Give the world's most promising market a crack – Are you ready yet?

Insights from the 2nd China Business Symposium jointly organised by the Contemporary China Research Centre and the China Trade Association in Auckland 1 March 2012

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1 March 2012 was an exciting, inspiring and informative day for many participants in the second China Business Symposium jointly organised by the NZ Contemporary China Research Centre and the NZ China Trade Association, held in Auckland. The central themes of this one-day symposium were branding and channel management in China. Experts from the NZ export industry, China market insiders and also academics specialising in branding and distribution channel in China presented their experiences and also shared their valuable insights about China. Speakers include Professor Sherriff Luk from the Hong Kong Polytechnic University; Glen Murphy, former Managing Director of A C Nielsen (Greater China); Colin Heads of Emborio (Shanghai) Co Ltd; Associate Professor Forrest Yang of Victoria University; Plus supporting speakers from Food and Beverage; ICT; Chinese consumers; NZ Contemporary China Research Centre; Academia; NZ Trade and Enterprise; Ministry of Foreign Affairs and Trade discussed their own experiences, tips, pitfalls and advice.

The symposium has attracted 123 participants from a wide range of sectors including F&B (33), export service including consulting, training and logistics (23), education (14), government and trade development agencies (12), IT service (8), tourism and airlines (7), banking and investment management (7), agricultural, design and aviation services (7), health products (5) and engineering (4) and others (3). The symposium has received a lot of positive feedback from the participants, speakers and sponsors during and after the symposium. Glen Murphy, one of the keynote speakers, briefed us after the event that "I was very impressed with the general quality of the presentations and with the size of the audience. You guys who organized it clearly did a great job'. Tony Alexander, the chief economist of BNZ, commented, 'I thought the symposium was wonderful and have written a summary of the main points I took away for inclusion in my next GWC issue'. Kefeng Chu, the China director of NZTE (one of the major sponsor of the symposium), stated, ' I think the themes set for this symposium were the right/timely ones, as branding is an action point under the NZ Inc China strategy, and channel management is important for our companies to further advance their business operations in the China market. The speakers were of high quality and common themes ran through each of their presentations.'

Branding in China – what we have already known and what we have yet to learn at an unprecedented time of booming consumption in China? Professor Sherriff Luk from Hong Kong Polytechnic University, the keynote speaker of the event, was very excited about the new branding opportunities for SMEs brought by the high-speed train projects in China. Professor Luk said, to NZ SMEs, the high-speed train project is not just another infrastructure 'showing-off' in China. This project means the traditional ways of getting consumers in low-tier cities connected with central cities in China will change; this offers a huge opportunity for foreign SMEs who have not got deep pockets to spend on advertising through mainstream media such as TV channels and billboards in CBD in central cities in China. These SMEs can simply look at devises and facilities in the newly built high-speed railway stations and on the trains for low-cost advertising opportunities. Given the main focus of branding in China for many foreign firms is still brand awareness, the new branding media serve a great opportunity for new foreign entrants in this huge market. Lower tier cities are where probably better opportunities for NZ SMEs in China as it is cheaper and less risky to build brands in these lower cities compared with central cities; plus, these lower tier cities provide sufficient markets for NZ SMEs.

Another business keynote speaker, Glen Murphy, shared his insights into building a strong brand in China. As Murphy put it, 'love China' is a must for a firm who wants to succeed in China for a long run. As the business in China will inevitably go through 'ups and downs', only those who are really passionate about China can survive the brutal competition in China and win a fair share in this huge growing pie. In other words, China has to be put in a special place in a NZ firm's strategic planning to make a success in China.

David Caselli, a Kiwi spending three years in Shanghai to develop several NZ-origin brand labels in China has also shared his practical insights about China. To Caselli, branding in China has to be market led. He advised NZ exporters should abandon the 'push' approach in China. The 'push' approach means having everything done in NZ, including manufacturing, labelling, packaging, brand planning, and then push them to the distributors in China with little or no customer insights. This approach is set to fail in China due to differences between the markets. He suggested that NZ exporters should get some branding experts experienced in China to help the firms develop their brands in China. For example, 'branding' in China should consider emerging market factors such as product education, Chinese cultural norms (gifting), size and tastes of consumers (for food and beverage products) etc. Caselli has also highlighted the effectiveness of a Kiwi 'BBQ party' on the beach for increasing brand awareness in China.

Charlotte Reid, Asia and Middle East market manager of Villa Maria, instilled her passion and enthusiasm about the China wine market into the symposium. She reported, the China wine market has been on a double-digit growth in recent decades, unmatched globally. There is certainly a market for premium products that build brands upon authenticity, purity, high quality, accolades. Villa Maria is committed to China. However, the challenge for Villa Maria is that wine is largely consumed in banquet dinning and given as gifts in China; all these require a fame for a foreign brand to be successful in China but the fame factor can be a huge challenge for a smaller wine label from NZ which usually has a limited marketing budget and low brand awareness in China. Wine drinking culture in China is significantly different from what we know in NZ or other western consumer markets. As Charlotte Reid described it, drinking wine is a matter of FACE OVER TASTE – wine confers status and consumers drink with their eyes. Chinese consumers want wines that they believe will make them look and feel international, sophisticated and fashionable – currently the New Zealand wines do not achieve this. Plus, food & wine matching is still a foreign concept in China!

