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# Р Е Ф Е Р А Т

«***THE PECULIARITIES OF MARKETING***

***STRATEGY DEVELOPMENT IN CHINA»***

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 Т А Л Л И Н Н 2003

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**INTRODUCING**

Since the 1970s,when China’s foreign trade policy was liberalized ,many Western firms have been very enthusiastic about capturing this market of over one billion consumers.

On average ,throughout the 1980’s ,China was visited by one Western government ad-

visor every week.This interest of Western authorities and businesses can be compared

with Western interests in Japan,a far more important trading partner.Western busines-

ses’ interest in China decreased somewhat after the Tiananmen Square incident in 1989.

However,interest from trade and industry continued ,and increased even more in the

1990s.Lately,West European governments and businesses have also shown the interests

in China.The picture is not much different where American interests in this market are

concerned.In 1980s the trade between USA and China rose to more than US $ 5 billion

In these years,there was great demand in American goods.The trade relations between

the USA and China received a serious set-back after the 1989 incident.But the interest in China,both from the authorities and the business sector in the USA revived again when

it was given the ranking of most-favoured nation (MFN) in the mid-1990s.

Since 1979,when the new regulating joint ventures was introduced by the Chinese government ,there has been a tremendous increase in joint-venture agreements with

agreements with foreign investors.In 1984,China signed 741 equity joint-venture agreements with foreign investors.By the end of 1987,the number of enterprises with

foreign investment in China exceeded 10,000 with a total coctract value of almost

US $ 22billion and paid-in value in excess of US $8.5 billion.In October 1984,the government declared that central planning would no longer be used and that a system of interfirm contracts would be utilized to facilitate the distribution of raw materials and goods.During the same period four special zones Economic Zones (SEZs) were established to encourage foreign investment.As a result,foreign direct investment increased and attained real momentum in 199-1991.By 1995,it had reached more than

$ 30 billion.

In spite of this revived interest and fact that the Western companies have been dealing

with Chinese for almost two decades,these firms are now facing difficulties in negotiating

business deals with China.We believe that, basically,the problem is one of understanding

Chinese culture and perculiarities in behaviour .Such an understanding Chinese culture

is essential to do business in China and to maintain business relationships in the long

run.

We all know that negotiation process is considered as an interaction process of reaching agreements to provide terms and conditions for the future actions of the parties involved.

Being a process,it can be divided into distinct stages.For the purpose of this study

and consistent with earlier studies the process of negotiations between Western firms

and their Chinese counterparts is divided into six stages: lobbying ,budget offer, technical discussions,final offer,face-to-face negotiations and implementation.

**LOBBYNG**

The negotiation process starts with early contacts with the Chinese authorities,in which

customer is trying to establish whether or not the selling firm has the technology or

capabilities to deliver the particular project.The Western firms are normally expected to

China and present their technology and products.The firm has to conduct presentation

session for the number of people and groups.In these sessions the firm has to convince

the Chinese that it has a technology they want and that it is competitive as regards technology recources and realibility.At this stage,the firms should realize following:

Contents of deal:The first point to consider consists of identifying the implications of project;i.e,that the contents and objectives of the deal match of the firm.Questions such as

„what can the firm gain or lose in both tangible and intangible terms?“ or „what is at stake?“ should be answered.

The preparation and planning of negotiations takes a lot of time and the more information

a firm can gather at this stage,the better the of success it will the later stages.

The firm should gather information on both customer and the competitors,and on which

other alternatives are available to the customer.And the firm has to compare its strengths

and weaknesses,for the particular project,with that of its competitiors..If the competitors

are stronger,in one way or the other,the firm has to develop arguments to expose their

weakness.If the firm knows that a Japanese firm is also competing for the same project

and that the Japanese offer is cheaper than the firm is own,it has to develop arguments

explaining why the offer more expensive.For example,in one of the projects this was actually the case and the Swedish firm was also able to convince the Chinese negotiators

that althogh its price was higher,the capacity of its machines and that the technology

was better in terms of quality as well as its technolgy which would facilitate future

expansion.This argument was accepted by the Chinese as they do always rely upon

the best technology.If the company is able to convince that its technology is the best

one and up-to-date as regards precision and future development,negotiations become

easier.

In larger scope, the counter trades are quite common in China.The reason for this demand

is that the Chinese tend to save on the foreign exchange.Thus it is quite common for Chinese to demand that a percentage of the products to be produced by the project in question by the selling firm into its home market or into the third market.This is one of the objectives behind free zone policy.Despite the difficulty it also is considered as important .This step also helps to evaluate the effect of buy-back in monetary terms

and its effects on the firm’s own production and marketing activites.It is quite possible

that the buy-back or counter trade demand is just a bluff ,so that the seller,seeking to avoid the expenses of buy-back,may offer a major cut-back in the price.

Find the costumer:In China ,foreign firms have to present themselves and their technology to several authorities.One has to endlessly repeat the same things to

different negotiators who suddenly,without any explanation,are replaced by another team.

