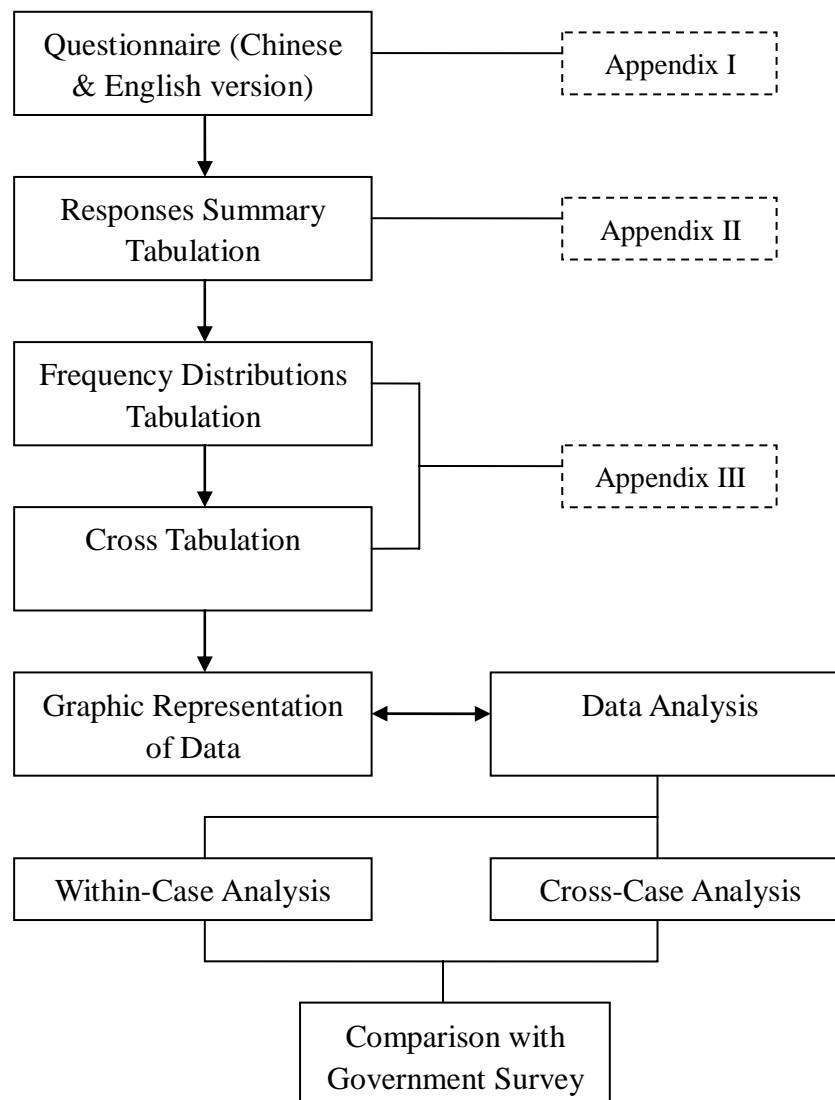


Figure 5.4.2.1: Framework of sample questionnaire analysis

6 Actual Situation Analysis and Strategy Development

In this chapter, we will begin by analyze the actual situation in the Chinese electrical household appliances market and present the issues we are facing at last. According to these issues, we will develop corresponding strategies in the second section to give guideline to companies who are interested in this market.

6.1 Actual Situation Analysis

In this section, the actual situation in the Chinese electrical household appliances market will be analyzed. We will compare Literature Review (chapter 2) and Data Presentation (chapter 5) to give a summary of Chinese consumers' purchasing behaviour nowadays and which kinds of problems we are facing when our company wants to place products in this market. Form all these marketing issue we are going to develop marketing strategies in the next section.

6.1.1 Target Market Selection

We suggest German electrical household appliances companies placing their product into the Chinese market. The reasons are following:

- The electrical household appliances market in Germany has high saturation ratio for most products, so German companies need to go abroad to obtain more chances.
- After a series of reformation and entry into the WTO, China is presenting great marketing places with numerous opportunities. Chinese government gives some priorities to attract more foreign companies investing in China.
- The electrical household appliances market in China, although there are furious competitions, is taking on promising future for new technology products, especially for energy-conserving devices.
- Chinese consumers are aware of the importance of saving energy. They are more and more interested in this kind of products. Chinese government also encourages people to purchase energy-conserving appliances.

Consumer characteristics, economic growth and distribution channels vary greatly between regions in China. The Chinese market should be viewed as a multitude of separate regional markets.

❖ Geographical clustering

We will firstly divide the Chinese market by geographical clustering. According to Jiang Xiaojuan (2004) the Chinese market can be divided into eastern coastal region, central region and western region by GDP value and the FDI investment. For the Chinese electrical household appliances market, however, we prefer to use the classification of market defined by Chinese government. This classification is based on not only population, area and GDP value in a city, but also the comprehensive data

of product market size, competition condition, and so forth. The general definition is as following:

- 1-Class market: Province-capital cities and important big cities
- 2-Class market: Middle-sized cities and important small cities
- 3-Class market: Country towns and villages

Figure 6.1.1.1 shows only a sketch map of market classification by provinces.

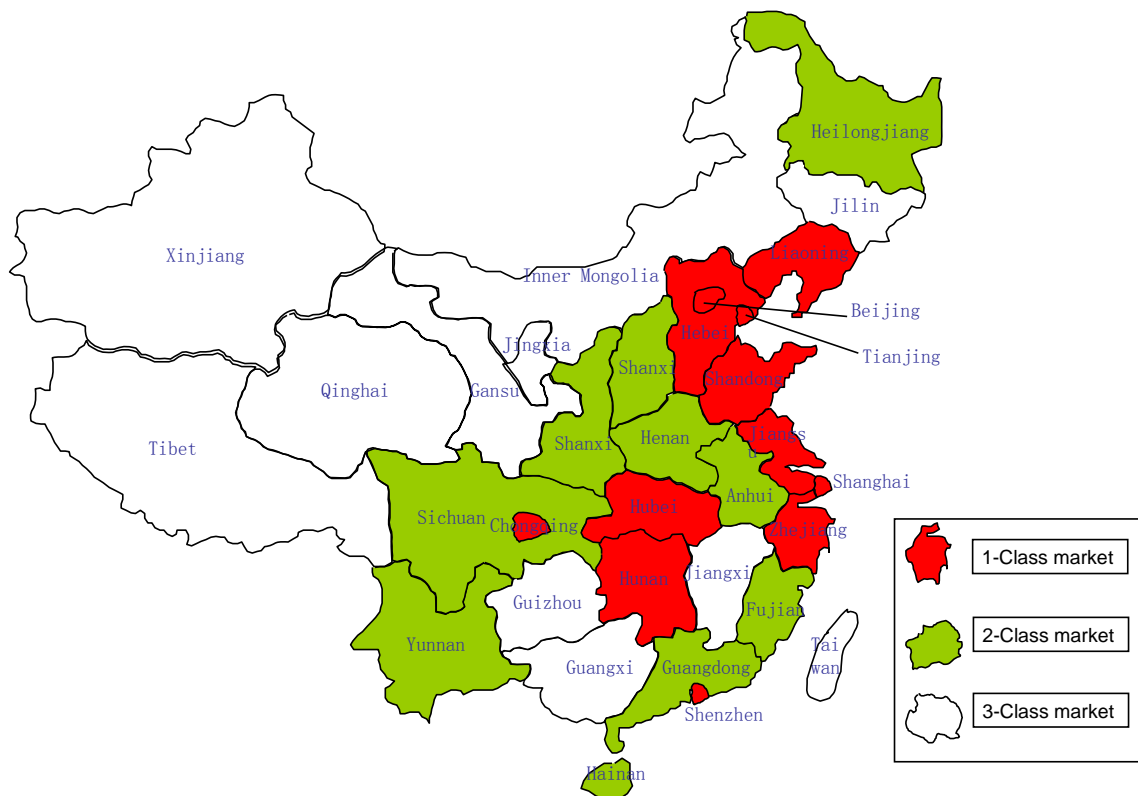


Figure 6.1.1.1: Classification of Chinese electrical household appliances market

1-Class market possesses the highest GDP value and good educated consumers. Most domestic and foreign companies place their products there, so the competition there is very furious. Some products, like air-conditioner and refrigerator, have high saturation ratio. However, 1-Class market still has great market space for high and new technology products. Moreover, most families are entering into the regeneration period for large-size electrical household appliances in the next 2 years.

2, 3-Class markets are undeveloped, but have extensive potential market with more opportunities. It is exactly the popularization period there in the next 2 years. Therefore, some companies already began to introduce their products to these markets. Certainly, it is not easy to be a pioneer in a new field. They will face more risks as well. Consumers in 2- and 3-Class markets believe in what they see

themselves instead what they hear from advertisements. They prefer “enough” to “high” technology. They are more careful and frugal before payment.

❖ **Customer segmentation**

Customer segmentation strongly depends on family types and ages. Big family with 3 or 4 generations living together is the traditional impression of Chinese family. Nowadays, small-size family is more common, normally 2-5 members in urban areas and 4-7 members in rural areas. Young people go after brand image and high technology, while middle-age consumers pay more attention to usage and after-service. There are many ways to segment customers, but according to our actual data collected by questionnaire, we suggest companies to focus mainly in two customer groups as below:

- Young married couples: two people between 25-35 ages built a new family. Normally these couples prefer to buy a new apartment, so they purchase necessary electrical household appliances afterwards as well. They want the best quality with acceptable price. They might pay more attention on the modern designed and new technology products.
- Middle-aged couples: 40-55 years old couples without or with one or two unmarried children, even one or two parents. Their electrical household devices have been used many years which are not convenient or safe to keep working long time, so they might are planning to re-purchase. This kind of consumers has more purchasing experiences, so they are more difficult to be satisfied. They want good quality products with reasonable price. Although price is not the most significant factor for them anymore, they will still compare among all brands carefully. Good before- and after-service are very important for keeping their royalty.

6.1.2 Market Entry Modes

There are many entry mode strategies for marketing in a foreign country. Every strategy has its own advantages and disadvantages. Before we choose one or multi-modes, we should consider resources of the company, characteristics of our products, environments of target markets and the timing for entering, and so forth. The features of every market entry mode under consideration of Chinese market are shown in Table 6.1.2.1. (See pp.16-18)

Table 6.1.2.1: Advantages and disadvantages of market entry modes

| <i>Indirect Exporting</i> | | | |
|---------------------------------|--|--|--|
| Modes | Advantages | Disadvantages | Firm type |
| Export management company (EMC) | <ul style="list-style-type: none"> • provide indirect access to international market information and contacts • faster entry | <ul style="list-style-type: none"> • lost control over foreign sales • Competition from the EMCs/ETCs other products | small and medium-sized companies Firms which have |

| | | | |
|------------------------------|--|---|---|
| | <ul style="list-style-type: none"> • less investment and risk | <ul style="list-style-type: none"> • Reluctance on the part of some foreign buyers to deal with a third party intermediary • Some added costs and higher selling prices | little inclination or few resources for international marketing |
| Export trading company (ETC) | <ul style="list-style-type: none"> • faster entry • engages in counter trading • less investment and risk | | |

| Direct Exporting | | | |
|-------------------------|--|---|--|
| Modes | Advantages | Disadvantages | Firm type |
| Agents & Distributors | <ul style="list-style-type: none"> • knowing market good • good distribution connection | <ul style="list-style-type: none"> • relatively higher cost • no special knowledge of products | small independent individuals or firms or |
| Management contract | <ul style="list-style-type: none"> • yield income from the beginning • low risk • can buy some share in the managed company later on | <ul style="list-style-type: none"> • disagreements between the foreign management team and local managers • the contractor might not be genuine in its commitment to training local personnel | investors wish to handle their own exports |
| Franchising | <ul style="list-style-type: none"> • more directly involved in the development and control of the marketing mix • permits rapid market expansion with relatively little capital risk | <ul style="list-style-type: none"> • franchising offers less control by the home organization | |
| Direct marketing | <ul style="list-style-type: none"> • not direct face-to-face • better information and communication • low cost | <ul style="list-style-type: none"> • image factors • accuracy • content support | |

| Indirect Investment | | | |
|----------------------------|--|--|--|
| Modes | Advantages | Disadvantages | Firm type |
| Contract manufacture | <ul style="list-style-type: none"> • allows the firm to concentrate upon its sales and marketing activities • it makes withdrawal relatively easy and less costly if the product proves to be unsuccessful | <ul style="list-style-type: none"> • decreased control over the manufacturing process • loss of potential profits on manufacturing | Middle size companies, who want to their own trading by contract without tariff barriers |

| | | | |
|-----------|---|--|--|
| | <ul style="list-style-type: none"> • low-cost labor and raw materials • reduce the high costs of transportation • can form a partnership with or to buy out the local manufacturer later | | |
| Licensing | <ul style="list-style-type: none"> • financial and management commitments can be kept low • the high cost of setting up a manufacturing, retailing or marketing subsidiary can be reduced • tariff and non-tariff barriers can be avoided • useful to deal with difficult markets | <ul style="list-style-type: none"> • only work if it is possible to protect patents etc legally and comprehensively in licensees' countries • the licensor has less control over the licensee • if the licensee is very successful, the firm has given up profits • if and when the contract ends, the company might find that it has created a competitor | |

| <i>Direct Investment</i> | | | |
|--------------------------|---|--|--|
| Modes | Advantages | Disadvantages | Firm type |
| Joint venture | <ul style="list-style-type: none"> • share dominances of respective companies • provide the only path of entry into many foreign markets • may open up market opportunities that neither partner to the venture could pursue alone | <ul style="list-style-type: none"> • disagreements of participating companies which lead to delays and failure to develop clear policies • resentfulness from non-leadership partners • partners must be chosen carefully | financially strong companies that want to keep control over their international activities and consider the market to be served as sufficiently attractive to justify the capital risk |
| Merging & Acquiring | <ul style="list-style-type: none"> • rapid market entry speed • effectively purchases instant market information, market share, and channels of distribution | <ul style="list-style-type: none"> • bad companies may be easily acquired | |
| Assembly | <ul style="list-style-type: none"> • reducing the effect of tariff barriers • if the products is large and | <ul style="list-style-type: none"> • not contribute to the local economy in the long term • found where there is | |

| | | | |
|-------------------------|---|--|--|
| | transport costs are high | insufficient market size and the host government is seeking some form of production base <ul style="list-style-type: none"> • its assembled products are usually destined only for the home market | |
| Wholly owned subsidiary | <ul style="list-style-type: none"> • a long-term view • total control • great return if successful | <ul style="list-style-type: none"> • cultural differences will inevitably • highest risk and costs • protectionist policies | |

6.1.3 Consumer markets and buyer behavior analysis

The aim of marketing is to meet and satisfy target customers' needs and requirements. Especially for the Chinese electrical household appliances market, it is very important to study the feedback from individual or family consumers. Therefore, we will analyze the data presented in chapter 5 with the Chinese culture and social environment in this part.

❖ General behavior

Generally speaking, Chinese customers' purchasing behavior is strongly based on the Chinese culture influencing people's life thousands of years. People's idea comes from Confucianism and Taoism. They believe that everything has two sides, nothing is totally correct and things are always changing under different conditions.

Although Chinese family size is smaller and smaller, blood relatives are still very important for their life. Besides that, Chinese advocate collectivistic instead of individual. Corruption causes relationship to be inevitable in doing most things. For example, you can get some priority in a hospital easily, if you have a friend's relative's friend knowing someone working there, plus a small gift.

Chinese are modest and conservative. They always tell less than what they can do. Their lives are moderate and frugal. If they have 10 dollar, they spend only 3 for necessary and put 7 in a bank for later utility. Although young people's minds are more and more internationalized, they still consider the characteristics above as important virtues.

❖ Price-Product

There is furious competition in the Chinese electrical household appliances market. The producing competence of domestic enterprises expanded rapidly. Therefore, the product price is lower and lower.

However, the increasing rate of total demand is going down, because of the anti-speculation policies in real estate market and high saturation ratio of some big-sized products in 1-Class market.

Reducing price is not an effective strategy any more. Companies need new technologies and different strategies to attract consumers.

Price is no longer the most important factor for purchasing. Customers care more about quality, energy-conserving, brand's reputation and after-service. Customers' attitude is changing from price-oriented to value-oriented. They would like to pay for top-grade products if the price is reasonable.

For small-type electrical household devices, consumers pay more attention on their utility instead of saving energy.

According to our questionnaire responses, Chinese have very high awareness of the importance of saving energy, although few people have knowledge about how energy-conserving appliances work. It is optimistic that Chinese consumers' willingness for payment is also not bad. More than half consumers would like to pay 10% extra money for energy-conserving devices and 1/4 consumers can accept 20% higher price. However, when we anticipate consumers' real behaviour, we believe that they will pay less than their wish when they really get money out of wallets.

❖ **Brand-Image**

Big-size household appliances market will be monopolized by 8-10 big companies in the next two years. Many unqualified enterprises were eliminated and the number is growing.

Some small companies are controlling the small-type electrical household appliances market, which big enterprises ignored.

67% consumers prefer domestic brands, because local electrical household appliances companies developed rapidly recent years. They can offer high quality product with relatively lower price.

Big-size electrical household appliances are image strong products. Consumers will not spend a large amount of money for unknown brands, even the price is lower. They would like to pay a little more, if they believe a brand is great. So it is important to build a strong brand reputation.

❖ **Distribution-Promotion**

The situation of electrical household appliances distribution channel has changed. Shopping mall as the traditional channel is still believed by some older customers, but it is losing its superiority. Electric retail outlets are the most popular purchasing

channel in China nowadays. Brand showroom is customers' potential favourite channel. And supermarket is only suitable for mini type products.

There are too many fake products in China which causes consumers to keep their wariness all the time. Almost nobody will purchase electrical household appliances through TV, post or internet, but these channels are still important for delivering detail information to consumers.

While many companies are doing furious competition in 1-Class market, some enterprises are shifting down to the 2- and 3-Class markets which have promising future. Consumers in the 2- and 3-Class markets are relatively low educated. They believe in what they see with their own eyes.

Although it is still easy for consumers to be influenced by the product conception from the enterprise promotion, consumers are having more and more purchasing and using experiences. They become more rational. They want to know why and how instead of those gorgeous nominal words companies throw in advertisements.

❖ **Communication-Relationship**

Doing business in China, it is better for companies to hire consultants who are familiar with Chinese economic laws. It is important to get good communication with local government, social organizations, and even street offices.

People need 'relationship' to do everything in China, especially doing business. Corruption is something illegal, invisible, but necessary means inside this relationship network.

It is useful to cooperate with powerful local partners, because there are unwritten issues in China which can bring some advantages. Companies should also be careful during negotiations, if the partner is also a competitor under other conditions.

6.1.4 Marketing issues presentation

At last in this section, we give a summary of main marketing issues companies are facing. And we are going to develop corresponding strategies in the next section.

- Where to position our product
- How to control cost
- How to differentiate our products
- How to develop new technology
- How to build brand image
- How to do effective advertising
- How to choose distribution channel

6.2 Strategy Development

In this part, we will develop marketing strategies for Chinese electrical household appliances market according to the analysis we did above and the marketing issues presented at the end of the last section. Most actual examples of electrical appliances companies in this section are adopted from <http://www.globrand.com/source/16/01/2006>.

6.2.1 Market Entry Mode Strategy

After analyzing the advantages/disadvantages of all market entry modes and the Chinese market environment, we give suggestions as following:

- Small companies or companies taking initial step for entering Asian market can choose exporting, which is easy, quick and has low risk. However, companies should choose efficient exporting companies, agents, or distributors carefully.
- Joint Venture might be the best market entry mode for China. Tariff barrier can be avoided. Domestic partners will take care of bureaucracy and corruption with all kinds of organizations, which we call “relationship”. Moreover, partners can share risks as well. The important thing is to choose a powerful partner properly.
- For financial strong companies who want to have long-term development in China, we suggest them to build wholly owned subsidiary, as there are really great opportunities in the Chinese market. The cost can be decreased by using cheap raw material and labours. And the company can entirely control every step by their own; obtain great return if the business is successful.
- We suggest global companies to begin investment from 1-class market. Big cities, like Beijing, Shanghai, possess developed infrastructure, ensuring the stable development. 2- and 3-class markets are potential markets with more opportunities.
- Big type electrical household appliances should be developed for high technology; small type devices should have more practical utilities.

6.2.2 Product Strategy

All marketing strategy is built on STP—Segmentation, Targeting, and Positioning. A company discovers different needs and groups in the marketplace, targets those needs and groups that it can satisfy in a superior way, and then positions its offering so that the target market recognizes the company’s distinctive offering and image.

According to Al Ries and Jack, positioning is a creative exercise done with an existing product, which holds a distinctive position in consumers’ minds. Hertz is thought of as the world’s largest auto-rental agency, Coca-Cola as the world’s largest

soft-drink company, and Porsche as one of the world's best sports cars. These brands own these positions, and it would be hard for a competitor to claim them.

There are three strategic alternatives:

- To strengthen our own current position in the consumer's mind.
- To grab an unoccupied position.
- To de-position or re-position the competition in the customer's mind

According to Michael Treacy and Fred Wiersema, positioning strategies can be framed by three types of customers, which is called *value disciplines*. For some customers who favour the firm that is advancing on the technological frontier, a company could aspire to be the *product leader*. The *operationally excellent firm* is suitable for customers who want highly reliable performance. And still we can become a *customer intimate firm* to attract others who want high responsiveness in meeting their individual needs.

No company however can normally be best in all three ways, so Treacy and Wiersema also propose four rules for success:

- Become best at one of the three value disciplines.
- Achieve an adequate performance level in the other two disciplines.
- Keep improving one's superior position in the chosen discipline so as not to lose out to a competitor.
- Keep becoming more adequate in the other two disciplines, because competitors keep raising customers' expectations (Kotler 2003, pp.308-310)

Once a company has carefully segmented the market, chosen its target customers, identified their needs, and determined its market positioning, it is better able to develop new products. Every company must develop new products. New-product development shapes the company's future. Improved or replacement products must be created to maintain or build sales. (Kotler 2003, p.348)

Booz, Allen, and Hamilton identified six categories of new products:

- New-to-the-world products: New products that create an entirely new market.
- New product lines: new products that allow a company to enter an established market for the first time.
- Additions to existing product lines: New products that supplement a company's established product lines (package sizes, flavours, and so on).
- Improvements and revisions of existing products: New products that provide improved performance or greater perceived value and replace existing products.
- Repositionings: Existing products that are targeted to new markets or market segments.
- Cost reductions: New products that provide similar performance at lower cost.

However, new-product development is risky. There are several reasons new products fail. The market size may be overestimated; the product is not well designed; the product is incorrectly positioned in the market, not advertised effectively, or overpriced; development costs are higher than expected; and so on.

In one word, product strategy is how to differentiate our product from other companies' similar products. Consumers can pick up our product easily, because something special attracts them. For electrical household appliances products, we suggest four product strategies as following.

❖ **New product strategy**

In the Chinese electrical household appliances market, the price of existing products is lower and lower because of the furious competition, but the average price is growing. Why? Because of new product! Although no company would like to declare the higher price, the price is growing all along quietly through offering new products into the market. They can raise the price one more level, every time they introduce a new product. Consumers will choose the cheaper one between two brands of last year's version, and ask why there is no discount. However, if they see a new product with some new performances, they will pay extra money without saying. The eliminating rate of electrical household products market is 30% per year. It means there are also 30% new products coming into the market every year. The mark-up is stable, because there is no comparison for new products.

❖ **High technology strategy**

We can make a product new in many ways: new colour, new form, new material, new functions and so on. However, for electrical household products market we need new technology the most. Along with the improving living standard in China, top-grade household products are more and more popular. Hisense is the Chinese domestic brand began to develop only several years ago, but it has very high reputation among Chinese customers. Hisense was not anxious to expand its market share at the beginning, but began by developing energy-conserving technology. Today, almost everybody, even child knows that Hisense frequency-conversing air-conditioner is the best in the Chinese market. Although its market share is still not as large as some long history companies, it is growing fast. Therefore, it is important to have at least one leading technology for our products.

❖ **Unoccupied position strategy**

High technology strategy works only when your product really possesses high technology which is difficult for other companies to reach to. However, when every company focuses on high technologies which are similar to each other and consumers cannot tell the differences, what else can we do? We can change the direction, to look at the unoccupied market. Let us see the example of DESAY GROUP. DESAY A&V Science and Technology Co., Ltd. When DESAY wanted to introduce their DVD into the Chinese market in 2001, they looked at the DVD market which is occupied by

more than 10 companies with different high technologies, like line scan, AC-3 double decoding, VGA multimedia connection, compatibility of many kinds of disks, and so on. At last, they did a conclusion: customers don't need DESAY DVD's technology and product, but brand-new seeing and hearing enjoyments created by DESAY DVD. They avoided doing technical competition but caught consumers' emotional favour and became unique in the market.

❖ **Individual design strategy**

When our product is designed for all customers' needs, it is easy to be in common with other products. Sometimes it is useful to develop a product which aims at one special customer group. Haier used to offer a type of shaver two years ago, which was very successful. This shaver was designed especially for businessmen, who are rich but very busy. Haier combined all kinds of convenient functions into this shaver, even massage. Customers was convinced that this shaver can save lot of time and can be used everywhere at any time. This shaver also has modern appearance which matches businessmen's status. Consumers really pay much extra money, because the product is individual suitable designed for them.

