

MARKETING CHALLENGES AND OPPORTUNITIES IN CHINA

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ABSTRACT

In 1978 the Chinese leadership changed economic policies moving China from a sluggish economy to a market-oriented economy. Many changes have occurred and will continue to occur as China undergoes rapid change. In 2004, China emerged as the second largest economy in the world. This paper examines the challenges and opportunities for China from a marketing perspective. Acculturation theory is applied to the changes occurring. The authors present an overview on issues of importance in order to incorporate the marketing concept into present day business operations.

INTRODUCTION

As the world moves into the twenty-first century (21st), worldwide marketing opportunities along with the overall marketing environment has changed significantly. In particular, China is quickly evolving into a world economic superpower. While attempting to formulate a marketing strategy aimed toward a Chinese consumer, there are numerous environmental factors that must be studied. Consider that China is home to the largest consumer market in the world. Because of this, after opening up the country to international business, China has been flooded by international enterprises attempting to capture this large market. Within China, the country's residents are different and there has been little attempt to identify the different consumer segments within the country.

Without an understanding of the consumer's wants and needs, and without an understanding of basic marketing principles, many of the multinational firms marketing efforts are destined to fail. This paper applies acculturation concepts to challenges and opportunities for multinational firms competing in China.

HISTORICAL PERSPECTIVE

China is home to the largest population in the world. Thirty percent of the Chinese live in urban areas, while the remaining seventy percent live in under-developed rural areas, and don't enjoy as many benefits of the growing economy as their urban counterparts do. Thus when looking at the overall Chinese market, the majority of the masses (and thus the mass market) remain poor. As the rural consumers grow more affluent, they will most likely differ from Western consumers by retaining their current

consumption patterns that are based upon tradition. Thus, a key factor in the marketing of goods and services in, and to, China is the development and exploitation of the marketing concept (satisfying consumer wants and needs at a profit). It becomes intuitively obvious that the successful marketers will spend a great deal of time on consumer wants and needs market research.

Economically, China has shown remarkable economic prosperity by taking advantage of many marketing environments such as acceptance into the World Trade Organization (WTO) which allowed China access to huge markets internationally; Internet development and usage allowing China access to previously unavailable markets while also allowing for speed of marketing; and finally the current currency advantage. It is our belief that the currency is undervalued allowing China to produce products cheaper and offer those products to exporting companies which creates a huge advantage in pricing execution.

As China becomes more and more competitive in the international market place, Chinese companies, as well as any companies wishing to compete in China, must understand the current marketing environments and develop research-based marketing strategies that provide value to consumers. A challenge, then, is to develop an understanding of consumer bases, both for Chinese and American companies. We suggest that an understanding of the acculturation process will help to identify and create various segments that marketers can use to help develop their lines of attack in the marketing arena.

ACCULTURATION

Consumer acculturation is a socialization process in which an immigrant, or marginalized consumer learns the behaviors, attitudes and values of a culture that is different from those of their culture of origin (Lee 1988; Ogden, Ogden and Schau 2004). As such, researchers in marketing have attempted to gain an understanding of the acculturation process to help with the development of overall marketing strategies and to aid in the execution of the tactics developed to support the strategies.

In summarizing the marketing-based literature in the acculturation-based research stream of thought, it appears that most of the studies undertaken fall into one of three areas: (A) Acculturation and Assimilation Research, (B) Consumer Acculturation and (C) Ethnicity and Ethnic Identity. It is useful to look at each area individually.

Acculturation and Assimilation Research

Acculturation has been defined as "...those phenomena which result when groups of individuals having different cultures come into continuous first-hand contact, with subsequent changes in the original cultural patterns of either of both groups" (Redfield, Linton and Herskovits, 1936, p. 149). While changes may occur (in either the dominant culture, the subculture or both (Berry 1997), in practice acculturation tends to produce more substantial change in one of the groups.

Consumer Acculturation

Consumer acculturation is a subset of acculturation and socialization. Acculturation is more general while consumer acculturation pertains to the consumption process. Consumer acculturation can be viewed as a socialization process in which an immigrant consumer learns the behaviors, attitudes and values of a culture different from their culture of origin (Lee 1988).

Ethnicity and Ethnic Identity

Ethnicity and ethnic identity are related, but really two separate constructs. Ethnicity serves as a descriptor of a group with common national or religious backgrounds. Ethnic identity is more subjective (Cohen 1978; Hirschman 1981; Minor 1992) and really is a self-designation which helps to relay a person's commitment and strength of association to a particular group (Zaff, Blount, Phillips and Cohen 2002; Chung and Fischer 1999). Ethnic self-identification reflects

the internal beliefs of individuals about their perception of cultural reality. The majority of research on ethnicity focuses on broad ethnic categorization. There categories actually "lump" people across religions and nationalities into a "named group" such as Hispanic or Asian. This segmenting is based on in-group similarities such as language and skin color (or other phenotypical distinctions). Most research ignores the fact that many national, or even regional, origins make up a particular ethnic category. Thus, in China, the population may be thought of as "one large ethnic" group that is similar in makeup. This may not be the case and more research should be conducted to see if China is indeed made up of one large ethnicity. We feel that the market is different and that these differences need to be studied in order to develop effective marketing strategies for China.