Quite often,however,the first team reappears after after some weeks having „forgotten“

everything ,and one has to start explaining to them again ,from the beginning.It is,thus

very important for the Westerners to find out which team and who in a particular team

has the authority to decide.

The engineers and officials asking the most vigilant questions often turn out to be subor-

dinates with no decision-making authority.Finding the customer is therefore is quite

difficult.In lobbying stage ,a firm should try to find out who is responsible for what or

does one has the authority to take the decisions.

 Presentation of capabiliteies:In this stage,the firm has to present itself,its technology

and its products.The presentation material and the presentation itself,very important.

The material should be professionally prepared and presented.The Chinese are very

particular about the details and the idea behind presentations is to convince them

of the quality and trustworthiness of the technology and the firm.It is advisable to present

all the technical specifications in English as well as local one.Most Chinese authorities

do not speak English and sometimes only one interpreter is not enough to get the real contact.Swedish Ericsson provided all the material in English and Chinese,and spent a lot

of time on correct translation.Having difficulties with duplications there was noticed that

it is quite difficult to get hold of good ,up to date office equipment and stationary and

that concerns to many cities,at that.

Build up trust:It is commonly known that the Chinese give sufficient importance to this trust and to individual relationships.Although the Chinese always stress on the importance of friendship ,it is quite diffilcut to develop a social relationship with Chi-

nese.They seldom invite anyone to their houses.In spite of this,“friendship“ and „trust“

are common aspects of Chinese culture, rather not only in China ,but throughout Hong

Kong,Singapore,Taiwan and other countries.The impressions and trust that developed

through the mutual relations and social activities will be return a hundredfold later.

**BUDGET OFFER**

After all the presentations,questions,answers,and discussions a budget offer is prepared.

The purpose is to provide the customer with an idea of general principles,technology,

equipment,price and the terms and conditions as a whole.Usually a client gets a lot of

offers,many of them are similar to each other.Then the offers and the budget undergo

comparison .As this offer has to include a rough price,the firms should be very careful

in calculating all the possible expenses as it is very difficult to change the the total sum later.And the price for training,taxes,and other expenses should be included .Otherwise,

the company would lose its credibility.

**TECHNICAL DISCUSSIONS**

All the firms are invited for the technical discussions after the customer has studied all

budget offers and technical characteristics from different competitors.Here the firms

represent their technolgy and technical specifications,but strictly with in the framework

of budget offer.At this stage the firms which are dealing in Chinese market should try to get more information on the particular project,the priorities of the government,the buyer’s

budget capacity and the general opinion as regards dealing as a whole .

It could be desireable for investors to invite the Chinese to visit their country just to let them observe the techical system ,which are being offered in operation.This kind of opportunity is also used for friendship developing and trust.

This stage is considered as the only chance to take the advantage of being host.

Generally,the Chinese are used to be an initative part of negotiations when the ones take place at home.

Pye explained that in the following way:

*„As hosts,the Chinese take advantage of their control over the pace of negotiations.*

*First they set agend,then they suggest that the Americans start the discussions.This*

*makes the guest show their hands-their proposals become the starting point from*

*which compromises follow.In order to keep the process going ,the Chinese expect*

*the visitor to make the next concessions,for what the Chinese easily press for.*

**FINAL OFFER**

After the technical discussions mentioned above,the firm knows what exactly a potential

customer needs.Based on this,they arrive at the final offer with all detailed specifications.

Chinese customers are very particular about details,therefore it is advisable to have all

instructions and references to be translated into Chinese.The firms also have to detail

all the cost and benefits to prevent misunderstanding in future.The minimum and maximum limits for the different issues should be also calculated and conveyed to all

members of the team. The unexpected costs and expenses should be taken into consideration.Ideally,the negotiators should have several alternatives to facilitate the

process of negotiating.

**FORMAL NEGOTIATIONS**

Due to the recent decentralization process,foreign firm can directly negotiate with

Chinese firms.Although most of these are still state-owned.Their desicion making

policy is various.For example ,some of these companies have their own foreign exchange

while others depend upon the government allocations.

Some firms may have some projects approved while others have to apply for it.

We know that various executives take part in negotiations even politicians.On the Western side ,the negotiators are: technology managers,area managers,technical support,

and an intermediary(liasion officer).The Chinese use different tactics to get the informa-

tion they are really need ,using many tricks which are quite invisible for beginners.

Tactics such as flattery,embarrasment,and usage of historical facts to their advantage are the good examples. It also quite normal that the Chinese set up the competitors againist

each other so that that enables to hook out information .

Technology Foreign firms are quite concerned about measures to protect technology

and parents.For Chinese,the acqusition of technology by a state-owned enterprise,through

licensing and joint –ventures means as the profileration throughout the country.

According to one Western executive,it is very difficult to make the Chinese understand

the total cost of research and development incurred by the selling firm with respect

to a particular technology .