Certainly, if your company is a financial strong company and would like to expand its market, you can use all above strategies comprehensively. Kelon is one of the biggest electrical household appliances companies in China. It always pursues high technologies and offers new products. They develop different products brands for different customer segmentations. They have high-middle-low three price levels to fulfil consumers' different financial abilities. This strategy combination enables Kelon to raise its market share, keep customers' loyalty and be flexible in the competition, decreasing risks.

6.2.3 Distribution strategy

Electrical household appliances enterprises normally use three distribution mode strategies in the Chinese market: area multi-franchiser mode, area chief-franchiser mode and direct distribution mode. Area multi-franchiser distribution means that an enterprise chooses more than two franchisers in one area to distribute its products. (See Figure 6.2.3.1) Area chief-franchiser distribution means that except 1-Class market large retailers enterprises set only one 1-Class wholesaler in one area and the wholesaler in 1-Class market appoints one wholesaler in 2-Class market. (See Figure 6.2.3.2) Direct distribution means that enterprises distribute products directly to retailers without wholesalers. (See Figure 6.2.3.3)

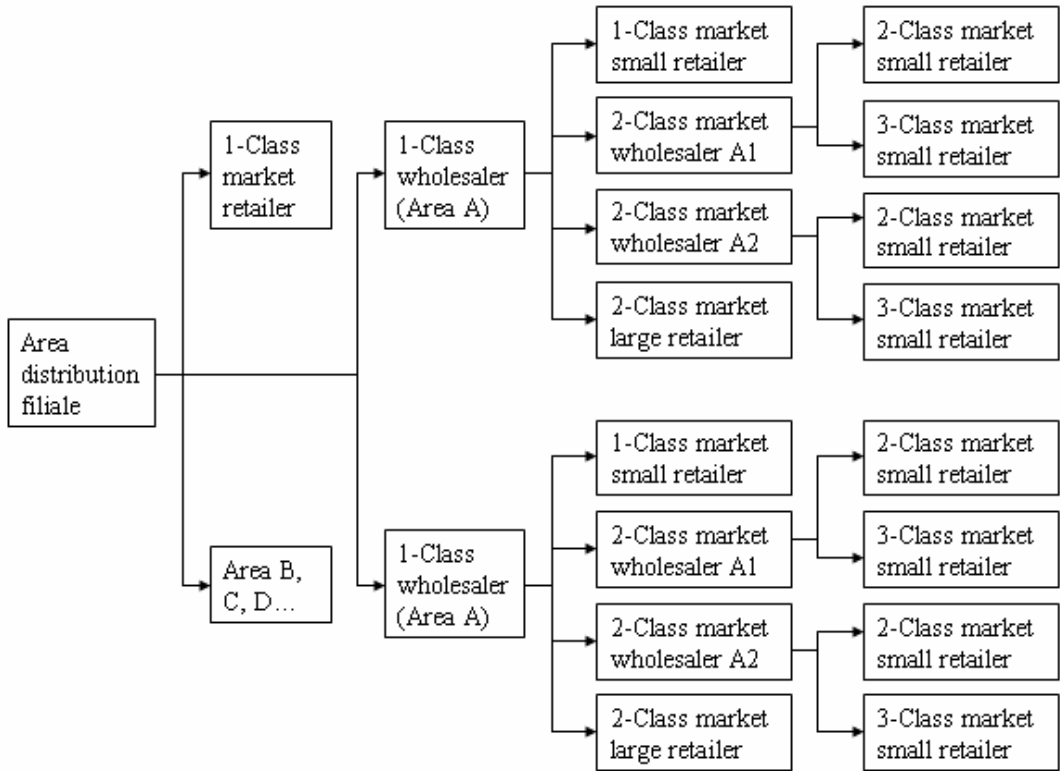


Figure 6.2.3.1: Area multi-franchiser distribution mode

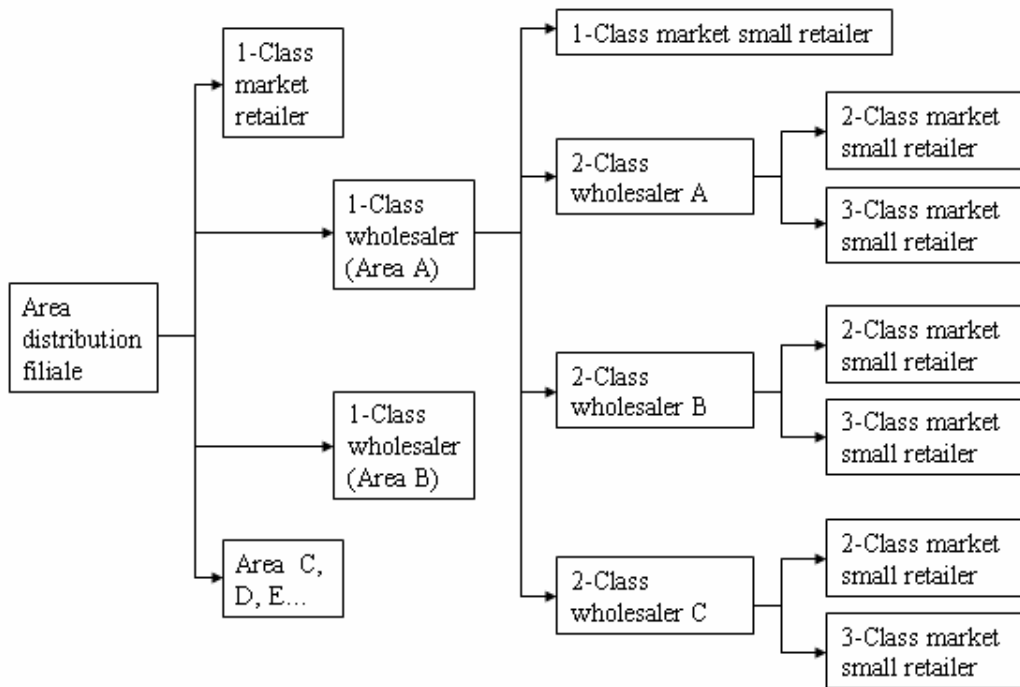


Figure 6.2.3.2: Area chief-franchiser distribution mode

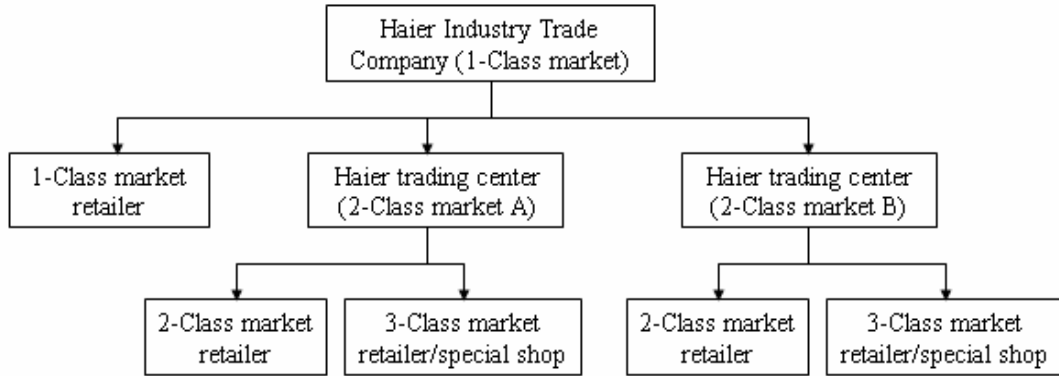


Figure 6.2.3.3: Direct distribution mode

Although direct distribution strategy is the developing trend, it only can be implemented by a few large powerful enterprises. Every distribution mode has its own advantages and disadvantages. (See Table 6.2.4.1) We should choose the one suitable for our corporation and our target market.

Table 6.2.3.1: (Dis) advantages of distribution strategy

| Distribution Mode | Advantage | Disadvantage |
|------------------------------------|---|--|
| Area multi-franchiser distribution | <ul style="list-style-type: none"> Wholesalers try their best to increase sale, because of competition | <ul style="list-style-type: none"> Lead to price confusion, because wholesalers demand lower price to win more sale |
| Area chief-franchiser distribution | <ul style="list-style-type: none"> Easier to control Easier to solve problems with 1-class wholesales | <ul style="list-style-type: none"> Lower sale, because no competition Can be control by wholesalers, because rely on them |
| Direct distribution | <ul style="list-style-type: none"> Better manage terminal network More flexible to the market information Closer to target customers | <ul style="list-style-type: none"> Higher requirement for finance, technology and management Slow capital return Inconvenient transportation High risk for storage |

We give several suggestions to control distribution channel effectively as following:

- Choose good franchisers
- Control retailing price strictly, keep uniform terminal price
- Intermediate collisions among distribution groups
- Allocate reasonable quantity of sale for franchisers
- Accelerate returning of capital
- Improve distribution system,
- Give right to lower franchisers properly

6.2.4 Branding / Advertising strategy

For companies who would like to keep high reputation and loyalty among customers, it is important to build a good brand image. In order to build a brand image, advertising is the inevitable and effective approach. In this part we talk about the strategy for keeping our brand famous through advertising.

❖ Brand strategy decision

Brand strategy will vary with whether the brand is a functional brand, an image brand, or an experiential brand.

Consumers purchase a *functional brand* to satisfy a functional need such as to shave, to clean clothes, to relieve a headache. Functional brands have the best chance to satisfy customers if they are seen as providing superior performance (Tide) or superior economy (Wal-Mart). Functional brands rely heavily on “product” and or “price” features.

Image brands arise with products or services that are difficult to differentiate, or to assess quality, or convey a statement about the user. Strategies include creating a distinctive design (Mont Blanc pens), associating them with celebrity users (Armani suit wearers include Warren Beatty, Robert De Niro, and Tom Hanks), or creating a powerful advertising image (Marlboro Man). Typically, they are designed to say something positive about the brand user. Image brands rely heavily on “advertising creativity” and “high advertising expenditures”.

Experiential brands involve the consumer beyond simply acquiring the product. The consumer encounters “people” and “place” with these brands, as happens in a Starbucks’ coffee shop or a Barnes & Noble bookstore, visiting Disneyland or Niketown, going to the Golden Door spa, or visiting a California winery.

Over time, each type of brand can be developed further. A company can introduce *line extensions* (existing brand name extended to new sizes or flavours in the existing product category), *brand extensions* (brand names extended to new-product categories), *multibrands* (new brand names introduced in the same product category), *new brands* (new brand name for a new category product), and co-branding (combining two or more well-known brand names). (Kotler 2003, p.431)

❖ Brand asset management

Customers come to know a brand through a range of contacts and touch points more than print and broadcast advertising: personal observation and use, word of mouth, meeting company personnel, telephone experience, seeing the Web page, receiving invoices, and so on. Any of these experiences can be positive or negative. The company must put in as much quality in managing these experiences as it does in producing its ads. (Kotler 2003, p.434)

❖ **Successful multi-brand example**

Bosch-Siemens did internationalization successfully by its multi-brand strategy, which can raise the market share and fulfil different customer segmentations. (See Figure 6.2.4.1)

| Price grade | Leading brand | | Special brand | Regional brand |
|---------------------|--|--|--|---|
| Top-grade | | | <ul style="list-style-type: none"> • Special technology • Individual design | |
| Good quality | International <ul style="list-style-type: none"> • High tech • Washing machine & kitchen device | International <ul style="list-style-type: none"> • Utility • Refrigeration Machine & dishwasher | Gaggenau | |
| Comfort (Mid-grade) | | | <ul style="list-style-type: none"> • Standard Inbuilt product • High quality | <ul style="list-style-type: none"> • Basic tech • Worthy • Young customers |
| Basic function | Bosch | Siemens | Neff | Balay <ul style="list-style-type: none"> • Full-line product |
| Unknown brand | | | Constructa | |
| Characteristic | <ul style="list-style-type: none"> • Large sale • Internationalization | | <ul style="list-style-type: none"> • Product brand • Different customer segments | <ul style="list-style-type: none"> • Rivalrous • Large outlets |

Figure 6.2.4.1: Bosch-Siemens multi-brand strategy

❖ **Good advertising examples**

- *Galanz microwave oven*

Galanz is the most famous microwave brand in Chinese market. Except price strategy, another more important key factor they are good at is using media. Every action of Galanz can become a press theme; both national and local media can respond to any event happened about Galanz at primary time; they create a press topic almost every month. They also use “Microwave kingdom”, “Global making” or “Ignore” this kind of irritative words appearing in all large media with high frequency from different points of view.

China central television (CCTV) is the most authoritative TV channel in China, which possesses 16 sub-channels. Galanz thought it scorn to enter into CCTV at one time, but it has kept high exposal frequency and the largest advertising expenditure in the recent two years. Their ads were divided into soft- and hard advertising in news and financial columns of every CCTV channel. Soft advertising aims at brand image promotion. The example programs are described in Table 6.2.4.1.

Table 6.2.4.1: Soft advertising (example programs) in CCTV

| | |
|--|---|
| CCTV-2 “Primary Time” | The newest and fastest information, attract people who watch news at the primary time everyday, let audience hear from enterprises at primary time. |
| CCTV-2 “Global Top News” | Global economical information is told clearly here. |
| CCTV-4 “Brief News” | Essential brief news, everyday 24 hours, 12 times report; tell what you don’t know, what you want to know. |
| CCTV-4 “China News” | New points of view, impersonal contents, flexible layout, quick responses to big events. |
| <p>Release modes</p> <ol style="list-style-type: none"> 1) Special topic news, presents enterprise’s image 2) 5 minutes continuous reportage as hotspot topic 3) 1 minute news oral express <p>Note: Every mode at least one time</p> | |

Soft advertising should be reinforced by hard advertising, which is repeated in high frequency to force consumers remembering the brand. The example timing of hard advertising is shown in Table 6.2.4.2.

Table 6.2.4.2: Example timing of hard advertising in CCTV

| Media | Spec (s) | Period (time/day) | Channel | Freq | Sample | Discount | Net price | Sum |
|--|----------|-------------------|----------------|------|--------|----------|-----------|-----------|
| Daytime set play | 5 | >=11 | CCTV-1 /CCTV-2 | 15 | 36,000 | 20% | 28,800 | 432,000 |
| | 15 | >=11 | CCTV-1 /CCTV-2 | 15 | 68,000 | 20% | 64,400 | 816,000 |
| Total | | | | | | | | 1,248,000 |
| <p>Display timing: CCTV-1: 6:55/8:30/9:21/12:33/14:49/15:55/16:46/17:31</p> <p style="text-align: center;">CCTV-2: 6:50/9:00/10:20/10:56/13:36</p> <p>Note: Irregular on Saturday and Sunday</p> | | | | | | | | |

- *Little Swan washing machine*

Little Swan is well-known by its washing machine, because of its conformity promotion strategy in 2003. Their promotion was divided into several phases. They defined clear target in every action and connected to them in every phase of different consumption period. The strategy is displayed in Figure 6.2.4.2.

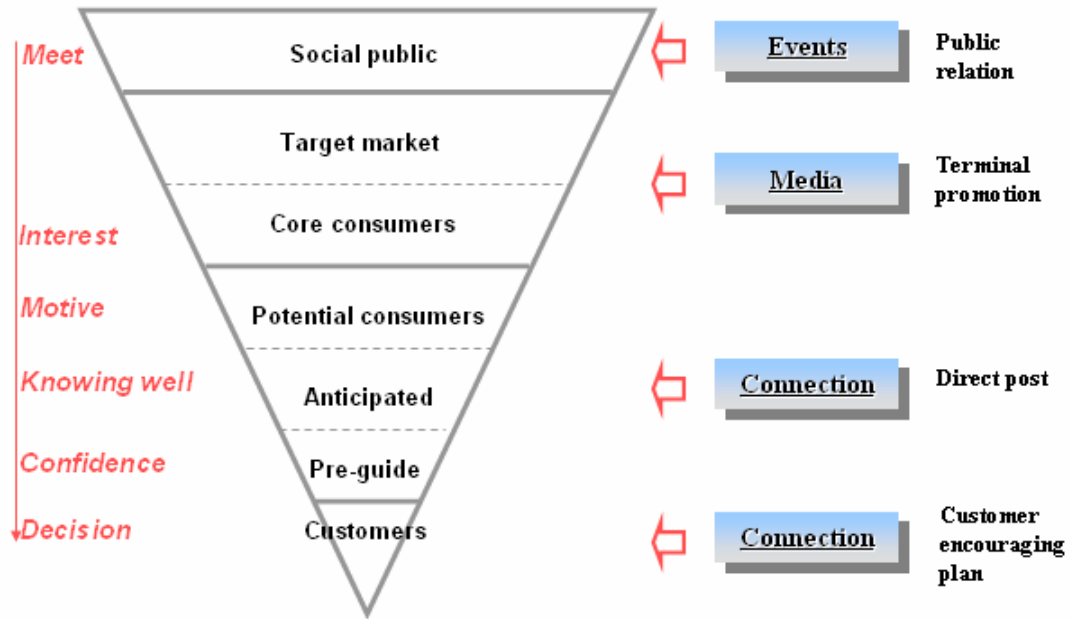


Figure 6.2.4.2: Little Swan conformity promotion strategy

6.2.5 Pricing strategy

Price is the most sensitive aspect for placing products into a foreign market. Pricing strategy is also the most difficult one to be developed, which is connecting and influencing the other three Marketing-mix as well.

We mentioned in chapter 2 (p.48) that except products like power generation equipment another reason for inelastic demand is the saturation in a market, so that even if prices were reduced, there would not be significant extra sales to off-set the loss of profit. And the Chinese electrical household appliances market is exactly under this situation. For the normal products or even those existing products, the price is going down obviously every year, but companies still cannot see future market for them. Therefore, we have to find alternative methods of increasing sales and thereby generate additional profit.

❖ Increasing price strategy

As we mentioned before, one of the effective methods of increasing price without telling is introducing new products into the market. This new product can be with extra functions, modern appearance, individual design, and so on.

Sales promotion is also another way for keeping the price higher. For example, the price of air-conditioner A is 100 RMB higher than air-conditioner B, but air-conditioner A comes with an additional present, worthy 200 RMB microwave. Then it is very possible for a Chinese customer who even already possesses microwave at home to choose air-conditioner A instead of B.

The price of frequency-conversing air-conditioners is much higher than normal products, but why it is so popular in the Chinese market today, because of the feed-back benefit. According to our analysis in chapter 5, nowadays Chinese consumers have high awareness of the energy-conserving products and also have ability to pay for them. However, our aim is not only to set the price higher. Companies should develop true technology, set a reasonable price under customers' acceptable limitation (see 5.2.15) and use practical promotion to convince them.

❖ **Price-quality strategy**

According to Kotler (2003, p.472), there are nine price-quality strategies based on the value of products. As we analyzed in 5.2.8, low price is not the most important factors for customers to choose products any more. Their life style is changing from satisfying to enjoying. High quality products, top-grade products, high technology products are more and more popular. As shown in figure 6.2.5.1, companies should orient their price-quality strategy from satisfying low-income family to high quality products with corresponding price.

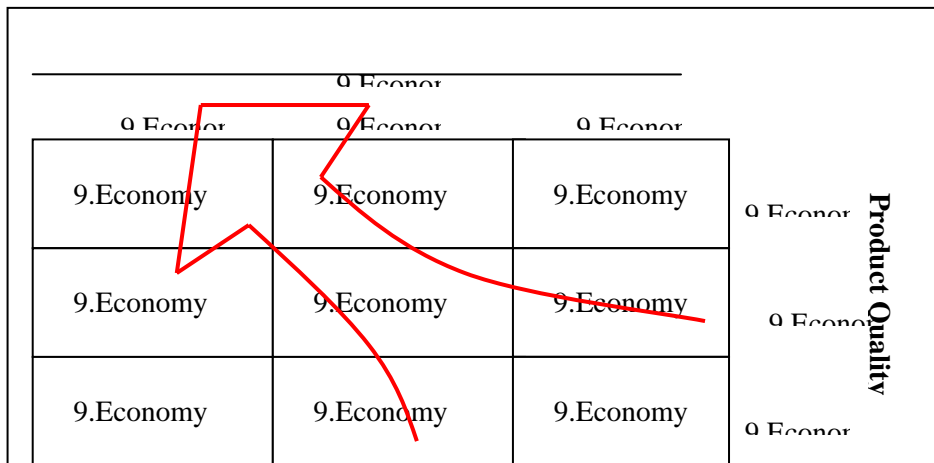


Figure 6.2.5.1 Developed Nine Price-Quality Strategies

❖ **Price control strategy**

Certainly we can not only develop technology without noticing that the price becomes too high as well, especially when Chinese local electrical household appliances companies develop rapidly in recent years and they already possess the predominance of low cost labours and materials. Foreign companies should control the cost by using all other possible means: finding powerful joint partners, avoiding tariff, using effective distribution channels, doing practical advertising, and so forth.

6.2.6 Haier's developing process of marketing strategy

Haier is the biggest electrical household appliances companies in China which was incorporated in 1984 only producing household refrigerators. Over the past 21 years, the company has witnessed significant prosperity and is now a transnational organization widely recognized in the world community. Haier currently

manufactures a wide range of household electrical appliances, 15,100 varieties of items in 96 product lines, and exports products to more than 100 countries. (<http://www.haier.com,20/01/2005>) Haier’s success depends on its effective marketing strategy. Now let us see Haier’s strategy and planning in recent years.

According to Haier, there are generally two marketing modes for electrical household appliances in China: share marketing and brand marketing. Domestic companies normally use share marketing and foreign companies prefer brand marketing. The characteristics of these two modes are presented in Table 6.2.6.1.

Table6.2.6.1: General marketing mode from Haier

| | Share Marketing | Brand Marketing |
|-----------------|---|---|
| Company type | Domestic companies | Foreign companies |
| Characteristic | <ul style="list-style-type: none"> • Price competition, sales promotion • Build brand reputation • Aim at largest market share | <ul style="list-style-type: none"> • Subdivide market • Build brand loyalty • Aim at highest market profit |
| Promotion | <ul style="list-style-type: none"> • Functional ads • Add to SP promotion activities | <ul style="list-style-type: none"> • Advertising and PR • Image ads more than functional |
| Target customer | <ul style="list-style-type: none"> • Age 40 and above • Think much of practical value • Practical and careful | <ul style="list-style-type: none"> • Age 18-39 • Think much of brand value • Purchase high quality life |

Along with the development in recent years, Haier has already possessed absolute large market share. Customers pay more attention on high technology. High quality image is Haier’s developing trend. Therefore, Haier’s strategy nowadays is keeping existing share marketing and increasing brand marketing for the future. (See Figure 6.2.6.1)

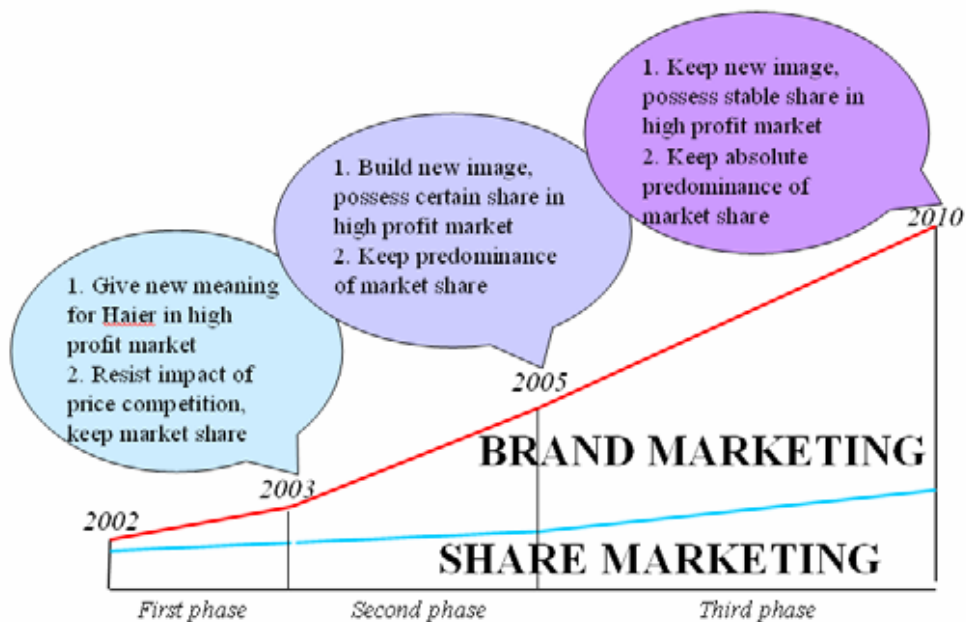


Figure 6.2.6.1: Haier’s marketing objective

According to its target in three developing phases, Haier decided its brand core value in three levels, from basic essence to image building. (See Figure 6.2.6.2)

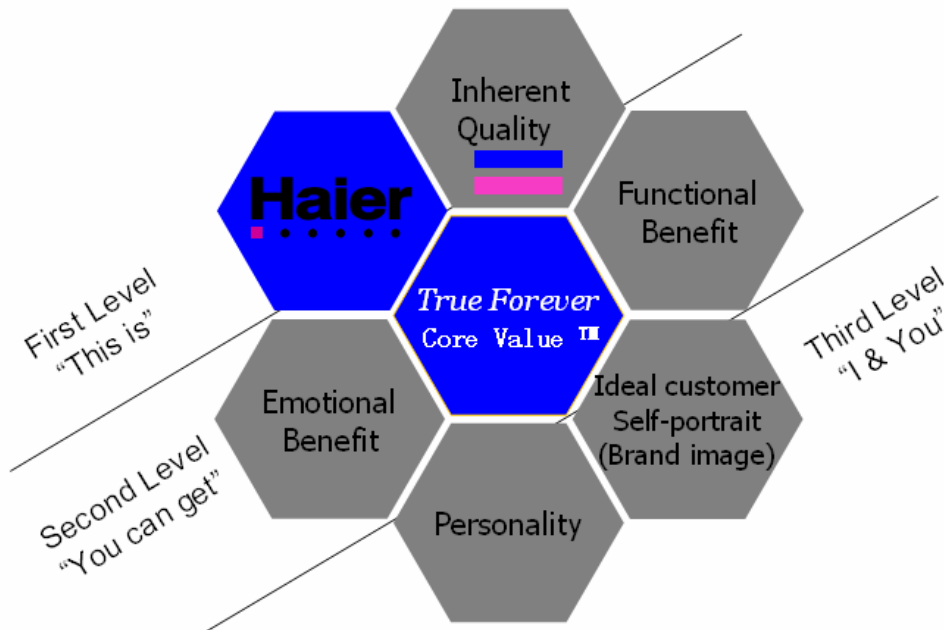


Figure 6.2.6.2: Haier's brand core decision

Haier's goal is to become a global recognizable brand. Its ideal marketing flow chart is shown in Figure 6.2.6.3.

