



MARKETING MANAGEMENT IN CHINA:

WEEK 8:

MARKET ENTRY + MARKET RESEARCH

OCEAN UNIVERSITY OF CHINA

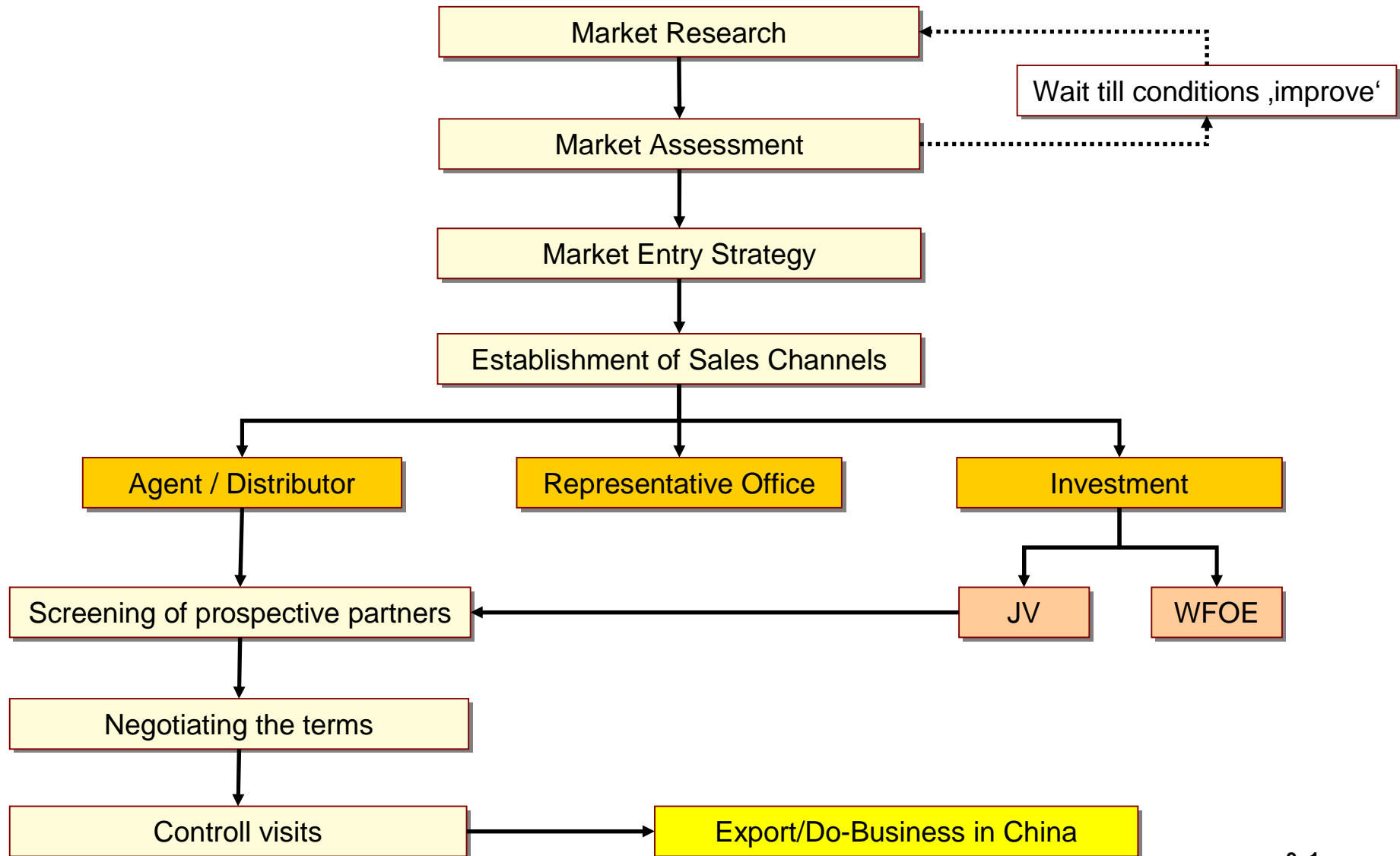
25th INTL. CHINESE BUSINESS PROGRAM

Marketing Lecture Series

Rainer Appel

Wednesday, 13:30-15:20 & 15:30-17:20

China Market Entry





Market Research in China

- **Fairly new**
 - Only about 10 years
- **Quickly growing**
 - 20 - 25% annually

Interviewing

- **Use mainland Chinese interviewers**
 - communicate more effectively
 - read between the lines
- **Face-to-face interviews preferred**
 - Still dislike against interviewing via phone



Analysis

- **Cross-checking and triangulation is essential**
 - asking same question two ways at different points in interview can signal value of information