The Chinese are also quite concerned about the Western firms willingness to transfer

the techology and the following process of training .

Terms of payment and financing In the formal session,the financial issues such as terms

of payments,counter-trade,and how it would influence the terms of payment.If a part of the production is to be imported into the seller’s country,the percentage or amount has to

be agreed upon.

Implementation Our observations reveal that the real problems begin after the formal

negotiations and during the contract fulfilment.As a rule the Chinese want to adhere to broad principles and general policies and keep the details rather ambiguous.

During the negotiations they tend to be flexible and leave the matter half-settled whereas

the Western companys want the issues sharply defined make the mutual responsibles

clear.

During implementation of the contract there are the problems that may crop up .

For example,in one case where a Swedish firm entered a joint-venture agreement with Chinese there had been the case of misunderstanding for the Chinese refused to provide

a Swedish managing director with the Western-standart office.The Chinese in its turn just offered a common Chinese-standart residence equal to other Chinese executives .Western standart for the office was stipulated in the contract so the Chinese got out of the contract.

The conflict was so serious that the firm started to calculate the consequences of nonful-

fillment.

**MANAGERIAL IMPLICATIONS**

Priority In the late 70s and early 80s,when a number of Western firms were negotiating

with China due to newly spread „China fever“,many of them were greatly disappointed.

After negotiating for months or years,they realised that foreign was not available for firms.Even for the Chinese authorities it was a great problem as they were losing face

and credibility among the investors.As a result ,as long ago as in August 1985

the Chinese authorities announced four categories of priority projects to attract foreign

investors:Energy and mineral recources ,high technology,medical equipment and food-

processing,and construction projects.

During this spell of „China fever“-1993-1994 things improved in China.The decentralisation of decision making and the independence were given to provinces facili-

tated business activities and the process of negotiating.

Basically the Chinese government selects the projects carefully and the priorities change

from time to time.But the culture of standing by agreement leaves much to be desired.

Even the authorities are enable create obstacles such as unnecessary delays.

On the other hand,if the project goes with the categories mentioned above the firms are

in the better position in negotiation and implementation.As a rule the foreign exchanges

are approved by financial authorities.It is also important to gather information of

Chinese negotiators .

Time and patience is the most important assets of foreign firms exercising negotiating

process in China.Many potential investors get frustated since the Chinese ,sometime,are slow in signing of a contract even if the everything has been settled.The Westerners

get impatient waiting for final agreement .Probably it is rather incommodious participating in many stages of negotiating processes for several months.

For swedish Ericsson it took more than two years to conclude an agreement a telecom-

munication contract while for Otis it took 5 years to establish a joint-venture.And the story of the French businessman who went insane is quite well known:

*After about one year of discussions and travelling back and forth between different*

*departments ,he was told by the Chinese that they were willing to buy his technology.*

*He telegraphed his office that the contract of $500 million has been concluded.*

*The chief executive wired back immediately that he was on his way to sign the*

*formal contract .And the next morning a high ranking official from the Ministry*

*of Foreign Trade and Economic Relations approached to him and said,“Now that*

*we are willing to buy your technology we can start negotiations“.*

The negotiators,therefore should have a plenty of time,patience and strong nerves.Many

of the negotiators have tried to set deadline and give other ultimatums to Chinese negotiators,but it normally does not help.

Price The Western firms should be very careful in calculating the price for their technology.It is the most difficult and cruicial factor.If a foreign firm reduces its price

radically,say by 15-20 percent ,the Chinese negotiators get suspicious and there is a

risk that the firm will lose its credibility.The Chinese get more convinced of “evils of

capitalism”and would try to press the firm even more.

The concessions given on price should be remained behind the all stages of negotiations

 except for the last one.The timing of such concessions is important as,if given too early,

they can have too early.The Chinese do not like to pay for the personnel of selling firm.

When they hear the costs of the foreigners,they get very sucpicious,and allegations about

the “evils of capitalism”rise again.Therefore it is advisable for the Western firms should

hide these costs in their offers and include them at the cost of production,technology

development or project administration cost.

**CONCLUSIONS**

Having tried to describe the process of project sales negotiation between Western firms

and their Chinese counterparts we reveal that the common course of negotiation implies

its specifications that have not been known before for investors.

The issues that are most sensitive in the negotiation process are the equity shares management control.These two issues have also been a great concern while investing to China since the Westerners do usually rely on Chinese counterparts when dealing with

the local governments and environment .But it is not so.The control over the process of management should be in their hands.Chiefly ,the Chinese want a local chief executive

while foreign firms want to send their own staff.

In most the deals in China, buy-back and export is the matter of lengthy period with many stages.While foreign firms are entering China due to the size of its market,

the Chinese,in its turn see the foreign firms as the source of technology and foreign exchange earnings.

The pace of negotiation in China is very slow .The presentations are formal and orderly.

The third part such as government still plays a major role in the negotiation process,

since the people there are still collective minded and it plays a large role.

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