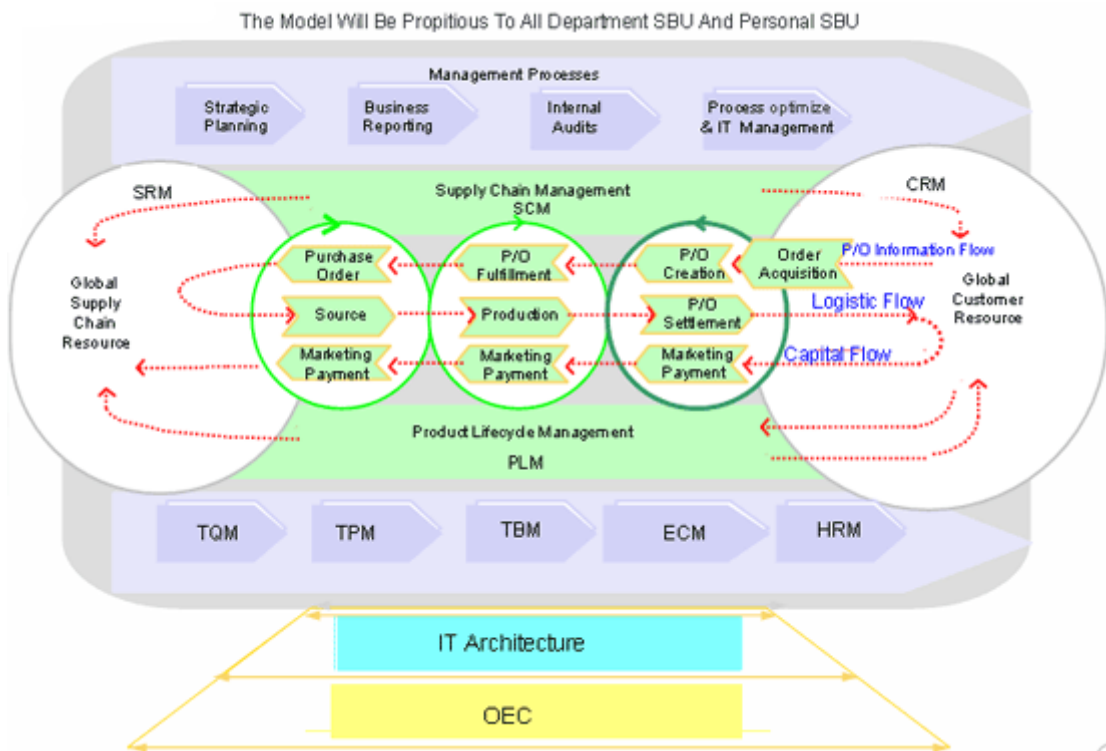


Figure 6.2.6.3: Haier's future marketing model, source: adopted from <http://www.haier.com,20/01/2005>

6.2.7 Visualizational framework of strategy development

The strategy development is summarized in Figure 6.2.7.1.

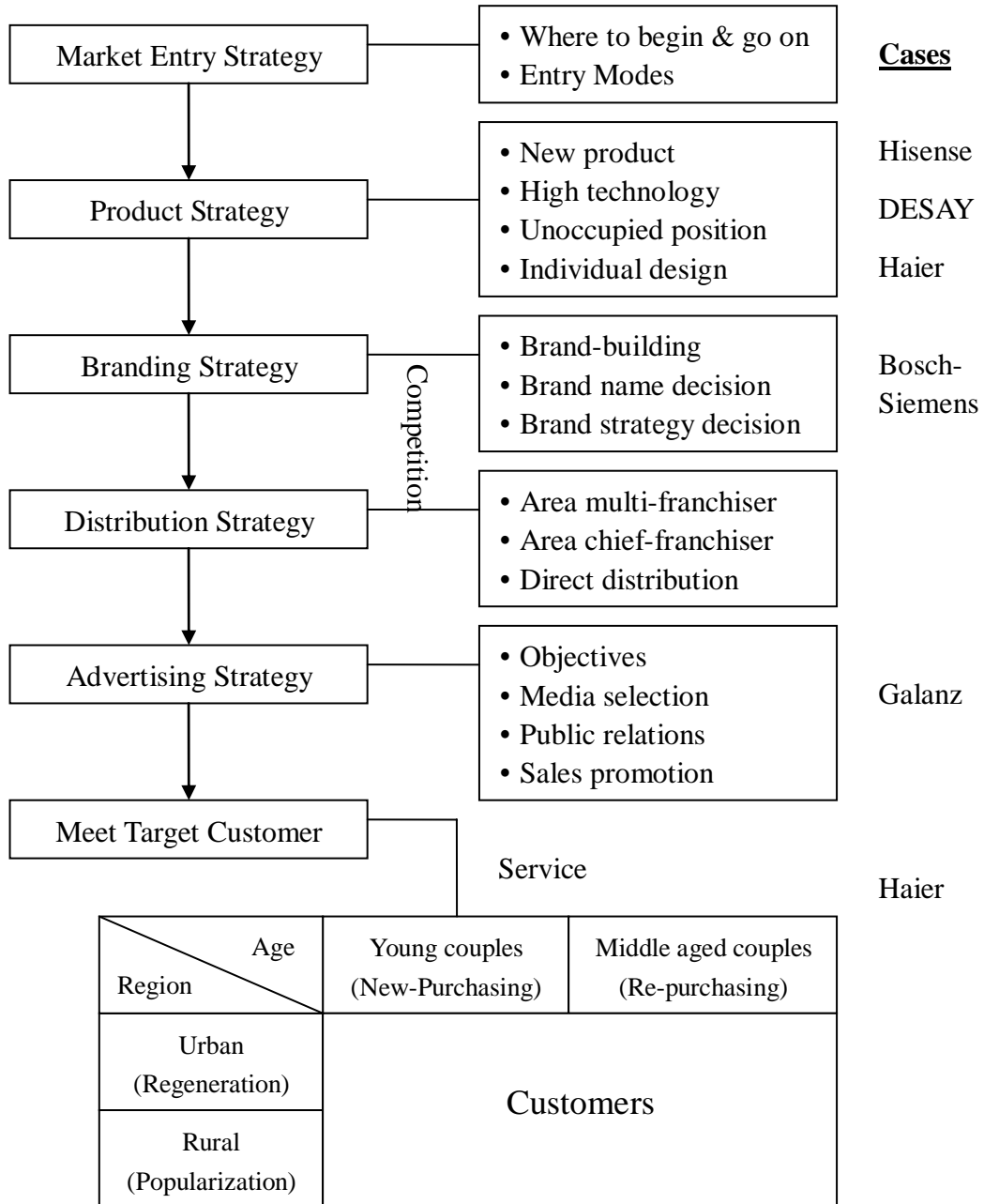


Figure 6.2.7.1: Frame work of strategy development

7 Conclusions

In this chapter, we will start by presenting all the findings we got from the empirical research, which focuses on customers' purchasing behaviour. At last, the strategies for entering Chinese electrical household appliances market will be recommended according to the market situation.

7.1 Results conclusions

We presented the central issue at the beginning of this thesis. The competition in the Chinese electrical household appliances market is fierce and the environment is complicated. Therefore, the central aim of this thesis is, how to lead German companies to survive or expand in this market. For achieving this aim, we mainly studied the Chinese customers' purchasing behaviour, by analyzing government survey report and doing questionnaire in Beijing. Our findings are as following:

- Chinese market is classified to 1-class market (big and middle size cities), 2-class market (small cities) and 3-class market (towns and villages).
- Potential Chinese customers are divided into young couples (new-purchasing) and middle age couples (re-purchasing).
- More than half of the Chinese population are under 35 years old. Young people's opinions are more and more important.
- Chinese family size already become small, normally 2 to 4 members, and maximum 6 members in urban area.
- Typical Chinese family lives in an apartment of one high building. The apartment has two or three bed rooms, one living room, one kitchen, one bathroom and one balcony.
- The family income is quite different from place to place, from person to person. It does not depend on ages or family members, because of the unbalanced development of the Chinese economy.
- The air-conditioner possession rate in urban area in China is very high. The anticipative purchasing rate is also not bad, especially for the two main potential customer segmentations: young married couples and middle age couples.
- The air-conditioner brands in China are centralizing to be 8 to 10 large brands. Those unqualified companies are eliminated rapidly.
- Low price is not the most important factor of purchasing for Chinese consumers any more. They pay more attention on quality, energy-conserving and performance-cost ratio.

- Customers' preference of distribution channels has changed. Electronic retail outlets are the most popular way and brand showrooms are potential growing distribution channel.
- Most Chinese consumers prefer domestic brand, because domestic companies are growing very fast in recent years. They also offer high quality products with good service, but the price is relatively low.
- Chinese consumers today have high awareness of the importance of saving energy. They also have good willingness and ability to pay for energy-conserving products.
- However, Chinese consumers do not have much knowledge about how to differentiate the identifications. Some customers do not believe the energy-efficiency technology. In their opinion, some high technologies are just the conceptual exaggeration from companies.

7.2 Strategy Implication

According to what we found in the research, we developed corresponding strategies for companies to enter Chinese electrical household appliances market successfully. Some practical examples from electrical appliances companies were also given as references. Our suggestions are as following:

- Companies should often introduce new products into the market. It will not only bring more attention for the brand, but also raise the price stealthily.
- Companies should develop practical high technologies. Chinese consumers' tastes of electrical household products are changing from satisfaction of basic functions to enjoyment of top-grade qualities.
- When everyone is trying to reach the high technology and consumers cannot differentiate them, our company might change the idea to be another direction which is still unoccupied for this market. What we want is unique, let our customers differentiate our product from others.
- Individual design is another good strategy, because it can fit one target customer group very well. It can also reduce cost for focusing a small amount of consumers. But the target customer should be chosen carefully.
- In order to build brand image, we should utilize advertising and promotion properly. Except advertising on TV or newspapers, we can also create events, send presents or conduct live activities. We should use different way to connect to customers in different purchasing stages. We can also use multi-brand strategy to occupy more market share.
- Direct distribution is the future trends of distribution modes, but it is only suitable for some powerful and financially strong companies. There are

advantages and disadvantages for every distribution modes. We should consider our company's condition and also our products' position in the target market.

- We suggest companies to do direct investment in China if the financial condition is good, because China has cheaper raw material and labour. The infrastructure in some big cities is also very good.
- Companies should shift down to look at the 2- and 3-class markets, which have more opportunities compared to the furious competition in the 1-class market.
- Companies should use strategies synthetically. One strategy is working, and one extra strategy combined may improve the promotion. Different strategies should be implemented at different stages. Strategies should be developed along with the changing of the marketing environment and the companies' growing.

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9 Appendix I Questionnaire

9.1 English Questionnaire

Questionnaire

1) Age?

- A. 15-24 B. 25-34 C. 35-45 D. 45-55 E. 55-65 F. 65 or more

2) How many members in your family? (living together)

- A. 1-2 B. 3-4 C. 5-6 D. 7-8 E. 9 or more

3) Your living area? (m²)

- A. 30-60 B. 61-90 C. 91-120 D. 121-150 E. 151-200 F. 200 or more

4) Your family monthly income? (Yuan)

- A. less than 2000 B. 2000-4000 C. 4000-6000 D. 6000-8000

- E. 8000-10000 F. 10000 or more

5) Does your family already have air-conditioner? How many?

- A. Yes, _____ units B. No

6) Brand names: _____

7) Do you/family, plan to purchase/change air-conditioners in the next 2 years?

- A. Yes B. No

8) If you want to buy air-conditioner, what are the main factors you will consider? (maximum 4)

- A. Brand B. Price C. Quality D. Saving energy E. Security F. Performance-cost ratio
G. Capacity H. Noise I. Operating life J. Air purifying
K. Temperature stability L. After service

9) Which distribution channel will you choose?

- A. Shopping mall B. Supermarket C. Electronic retail outlets D. Brand showrooms
E. Internet/TV

10) Do you prefer domestic or foreign brand?

A. Domestic Reasons: _____

B. Foreign Reasons: _____

11) In your opinion, are the energy-efficient household appliances important and help in continuous development of energy condition in China?

A. Very important B. Important C. Fair D. Not important E. No idea

12) What do you think of the energy-conserving technology for household appliances in our country?

A. Developed B. Developing C. Under-developed D. No development at all

13) Do you know how to differentiate energy-conserving identification?

A. Clear B. Some idea C. Not really D. Not at all

14) Will you choose normal or energy-conserving air-conditioner?

A. Normal Reasons: _____

B. Energy-conserving Reasons: _____

15) What is the maximum percentage of price you can accept for buying energy conserving appliances compared to normal?

A. 5% B. 10% C. 20% D. 30% E. 40% F. 50%

16) What kinds of technical questions do you have before you want to buy an air-conditioner?

A. Operating principle B. Advanced technologies

C. User friendly design D. Comfort factors

E. Pay-back time

F. Others:

17) Other suggestions

Thank you

9.2 Chinese Questionnaire

调查问卷

1) 请问您的年龄?

- A. 15-24 岁 B. 25-34 岁 C. 35-45 岁 D. 45-55 岁 E. 55-65 岁
F. 65 岁以上

2) 请问您的家庭成员数? (住在一起)

- A. 1-2 人 B. 3-4 人 C. 5-6 人 D. 7-8 人 E. 9 人以上

3) 请问您的住房面积?

- A. 30-60 平方米 B. 61-90 平方米 C. 91-120 平方米 D. 121-150 平方米 E. 151-200 平方米 F. 200 平方米以上

4) 请问您的家庭月收入?

- A. 2000 元以下 B. 2000-4000 元 C. 4000-6000 元 D. 6000-8000 元
E. 8000-10000 元 F. 10000 元以上

5) 请问您家里是否已配置空调? 几台?

- A. 是, _____ 台 B. 否

6) 您家空调的品牌是: _____

7) 您或您的家人是否计划在近两年内购买或更换空调?

- A. 是 B. 否

8) 请问您在购买空调时, 考虑的主要因素是什么? (限选 4 项)

- A. 品牌 B. 价格 C. 质量 D. 节能 E. 安全性能 F. 性能价格比 G. 制冷/制热效果
H. 噪音 I. 使用寿命 J. 杀菌 K. 温度恒定
L. 售后服务

9) 请问您会选择什么购买渠道?

- A. 商场 B. 超市 C. 电器连锁店 D. 品牌专营店 E. 网上/电视销售

10) 您会选择国内空调品牌还是进口品牌?

- A. 国产品牌 原因: _____

B. 进口品牌 原因: _____

11) 您认为节能家电对我国能源状况的可持续发展是否重要?

A. 非常重要 B. 重要 C. 一般 D. 不重要 E. 没有概念

12) 您认为现在市场中节能家电产品的技术是否成熟?

A. 已成熟 B. 趋于成熟 C. 有待进一步发展 D. 很不成熟

13) 您是否知道如何区分市场中节能产品的能效标示?

A. 清楚 B. 了解一些 C. 不太了解 D. 完全不知道

14) 如果购买新空调, 您会选择普通空调还是节能空调?

A. 普通空调 原因: _____

B. 节能空调 原因: _____

15) 你觉得在购买家用电器时, 节能型的产品比同类型的普通产品最高贵多少可以接受?

A. 5% B. 10% C. 20% D. 30% E. 40% F. 50%

16) 在购买空调之前, 您还想了解哪些关于技术方面的知识? (多选)

- A. 空调的运行及节能原理
- B. 空调设计中运用了哪些新技术
- C. 空调中人性化的设计
- D. 为什么能使用户享受到更好的居室环境
- E. 节能产品高于同类普通产品的差价几年内可以收回
- F. 其他:

17) 其他建议

感谢您的支持

10 Appendix II Responses Summary Tabulation

10.1 Age group 15-24

| | 1 | | | | | | 2 | | | | | 3 | | | | | | 4 | | | | | | 5 | | |
|----------|-----------|---|---|---|---|---|----------|-----------|----------|----------|----------|----------|-----------|----------|----------|----------|----------|----------|-----------|----------|----------|----------|----------|-----------|----------|---|
| | A | B | C | D | E | F | A | B | C | D | E | A | B | C | D | E | F | A | B | C | D | E | F | A | B | N |
| S | 37 | | | | | | 4 | 29 | 4 | 0 | 0 | 5 | 16 | 8 | 7 | 1 | 0 | 1 | 19 | 7 | 6 | 2 | 2 | 33 | 4 | |
| 1 | x | | | | | | | | x | | | x | | | | | | x | | | | | | | x | |
| 2 | x | | | | | | | x | | | | x | | | | | | x | | | | | | | x | |
| 3 | x | | | | | | | x | | | | | x | | | | | x | | | | | | x | | 1 |
| 4 | x | | | | | | | x | | | | | | x | | | | | | x | | | | x | | 2 |
| 5 | x | | | | | | x | | | | | x | | | | | | x | | | | | | | x | |
| 6 | x | | | | | | | x | | | | | x | | | | | x | | | | | | x | | 2 |
| 7 | x | | | | | | | x | | | | | x | | | | | x | | | | | | x | | 2 |
| 8 | x | | | | | | | x | | | | | x | | | | | x | | | | | | x | | 2 |
| 9 | x | | | | | | | x | | | | | | x | | | | | x | | | | | x | | 4 |
| 10 | x | | | | | | | x | | | | | x | | | | | x | | | | | | x | | 3 |
| 11 | x | | | | | | | x | | | | | | x | | | | | x | | | | | x | | 3 |
| 12 | x | | | | | | | x | | | | | x | | | | | x | | | | | | x | | 2 |
| 13 | x | | | | | | | x | | | | | | | x | | | | | | | x | | x | | 2 |
| 14 | x | | | | | | | x | | | | | x | | | | | | | x | | | | x | | 1 |
| 15 | x | | | | | | | x | | | | | | x | | | | x | | | | | | x | | 2 |
| 16 | x | | | | | | | x | | | | | | x | | | | | | | x | | | x | | 2 |
| 17 | x | | | | | | | x | | | | | | | x | | | | | | x | | | x | | 2 |
| 18 | x | | | | | | | x | | | | | | x | | | | | x | | | | | x | | 1 |
| 19 | x | | | | | | | x | | | | | | x | | | | x | | | | | | x | | 2 |
| 20 | x | | | | | | | | x | | | | x | | | | | | | x | | | | x | | 3 |
| 21 | x | | | | | | | | x | | | | | x | | | | x | | | | | | x | | 1 |
| 22 | x | | | | | | | x | | | | | x | | | | | x | | | | | | x | | 1 |
| 23 | x | | | | | | | x | | | | | x | | | | | x | | | | | | x | | 1 |
| 24 | x | | | | | | | | x | | | | | | x | | | | | x | | | | x | | 2 |
| 25 | x | | | | | | | x | | | | | | x | | | | x | | | | | | x | | 1 |
| 26 | x | | | | | | x | | | | | | x | | | | | x | | | | | | x | | 2 |
| 27 | x | | | | | | x | | | | | x | | | | | | x | | | | | | x | | 1 |
| 28 | x | | | | | | | x | | | | | x | | | | | | | x | | | | x | | 2 |
| 29 | x | | | | | | x | | | | | | x | | | | | | | | x | | | x | | 1 |
| 30 | x | | | | | | | x | | | | | | | x | | | | | | | x | | x | | 4 |
| 31 | x | | | | | | | x | | | | | | | x | | | | | | x | | | x | | 3 |
| 32 | x | | | | | | | x | | | | | x | | | | | | | | x | | | x | | 3 |
| 33 | x | | | | | | | x | | | | x | | | | | | x | | | | | | x | | 1 |
| 34 | x | | | | | | | x | | | | | | | x | | | | | x | | | | x | | 2 |
| 35 | x | | | | | | | x | | | | | x | | | | | x | | | | | | x | | 1 |
| 36 | x | | | | | | | x | | | | | | x | | | | | | x | | | | | x | |
| 37 | x | | | | | | | x | | | | | x | | | | | x | | | | | | x | | 1 |

Appendix II Responses Summary Tabulation

| | 6. Brand Names | | | 7 | | 8 | | | | | | | | | | | 9 | | | | | 10 | | |
|----------|----------------|-----|-----|----------|-----------|-----------|-----------|-----------|-----------|----------|-----------|-----------|-----------|----------|----------|----------|-----------|----------|----------|-----------|----------|----------|-----------|-----------|
| | 1 | 2 | 3 | A | B | A | B | C | D | E | F | G | H | I | J | K | L | A | B | C | D | E | A | B |
| S | | | | 9 | 28 | 17 | 17 | 21 | 19 | 3 | 16 | 12 | 13 | 6 | 2 | 2 | 10 | 4 | 2 | 28 | 2 | 1 | 20 | 17 |
| 1 | | | | | x | | x | | | | | | | | | | | | | x | | | x | |
| 2 | | | | | x | | x | | | | | x | | x | | | x | x | | | | | x | |
| 3 | haier | | | | x | | x | x | x | x | | | | | | | | | x | | | | x | |
| 4 | Tcl | Aux | | x | | x | x | | | | | x | x | | | | | | x | | | | | x |
| 5 | | | | | x | | x | | | | | | | | | | | | x | | | | x | |
| 6 | LG | *2 | | | x | | x | x | x | | | x | | | | | | | x | | | | | x |
| 7 | haier | *2 | | | x | | x | x | x | | | x | | | | | | | | | x | | | x |
| 8 | Mit | *2 | | | x | | x | x | | | | x | x | | | | | | x | | | | x | |
| 9 | Mit | *4 | | | x | x | | x | | | | x | x | | | | | x | | | | | | x |
| 10 | SY | *2 | Aux | | x | | | x | | | x | x | | | | | x | | | x | | | | x |
| 11 | haier | *3 | | | x | x | | x | x | | | x | | | | | | | | x | | | | x |
| 12 | haier | *2 | | | x | | x | x | x | | | x | | | | | | | | x | | | | x |
| 13 | CL | Mit | | | x | x | | | | | x | | x | | | | x | | | x | | | | x |
| 14 | haier | | | | x | | x | x | | | x | | | x | | | | | | x | | | x | |
| 15 | Mit | *2 | | x | | | x | | x | | | | | x | | | x | | | | x | | | x |
| 16 | pana | *2 | | | x | x | | | x | | x | | | | | | | | | x | | | | x |
| 17 | pana | *2 | | | x | x | | | | | x | | | | | | x | | | x | | | | x |
| 18 | Gree | | | x | | | | | x | | x | | | | | | x | | | x | | | x | |
| 19 | HIT | *2 | | | x | | | | | | | x | x | x | | | | x | | | | | x | |
| 20 | haier | *3 | | | x | x | | | | | x | x | x | | | | | | | x | | | x | |
| 21 | MD | | | x | | x | | | x | | | | x | x | | | | | | x | | | x | |
| 22 | MD | | | | x | | | | x | | x | | x | | | x | | | | x | | | | x |
| 23 | haier | | | | x | | x | | x | | | | x | x | | | | | | x | | | x | |
| 24 | haier | *2 | | | x | | | | x | x | x | | x | | | | | | | x | | | x | |
| 25 | haier | | | x | | | | x | x | | | | | | x | x | | | | | | x | | x |
| 26 | His | *2 | | | x | | | x | x | | x | | | | | | x | | | x | | | x | |
| 27 | LG | | | | x | x | | | x | | x | | | | | | x | | | x | | | | x |
| 28 | Mit | *2 | | x | | | x | x | | | | | x | | x | | | | | x | | | | x |
| 29 | CL | | | | x | x | | x | | | x | | | | | | x | | | x | | | | x |
| 30 | haier | *4 | | | x | x | | x | | | | x | x | | | | | | | x | | | x | |
| 31 | haier | LG | *2 | | x | x | x | x | | | | | x | | | | | | | x | | | | x |
| 32 | Gree | *3 | | | x | | | x | x | x | x | | | | | | | | | x | | | x | |
| 33 | KL | | | | x | x | x | x | x | | | | | | | | | | | x | | | x | |
| 34 | haier | Aux | | x | | x | | x | x | | x | | | | | | | | | x | | | x | |
| 35 | Pana | | | | x | x | x | x | | | x | | | | | | | | | x | | | x | |
| 36 | | | | x | | x | x | x | x | | | | | | | | | x | | | | | x | |
| 37 | haier | | | x | | x | | x | | | x | | | | | | x | | | x | | | x | |