Because many international organizations have come under legal and moral scrutiny and the world becomes better connected, increased research is needed to help China develop scientific research-based marketing plans. Researches in the fields of ethnicity and culture have been separately undertaken, but there is a need to undertake research that applies ethnicity and culture in an intracultural setting. Most of the current research examines ethnicity across cultures by including subjects, for the research, that reside in separate countries. Research that examines ethics and acculturation in an intracultural context is nonexistent or weak at best (Ogden, Ogden and Nay 2004). Thus, we feel that this research need will be the biggest marketing challenge for China during the next decade.

Marketing Challenge One: Increase the amount of scientific-based research in acculturation, subculture and ethnicity in China.

Marketing Opportunity One: From a scientific research-base, China can develop countywide profiles of its consumers, providing a better understanding of its consumer base, as well as generating much needed information to create marketing plans, strategies, objectives and tactics.

"The single greatest challenge facing Western corporations is the competitiveness of Chinese corporations on their own turf and their global ambitions in the multinationals' own backyards..." (Williamson and Zeng 2005). Just as in sports, it's difficult to go into another team's stadium and win the game. Multinational corporations need to just that in order to enter China's market. The authors feel that older multinational companies have an early advantage over their Chinese competitors in that they have better technology that allows the development of better target

marketing capability. Additionally, the multinationals have more “know how” (IBID. 2005) and innovation capabilities. Additionally, multinationals are ahead in marketing expertise, especially in the development of research-based integrated marketing communications and brand building. Because of strengths in IT, financial management and marketing, multinationals can build a unique, creative and integrated supply and value chains. China, however, has a poor infrastructure in terms of marketing support.

Marketing Challenge Two: Develop a strong internal support infrastructure prior to launching products and services.

Marketing Opportunity Two: Multinationals can develop a grass roots infrastructure prior to launching additional products or services in the Chinese market.

With a lead in supply chain expertise, the multinational corporation needs to understand that there is often a lack of local suppliers in China. Thus, we suggest that multinationals develop their supply chain and valued suppliers prior to engaging in Chinese enterprise.

Marketing Challenge Three: Find valued suppliers.

Marketing Opportunity Three: Engage suppliers prior to launching new products or services in the Chinese market.

China is still a developing country in terms of free enterprise. Most markets in China have not been developed, or at best, are in early stages of market development. As such, the vast majority of Chinese consumers can NOT afford higher end products. In fact, most of the markets, excluding the Beijing to Shanghai corridor, will only purchase products that satisfy their basic needs. Because of this, more than one billion consumers will not be able to afford advanced products (products aimed at satisfying wants NOT needs). Multinational companies must focus their sales efforts with the marketing concept in mind “satisfy consumer wants and needs at a profit”. Those wishing to sell luxury goods must stay away from the mass market. Market segmentation and an advanced understanding of the Chinese market and its consumers are essential to an effective and balanced marketing attack.

Marketing Challenge Four: Identify the Chinese markets and consumers.

Marketing Opportunity Four: Research and identify the target market, and then proceed to use segmentation

techniques to get a better understanding of the overall market. Utilize geographic segmentation.

Corporations and businesses in China have an initial advantage in marketing and market development in that they have an understanding of works for local market areas. Additionally, the Chinese have very lean, flexible businesses with extremely low labor costs (offering the possibility of labor-intensive production). Finally, the Chinese have exploited the international market place and are learning from entrenched multinational competitors. Because of the open global market, China has been able to leverage these advantages, especially the low cost advantage. The open global market allows the Chinese to lease, buy or borrow new technologies and expertise. Thus, Chinese business will be able to “catch up” on business practices simply by buying and observing.

Marketing Challenge Five: Maintain a competitive advantage in business practices.

Marketing Opportunity Five: Develop highly specialized research. Develop “Me Too” approaches to competing with China including the ability to offer flexibility with a lean staff. Utilize Chinese workers and products to lower product costs.

In the recent article “Strategies for Competing in a Changed China” (Williamson and Zeng 2004), the authors offer five strategies for multinational corporations desiring to compete in China. We agree with these authors that the proposed strategies are essential for marketing success in that market. The strategies include:

1. Expand Market Coverage. Don’t just concentrate on the Chinese high-end market products and sales.
2. Focus on Dramatically Lowering Costs.
3. Streamline Distribution Strategies. Many of the regulations that used to put multinational companies at a disadvantage have been removed. Understand the restrictions while developing better channels of distribution.
4. Localize R&D. If you want to do business in China, DO BUSINESS IN CHINA!
5. Drive Industry Consolidation. Acquire local (Chinese) business.

CONSOLIDATE

The Chinese market place may soon be the largest in the world. This environmental change makes the Chinese market place exciting. Many obstacles exist that make the Chinese market a challenge for

multinational enterprises. By developing research-based marketing plans focused specifically on the Chinese consumer, marketers will have a better chance of succeeding.

Acculturation levels among the Chinese also present a challenge to the multinational marketer. There is a paucity of research in the area of Chinese acculturation. Any corporation or business enterprise that wishes to compete in the Chinese market place must have a great understanding of the Chinese consumer. Methods of assessing acculturation levels must be developed and applied to this unique market place.

Finally, marketers must realize that they need to develop marketing plans with the marketing concept applied to the Chinese market. There must be an underlying drive to satisfy the Chinese consumer's wants and needs, which implies an understanding of these wants and needs. Multinational marketers should study the practices of national marketers in the Chinese market place and ape those practices that appear to be working well. Additionally, marketers should focus on the key strategies that will bring success in China.

Many marketing challenges have been presented. The good news is that for each of these challenges, opportunities exist in the market that will create value for the multinational corporation, and that will provide a good base for the development of successful marketing plans and the execution of those plans.

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