Value of Information Source by Type of Information in China

(1 = not useful; 5 = very useful)

Type of Info	Anecdotal	Experts	Inside Guanxi	Secondary Sources	Systematic, Primary
General market trends	4	3	3	2	5
Demographics	1	1	1	5	1
Market opportunities	2	2	3	1	5
Partner search	2	1	3	1	5
Market size, share	2	1	1	2	5
Regulations	2	3	1	4	2
Project information	1	3	3	2	4
Competitive analysis	2	2	2	1	5
Detailed price information	2	2	1	2	5

Sources: Charles Oliver and John E. Coulter

Research methods:

Use of experts

- **Often seniors**
- **Often incompetency at the top**
 - The highest-ranked is not always the expert



- **Market research in China should be based less heavily on expert opinion than in developed countries**



Research methods:

Use of guanxi

- **Can provide vital insights**
- **In China many answers are behind closed doors that can easily be opened through guanxi**



Research methods:

Secondary research

- **Lots of data available**
- **Much of data is governmental in origin**
 - Often flawed
 - Each dept. Collects its own information
- **IMPORTANT**
 - Compare multiple sources
 - Include long-time series
 - Check if source reveals methodology and definitions

Research methods:

Secondary research -- *(contd.)*

➤ Valuable Secondary Sources

- Yearbooks
 - www.chinayearbook.com *(in English)*
- Ministries
 - www.stats.gov.cn/english/index.htm *(in English)*
 - www.customs.gov.cn *(in English)*
- Print media
 - Useful but almost all in Chinese
- Internet
 - Few specifics available
 - Almost entirely in Chinese

Research methods:

Primary research

- **Advantage: most reliable & useful**
- **Disadvantage: most time consuming & costly**
- **IMPORTANT**
 - **Chinese company representatives**
 - Are more reluctant to speak negatively of themselves
 - Are more reluctant to speak positively of their competitors
 - Often make claims with no rational basis
 - **Interviewers must**
 - Read between the lines
 - Ask questions that bring out concrete answers
 - Cross-check as much as possible

Fees

- **If you order while being in China**
 - Slightly lower than in USA/Europe
 - **If you order from abroad**
 - Slightly higher than in USA/Europe
- ↪ **You get what you pay for**

Representative Offices

- **Allowed to**
 - Carry out market research
 - Project investigation for parent company
- **Not allowed to**
 - No trading or invoicing (no legal entity)
- **Other requirements**
 - Located in grade A buildings
 - Staff to be recruited through government agencies
 - Subject to business and foreign business enterprise tax (~9-10%) of expenses)

Representative Offices

Registration

- **The documents required include**
 - Certificate of Incorporation
 - Members' Register
 - Directors' Register
 - Last filed return to Company Registry
 - Last filed return to Tax Department
 - Company / business profile and reason of setting up RO
 - Minutes of Board Meeting to setup RO
 - Minutes of Board Meeting to authorise Chief Representative
 - Bank reference letter.

Wholly Foreign Owned Enterprise (WFOE)

➤ Advantages

- Full control of sensitive information (e.g. business secrets)
- Hiring employees directly
- Minimum investment: **RMB 1 million**

➤ Not allowed to

- set up pure trading companies (buy and sell on domestic market only)

➤ Others

- Established solely with foreign capital
- Under total foreign control
- Currently most popular form of foreign investment
← lots of government support

Wholly Foreign Owned Enterprise (WFOE)

Registration

- **The documents required include**
 - name and address of WFOE
 - written application for the establishment of the WFOE
 - feasibility study report
 - the Articles of Association of the proposed WFOE
 - list of the proposed chairperson and the members of the WFOE board of directors, and
 - appointment letters
 - the incorporation document of the WFOE investor
 - a credit certificate of the WFOE investor issued within 3 months
 - lease agreement for the premises
 - plant required and technology to be imported, impact on environment, raw material
 - requirements
 - reply of pre-registration of name approved by the relevant SAIC; and
 - other documents as may be required by the approval authority.

Joint Ventures

➤ 2 forms

– Equity Joint Venture (EJV)

- Partners share profits, risks, responsibilities according to invested capital

– Contractual Joint Venture (CJV)

- Partners share profits, risks, responsibilities according to a ratio agreed to beginning of partnership and stipulated in contract

➤ Requirements

- Foreign partner must contribute at least 25% of capital

Joint Ventures

➤ Advantages

—

?

➤ Disadvantages

—

?

Costs

- **Office rental**
- **Services**
 - Company registration
 - Accounting
 - Virtual offices
 - Visa, ...
- **Telecommunication, Internet, etc.**
- **Recruitment, labor costs**
- **Vehicles**
 - Purchase
 - Registration
 - maintenance



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