Appendix II Responses Summary Tabulation

| | 11 | | | | | 12 | | | | 13 | | | | 14 | | 15 | | | | | | 16 | | | | |
|----------|-----------|-----------|----------|----------|----------|----------|----------|-----------|----------|----------|-----------|-----------|----------|----------|-----------|----------|-----------|----------|----------|----------|----------|-----------|-----------|-----------|-----------|----------|
| | A | B | C | D | E | A | B | C | D | A | B | C | D | A | B | A | B | C | D | E | F | A | B | C | D | E |
| S | 13 | 18 | 4 | 0 | 2 | 1 | 3 | 30 | 3 | 2 | 12 | 20 | 3 | 6 | 31 | 9 | 20 | 8 | 0 | 0 | 0 | 14 | 18 | 26 | 15 | 9 |
| 1 | | | | x | | | x | | | | | x | | x | x | | | | | | | x | | | | |
| 2 | | | x | | | | x | | | | | x | | x | x | | | | | | | | x | | | |
| 3 | | x | | | | | x | | | | | x | | x | x | | | | | | | | x | | | |
| 4 | | x | | | | | x | | | | x | | | x | | x | | | | | | x | | x | | |
| 5 | | x | | | | | | x | | | | x | x | | x | | | | | | | | x | | | |
| 6 | x | | | | | | x | | | | | x | | x | | x | | | | | | | | x | x | |
| 7 | x | | | | | | x | | | | | x | | x | | x | | | | | | | | x | x | |
| 8 | x | | | | | | x | | | | | x | | x | | x | | | | | | | x | x | | |
| 9 | | x | | | | | x | | | | | x | | x | | x | | | | | | | | x | x | |
| 10 | | x | | | | | x | | | | | x | | x | | x | | | | | | | x | x | | |
| 11 | | x | | | | | x | | | | | x | | x | | | x | | | | | | x | x | | |
| 12 | | x | | | | | x | | | | | x | | x | | x | | | | | | | | x | x | |
| 13 | x | | | | | | x | | | | | x | | x | | x | | | | | | | | x | x | |
| 14 | x | | | | | | | x | x | | | | | x | | | x | | | | | | | x | | x |
| 15 | | x | | | | | x | | | | | x | | x | | x | | | | | | | | x | x | x |
| 16 | x | | | | | | x | | | | | x | | x | | x | | | | | | x | x | x | | |
| 17 | | x | | | | | x | | | | | x | | x | | x | | | | | | | x | | x | |
| 18 | | x | | | | | x | | | | | x | | x | | x | | | | | | x | | | | x |
| 19 | | | x | | | | x | | | | | x | | x | | x | | | | | | | x | x | | |
| 20 | | | | x | | | x | | | | | x | | x | | | x | | | | | x | | x | | |
| 21 | | | x | | | | x | | | | | x | | x | | | x | | | | | | x | x | | |
| 22 | | x | | | | | x | | | | | x | | x | | | x | | | | | x | x | x | x | |
| 23 | | x | | | | | x | | | | | x | | | x | | x | | | | | x | x | x | x | x |
| 24 | | x | | | | | x | | | | | x | | | x | | | x | | | | x | x | x | x | |
| 25 | | x | | | | | x | | | | | x | | | x | | | x | | | | x | x | x | x | |
| 26 | | x | | | | | x | | | | | x | | | x | x | | | | | | | | x | x | |
| 27 | x | | | | | | | x | x | | | | | x | | x | | | | | | | | x | x | |
| 28 | x | | | | | | x | | | | | x | | | x | | | x | | | | | | | | x |
| 29 | x | | | | | | x | | | | | x | | | x | | x | | | | | x | | x | | |
| 30 | | x | | | | x | | | | | | x | | | x | x | | | | | | | | | | x |
| 31 | | x | | | | | x | | | | | x | | | x | x | | | | | | | | x | x | |
| 32 | x | | | | | | x | | | | | x | | | x | | x | | | | | x | x | | | |
| 33 | x | | | | | | x | | | | | x | | | x | | x | | | | | | | x | | x |
| 34 | x | | | | | | x | | | | | x | | | x | | x | | | | | | | x | x | x |
| 35 | | x | | | | | x | | | | | x | | | x | | | x | | | | x | | x | | |
| 36 | x | | | | | | x | | | | | x | | | x | | x | | | | | | x | x | | x |
| 37 | | | x | | | | x | | | | | x | | | x | x | | | | | | | x | x | | x |

10.2 Age group 25-34

| | 1 | | | | | | 2 | | | | | 3 | | | | | | 4 | | | | | | 5 | | | |
|----------|---|-----------|---|---|---|---|-----------|-----------|----------|----------|----------|----------|-----------|-----------|----------|----------|----------|----------|----------|-----------|----------|----------|----------|-----------|----------|---|---|
| | A | B | C | D | E | F | A | B | C | D | E | A | B | C | D | E | F | A | B | C | D | E | F | A | B | N | |
| S | | 38 | | | | | 18 | 19 | 3 | 0 | 0 | 5 | 14 | 12 | 2 | 3 | 2 | 0 | 9 | 15 | 6 | 1 | 7 | 30 | 8 | | |
| 1 | | x | | | | | | x | | | | | | x | | | | | | x | | | | | x | | 3 |
| 2 | | x | | | | | | x | | | | | | x | | | | | | x | | | | | x | | 3 |
| 3 | | x | | | | | | x | | | | | | x | | | | | | x | | | | | x | | 2 |
| 4 | | x | | | | | | x | | | | | x | | | | | | | x | | | | | x | | 1 |
| 5 | | x | | | | | | x | | | | | x | | | | | | | x | | | | | x | | |
| 6 | | x | | | | | | x | | | | | | x | | | | | | x | | | | | x | | 3 |
| 7 | | x | | | | | | x | | | | | | x | | | | | | x | | | | | x | | 2 |
| 8 | | x | | | | | | | x | | | | | x | | | | | | x | | | | | x | | |
| 9 | | x | | | | | | | x | | | | | | x | | | | | x | | | | | x | | 3 |
| 10 | | x | | | | | | x | | | | | | x | | | | | | x | | | | | x | | |
| 11 | | x | | | | | | x | | | | | x | | | | | | | x | | | | | x | | |
| 12 | | x | | | | | | | x | | | | | x | | | | | | | | x | | x | x | | 3 |
| 13 | | x | | | | | | | x | | | | | x | | | | | | | x | | | | x | | 3 |
| 14 | | x | | | | | | | x | | | | | x | | | | | | x | | | | | x | | 1 |
| 15 | | x | | | | | | | x | | | | | x | | | | | | x | | | | | x | | 1 |
| 16 | | x | | | | | | | x | | | | | x | | | | | | | x | | | | x | | 1 |
| 17 | | x | | | | | | | x | | | | | x | | | | | | | x | | | | x | | 1 |
| 18 | | x | | | | | | | x | | | | | x | | | | | | | x | | | | x | | 2 |
| 19 | | x | | | | | | | x | | | | | x | | | | | | | x | | | | x | | 2 |
| 20 | | x | | | | | | | x | | | | x | | | | | | | | x | | | | x | | 1 |
| 21 | | x | | | | | | | x | | | | | x | | | | | | | x | | | | x | | 2 |
| 22 | | x | | | | | | | x | | | | | x | | | | | | | x | | | | x | | 1 |
| 23 | | x | | | | | | | x | | | | | | x | | | | | | x | | | | x | | 2 |
| 24 | | x | | | | | | | x | | | | x | | | | | | | | x | | | | x | | 1 |
| 25 | | x | | | | | | | x | | | | | x | | | | | | | x | | | | x | | 1 |
| 26 | | x | | | | | | | x | | | | | x | | | | | | | | x | | x | x | | 2 |
| 27 | | x | | | | | | | x | | | | | x | | | | | | | | x | | | x | | 1 |
| 28 | | x | | | | | | | x | | | | | x | | | | | | | x | | | | x | | |
| 29 | | x | | | | | | | x | | | | | | x | | | | | | x | | | | x | | 2 |
| 30 | | x | | | | | | | x | | | | x | | | | | | | | x | | | | x | | |
| 31 | | x | | | | | | | x | | | | | | | x | | | | | | x | | x | x | | 4 |
| 32 | | x | | | | | | | x | | | | | x | | | | | | | | x | | x | x | | 1 |
| 33 | | x | | | | | | | x | | | | | x | | | | | | | x | | | | x | | |
| 34 | | x | | | | | | | x | | | | | x | | | | | | | x | | | | x | | 2 |
| 35 | | x | | | | | | | x | | | | | x | | | | | | | x | | | | x | | 3 |
| 36 | | x | | | | | | | x | | | | | | x | | | | | | | x | | | x | | |
| 37 | | x | | | | | | | x | | | | | | x | | | | | | | x | | x | x | | 5 |
| 38 | | x | | | | | | | x | | | | | | | x | | | | | | x | | x | x | | 5 |

Appendix II Responses Summary Tabulation

| | 6. Brand Names | | | 7 | | 8 | | | | | | | | | | | 9 | | | | | 10 | | |
|----------|----------------|-------|------|-----------|-----------|-----------|-----------|-----------|-----------|----------|----------|-----------|-----------|----------|----------|----------|-----------|----------|----------|-----------|----------|----------|-----------|-----------|
| | 1 | 2 | 3 | A | B | A | B | C | D | E | F | G | H | I | J | K | L | A | B | C | D | E | A | B |
| S | | | | 13 | 25 | 13 | 23 | 28 | 18 | 5 | 8 | 12 | 12 | 1 | 1 | 0 | 17 | 5 | 1 | 30 | 2 | 0 | 25 | 13 |
| 1 | haier | *3 | | | x | | x | x | | | | x | | | | | x | | | x | | | | x |
| 2 | LG | *3 | | | x | | x | x | | | | x | | | | | x | | | x | | | | x |
| 3 | KL | *2 | | | x | | x | x | x | | | x | | | | | | | | x | | | | x |
| 4 | pana | | | | x | | x | x | x | | | | | | | | x | | | x | | | | x |
| 5 | | | | x | | | x | x | | | | | x | | | | x | | | x | | | | x |
| 6 | LG | *3 | | | x | | x | x | | x | x | | | | | | | | | x | | | | x |
| 7 | haier | CL | | | x | | x | x | x | | | | x | | | | | | | x | | | | x |
| 8 | | | | x | | | | | x | | x | | | | | | | | | x | | | | x |
| 9 | KL | haier | *2 | x | | | | x | x | | | | x | | | | | | | x | | | | x |
| 10 | | | | x | | | | | | | | x | x | | | | x | | | x | | | | x |
| 11 | | | | | x | x | x | | x | x | | | | | | | | x | | | | | | x |
| 12 | Gree | *3 | | | x | | | x | | | | | | | | | | | | x | | | | x |
| 13 | MD | *3 | | | x | | | x | x | | x | | x | | | | | | | x | | | | x |
| 14 | Aux | | | | x | | x | x | | | | x | | | | | x | | x | | | | | x |
| 15 | KL | | | | x | | x | x | | | | | x | x | | | | x | | | | | | x |
| 16 | Gree | | | x | | x | x | x | x | | | | | | | | | x | | | | | | x |
| 17 | Sam | | | x | | x | x | x | | x | | | | | | | | | | x | | | | x |
| 18 | KL | haier | | | x | | x | x | | | | x | x | | | | | | | x | | | | x |
| 19 | SX | TCL | | x | | | x | | x | | | | x | | | | x | | | x | | | | x |
| 20 | LG | | | x | | x | | | | | | x | x | | | | x | | | x | | | | x |
| 21 | haier | *2 | | | x | x | | x | x | | | | | | | | x | | | x | | | | x |
| 22 | GQ | | | | x | | x | x | x | x | | | | | | | | | | x | | | | x |
| 23 | aucm | Gree | | | x | | x | | x | | | x | | | | | x | | | x | | | | x |
| 24 | TCL | | | | x | | x | | | | x | | x | | | | x | | | x | | | | x |
| 25 | CL | | | x | | | | x | x | | x | | | | | | | | | x | | | | x |
| 26 | pana | *2 | | | x | x | | | | | | | | | | | | | | | | x | | x |
| 27 | SY | | | x | | x | | x | x | | x | | | | | | | | | x | | | | x |
| 28 | | | | x | | | x | x | x | | | | | | | | x | | | x | | | | x |
| 29 | SY | *2 | | | x | x | x | x | | | | | | | | | | | | x | | | | x |
| 30 | | | | x | | | | | x | | x | | | | | | x | | | x | | | | x |
| 31 | DK | *4 | | | x | x | | x | | | | x | | | | | | | | | | x | | x |
| 32 | pana | | | | x | | | x | | | x | x | | | | | x | x | | x | | | | x |
| 33 | | | | x | | x | x | x | | | | | | | | | x | | | x | | | | x |
| 34 | Gree | *2 | | | x | | x | x | x | x | | | | | | | | | | x | | | | x |
| 35 | aucm | *3 | | | x | | x | x | x | | | | | | | | | | | x | | | | x |
| 36 | | | | | x | x | | x | | | | x | x | | | | x | x | | | | | | x |
| 37 | haier | x3 | Elx2 | | x | x | x | | | | | x | x | | | | | | | x | | | | x |
| 38 | Sum | *3 | LG*2 | | x | x | | x | | | | | | | x | | x | | | x | | | | x |

Appendix II Responses Summary Tabulation

| | 11 | | | | | 12 | | | | 13 | | | | 14 | | 15 | | | | | | 16 | | | | |
|----------|-----------|-----------|----------|----------|----------|----------|----------|-----------|----------|----------|-----------|-----------|----------|----------|-----------|----------|-----------|----------|----------|----------|----------|-----------|-----------|-----------|-----------|-----------|
| | A | B | C | D | E | A | B | C | D | A | B | C | D | A | B | A | B | C | D | E | F | A | B | C | D | E |
| S | 17 | 17 | 3 | 0 | 1 | 0 | 8 | 26 | 4 | 5 | 16 | 17 | 0 | 3 | 35 | 5 | 23 | 9 | 1 | 0 | 0 | 16 | 13 | 24 | 19 | 13 |
| 1 | x | | | | | | x | | | | x | | | x | | | x | | | | | | x | x | | |
| 2 | x | | | | | | x | | | | x | | | x | | x | | | | | | | x | x | | |
| 3 | x | | | | | | x | | | | x | | | x | | x | | | | | | | x | x | | |
| 4 | x | | | | | | | | x | | x | | | x | | x | | | | | | x | | | x | |
| 5 | x | | | | | | x | | | x | | | | x | | x | | | | | | | x | x | x | |
| 6 | x | | | | | | x | | | x | | | | x | | | x | | | | | | | x | | |
| 7 | | x | | | | | x | | | | x | | | x | | x | | | | | | x | | x | | |
| 8 | x | | | | | | x | | | x | | | | x | | x | | | | | | x | | x | | |
| 9 | x | | | | | | x | | | x | | | | x | | | x | | | | | x | x | x | | |
| 10 | | x | | | | | x | | | x | | | | x | | x | | | | | | | x | | | |
| 11 | | x | | | | | x | | | | x | | | x | | x | | | | | | | x | | | |
| 12 | | x | | | | | x | | | | x | | | x | | x | | | | | | | x | | | |
| 13 | | x | | | | | x | | | | x | | | x | | x | | | | | | | x | x | x | |
| 14 | | x | | | | | x | | | | x | | | x | x | | | | | | | x | | | | |
| 15 | | | x | | | | x | | | | x | | | x | x | | | | | | | | x | | | |
| 16 | | x | | | | | x | | | | x | | | x | x | | | | | | | | | x | x | |
| 17 | | x | | | | | x | | | | x | | | x | | x | | | | | | x | | x | x | |
| 18 | | x | | | | | x | | | | x | | | x | | x | | | | | | | x | | | |
| 19 | | | x | | | | x | | | | x | | | x | | x | | | | | | | x | x | | |
| 20 | | | | | x | | x | | | | x | | | x | | x | | | | | | x | | x | | |
| 21 | x | | | | | | x | | | | x | | | x | | x | | | | | | x | x | x | x | |
| 22 | x | | | | | | x | | | | x | | | x | | | x | | | | | x | | | x | |
| 23 | x | | | | | | x | | | x | | | | x | | x | | | | | | x | | | x | |
| 24 | | | x | | | | x | | | | x | | | x | | | x | | | | | | x | x | | |
| 25 | x | | | | | | | | x | | x | | | x | | | x | | | | | x | | x | | |
| 26 | | x | | | | | x | | | | x | | | x | | x | | | | | | x | | x | x | |
| 27 | | x | | | | | x | | | x | | | | x | | | x | | | | | | x | x | | |
| 28 | | x | | | | | x | | | | x | | | x | | | x | | | | | x | x | x | x | |
| 29 | | x | | | | | | | x | | x | | | x | | x | | | | | | x | | x | | |
| 30 | x | | | | | | | | x | x | | | | x | | x | | | | | | | x | x | x | |
| 31 | | x | | | | | x | | | | x | | | x | | | | x | | | | | x | x | x | |
| 32 | | x | | | | | x | | | | x | | | x | | x | | | | | | | x | | x | |
| 33 | x | | | | | | x | | | x | | | | x | | x | | | | | | | x | x | | |
| 34 | x | | | | | | x | | | | x | | | x | x | | | | | | | x | x | x | x | |
| 35 | x | | | | | | x | | | | x | | | x | x | | | | | | | x | | | | |
| 36 | x | | | | | | x | | | | x | | | x | | x | | | | | | x | x | x | x | |
| 37 | | x | | | | | x | | | | x | | | x | | x | | | | | | | x | x | | |
| 38 | | x | | | | | x | | | | x | | | x | | | x | | | | | | x | x | x | |

10.3 Age group 35-54

| | 1 | | | | | | 2 | | | | | 3 | | | | | | 4 | | | | | | 5 | | |
|-----------|---|---|-----------|-----------|---|---|----------|-----------|----------|----------|----------|----------|-----------|-----------|----------|----------|----------|----------|-----------|----------|----------|----------|----------|-----------|----------|---|
| | A | B | C | D | E | F | A | B | C | D | E | A | B | C | D | E | F | A | B | C | D | E | F | A | B | N |
| S | | | 36 | | | | 7 | 26 | 3 | 0 | 0 | 7 | 18 | 10 | 1 | 0 | 0 | 6 | 12 | 9 | 6 | 2 | 1 | 32 | 4 | |
| 1 | | | x | | | | x | | | | | x | | | | | x | | | | | | | | x | |
| 2 | | | x | | | | | x | | | | | x | | | | | x | | | | | x | | 2 | |
| 3 | | | x | | | | | x | | | | | | x | | | | | x | | | | x | | 2 | |
| 4 | | | x | | | | | x | | | | | x | | | | | | | x | | | x | | 2 | |
| 5 | | | x | | | | x | | | | | | x | | | | | | x | | | | x | | 2 | |
| 6 | | | x | | | | | | x | | | | | x | | | | | | x | | | x | | 2 | |
| 7 | | | x | | | | | x | | | | | | x | | | | | | x | | | x | | 2 | |
| 8 | | | x | | | | x | | | | | x | | | | | | | x | | | | x | | 2 | |
| 9 | | | x | | | | | x | | | | | x | | | | | | | x | | | x | | 2 | |
| 10 | | | x | | | | | | x | | | | | x | | | | | | x | | | x | | 1 | |
| 11 | | | x | | | | | x | | | | | | x | | | | | | | x | | x | | 2 | |
| 12 | | | x | | | | | x | | | | | x | | | | | | x | | | | x | | 2 | |
| 13 | | | x | | | | | | x | | | | | x | | | | | x | | | | x | | 1 | |
| 14 | | | x | | | | | x | | | | x | | | | | | | x | | | | | x | | |
| 15 | | | x | | | | | x | | | | | x | | | | | | x | | | | x | | 1 | |
| S1 | | | 15 | | | | 3 | 9 | 3 | 0 | 0 | 3 | 6 | 5 | 0 | 0 | 0 | 2 | 5 | 1 | 5 | 1 | 1 | 13 | 2 | |
| S2 | | | | 21 | | | 4 | 17 | 0 | 0 | 0 | 4 | 12 | 5 | 0 | 0 | 0 | 4 | 7 | 8 | 1 | 1 | 0 | 19 | 2 | |
| 1 | | | | x | | | | x | | | | | | x | | | | | | x | | | x | | 2 | |
| 2 | | | | x | | | | x | | | | | x | | | | | | x | | | | x | | 1 | |
| 3 | | | | x | | | | x | | | | | x | | | | | | x | | | | x | | 1 | |
| 4 | | | | x | | | | x | | | | | x | | | | | | x | | | | x | | 2 | |
| 5 | | | | x | | | | x | | | | | x | | | | | | | x | | | x | | 1 | |
| 6 | | | | x | | | | x | | | | | x | | | | | | | x | | | x | | 2 | |
| 7 | | | | x | | | | x | | | | | | x | | | | | | x | | | x | | 2 | |
| 8 | | | | x | | | | x | | | | | | x | | | | | | | x | | x | | 3 | |
| 9 | | | | x | | | | x | | | | | | x | | | | | | x | | | x | | 3 | |
| 10 | | | | x | | | | x | | | | | x | | | | | | x | | | | x | | 1 | |
| 11 | | | | x | | | | x | | | | | x | | | | | | x | | | | x | | 1 | |
| 12 | | | | x | | | | x | | | | | | x | | | | | | x | | | x | | 3 | |
| 13 | | | | x | | | | x | | | | | x | | | | | | | x | | | x | | 1 | |
| 14 | | | | x | | | | x | | | | | x | | | | | | | | x | | x | | 1 | |
| 15 | | | | x | | | | x | | | | | x | | | | | | | x | | | x | | 1 | |
| 16 | | | | x | | | | x | | | | | x | | | | | | x | | | | x | | 1 | |
| 17 | | | | x | | | | x | | | | | x | | | | | | | x | | | x | | 1 | |
| 18 | | | | x | | | | x | | | | | x | | | | | | | x | | | | x | | |
| 19 | | | | x | | | | x | | | | | x | | | | | | x | | | | | x | | |
| 20 | | | | x | | | | x | | | | | x | | | | | | x | | | | x | | 1 | |
| 21 | | | | x | | | | x | | | | | x | | | | | | x | | | | x | | 1 | |

Appendix II Responses Summary Tabulation

| | 6. Brand Names | | | 7 | | 8 | | | | | | | | | | | 9 | | | | | 10 | | |
|-----------|----------------|------|---|-----------|-----------|-----------|-----------|-----------|-----------|----------|----------|----------|----------|----------|----------|----------|-----------|----------|----------|-----------|----------|----------|-----------|-----------|
| | 1 | 2 | 3 | A | B | A | B | C | D | E | F | G | H | I | J | K | L | A | B | C | D | E | A | B |
| S | | | | 12 | 24 | 17 | 18 | 23 | 18 | 6 | 7 | 9 | 8 | 1 | 2 | 2 | 14 | 5 | 0 | 27 | 4 | 0 | 27 | 10 |
| 1 | | | | | x | | x | | | | | | | | | | | | | x | | | x | |
| 2 | Aux | *2 | | | x | x | x | x | x | | | | | | | | | | | x | | | x | |
| 3 | XK | *2 | | x | | x | x | x | | | | | | | | | x | | | x | | | x | |
| 4 | haier | *2 | | x | | | x | x | x | x | | | | | | | | | | x | | | x | |
| 5 | haier | Gree | | | x | | | x | x | | | | | | | | | | | x | | | x | |
| 6 | LG | *2 | | | x | x | | x | x | x | | | | | | | x | | | x | | | x | |
| 7 | CL | *2 | | x | | | x | x | x | | | | | | | | x | | | x | | | | x |
| 8 | Gree | Mit | | | x | | | | | | x | | | | | | | | | x | | | x | |
| 9 | Mit | *2 | | x | | x | | x | x | | x | | | | | | | | | x | | | | x |
| 10 | MD | | | | x | | x | x | | | x | | | | | | x | | | x | | | x | |
| 11 | MD | | | | x | | x | | | | x | | | | | | | | | x | | | - | - |
| 12 | haier | *2 | | | x | x | | | | | | x | | | | x | x | | | | x | | x | |
| 13 | haier | | | | x | x | | | | | | | x | x | | | x | | | | | | x | |
| 14 | | | | x | | x | | x | | | | x | x | | | | | | | | x | | | x |
| 15 | haier | | | | x | x | | | | | | x | x | | | | x | | | | x | | x | |
| S1 | | | | 5 | 10 | 8 | 7 | 9 | 6 | 2 | 4 | 3 | 3 | 1 | 0 | 2 | 6 | 1 | 0 | 11 | 3 | 0 | 12 | 4 |
| S2 | | | | 7 | 14 | 9 | 11 | 14 | 12 | 4 | 3 | 6 | 5 | 0 | 2 | 0 | 8 | 4 | 0 | 16 | 1 | 0 | 15 | 6 |
| 1 | CL | *2 | | | x | | | | | | x | | | | | | x | | | x | | | | x |
| 2 | LG | | | | x | x | x | x | x | | | | | | | | | x | | | | | | x |
| 3 | MD | | | | x | x | x | x | x | | | | | | | | | | | x | | | x | |
| 4 | Mit | Phi | | | x | | | x | x | x | | | | | | | | x | | | | | x | |
| 5 | haier | | | | x | | | x | | x | | | | | x | | x | | | x | | | | x |
| 6 | MD | LG | | | x | | x | | | | | | | | | | | x | | | | | x | |
| 7 | amoi | Cg | | x | | | x | x | | x | | | | | | | x | x | | | | | | x |
| 8 | haier | *3 | | x | | x | | | x | | x | | | | | | x | | | x | | | | x |
| 9 | RS | *3 | | | x | | | x | x | | x | | | | | | x | | | x | | | x | |
| 10 | Gree | | | | x | x | x | x | | | | x | | | | | | | | x | | | x | |
| 11 | haier | | | | x | x | | x | x | | | | | | | | | | | x | | | x | |
| 12 | haier | *3 | | | x | | x | | x | | | | | | | | x | | | | x | | | x |
| 13 | His | | | | x | | x | x | | | | x | | | | | x | | | x | | | x | |
| 14 | DB | | | x | | x | x | x | x | | | | | | | | | | | x | | | x | |
| 15 | Gree | | | | x | | x | x | | | | | | | | | | | | x | | | x | |
| 16 | LG | | | x | | | | x | x | | | x | x | | | | | | | x | | | x | |
| 17 | haier | | | | x | x | | x | x | | | | | | x | | | | | x | | | x | |
| 18 | | | | x | | | | | x | x | | x | x | | | | | | | x | | | x | |
| 19 | | | | x | | x | x | x | | | | | x | | | | | | | x | | | | x |
| 20 | MD | | | x | | x | | | | | | x | x | | | | x | | | x | | | x | |
| 21 | Mit | | | | x | | x | | x | | | x | x | | | | | | | x | | | x | |

Appendix II Responses Summary Tabulation

| | 11 | | | | | 12 | | | | 13 | | | | 14 | | 15 | | | | | | 16 | | | | |
|-----------|-----------|-----------|----------|----------|----------|----------|-----------|-----------|----------|----------|-----------|-----------|----------|----------|-----------|----------|-----------|-----------|----------|----------|----------|-----------|-----------|-----------|-----------|----------|
| | A | B | C | D | E | A | B | C | D | A | B | C | D | A | B | A | B | C | D | E | F | A | B | C | D | E |
| S | 12 | 19 | 3 | 0 | 2 | 0 | 10 | 24 | 2 | 1 | 14 | 17 | 4 | 1 | 35 | 8 | 15 | 13 | 0 | 0 | 0 | 19 | 19 | 23 | 11 | 9 |
| 1 | | | | | x | | | | x | | | | x | x | x | | | | | | | x | | | | |
| 2 | x | | | | | | | x | | | | x | | x | x | | | | | | | | | | x | |
| 3 | x | | | | | | x | | | | | x | | x | | | | x | | | | x | | x | | |
| 4 | | x | | | | | x | | | | x | | | x | | | | x | | | | | | x | x | |
| 5 | x | | | | | | x | | | | x | | | x | x | | | | | | | x | x | | | |
| 6 | | | x | | | | | x | | | x | | | x | x | | | | | | | x | | x | | x |
| 7 | | x | | | | | x | | | | x | | | x | | | x | | | | | x | x | x | | |
| 8 | x | | | | | | x | | | | x | | | x | | | | x | | | | | | x | | |
| 9 | x | | | | | | | x | | | x | | | x | | | | x | | | | x | | x | | x |
| 10 | | x | | | | | x | | | | | x | | x | | | x | | | | | | x | x | | |
| 11 | | x | | | | | | x | | | x | | | x | | | x | | | | | | | x | x | x |
| 12 | | | x | | | | | x | | | | x | | x | | | x | | | | | | x | x | | |
| 13 | | x | | | | | | x | | | | x | | x | | | x | | | | | x | x | | | |
| 14 | | x | | | | | | x | | | x | | | x | | | | x | | | | x | | x | | |
| 15 | | x | | | | | | x | | | | x | | x | | | | x | | | | | x | x | | x |
| S1 | 5 | 7 | 2 | 0 | 1 | 0 | 6 | 8 | 1 | 0 | 8 | 6 | 1 | 1 | 14 | 5 | 4 | 6 | 0 | 0 | 0 | 8 | 6 | 12 | 2 | 4 |
| S2 | 7 | 12 | 1 | 0 | 1 | 0 | 4 | 16 | 1 | 1 | 6 | 11 | 3 | 0 | 21 | 3 | 11 | 7 | 0 | 0 | 0 | 11 | 13 | 11 | 9 | 5 |
| 1 | | | | | x | | | | x | | | | x | x | x | | | | | | | | | x | | |
| 2 | | x | | | | | | x | | | | x | | x | | | | x | | | | | x | x | | |
| 3 | | x | | | | | | x | | | x | | | x | | | x | | | | | x | x | | | |
| 4 | | x | | | | | | x | | | | x | | x | | | x | | | | | x | | | | |
| 5 | | x | | | | | x | | | | x | | | x | | | x | | | | | | x | | x | |
| 6 | | x | | | | | | x | | | | | x | x | x | | | | | | | | | | | x |
| 7 | | x | | | | | | x | | | | x | | x | | | x | | | | | | | | x | |
| 8 | x | | | | | | | x | | | | x | | x | | | | x | | | | x | x | x | | x |
| 9 | x | | | | | | | x | | | | x | | x | | | | x | | | | x | x | | | x |
| 10 | x | | | | | | | x | | | | x | | x | | | | x | | | | | x | x | x | |
| 11 | x | | | | | | | x | | | | x | | x | | | x | | | | | x | x | x | x | |
| 12 | x | | | | | | | x | | | | | x | x | | | x | | | | | x | x | | | x |
| 13 | | | x | | | | | x | | | | x | | x | x | | | | | | | | x | | | |
| 14 | | x | | | | | | x | | | | x | | x | | | x | | | | | x | x | x | | |
| 15 | | x | | | | | | x | | | | x | | x | | | x | | | | | | x | x | | |
| 16 | | x | | | | | | x | | | | x | | x | | | x | | | | | x | | x | x | |
| 17 | x | | | | | | | x | | | | x | | x | | | | x | | | | | x | | x | |
| 18 | x | | | | | | | x | | | | x | | x | | | | x | | | | x | x | x | x | x |
| 19 | | x | | | | | | x | | | | x | | x | | | x | | | | | x | | x | | |
| 20 | | x | | | | | | x | | | | x | | x | | | x | | | | | x | | | x | |
| 21 | | x | | | | | | x | | | | x | | x | | | | x | | | | | | x | x | |
| 22 | | | | | | | | | | | | | | | | | | | | | | | | | | |

10.4 Age group 55 and above

| | 1 | | | | | | 2 | | | | | 3 | | | | | | 4 | | | | | | 5 | | | | |
|-----------|---|---|---|---|----|---|----|---|---|---|---|---|----|----|---|---|---|---|----|---|---|---|---|----|---|---|---|---|
| | A | B | C | D | E | F | A | B | C | D | E | A | B | C | D | E | F | A | B | C | D | E | F | A | B | N | | |
| S | | | | | 27 | | 12 | 8 | 7 | 0 | 0 | 0 | 14 | 10 | 2 | 1 | 0 | 2 | 13 | 7 | 4 | 1 | 0 | 21 | 6 | | | |
| 1 | | | | | x | | | | x | | | | x | | | | | | | x | | | | | x | | | |
| 2 | | | | | x | | | | x | | | | x | | | | | | | | x | | | | x | | | |
| 3 | | | | | x | | | x | | | | | x | | | | | | x | | | | | | x | | | |
| 4 | | | | | x | | | x | | | | | x | | | | | | | x | | | | x | | 1 | | |
| 5 | | | | | x | | | | x | | | | x | | | | | | | | x | | | | x | | | |
| 6 | | | | | x | | | x | | | | | x | | | | | | | x | | | | x | | 2 | | |
| 7 | | | | | x | | | x | | | | | x | | | | | | | x | | | | x | | 1 | | |
| S1 | | | | | 7 | | 1 | 3 | 3 | 0 | 0 | 0 | 6 | 1 | 0 | 0 | 0 | 0 | 1 | 4 | 2 | 0 | 0 | 3 | 4 | | | |
| S2 | | | | | 20 | | 11 | 5 | 4 | 0 | 0 | 0 | 8 | 9 | 2 | 1 | 0 | 2 | 12 | 3 | 2 | 1 | 0 | 18 | 2 | | | |
| 1 | | | | | x | | | | x | | | | | x | | | | | x | | | | | x | | 2 | | |
| 2 | | | | | x | | x | | | | | | x | | | | | | x | | | | | x | | 1 | | |
| 3 | | | | | x | | x | | | | | | x | | | | | | x | | | | | x | | 2 | | |
| 4 | | | | | x | | x | | | | | | x | | | | | | x | | | | | x | | 1 | | |
| 5 | | | | | x | | x | | | | | | x | | | | | | x | | | | | x | | 2 | | |
| 6 | | | | | x | | | | x | | | | | x | | | | | | | x | | | | x | | 3 | |
| 7 | | | | | x | | | x | | | | | | | x | | | | | x | | | | | x | | 3 | |
| 8 | | | | | x | | x | | | | | | x | | | | | | | x | | | | | x | | 1 | |
| 9 | | | | | x | | | x | | | | | | x | | | | | | | x | | | | x | | 2 | |
| 10 | | | | | x | | x | | | | | | | x | | | | | | x | | | | | x | | 2 | |
| 11 | | | | | x | | x | | | | | | | x | | | | | | x | | | | | x | | 2 | |
| 12 | | | | | x | | | x | | | | | | x | | | | | | x | | | | | x | | 3 | |
| 13 | | | | | x | | x | | | | | | | x | | | | | | | x | | | | x | | 2 | |
| 14 | | | | | x | | x | | | | | | | x | | | | | | | x | | | | x | | 1 | |
| 15 | | | | | x | | | x | | | | | x | | | | | | | x | | | | | x | | 2 | |
| 16 | | | | | x | | | x | | | | | | x | | | | | | | | x | | | x | | 2 | |
| 17 | | | | | x | | | | x | | | | | | x | | | | | | | | x | | | x | | 3 |
| 18 | | | | | x | | x | | | | | | x | | | | | | | x | | | | | | x | | |
| 19 | | | | | x | | | | x | | | | x | | | | | | | | x | | | | x | | 1 | |
| 20 | | | | | x | | x | | | | | | | | | x | | | | | x | | | | | x | | |

Appendix II Responses Summary Tabulation

| | 6. Brand Names | | | 7 | | 8 | | | | | | | | | | | | 9 | | | | | 10 | |
|-----------|----------------|------|-----|----------|-----------|----------|-----------|-----------|-----------|----------|----------|----------|----------|----------|----------|----------|-----------|----------|----------|-----------|----------|----------|-----------|----------|
| | 1 | 2 | 3 | A | B | A | B | C | D | E | F | G | H | I | J | K | L | A | B | C | D | E | A | B |
| S | | | | 5 | 22 | 8 | 13 | 17 | 14 | 9 | 5 | 6 | 9 | 2 | 0 | 3 | 10 | 9 | 2 | 11 | 5 | 0 | 20 | 7 |
| 1 | | | | x | | x | x | | x | | | x | | | | | | | | x | | | | x |
| 2 | | | | | x | | | x | x | | x | | | | | | x | | | x | | | | x |
| 3 | | | | x | | | | x | x | | | | x | | | | x | | | x | | | | x |
| 4 | haier | | | | x | x | | | | | x | | | | | | x | | | x | | | | x |
| 5 | | | | | x | | | x | x | | x | | | | | | x | | | x | | | | x |
| 6 | MD | *2 | | | x | | x | x | x | | | | | | x | | | | | x | | | | x |
| 7 | Gree | | | | x | | x | x | | | | | x | | | | x | x | | | | | | x |
| S1 | | | | 2 | 5 | 2 | 3 | 5 | 5 | 0 | 3 | 1 | 2 | 1 | 0 | 0 | 5 | 1 | 0 | 6 | 0 | 0 | 6 | 1 |
| S2 | | | | 3 | 17 | 6 | 10 | 12 | 9 | 9 | 2 | 5 | 7 | 1 | 0 | 3 | 5 | 8 | 2 | 5 | 5 | 0 | 14 | 6 |
| 1 | Gree | *2 | | | x | | x | | | x | | x | | | | | x | x | | | | | | x |
| 2 | CL | | | | x | | | x | x | x | | | x | | | | | | | | x | | | x |
| 3 | MD | pana | | | x | | x | x | x | | | | | | | | x | | | x | | | | x |
| 4 | LG | | | | x | | x | x | | | | x | x | | | | | | | | x | | | x |
| 5 | haier | Gree | | | x | x | x | x | | x | | | | | | | | x | | | | | | x |
| 6 | haier | pana | Mit | | x | | | | x | x | | | x | | | | x | | | | x | | | x |
| 7 | haier | MD | CH | | x | | | | | | x | | | | | | | x | | | | | | x |
| 8 | pana | | | | x | | x | x | x | | | | | | | | x | | | | x | | | x |
| 9 | CH | KL | | | x | | x | x | x | x | | | | | | | | | | | x | | | x |
| 10 | LG | *2 | | | x | | x | x | | | | | | | | | | | x | | | | | x |
| 11 | haier | *2 | | | x | x | | x | | | | | | | | | x | x | x | | | | | x |
| 12 | haier | *3 | | | x | | x | x | x | x | | | | | | | | x | | | | | | x |
| 13 | Gree | *2 | | | x | | | | | | | x | | | | | | x | | | | | | x |
| 14 | LG | | | | x | | | x | x | x | | | x | | | | | x | | | | | | x |
| 15 | pana | CL | | | x | | | | | | | x | | | | | | x | | | | | | x |
| 16 | haier | *2 | | | x | | x | x | x | | | | | | | | x | | x | | | | | x |
| 17 | haier | *3 | | | x | x | x | | | | x | | | | | | x | | | x | | | | x |
| 18 | | | | | x | | x | | x | | | | x | x | | | | | | x | | | | x |
| 19 | sharp | | | | x | | x | | | x | | x | x | | | | | | | x | | | | x |
| 20 | | | | | x | | x | | | x | | | x | | | | | | | x | | | | x |

Appendix II Responses Summary Tabulation

| | 11 | | | | | 12 | | | | 13 | | | | 14 | | 15 | | | | | | 16 | | | | |
|-----------|----------|-----------|----------|----------|----------|----------|----------|-----------|----------|----------|----------|-----------|----------|----------|-----------|----------|-----------|----------|----------|----------|----------|-----------|----------|-----------|-----------|-----------|
| | A | B | C | D | E | A | B | C | D | A | B | C | D | A | B | A | B | C | D | E | F | A | B | C | D | E |
| S | 9 | 15 | 2 | 1 | 0 | 2 | 6 | 13 | 6 | 1 | 6 | 16 | 4 | 4 | 23 | 5 | 17 | 5 | 0 | 0 | 0 | 13 | 8 | 17 | 11 | 10 |
| 1 | x | | | | | x | | | | | x | | | | x | | | x | | | | | | x | | x |
| 2 | | x | | | | | | x | | | | x | | | x | | x | | | | | x | | x | | |
| 3 | | x | | | | | | x | | | | x | | | x | | | x | | | | x | x | x | | x |
| 4 | | x | | | | | x | | | | x | | | | x | | | x | | | | | x | x | | x |
| 5 | | x | | | | | | x | | | | x | | | x | | x | | | | | x | | x | | |
| 6 | x | | | | | | | | x | | | x | | | x | | x | | | | | x | x | x | | x |
| 7 | | | x | | | | | x | | | | x | | | x | x | | | | | | | | | x | x |
| S1 | 2 | 4 | 1 | 0 | 0 | 1 | 1 | 4 | 1 | 0 | 2 | 5 | 0 | 0 | 7 | 1 | 3 | 3 | 0 | 0 | 0 | 4 | 3 | 6 | 1 | 5 |
| S2 | 7 | 11 | 1 | 1 | 0 | 1 | 5 | 9 | 5 | 1 | 4 | 11 | 4 | 4 | 16 | 4 | 14 | 2 | 0 | 0 | 0 | 9 | 5 | 11 | 10 | 5 |
| 1 | x | | | | | | | x | | | | x | | | x | | x | | | | | x | x | | | |
| 2 | | x | | | | | x | | | | x | | | | x | | x | | | | | | | x | x | |
| 3 | x | | | | | | | x | | | | x | | x | | | x | | | | | x | | | | x |
| 4 | x | | | | | | | | x | | | | x | | x | | x | | | | | | x | | | |
| 5 | | x | | | | | | | x | | | | x | | x | | x | | | | | | | x | x | x |
| 6 | | x | | | | | | x | | | | x | | | x | x | | | | | | | | | x | x |
| 7 | | x | | | | | | x | | | | x | | x | | x | | | | | | | | x | | |
| 8 | | | | x | | | x | | | | x | | | | x | | x | | | | | x | x | x | x | |
| 9 | | x | | | | | | | x | | | | x | x | | | x | | | | | | x | x | x | |
| 10 | x | | | | | x | | | | | | x | | | x | | x | | | | | | | x | | |
| 11 | x | | | | | | x | | | | x | | | | x | | x | | | | | | | x | | |
| 12 | | x | | | | | | x | | | | x | | | x | | x | | | | | x | | | | |
| 13 | x | | | | | | | | x | | | x | | | x | | | x | | | | x | | | | |
| 14 | | x | | | | | | x | | | | x | | | x | | x | | | | | x | | x | x | |
| 15 | | | x | | | | x | | | x | | | | x | | | x | | | | | x | | | | |
| 16 | | x | | | | | x | | | | x | | | | x | x | | | | | | x | | | | |
| 17 | | x | | | | | | | x | | | | x | | x | x | | | | | | | | | x | x |
| 18 | | x | | | | | | x | | | | x | | | x | | x | | | | | | | x | x | x |
| 19 | x | | | | | | | x | | | | x | | | x | | x | | | | | x | x | x | x | |
| 20 | | x | | | | | | x | | | | x | | | x | | | x | | | | | | x | x | |

10.5 Special case

| | 1 | | | | | | 2 | | | | | 3 | | | | | | 4 | | | | | | 5 | | |
|----------|----------|-----------|----------|----------|----------|----------|----------|-----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|-----------|----------|---|
| | A | B | C | D | E | F | A | B | C | D | E | A | B | C | D | E | F | A | B | C | D | E | F | A | B | N |
| S | 2 | 11 | 1 | 1 | 0 | 0 | 4 | 10 | 1 | 0 | 0 | 5 | 7 | 2 | 1 | 0 | 0 | 2 | 4 | 6 | 3 | 0 | 0 | 14 | 1 | |
| 1 | x | | | | | | x | | | | | x | | | | | | x | | | | | | x | | 1 |
| 2 | x | | | | | | | x | | | | x | | | | | | | | | x | | | x | | 1 |
| 3 | | x | | | | | | x | | | | | x | | | | | | x | | | | | x | | 2 |
| 4 | | x | | | | | | x | | | | | x | | | | | | x | | | | | | x | |
| 5 | | x | | | | | | | x | | | | x | | | | | | | | x | | | x | | 2 |
| 6 | | x | | | | | | x | | | | | x | | | | | | x | | | | | x | | 3 |
| 7 | | x | | | | | | x | | | | | x | | | | | | | x | | | | x | | 1 |
| 8 | | x | | | | | | x | | | | | | x | | | | | | x | | | | x | | 2 |
| 9 | | x | | | | | | x | | | | | x | | | | | | x | | | | | x | | 1 |
| 10 | | x | | | | | | x | | | | | x | | | | | | | x | | | | x | | 3 |
| 11 | | x | | | | | | x | | | | | | x | | | | | | x | | | | x | | 3 |
| 12 | | x | | | | | | x | | | | | x | | | | | | | x | | | | x | | 1 |
| 13 | | x | | | | | | x | | | | | x | | | | | | | x | | | | x | | 2 |
| 14 | | | x | | | | | x | | | | | x | | | | | | | | x | | | x | | 3 |
| 15 | | | | x | | | | x | | | | | | x | | | | | x | | | | | x | | 2 |

| | 6. Brand Names | | | 7 | | | 8 | | | | | | | | | | | | 9 | | | | | 10 | |
|----------|----------------|-------|---|----------|-----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|-----------|----------|----------|-----------|----------|--|
| | 1 | 2 | 3 | A | B | A | B | C | D | E | F | G | H | I | J | K | L | A | B | C | D | E | A | B | |
| S | | | | 5 | 10 | 9 | 6 | 9 | 7 | 1 | 5 | 3 | 6 | 1 | 0 | 0 | 6 | 0 | 0 | 15 | 0 | 0 | 11 | 4 | |
| 1 | CL | | | | x | x | x | x | x | | | | | | | | | | | x | | | x | | |
| 2 | His | | | | x | x | | x | | | x | | x | | | | | | | x | | | | x | |
| 3 | KL | | | x | | x | | x | | | | x | x | | | | | | | x | | | | x | |
| 4 | | | | | x | | | | x | | x | x | x | | | | | | | x | | | | x | |
| 5 | haier | augm | | | x | x | x | x | x | | | | | | | | | | | x | | | | x | |
| 6 | Mit | *3 | | x | | x | x | | x | | | | x | | | | | | | x | | | | x | |
| 7 | LG | | | x | | | | | | | x | | | | | | | | | x | | | | x | |
| 8 | Mit | *2 | | | x | x | x | | x | | | | | | | | | | | x | | | | x | |
| 9 | CL | | | | x | | x | x | | x | | | | | | | | | | x | | | | x | |
| 10 | haier | | | | x | x | | x | | | | | x | | | | | | | x | | | | x | |
| 11 | Aux | Mit*2 | | | x | x | | | x | | x | | x | | | | | | | x | | | | x | |
| 12 | XH | | | x | | | | x | | | | | | | | | | | | x | | | | x | |
| 13 | MD | | | | x | x | | | | | | x | | | | | | | | x | | | | x | |
| 14 | Hit | Mit*2 | | x | | | | x | x | | x | | | | | | | | | x | | | | x | |
| 15 | Chigo | | | | x | | x | x | | | | | | x | | | | | | x | | | | x | |

Appendix II Responses Summary Tabulation

| | 11 | | | | | 12 | | | | 13 | | | | 14 | | 15 | | | | | | 16 | | | | | |
|----------|----------|----------|----------|----------|----------|----------|----------|-----------|----------|-----------|----------|----------|----------|----------|-----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|---|
| | A | B | C | D | E | A | B | C | D | A | B | C | D | A | B | A | B | C | D | E | F | A | B | C | D | E | |
| S | 9 | 3 | 3 | 0 | 0 | 0 | 2 | 12 | 1 | 10 | 4 | 1 | 0 | 5 | 10 | 6 | 5 | 3 | 1 | 0 | 0 | 3 | 7 | 5 | 6 | 7 | |
| 1 | x | | | | | | | x | | | x | | | | x | | x | | | | | x | x | x | x | | |
| 2 | x | | | | | | | x | | x | | | | x | | x | | | | | | | | | | | x |
| 3 | | x | | | | | | x | | | x | | | | x | x | | | | | | | | | | | x |
| 4 | | | x | | | | | x | | | x | | | | x | x | | | | | | | x | | | | x |
| 5 | | | x | | | | | x | | | x | | | x | | x | | | | | | | x | | | | |
| 6 | x | | | | | | | | x | | x | | | | x | x | | | | | | x | x | x | x | x | |
| 7 | | x | | | | | x | | | x | | | | | x | | | | x | | | | | x | | | |
| 8 | x | | | | | | | x | | x | | | | x | | x | | | | | | | x | | | x | |
| 9 | | x | | | | | | x | | x | | | | | x | | x | | | | | | | | | | x |
| 10 | x | | | | | | | x | | x | | | | | x | | | x | | | | | | | | x | x |
| 11 | x | | | | | | | x | | x | | | | | x | | x | | | | | | | x | | | |
| 12 | x | | | | | | x | | | x | | | | | x | | | x | | | | | | | | x | |
| 13 | x | | | | | | | x | | x | | | | | x | | | x | | | | | x | x | x | | |
| 14 | x | | | | | | | x | | x | | | | x | | | x | | | | | | x | | | | |
| 15 | | | x | | | | | x | | x | | | | x | | | x | | | | | x | | | | | x |

11 Appendix III Frequency and Cross Tabulation

Question 1

| Your Age | | | | | |
|--------------------------|-------|------------|-------|------------|------------|
| Group Name | Age | Responders | Age | Responders | Percentage |
| New generation consumers | 15-24 | 37 | 15-24 | 37 | 26.8 |
| Young consumers | 25-34 | 38 | 25-34 | 38 | 27.5 |
| Middle age consumers | 35-54 | 36 | 35-44 | 15 | 10.9 |
| | | | 45-54 | 21 | 15.2 |
| Old consumers | 55+ | 27 | 55-64 | 7 | 5.1 |
| | | | 65+ | 20 | 14.5 |

Question 2

| Your family members | | | | | |
|---------------------|--------------|--------------|--------------|--------------|--------------|
| | Total | Age | | | |
| | | 15-24 | 25-34 | 35-54 | 55 & above |
| | 138 | 37 | 38 | 36 | 27 |
| | <i>100.0</i> | <i>100.0</i> | <i>100.0</i> | <i>100.0</i> | <i>100.0</i> |
| 1-2 | 41 | 4 | 18 | 7 | 12 |
| | <i>29.7</i> | <i>10.8</i> | <i>47.4</i> | <i>19.5</i> | <i>44.5</i> |
| 3-4 | 80 | 29 | 17 | 26 | 8 |
| | <i>58.0</i> | <i>78.4</i> | <i>44.7</i> | <i>72.2</i> | <i>29.6</i> |
| 5-6 | 17 | 4 | 3 | 3 | 7 |
| | <i>12.3</i> | <i>10.8</i> | <i>7.9</i> | <i>8.3</i> | <i>25.9</i> |

Question 3

| Your family living area (m ²) | | | | |
|---|--------------|----------------|--------------|--------------|
| | Total | Family members | | |
| | | 1-2 | 3-4 | 5-6 |
| | 138 | 41 | 80 | 17 |
| | <i>100.0</i> | <i>100.0</i> | <i>100.0</i> | <i>100.0</i> |
| 30-60 | 17 | 10 | 6 | 1 |
| | <i>12.3</i> | <i>24.4</i> | <i>7.5</i> | <i>5.9</i> |
| 61-90 | 63 | 20 | 38 | 5 |
| | <i>45.7</i> | <i>47.8</i> | <i>47.5</i> | <i>29.4</i> |
| 91-120 | 39 | 9 | 24 | 6 |
| | <i>28.3</i> | <i>22.0</i> | <i>30.0</i> | <i>35.3</i> |
| 121-150 | 12 | 0 | 8 | 4 |
| | <i>8.7</i> | <i>0</i> | <i>10.0</i> | <i>23.5</i> |
| 151-200 | 5 | 1 | 3 | 1 |
| | <i>3.6</i> | <i>2.4</i> | <i>3.75</i> | <i>5.9</i> |

Appendix III Frequency and Cross Tabulation

| | | | | |
|------|------------|------------|-------------|----------|
| 201+ | 2 | 1 | 1 | 0 |
| | <i>1.4</i> | <i>2.4</i> | <i>1.25</i> | <i>0</i> |

Question 4

Your family income (Yuan)

| | Total | Family members | | |
|------------|--------------|----------------|--------------|--------------|
| | | 1-2 | 3-4 | 5-6 |
| | 138 | 41 | 80 | 17 |
| | <i>100.0</i> | <i>100.0</i> | <i>100.0</i> | <i>100.0</i> |
| 2000- | 9 | 5 | 4 | 0 |
| | <i>6.5</i> | <i>12.2</i> | <i>5.0</i> | <i>0</i> |
| 2000-4000 | 52 | 16 | 31 | 5 |
| | <i>37.7</i> | <i>39.0</i> | <i>38.8</i> | <i>29.4</i> |
| 4000-6000 | 39 | 16 | 18 | 5 |
| | <i>28.3</i> | <i>39.0</i> | <i>22.5</i> | <i>29.4</i> |
| 6000-8000 | 22 | 2 | 14 | 6 |
| | <i>15.9</i> | <i>5.0</i> | <i>17.5</i> | <i>35.3</i> |
| 8000-10000 | 6 | 1 | 4 | 1 |
| | <i>4.4</i> | <i>2.4</i> | <i>5.0</i> | <i>5.9</i> |
| 10000+ | 10 | 1 | 9 | 0 |
| | <i>7.2</i> | <i>2.4</i> | <i>11.2</i> | <i>0</i> |

Question 5

Air-conditioners your family have

| Total | None | 1 Unit | 2 Units | 3 Units | 4 Units | 5Units |
|-------|-------|--------|---------|---------|---------|--------|
| 138 | 22 | 45 | 47 | 19 | 3 | 2 |
| 100 | 15.94 | 32.61 | 34.06 | 13.77 | 2.17 | 1.45 |

Question 7

Your purchasing plan in the next 2 years

| | Total | Age | | | |
|------------|--------------|--------------|--------------|--------------|--------------|
| | | 15-24 | 25-34 | 35-54 | 55 & above |
| | 138 | 37 | 38 | 36 | 27 |
| | <i>100.0</i> | <i>100.0</i> | <i>100.0</i> | <i>100.0</i> | <i>100.0</i> |
| Possession | 116 | 33 | 30 | 32 | 21 |
| | <i>84.1</i> | <i>89.2</i> | <i>78.9</i> | <i>88.9</i> | <i>77.8</i> |
| Purchasing | 39 | 9 | 13 | 12 | 5 |
| | <i>28.3</i> | <i>24.3</i> | <i>34.2</i> | <i>33.3</i> | <i>18.5</i> |

Question 9

The distribution channel you will choose

| Total | Shopping | Supermarket | Electronic | Brand | Internet/TV |
|-------|----------|-------------|------------|-------|-------------|
|-------|----------|-------------|------------|-------|-------------|

Appendix III Frequency and Cross Tabulation

| | mall | | retail outlets | | showroom | |
|----------|------------|-------------|----------------|-------------|-------------|------------|
| All ages | 138 | 23 | 5 | 96 | 13 | 1 |
| | <i>100</i> | <i>16.7</i> | <i>3.6</i> | <i>69.6</i> | <i>9.4</i> | <i>0.7</i> |
| 55+ | 27 | 9 | 2 | 11 | 5 | 0 |
| | <i>100</i> | <i>33.3</i> | <i>7.4</i> | <i>40.7</i> | <i>18.5</i> | <i>0</i> |

Question 10

Domestic or foreign brand you prefer

| | Total | Age | | | |
|----------|--------------|--------------|--------------|--------------|--------------|
| | | 15-24 | 25-34 | 35-54 | 55 & above |
| | 138 | 37 | 38 | 36 | 27 |
| | <i>100.0</i> | <i>100.0</i> | <i>100.0</i> | <i>100.0</i> | <i>100.0</i> |
| Domestic | 91 | 20 | 25 | 26 | 20 |
| | <i>65.9</i> | <i>54.1</i> | <i>65.8</i> | <i>72.2</i> | <i>74.1</i> |
| Foreign | 47 | 17 | 13 | 10 | 7 |
| | <i>34.1</i> | <i>45.9</i> | <i>34.2</i> | <i>27.8</i> | <i>25.9</i> |

Question 11

If energy-conserving household devices are important

| | Total | Very important | Important | Fair | Not important | No idea |
|----------|------------|----------------|-------------|------------|---------------|------------|
| All ages | 138 | 51 | 69 | 12 | 1 | 5 |
| | <i>100</i> | <i>37.0</i> | <i>50.0</i> | <i>8.7</i> | <i>0.7</i> | <i>3.6</i> |

Question 12

If energy-conserving technology in China is developed

| | Total | Developed | Developing | Under-developed | No development at all |
|----------|------------|------------|-------------|-----------------|-----------------------|
| All ages | 138 | 3 | 27 | 93 | 15 |
| | <i>100</i> | <i>2.2</i> | <i>19.5</i> | <i>67.4</i> | <i>10.9</i> |

Question 13

How to differentiate energy-conserving identification

| | Total | Clear | Some idea | Not really | Not at all |
|----------|------------|------------|-------------|-------------|------------|
| All ages | 138 | 9 | 48 | 70 | 11 |
| | <i>100</i> | <i>6.5</i> | <i>34.8</i> | <i>50.7</i> | <i>8.0</i> |

Question 14

Normal or energy-conserving air-conditioner you will choose

| | Age | | | |
|--|-----|--|--|--|
|--|-----|--|--|--|

Appendix III Frequency and Cross Tabulation

| | Total | 15-24 | 25-34 | 35-54 | 55 & above |
|-------------------|--------------|--------------|--------------|--------------|--------------|
| | 138 | 37 | 38 | 36 | 27 |
| | <i>100.0</i> | <i>100.0</i> | <i>100.0</i> | <i>100.0</i> | <i>100.0</i> |
| Normal | 14 | 6 | 3 | 1 | 4 |
| | <i>10.1</i> | <i>16.2</i> | <i>7.9</i> | <i>2.8</i> | <i>14.8</i> |
| Energy-conserving | 124 | 31 | 35 | 35 | 23 |
| | <i>89.9</i> | <i>83.8</i> | <i>92.1</i> | <i>97.2</i> | <i>85.2</i> |

Question 15

The extra price you can accept for energy-conserving air-conditioner

| | Age | | | | |
|-----|--------------|--------------|--------------|--------------|--------------|
| | Total | 15-24 | 25-34 | 35-54 | 55 & above |
| | 138 | 37 | 38 | 36 | 27 |
| | <i>100.0</i> | <i>100.0</i> | <i>100.0</i> | <i>100.0</i> | <i>100.0</i> |
| 5% | 27 | 9 | 5 | 8 | 5 |
| | <i>19.6</i> | <i>24.3</i> | <i>13.2</i> | <i>22.2</i> | <i>18.5</i> |
| 10% | 75 | 20 | 23 | 15 | 17 |
| | <i>54.3</i> | <i>54.1</i> | <i>60.5</i> | <i>41.7</i> | <i>63.0</i> |
| 20% | 35 | 8 | 9 | 13 | 5 |
| | <i>25.4</i> | <i>21.6</i> | <i>23.7</i> | <i>36.1</i> | <i>18.5</i> |
| 30% | 1 | 0 | 1 | 0 | 0 |
| | <i>0.7</i> | <i>0</i> | <i>2.6</i> | <i>0</i> | <i>0</i> |

Question 13 (Special case)

How to differentiate energy-conserving identification

| | Total | Clear | Some idea | Not really | Not at all |
|----------|------------|-------------|-------------|------------|------------|
| All ages | 15 | 10 | 4 | 1 | 0 |
| | <i>100</i> | <i>66.7</i> | <i>26.7</i> | <i>6.6</i> | <i>0</i> |

Question 14 (Special case)

| | Total | Normal | Energy-conserving |
|----------|------------|-------------|-------------------|
| All ages | 15 | 5 | 10 |
| | <i>100</i> | <i>33.3</i> | <i>66.7</i> |

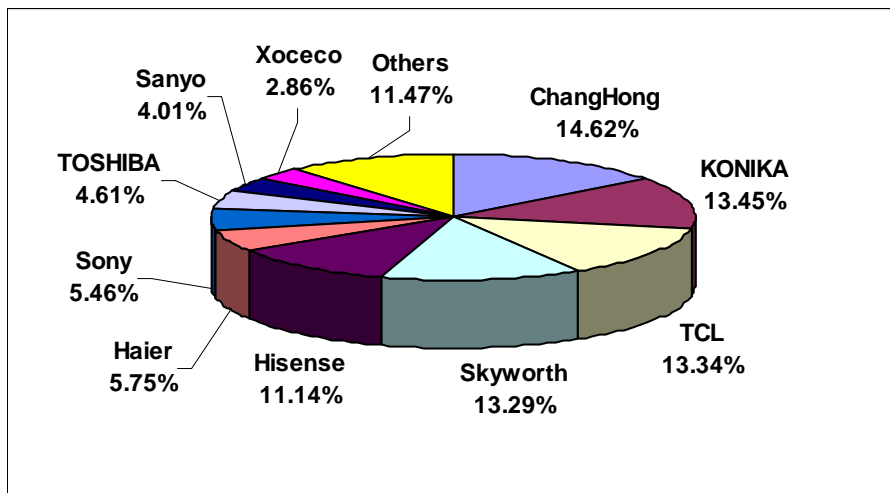
12 Appendix IV Market Share Charts

Source: adopted from Chinese magazine "Electrical household appliances technology" 04.2005, pp.18-23.

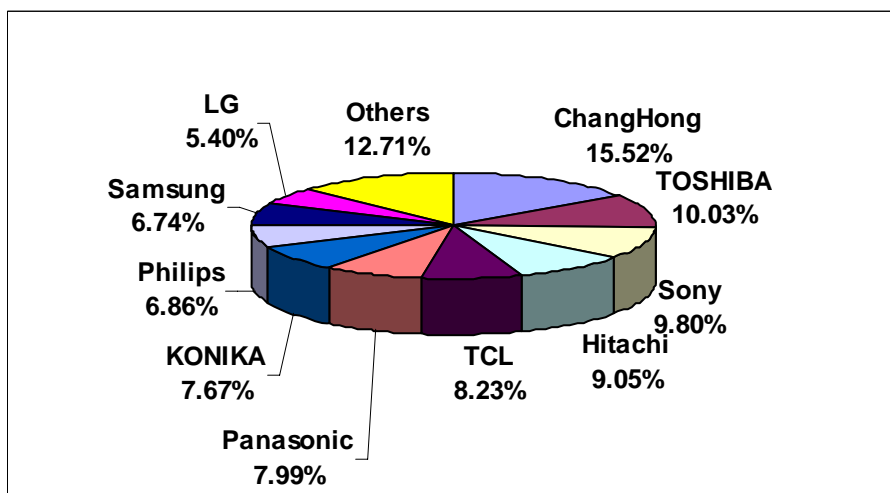
12.1 Big type appliances

(Market share of **big-type** electric household appliance brands in main Chinese shopping mall in February 2005)

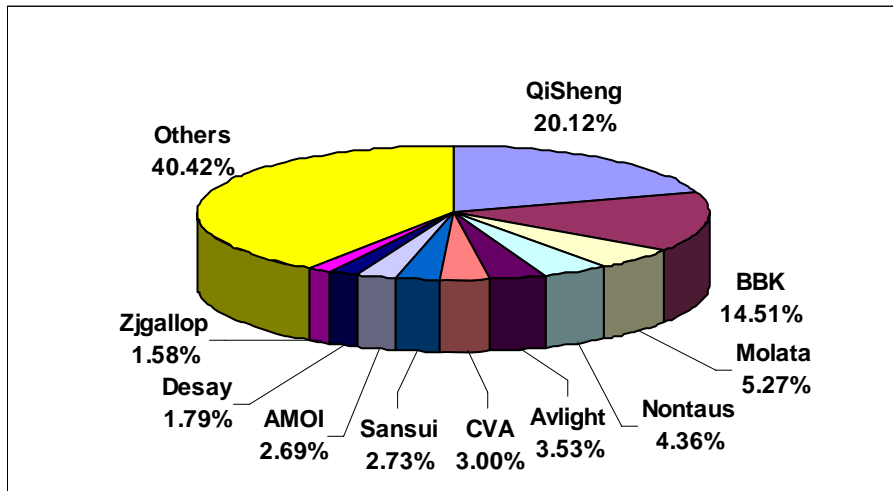
29 inches color television



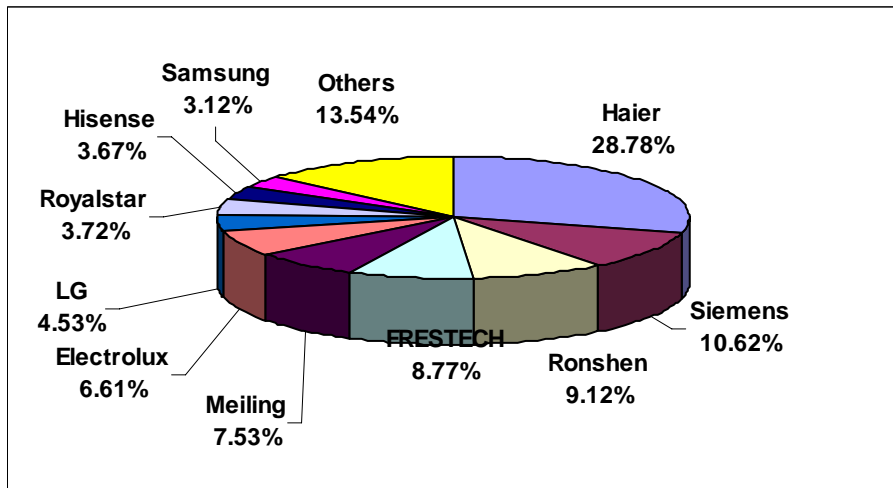
LCOS (Liquid Crystal on Silicon) color television



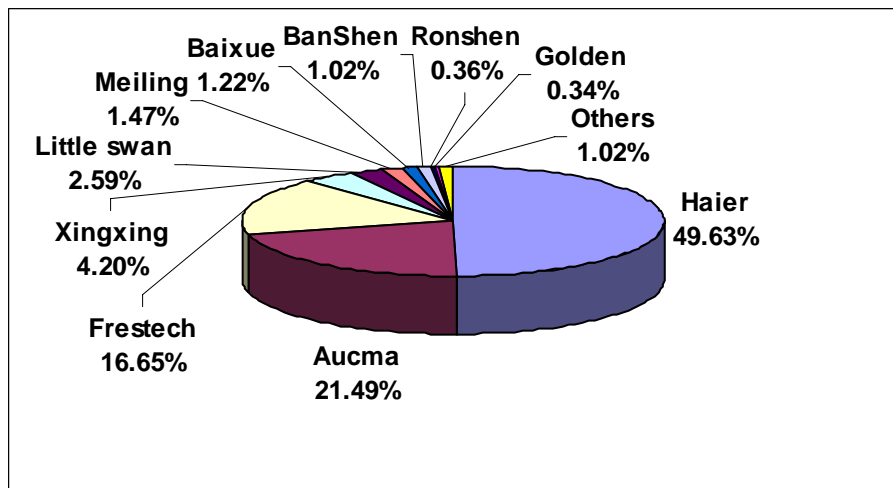
Home theater



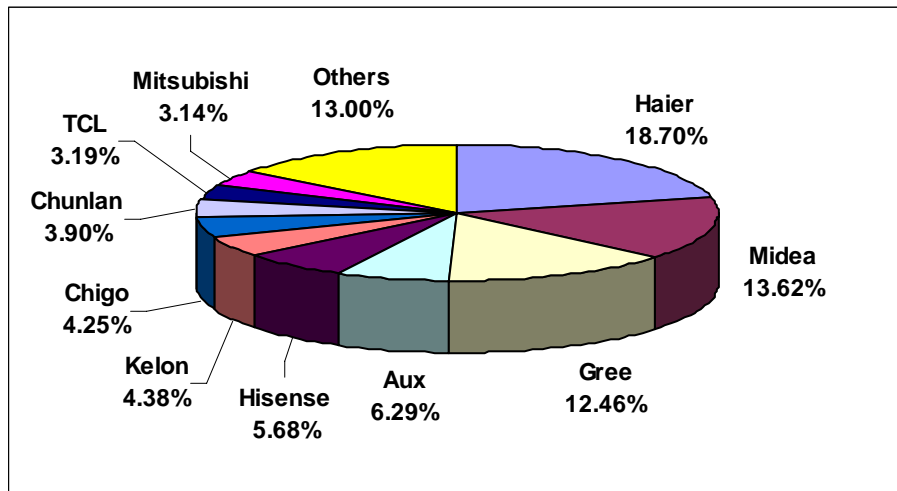
Electric refrigerator



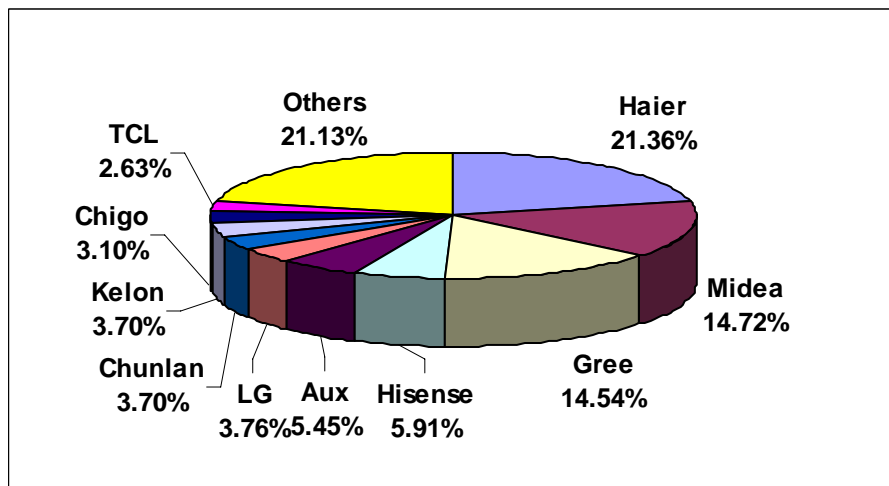
Electric freezer



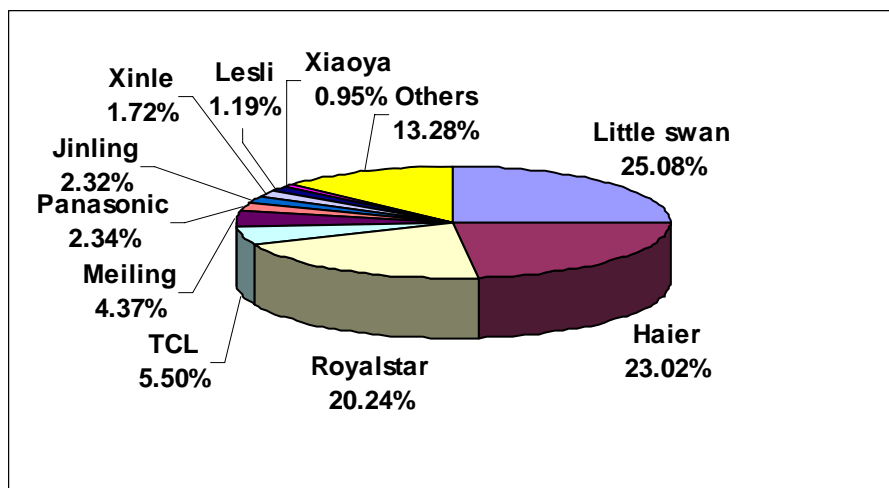
Split type air conditioner



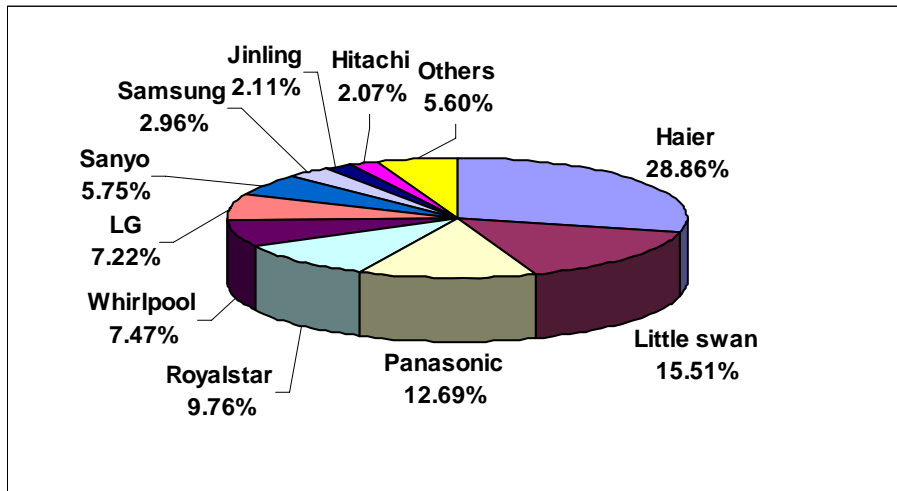
Cabinet type air conditioner



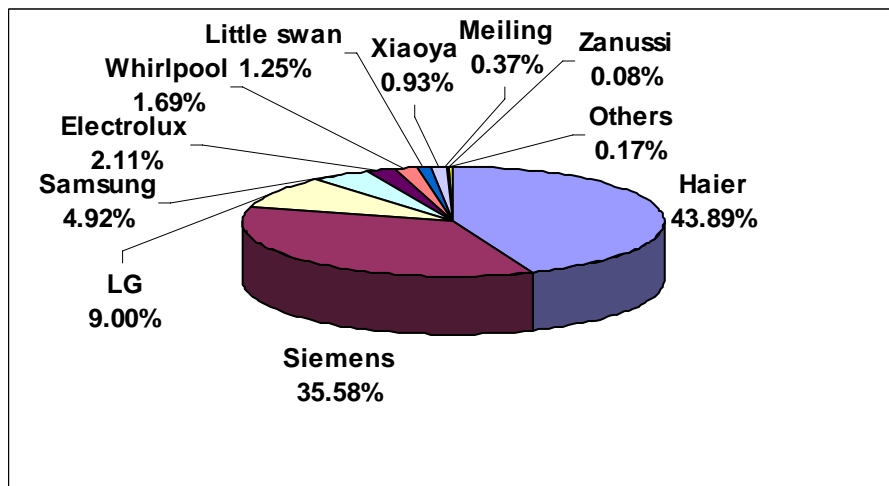
Twin tub washing machine



Full automatic washing machine



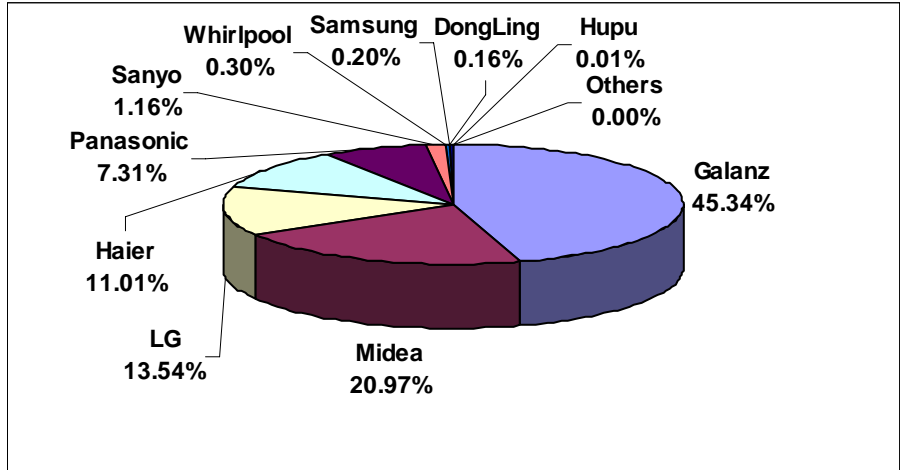
Drum washing machine



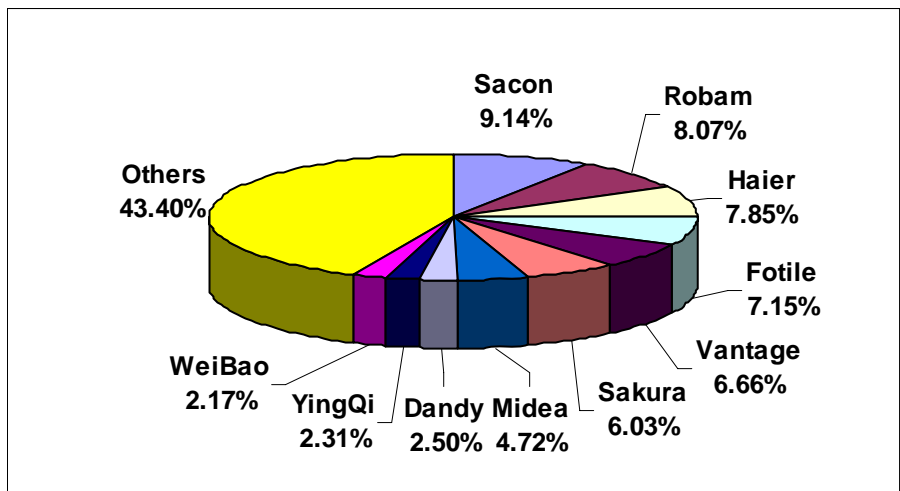
12.2 Small type appliances

(Market share of **small-type** electric household appliance brands in main Chinese shopping mall in January 2005)

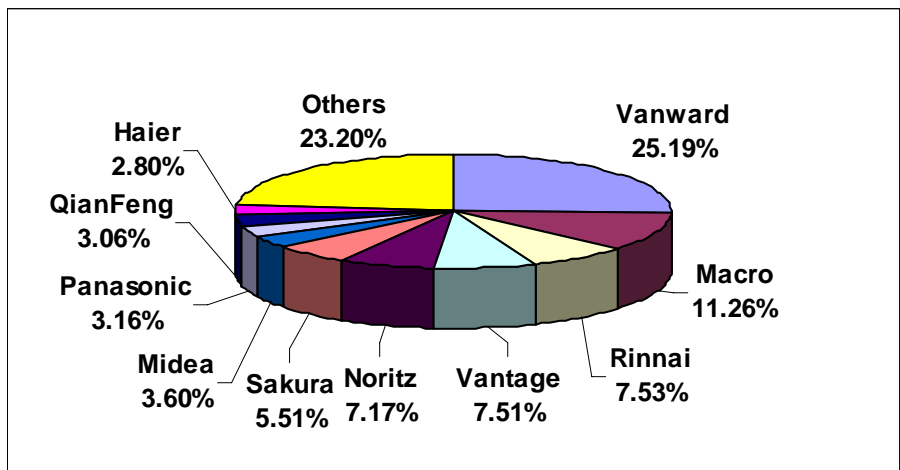
Microwave oven



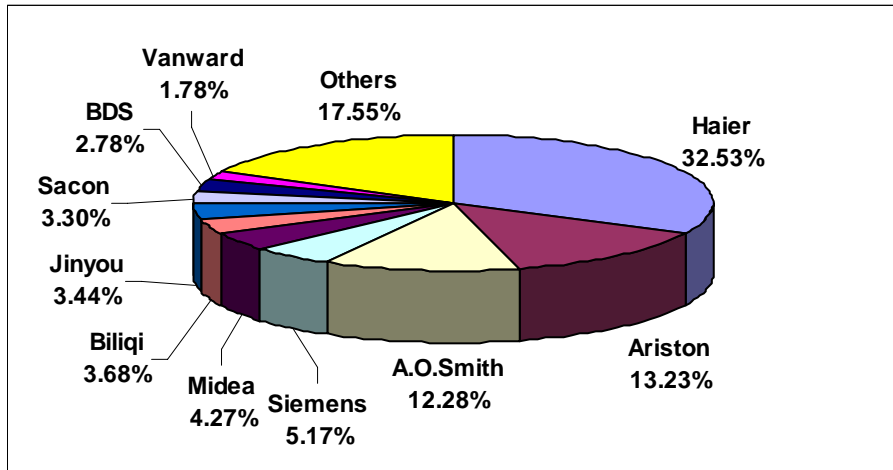
Range hood



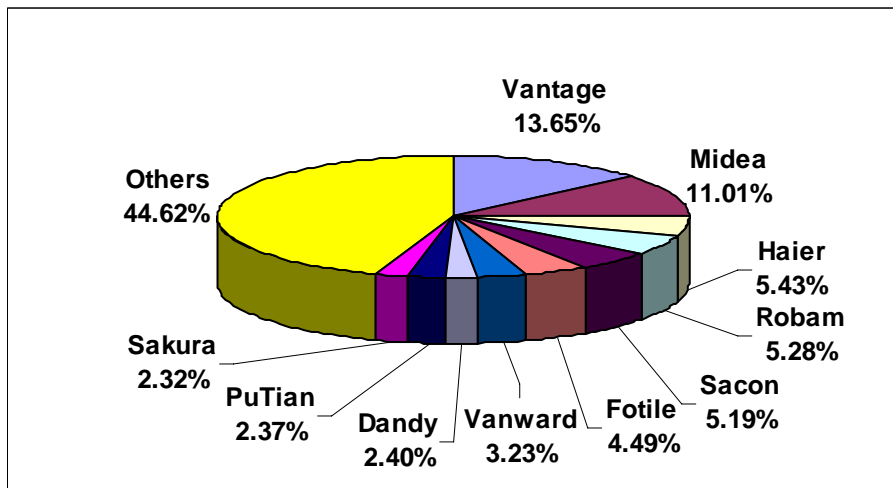
Fuel gas water heater



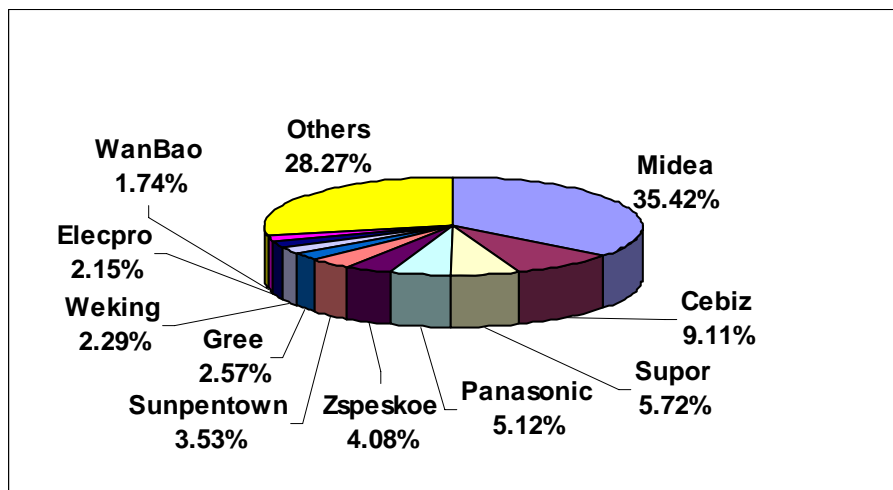
Electric water heater



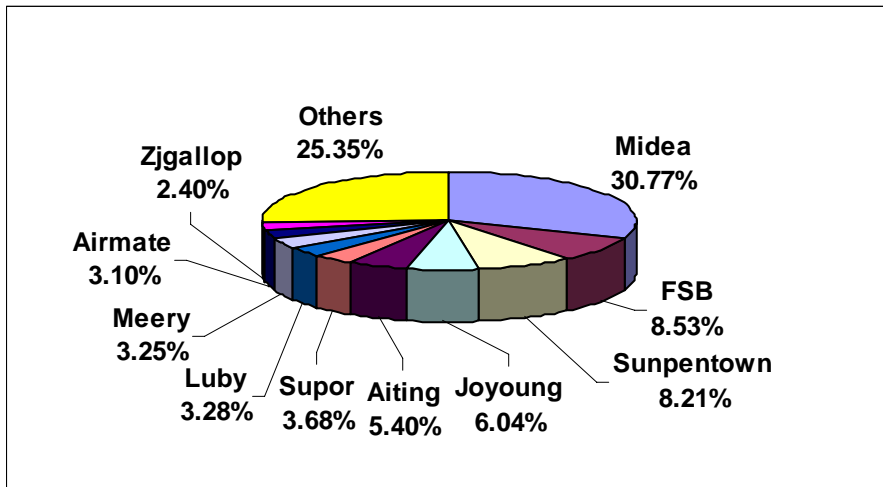
Fuel gas stove



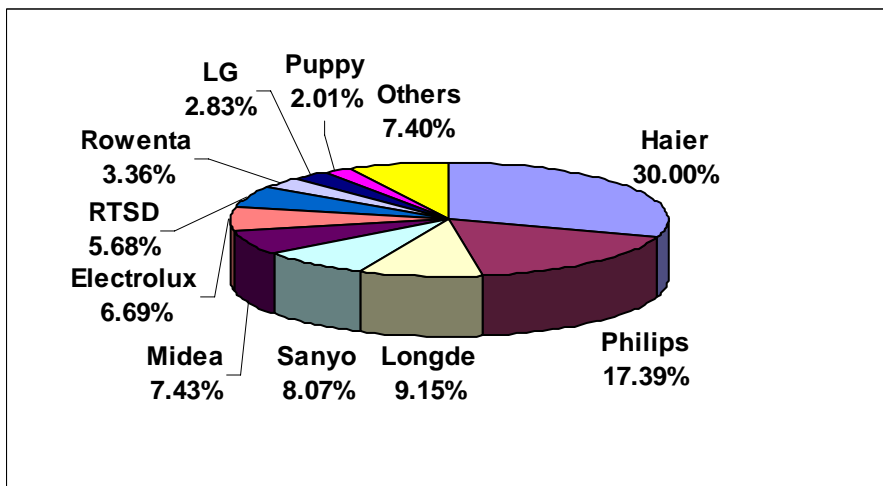
Rice cooker



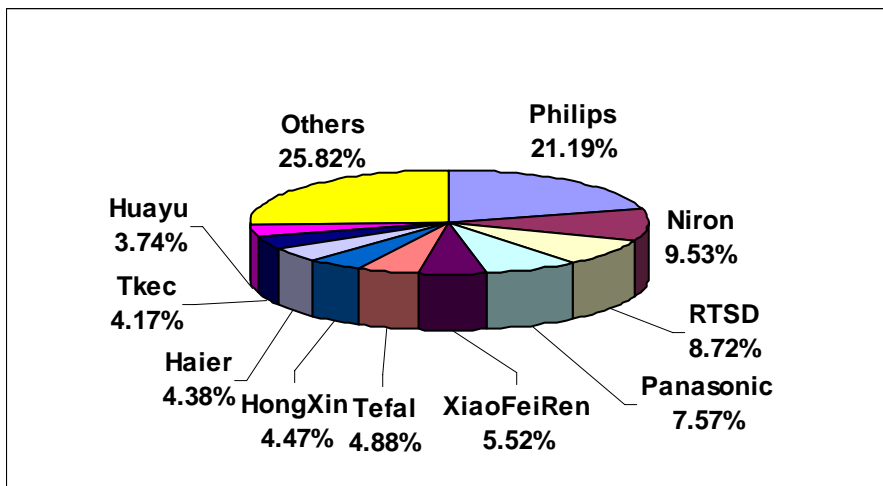
Electromagnetism stove



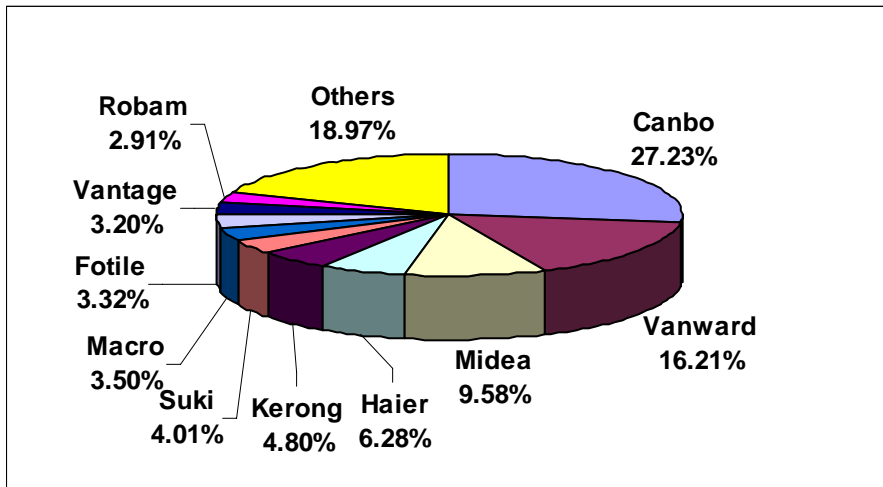
Vacuum cleaner



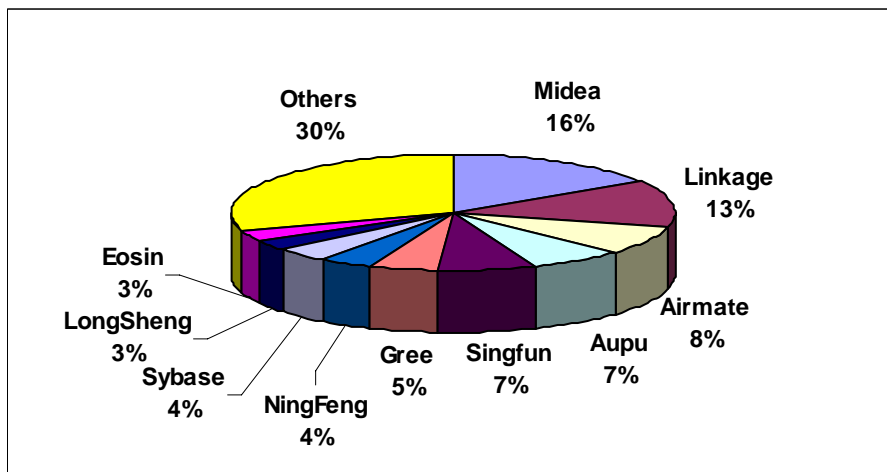
Electric iron



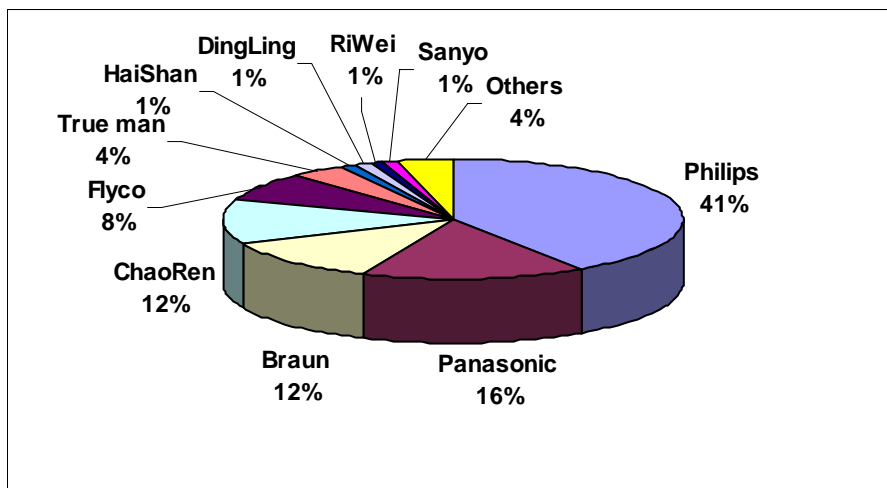
Disinfection tableware cabinet



Electric fan



Electric shaver



13 Appendix V Market Entry Modes

13.1 Exporting Modes

The simplest way to enter a foreign market is through exporting. The company may passively export its surpluses from time to time, or it may make an active commitment to expand exports to a particular market. In either case, the company produces all its goods in its home country. It may or may not modify them for the export market. Exporting involves the least change in the company's product lines, organization, investments, or mission. (Kotler and Armstrong 2004, p.609)

❖ Indirect Exporting

Companies typically start with indirect exporting, working through independent international marketing intermediaries. Indirect exporting involves less investment because the firm does not require an overseas sales force or set of contacts. It also involves less risk. (Kotler and Armstrong 2004, p.609)

Export houses or export management companies (EMCs) are specialist companies set up to act as the export department for a range of companies. They can help small and medium-sized companies to initiate, develop and maintain their international sales. As well as taking orders from foreign buyers, they provide indirect access to international market information and contacts. (Doole and Lowe 2001, p.251)

An *export trading company* is one that not only buys products or acts as an export agent but also imports, invests, manufactures, and engages in counter trading (the trading of goods for other goods, instead of money). Perhaps the best-known export trading companies are the *sogo shosha* of Japan. (Dahringer and Mühlbacher 1991, p.312)

In *piggybacking*, an established international distribution network of one manufacturer might be used to carry the products of a second manufacturer. The second manufacturer is able to ride on the back of the existing reputation, contacts and administration of the carrier with little direct investment themselves. (Doole and Lowe 2001, p.254)

❖ Direct Exporting

Sellers may eventually move into direct exporting, whereby they handle their own exports. (Kotler and Armstrong 2004, p.610) This requires definite commitment from the company and takes the form of investment in the international operation through allocating time and resources to a number of supporting activities. (Doole and Lowe 2001, p.254)

The alternative, and usually the first stage in exporting, is to appoint an agent or distributor.

Agents provide the most common form of low cost direct involvement in foreign markets and are independent individuals or firms who are contracted to act on behalf of exporters to obtain orders on a commission basis.

Agents do not take ownership of the goods but work instead on commission, sometimes as low as 2-3 percent on large volume and orders. This can seriously limit their power and influence on a market. *Distributors* buy the product from the manufacturer and so take the market risk on unsold products as well as the profit. For this reason, they usually expect to take a higher percentage to cover their costs and risk. (Doole and Lowe 2001, pp.259-260)

There are three other modes of exporting which are considered to be direct and these are management contracts, franchising and direct marketing.

To expand their overseas operations, many firms have turned to *management contracts*. In a management contract the industrial firm assembles a package of skills that will provide an integrated service to the client. (Hutt and Speh 1998, p.270) Here a firm in one country provides a team of expert managers to an enterprise in another for a fixed period under contract. Typically the team will install a new system, train local personnel and then hand over the entire system to local control. (Bennett 1995, p.69)

Management contracting is a low-risk method of getting into a foreign market, and it yields income from the beginning. The arrangement is even more attractive if the contracting firm has an option to buy some share in the managed company later on. (Kotler and Armstrong 2004, p.611) Advantages to the supplying firm are that few overheads are involved, that returns to the firm providing the management expertise are predetermined and that there is little risk of expropriation. Problems are the potential for disagreements between the foreign management team and local managers over what constitute the best working methods and that local employees might be untrainable. Also the arrangement may be more expensive for the client than simply bringing in outside consultants on an ad hoc basis, and the contractor might not be genuine in its commitment to training local personnel. (Bennett 1995, p.69)

Franchising is a marketing-oriented method of selling a business service, often to small independent investors with working capital but little or no prior business experience. (Paliwoda 1993, p.150) It is a means of marketing goods and services in which the franchiser grants the legal right to use branding, trademarks and products, and the method of operation is transferred to a third party – the franchisee – in return

for a franchise fee. The franchiser provides assistance, training and help with sourcing components, and exercises significant control over the franchisee's method of operation. (Doole and Lowe 2001, p.261)

An advantage of franchising over licensing is that the franchising organization tends to be more directly involved in the development and control of the marketing mix, while the franchisee is more involved in the execution of that strategy in the host market. (Mühlbacher, Dahringer and Leih 1999, p.464) Franchising permits rapid market expansion with relatively little capital risk (the franchisee invests some of its own capital). But because the franchisee is directly involved in running the business, franchising offers less control by the home organization than would be possible if it owned the foreign organization. (Dahringer and Mühlbacher 1991, p.315)

Direct marketing is concerned with marketing and selling activities which do not depend for success on direct face-to-face contact and include mail order, telephone marketing, television marketing, media marketing, direct mail and electronic commerce using the internet. There is considerable growth in all these areas largely encouraged by the development of information and communication technology, the changing lifestyles and purchasing behaviour of consumers and the increasing cost of more traditional methods of entering new markets. (Doole and Lowe 2001, p.262)

13.2 Indirect Investment Modes

Having so far considered market entry strategies that have been based upon the development, manufacture and supply of product in the firms' domestic plants, we now turn our attention to strategies which involve production or supply from overseas plants. For most companies, the cost of setting up an overseas manufacturing operation is initially much higher than expanding the domestic plant by an equivalent amount. Whilst the equipment costs are likely to be similar and other costs such as labour, land purchase and building may even be cheaper, it is the cost involved in transferring technology, skills and knowledge which normally proves to be expensive and often underestimated. (Doole and Lowe 2001, p.263)

Contract manufacture: the company contracts with manufacturers in the foreign market to produce its product or provide its service. (Kotler and Armstrong 2004, p.611)

The advantage of arranging contract manufacture is that it allows the firm to concentrate upon its sales and marketing activities and, because investment is kept to a minimum, it makes withdrawal relatively easy and less costly if the product proves to be unsuccessful. (Doole and Lowe 2001, p.264) A company may manufacture locally to capitalize on low-cost labour, to avoid high import taxes, to reduce the high

costs of transportation to market, to gain access to raw materials, and/or as a means of gaining market entry. (Cateora 1996, p.345)

The drawbacks of contract manufacturing are decreased control over the manufacturing process and loss of potential profits on manufacturing. The benefits are the chance to start faster, with less risk, and the later opportunity either to form a partnership with or to buy out the local manufacturer.

Under a *licensing* agreement, one firm permits another to use its intellectual property in exchange for royalties or some other form of payment. The property might include trademarks, patents, technology, know-how, or company name. In short, licensing involves exporting intangible assets. (Hutt and Speh 1998, p.269) Licensing will only work if it is possible to protect patents etc legally and comprehensively in licensees' countries. (Bennett 1995, p.66)

There are a number of reasons why licensing is a useful entry method. Financial and management commitments can be kept low, the high cost of setting up a manufacturing, retailing or marketing subsidiary can be reduced and tariff and non-tariff barriers can be avoided. It is particularly useful therefore to deal with difficult markets, where direct involvement would not be possible, and where the market segments to be targeted may not be sufficiently large for full involvement. (Doole and Lowe 2001, p.266)

Licensing has potential disadvantages. The licensor has less control over the licensee than it does over its own production and sales facilities. Furthermore, if the licensee is very successful, the firm has given up profits; and if and when the contract ends, the company might find that it has created a competitor. To avoid this, the licensor usually supplies some proprietary ingredients or components needed in the product (as Coca Cola does); but the best strategy is for the licensor to lead in innovation so that the licensee will continue to depend on the licensor. (Kotler 2003, p.391)

13.3 Direct Investment Modes

For financially strong companies that want to keep control over their international activities and consider the market to be served as sufficiently attractive to justify the capital risk, direct investment alternatives seem to be the market-entry modes to choose from. The company may either market venture capital available to an innovative partner in the local market, establish a new firm together with a local or international partner, participate in or acquire a firm in the market to serve, or start up a subsidiary. (Mühlbacher, Dahringer and Leih 1999, p.466)

Strategic alliances are assuming an increasingly prominent role in the global strategy of many business marketing firms. Frederick Webster Jr. defines strategic alliances as

“collaboration among partners involving the commitment of capital and management resources with the objective of enhancing the partners’ competitive positions.” (Hutt and Speh 1998, p.270)

Foreign investors may join with local investors to create a joint venture company in which they share ownership and control. (Kotler 2003, p.392) In contrast to a strategic alliance, a *joint venture* involves the creation of a new firm. Some joint ventures are structured so that each partner holds an equal share; in others, one partner has a majority stake. (Hutt and Speh 1998, p.271)

A joint venture often combines the market knowledge and skills of the host-country firm with the production or technical skills of the home-country firm. Host-country partners in a joint venture usually bring other critical resources to the partnership, such as low labor costs or access to scarce natural resources. (Dahringer and Mühlbacher 1991, p.316)

Partners should have proven knowledge, expertise and experience of local business conditions and practices. A prospective partner should be able to conduct or commission local market research and possess extensive contacts with local banks, businesses and providers of specialist services. The firm should be easy to contact and should provide precise and regular feedback on local market conditions. Obviously the partner needs to have resources (staff, technical facilities, management systems, etc) sufficient to undertake the collaboration. (Bennett 1995, p.79)

Joint ventures offer a number of advantages. First, joint ventures provide the only path of entry into many foreign markets. In most developing countries and even in some developed countries, the governments require firms to either form or accept joint ventures in order to participate in the local market. Second, joint ventures may open up market opportunities that neither partner to the venture could pursue alone. (Hutt and Speh 1998, p.273)

There are, however, some significant disadvantages of joint ventures as a market entry method. As joint venture companies involve joint ownership, there are often differences in the aims and objectives of the participating companies which can cause disagreements over the strategies adopted by the companies. If ownership is evenly divided between the participant firms, these disagreements can often lead to delays and failure to develop clear policies. In other joint ventures the greater motivation of one partner rather than another, particularly if they have a greater equity stake, can lead to them becoming dominant and the other partner becoming resentful. (Doole and Lowe 2001, p.272)

Acquire a foreign company. If speed of market entry is important then this may be more easily accomplished by *acquiring or merging* with a company already in the market. This effectively purchases instant market information, market share, and channels of distribution. (Paliwoda 1993, p.169)

Multinational corporations often prefer acquisitions to other market-entry modes because they help to gain access to new skills or technologies quickly, to move along the experience curve more quickly, and to establish a strong position in a new country- or regional market. (Mühlbacher, Dahringer and Leih 1999, p.467)

It is not an optimal strategy, though, as the companies generally available for acquisition are those that have made themselves so with high debt gearing, poor market performance, or lack of top management direction. Bad companies may be easily acquired while desirable acquisitions can only ever be bought at a premium. (Paliwoda 1993, p.171) Acquisition candidates, therefore, should be evaluated not only concerning their economic attractiveness and positions in the local business network, but also concerning their quality of management systems and the values and norms dominating their management behaviour. (Mühlbacher, Dahringer and Leih 1999, p.468)

A foreign plant might be set up simply to assemble components manufactured in the domestic market completely knocked down (CKD). It has the advantage of reducing the effect of tariff barriers which are normally lower on components than on finished goods. It is also advantageous if the product is large and transport costs are high.

There is an argument that *assembly plants* do not contribute significantly to the local economy in the long term. (Doole and Lowe 2001, p.268) Assembly as a form of market entry is usually found where there is insufficient market size and the host government is seeking some form of production base. As such, assembly is a compromise and, as it usually also involves small-scale operations, its assembled products are usually destined only for the home market.

Few products exist today which are manufactured from start to finish within one country. Instead, the components, sub-assembly, and finishing may well originate in several different countries, and yet the 'made in' label will be applied to the finished article one the last stage of its production cycle. (Paliwoda 1993, p.165)

For any firm, the most expensive method of market entry is likely to be the development of its own foreign subsidiary as this requires the greatest commitment in terms of management time and resources.

This market entry method indicates that the firm is taking a long-term view especially if full manufacturing facilities are developed rather than simply setting up an assembly plant. Even greater commitment is shown when the R&D facilities are established in local countries too. (Doole and Lowe 2001, p.269)

Establishing a *wholly owned subsidiary* for production and marketing purposes usually means hiring host-country employees. Cultural differences will inevitably lead to leadership problems which can never be completely resolved. (Mühlbacher, Dahringer and Leihls 1999, p.468) Foreign companies engaging in direct foreign investment not only face higher capital risks, but they may also be subject to protectionist policies, and more backlash than either domestic companies or joint ventures. Large-scale foreign investment is controversial in most countries. Restrictive laws governing such investment are becoming increasingly common in developed countries, as well as in developing ones. (Dahringer and Mühlbacher 1991, p.317)

14 Appendix VI Market Entry Modes in China

14.1 Exporting Modes in China

With one billion consumers China is a potentially large export market, however consumer characteristics, economic growth and distribution channels vary greatly between regions in China. The Chinese market should be viewed as a multitude of separate regional markets. (<http://www.export-to-china.com/marketintochina.htm>, 16/09/2005)

❖ Market entry via Hong Kong distributor

Perhaps the easiest and quickest way to export your products to China is via a Hong Kong (or possibly Taiwan) distributor. By utilizing a Hong Kong distributor that is active in China, a firm can ship its products to Hong Kong; subsequently, the Hong Kong distributor can identify appropriate end-users, import/export corporations and distributors in China. Some Hong Kong distributors also have liaison offices in China that provide some maintenance, service and repair assistance. A well-established Hong Kong distributor will have familiarity with doing business in China, (including language skills, currency issues and shipping considerations).

While there are some advantages to using a Hong Kong distributor, especially in the short run, there are also disadvantages. First, while in some limited instances, the Hong Kong distributor can sell directly to Chinese end-users, (normally only if the end user is very large), in most cases the Hong Kong distributor cannot sell to end users, but must work with a Chinese group authorized to conduct foreign trade. Thus, the Hong Kong distributor may become an additional middleman in the selling process to China. The use of a middleman means that the products will be sold at higher prices (hence less margin to the manufacturer), and the total sales will probably be lower. Second, unless the manufacturer sends company representatives to accompany the Hong Kong distributor on sales calls, the manufacturer will not know directly what the consumers' needs are. Third, penetration of the overall Chinese market may not be high (Hong Kong distributors tend to skim the "cream" for quick profits) and it may be unclear what markets (or provinces) in China are actually being targeted for sales. Fourth, the manufacturer is still subject to tariffs/quotas if importation is done legally, there may be payment delays in the collection of revenues due to the fact that the Hong Kong distributor may have limited clout in China. Finally, servicing your products will vary depending on the strength of the Hong Kong distributor's operation in China. (<http://www.pacificbridgemedical.com/publications/html/China1995.htm>, 06/09/2005)

❖ Market entry via direct channels in China

An alternative to selling to China via a Hong Kong distributor is to sell directly to an authorized foreign trade group or an end-user group located in China. Decentralization and reforms have led to the growth of a variety of direct entry points for a foreign exporter. Direct sellers today must decide whether to try and work with -- 1) Chinese foreign trading corporations (FTCs) 2) industrial trading corporations (ITCs), 3) independent entrepreneurial third party trading companies, 4) domestic end-users or 5) domestic Chinese distribution companies. In deciding which one, or combination of the above groups to work with, foreign manufacturers must understand the current formal trade structure in China, the history of each trading entity, the background of the key individuals who manage these groups, and the advantages and disadvantages of each alternative.

- Foreign Trading Corporations (FTCs)

FTCs were the first groups established (in the early 1980s) by the Chinese government to assist the domestic Chinese companies with foreign trading. FTCs can be quite large (yearly turnover of approximately \$25-\$750 million), are often involved with multiple product lines and have both central as well as provincial offices. Today, these groups primarily focus on exports (which usually accounts for about 90% of their turnover, but these groups are also increasing their efforts for needed imports. Historically, FTCs have played a major role in importing commodities into China.

The advantage of using an FTC is that you have the convenience of working with one, authorized, experienced, organization that has an established infrastructure to deal with foreign trade. These groups normally have foreign exchange allocations and are very familiar with foreign trade issues including letters of credit, freight logistics, etc. While national FTCs are rarely the ultimate buyer of your products, they can contact other provincial or local FTCs, domestic distributors and end-users who may want to buy your products. The disadvantage of working with national FTCs is that most of these groups are not knowledgeable about your specific product area, and oftentimes function as "order takers" for end users, and they may not be very interested in actively marketing your products.

- Industrial Trading Companies (ITCs)

ITCs are usually newer and smaller than FTCs. ITCs are administered by various industrial ministries and bureaus (i.e. mining, chemical and pharmaceutical). In most cases, because of their industry focus, ITCs have a good understanding and knowledge of the products they are trading. On the other hand, unlike FTCs, ITCs are normally limited to their geographic focus (1 or 2 provinces is common), and although they are experienced, they are often relatively new to the foreign trade game.

- Independent Trading Companies

Over the last few years, a number of smaller independent trading companies have been established to handle foreign trade. These groups, normally subsidiaries of government trading companies or private companies, may have a keener financial interest than FTCs or ITCs in aggressively marketing your product. They tend to have more motivated entrepreneurial staff members and oftentimes can move more quickly than FTCs or ITCs. The disadvantage of working with this type of company is that in some instances, Independent Trading Companies may not be authorized to engage in foreign trade and therefore will need to link up with an authorized foreign trade company. In addition, given the small size and newness of these groups, the strength and success of these groups may depend on one key individual. Thus each group must be analyzed carefully and separately.

- Direct End-User Sales

Directly approaching potential end user customers for your products is the most direct way to sell your products and to get good market feedback. While a few of the large end-users are authorized and are already dealing with foreign companies, the vast majority of end-users are not authorized to trade directly with foreign companies, do not have adequate foreign exchange and/or do not have purchasing decision responsibilities. Today, most end users can only legally consummate foreign purchases with assistance from FTCs, ITCs or authorized independent trading companies. In the future, however, it is expected that more end-users will be authorized to deal with foreign companies without the assistance of FTCs, ITCs or authorized independent trading companies. If a foreign firm wants to regularly make direct sales calls on a number of end-user customers, it should consider building its own sales force with representative offices in China.

- Direct Sales to Domestic Chinese Distributors

Officially, it is not legal for foreigners to sell directly to domestic Chinese distributors without the domestic distributors utilizing the assistance of FTCs, ITCs or Authorized Independent Trading Companies. In practice, however, foreign companies may contact domestic Chinese distributors, or Chinese distributors may contact foreign manufacturers directly to sell/buy products. By going to the distributor first before contacting an ITC or FTC, the foreign manufacturer will probably get more market feedback and better pricing since the middle man is eliminated. While most domestic Chinese distributors still look for new products to be introduced by an FTC or ITC, over the last few years some domestic Chinese distributors have begun to aggressively search for products directly on their own.

- Market Entry via Direct Channels versus use of a Hong Kong Distributor

While entering China via one or more of the direct Channels just described will have some of the same problems as market entry via a Hong Kong distributor (i.e., you will probably still encounter problems with tariffs/quotas, servicing your products, collection and payment delays), there are a number of real advantages to developing your own direct channels. First, by establishing direct channels, you eliminate the middleman and the associated mark-up of your product. For products that are price sensitive, a reduced price should allow you to increase your sales and further penetrate the market. Second, by eliminating the middleman, you will be closer to your customers' needs and concerns. Third, if you carefully analyze where your products are going through direct channels, you will have better knowledge, and hopefully control over which parts of China are covered and which parts are not covered. Many foreign manufacturers who sell to China via Hong Kong distributors have little knowledge of whom or where the ultimate end-users in China are, or how price sensitive their products really are in the marketplace.

Developing direct channels into China, however, will be more difficult (i.e. logistically) and time-consuming than hiring a Hong Kong distributor to enter the China market on your behalf. Determining the appropriate FTC, ITC, independent trading company, or end-user with which to develop a relationship will require research. Once the appropriate groups are identified, meaningful and trustworthy relationships will take time to develop. In addition, a firm that develops direct channels may also have to determine a separate strategy to build its own service, maintenance and repair network. In short, while it may require more time and effort, developing direct channels to enter China will often be a better strategy than simply hiring a Hong Kong distributor to cover China. (<http://www.pacificbridge.com/publications/html/China1995.htm,06/09/2005>)

14.2 Investment Modes in China

China began to solicit FDI towards the end of the 1970s. By the end of 2002, the nation had approved the establishment of 424,196 FIEs with a total contractual foreign capital of 828.06 billion US dollars, 447.966 billion US dollars of which were realized. The FDI sector figures prominently in the Chinese economy today. FDI made up 10.1% of China's total investment in fixed assets in 2002 and 25.3% of the total investment in the fixed assets of the manufacturing industry. (Jiang Xiaojuan 2004, p.1)

❖ Source-country composition of FDI in China

FDI in China has been unusual in its composition by source country/region. Globally, most FDI originates in developed countries. For China, however, Hong Kong and Macao have been the dominant sources of investment capital since the early 1980s.

Hong Kong and Macao accounted for 50 to 70 percent of total FDI flowing into China every year until the early 1990s. After 1995 however, the share of FDI coming from Hong Kong and Macao dropped quickly. By 2000, these regions claimed only a 39 percent share. The decreased share of Hong Kong and Macao was not reflective of a decrease in absolute volume; rather the absolute magnitude rose from US\$17 billion in 1994 to US\$21 billion in 1996, although it began to decrease after 1996.

Japan and the US are the second and third largest sources of FDI flows into China (the ranking differing depending on the year). Although Japan's share in FDI inflow into China has been decreasing as of the 1990s that of the US has steadily increased. In 2000, the US provided US\$44 billion in FDI to China for almost 11 percent of the total that year.

Another important investment source is Taiwan. Taiwan's share of FDI in mainland China grew steadily in the 1980s and early 1990s, peaked in 1993 at 11.4 percent, and then steadily decreased. In 2000, its share was 5.6 percent and lagged behind the other major investors examined (Hong Kong, US, Japan, EU, and ASEAN).

FDI from EU and ASEAN countries has risen very rapidly. In 1999, EU and ASEAN registered shares of 11.1 percent and 8 percent respectively, Topping both Japan and Taiwan, and EU's share was even higher than that of the US. Despite the effect of the Asian Financial Crisis, EU and ASEAN will surely play more important roles in the future given the on-going process of integration internal to these economic blocs. (Wiemer and Cao 2004, p.307)

Foreign-invested enterprises enter the Chinese market for the following purposes:

- Raising funds from the capital market to expand their capital and meet their financial need for expanding their businesses
- Speeding up expansion on the Chinese market
- Formulating effective corporate governance structures to safeguard the interests of partners.
- Taking entry into the Chinese securities market as part of a localization strategy
- Taking the opportunity of listing to realize shares incentives for local high-echelon managers and strengthen cohesive relationship among employees

(Jiang Xiaojuan 2004, p.105)

❖ **China's position**

In the early and mid-1990s, China's utilization of foreign capital increased much higher than global transnational investment. The share of FDI in China's total investment in fixed assets outstripped the average levels of both developed and developing countries as well as the Central and Eastern European countries.

Towards the end of the 1990s, global transnational investment rose dramatically and raised its percentage in the total volumes of investment of various types of countries, but in China it was at a standstill, so much so that FDI lost its prominent position as an outside financial source. During that period, FDI's share in the country's capital aggregates was only slightly higher than the average level of developing countries and about the same as that of the Central and Eastern European countries in economic transition. China's position as a FDI recipient country declined.

However, generally speaking, large nations are heavily dependent on domestic resources. As a result, the ratio of foreign capital to the total capital formation is relatively low. Because China is the largest developing country, a comparison between China and the average world level is of limited significance. If China is compared only with other large developing countries, then its position as a recipient country is outstanding because it leads all these nations in the ratio of foreign capital to the total capital formation. (Jiang Xiaojuan 2004, p.15)

With China's accession to WTO, the prospects of a more open Chinese capital market are brightening increasingly. This has attracted the attention of many foreign-invested enterprises. According to incomplete statistics, by the end of February 2002, more than 100 such enterprises had indicated their intention to engage in financing on the Chinese capital market. (Jiang Xiaojuan 2004, p.102)

❖ **Development of domestic human resources**

Some of the transnational corporations which regard China as a major strategic market and have invested in multiple technology-intensive projects in China are, for their strategic purposes of making use of China's abundant scientific and technological human resources, fostering a fine image in China, and cultivating a positive attitude among senior Chinese researchers towards their own technology and products, engaged in scientific research, technological development by establishing research centres, laboratories and management colleges in cooperation with universities and research institutes in China. Some of them are doing so by establishing technology development departments in the enterprises. This behaviour of transnational corporations not only serves their own strategic goals but also helps training many professional talents for China. (Jiang Xiaojuan 2004, p.31)

❖ **Improvement of Correlation**

In the early days of China's utilization of foreign capital, foreign investors regarded China mainly as a low-cost processing and assembling based that relied on imports of component parts, and their contributions to domestic manufacturing and value-added were low, indicating that foreign-invested enterprises had a low level of coordination with the domestic industry.

There were three main causes behind this problem in China. First, transnational corporations strategically regarded China as a processing and assembling base; second, given its low technical level, the domestic industry lacked the ability to provide up-to-standard accessory products for foreign-invested enterprises; and third, few overseas enterprises entered China to supply accessories for foreign-invested enterprises, which means their investment in the manufacturing of accessories in China was rather limited.

The situation has improved a great deal in recent years. Domestic industry is continuously enhancing its ability to supply accessories for foreign-invested enterprises, thereby raising the degree of correlation between foreign-invested enterprises and domestic industry.

Thanks to more than 20 years of reform and development, and spurred on by fierce market competition, a considerable number of enterprises in China have, through technological innovation and introduction of advanced technology, quickly raised the technical level and quality of their products, enhanced their competitiveness, and emerged as suppliers of accessories for famous brands and products both at home and abroad. The efforts of foreign-invested enterprises in finding qualified accessory enterprises in China have also helped raise the domestic enterprises' ability to supply accessories for the products of foreign-invested enterprises. (Jiang Xiaojuan 2004, p.29)

❖ **Competition and Quality**

Over 40% of the foreign-invested projects in China use the most advanced technology and products from transnational corporations, and the others are using relatively more advanced technology and products, thereby boosting the technological level of the Chinese industry. In 2002 four fifths of the new projects invested by foreign firms in China adopted the most advanced technology from parent companies and produced products popular on the global market. (Jiang Xiaojuan 2004, p.1)

Beginning from the latter half of the 1990s, domestic financial storage in China was gradually ameliorated, and banks acquired considerable surpluses for several consecutive years, a situation that was never seen before. During this period, the aggregate supply of most commodities outstripped the aggregate demand, market competition was intensifying as never before, and the economic results of domestic enterprises kept sliding. In the meantime, the volume of foreign investment in China kept at the level of more than 40 billion US dollars, foreign-invested enterprises were steadily expanding their shares in the Chinese market and reached high percentages in some industries.

Generally speaking, after the strain on domestic financial resources is eased, the most important significance for attracting FDI lies in its ability to increase the efficiency of financial allocation and promote the improvement in the quality of assets. This is because labour capital, technological level, capabilities for technological development and application and for opening up the world market, managerial ability, the capacity to understand clients' demand – these and other creative resources needed for improving asset quality will be brought into China along with investments by transnational corporations. From this point of view, domestic capital can by no means replace foreign capital. (Jiang Xiaojuan 2004, p.18)

❖ **Mergers and acquisitions**

Because the A-stock market of the Chinese capital market is not opened directly to foreign-invested enterprises, the mergers and acquisitions by these enterprises on the A-stock market are conducted indirectly by their parent companies and affiliates that have invested in listed companies. It is mainly through the B-stock market that foreign-invested enterprises pursue financing and M&As.

The involvement of foreign-invested enterprises in the Chinese stock market began in the early 1990s. By the first half of 2001, a total of 71 listed companies had acquired foreign-invested legal person shares. Direct listing and M&As are the two main channels by which foreign-invested enterprises enter the Chinese stock market. (Jiang Xiaojuan 2004, p.99)

❖ **Joint Ventures**

If a company can determine that there is a large growing market for its products and is willing to work to set up a joint venture, then a joint venture is probably the best long-term strategy to penetrate the Chinese marketplace. Joint ventures in China that can benefit both the foreign entity and the Chinese party help motivate both parties to have a long term strategy. As previously discussed, joint ventures will allow the foreign firm to avoid tariff and quota issues, to gain more focus and control of product distribution and service in China and hence probably ensure penetration of a larger share of the Chinese marketplace. By physically being in China, foreign firms can easily see the real needs of end-users, and prices should be more competitive as a result of local manufacturing. Such advantages may override the complexities of setting up joint ventures, the time it takes to establish a joint venture and the associated risks involved.

• **Where to Invest**

Choosing an investment location for your joint venture is not an easy decision. While most investment has taken place in Beijing, the 14 coastal cities (especially Shanghai, Guangzhou, and Tianjin) the special economic zones, Hainan Island or Pudong,

tremendous variability exists within each area's infrastructure. In general, there is a lack of co-ordination between regions and for most projects, it is still necessary to approach officials in each area to determine if demand exists for the foreign technology. In some specific instances, the central Chinese authorities may have useful information on a product's mix and where it will be best to set up your joint venture.

- **Which Project**

Investment or joint ventures in China are planned and regulated by the government. The state defines long-term economic goals and spells out what type of products and technology are to be imported and which projects are to be initiated. If a contemplated project coincides with a central or local authority's plan, project approval and foreign exchange funding from state budgets will be given more easily. For an investor who takes the time to identify a project in line with China's development plans, the odds for success are significantly enhanced – there will be fewer bureaucratic delays, getting the project started will be easier, etc.

- **Which Partner**

The foreign partner first needs to identify and qualify the potential commercial players in the appropriate industry to determine which Chinese group would make the best partner. Potential Chinese partners, like any potential partner in the world, have strengths and weaknesses. Some may have more modern factory facilities, higher technology capabilities, better access to transportation networks, etc. The Chinese partner's physical location is also important since China has created distinct regions offering special investment incentives. Special economic zones offer different investment incentives including tax benefits, land-use clauses, customs duties, availability of raw materials, and other considerations.

On the Chinese side of the table it is common during negotiations to see several different Chinese groups, including a manufacturer, the local government official, a financial association and a business trading company. These groups are often independent of one another and have varying priorities, but are drawn together by the bureaucratic system. It is important for the foreign investors to be careful and determine the roles of all players at the negotiation and their exact relationship to the transaction. Some foreign companies have signed contracts with the wrong party. In addition, foreign investors should keep in mind that the front line Chinese negotiators from each group often play a role as information collectors. The unseen executives behind these negotiations are usually the final decision makers. In general the frontline Chinese negotiators are able to make decisions on technical aspects, with the unseen executives being the decision makers on the price, project content, and formalities. (<http://www.pacificbridgemedical.com/publications/html/China1995.htm,06/09/2005>)

❖ **Wholly Owned Subsidiary**

Such an enterprise is a limited liability entity solely owned and operated by a foreign investor. In this scenario, the foreign investor receives all profits and bears all risks. Approvals may be obtained for a WFOE by the foreign company submitting an application detailing all aspects of the project to the Ministry of Foreign Economic Relations and Trade or its local counterpart. Once approved, the local company has thirty days to submit the approval certificate to the State Administration of Industry and Commerce in order to receive a business license. Separate contracts are drawn up for land, utilities and labour between the WFOE and the appropriate departments. WFOEs are taxed according to the Foreign Enterprise Income Tax Law, which has graduated rates between 20-40%. A 10% local surcharge is also charged on the assessed tax.

In addition, WFOEs also have the following advantages and disadvantages from an investor's standpoint. Advantages are as following:

- Foreign investor has tighter control of proprietary interests.
- WFOEs have exclusive management control for investors; there is no need to compromise with partners.
- WFOEs are exempt from the 10% tax on dividends.

Disadvantages are as following:

- Implementing regulations have not been promulgated.
- There are few precedents to rely on during negotiations and operations.
- There is no Chinese partner to tap for a trained workforce and for established sourcing and distribution networks.
- There is no Chinese partner with a stake in the success of the investment to assist with problems.
- There are stricter foreign exchange requirements for WFOEs.
- The corporate tax rates for WFOEs are higher than for equity joint ventures.

(<http://www.pacificbridgemedical.com/publications/html/China1995.htm,06/09/2005>)

❖ **Unwritten Business Issues**

Despite the relatively specific laws and procedures just outlined to set up a joint venture, one of the problems foreigners encounter in doing business in China are the relatively "underdeveloped" business laws and different business practices than those to which they are accustomed. For example, in one situation, the foreign party to a joint technology transfer meeting was shocked to see personnel from a Chinese competitor present. Foreigners should remember that getting a confidentiality clause into a contract does not mean that their Chinese partners regard confidentiality in a

Western sense. In this particular situation, the Chinese party could not understand their partner's strong negative reaction.

In general, Americans should keep the following in mind when negotiating a joint venture in China: First, in the U.S. there are guidelines for when a law or contract can be interpreted narrowly or broadly. In contrast, the Chinese may change or disregard the intent of a statute if their interests are at stake. The Chinese often cite unpublished laws whose actual existence may be difficult to confirm. Certain laws are only known in China by the power elite and bureaucracy. Attention to detail in an agreement is oftentimes not a high priority in China, perhaps because there is a sense that vagueness may leave room for future interpretation on issues that have already been negotiated. Nothing is considered final until the contract is executed, and even then there may be future "discrepancies."

Finally, while joint venture documents can help maximize defences or minimize losses and unwritten Chinese business practices can be understood over time, China has many forms of dispute resolution, including consultation, arbitration, and litigation.

While it's impossible to cover all of the business issues that come up in a specific joint venture, foreign investors should remember the following: Management concepts (such as quality control systems, production planning and control, internal financial/accounting systems, performance measurement systems, etc.) that are taken for granted in the U.S. are relatively new in China.

In addition, buying and valuing specific technology in China is a difficult process. Whereas the foreign firm wants maximum valuation, the Chinese firm usually complains that the valuation of the foreign technology is too high. How can the Chinese evaluate the costs (paid for by large foreign firms) of R & D to get new sophisticated technology? New technologies may require renovating old Chinese factories and restructuring traditional Chinese management systems. China has its own technical requirements. Thus, oftentimes technical data must be blessed by Chinese engineers and specifications converted into the Chinese language. (<http://www.pacificbridgemedical.com/publications/html/China1995.htm,06/09/2005>)