Despite all these challenges, NZ white wines also encounter some unprecedented opportunities in China. For example low tariffs as the result of China-NZ FTA, the increasing number of young women embracing white wine in China and also large consumption of seafood in coastal cities. To give a crack in this market, Villa Maria has chosen to appoint Summergate to be the national exclusive distributor in China due to their premium positioning in the market. Apart from the commonly-accepted marketing rules in China for SMEs – stricter targeting, 'smart' investing in PR, right 'partnering', using networks to open the door, Charlotte Reid also emphasised the importance of 'depth of brand story'. The other strategic attributes of their marketing in China are the pushing of the global calling card such as international awards (to 'impress' Chinese consumers), active engagement in social networking and also the exploitation of the 'NZ inc' and country image effect.

Channel management was the focus of discussion after the 'branding' session in the morning. In many cases both academia and practitioners acknowledged mutually reinforcing aspects of channel management in China, particularly the need to view China like a "continent" with distinction variations rather than a homogenous country as keynote speaker Professor Forrest Yang stressed. The sheer expanse of China and high logistics costs are other reasons for kiwi firms to be narrowly focused, whether this would mean a sector, segment of consumer group, region or even city. Although acknowledging the disparity of the market, Colin Heads from Embririo Trade Management (Shanghai) CO' Ltd recommends a national selling price or standardised approach to all sub-distributors in China for high-tech medical equipment products in order to lower the monitoring and transaction costs. However, this standardised distribution model must be done carefully by finding a mass distributor.

Developing an effective distribution channel and network requires a foreign entrant to understand the regulatory environment of China – this is extremely important given that the Chinese government plays multiple, often highly confusing and contradictory, roles in the market; the government can be a regulator, customer, partner and competitor at the same time. One way to tackle the uncertainly and ambiguity in the market of China is to achieve legitimacy, according to Professor Yang. This would mean that the foreign entrants should get government officials, local distributors, Chinese customers on board with a perception that they have a genuine interest in China, and 'they are here for long term', and ultimately play an important part in Chinese social, moral and business life. Another common problem is the Chinese dilemma which occurs when parties in the same supply chain share the "same bed but have differing dreams." One solution Professor Yang suggests is to develop dual channels which spread the risk of getting into such a predicament. When it comes to negotiating with channel partners, Kiwi firms have very limited access to marketing channels as the powerful channel members are very selective with the suppliers they adopt. The trick is as Professor Yang reveals is to negotiate with top level management rather than the bottom level management whose "gate-keeping" role is to negotiate and essentially filter out business demands for the executive. One also has to remember that a contract should be viewed as an agreement of understanding rather than a set of obligations, after all rules in China are subject to creative interpretation.

Colin Heads, the keynote speaker on channel and logistics management in the symposium, was a typical kiwi lad who devoted himself to China in the last twenty years. After extensive working stints in China, he co-founded Embririo Trade Management (Shanghai) CO' Ltd in 2004. His advice to small and medium sized enterprises from New Zealand is to try to reduce marketing and management costs by finding a third party supply chain management (SCM) service provider. They are integrated supply chain solutions that cover a wide range of operational issues in china, including customer management, RMB collections, delivery arrangement, also importantly performance and credit risk checking. The smart use of third party SCMs can reduce the cost of intermediaries and remove foreign SMEs' "China headache" by remaining a single point of contact and "back office" so foreign SMEs can solely focus on their core competencies which are technological rather than logistics management. Despite the benefits of employing a third party SCM service provider, investing in the market to support export is the key to win the market – 'no matter how good the product is, without seriously investing in China the foreign firm can't gain high margin and accrue commercial power of influence', said Heads.

Dr Hongzhi Gao, an expert on value co-creation and also joint organiser of the symposium, delivered a talk on "growing together with partners together" in China. In simple terms, value co-creation focuses on service, sharing of risk and margins and long term take of the market. Dr Gao has observed many NZ companies are still goods-orientated and enter the China market with a mindset of selling products or exchanging value – too transactional and lack of commitment from the Chinese point of view. He observes that the value of foreign imported products is highly influenced by the channel partners in China and too often NZ firms overlook the important step of co-creating customer value with their channel partners in China. Unless the firm has ground-breaking technology with huge demand, the NZ party must work with the channel partner to develop their value propositions in China. At the end of the day, the ultimate measure of success is determined by how Chinese customers perceive and define their products or services. An important implication for NZ firms of the value-cocreation approach is to work with people on the ground to find the best way to craft and express the symbolic and emotional value of the NZ offering (not just the functional and economic benefits related to the products or services but the human and relational factors embedded into the NZ/Chinese social and cultural system - such as integrity in NZ and guanxi, mianzi and ren qing in Chinese) and also the safety and quality assurance process in production in NZ – this will open the door of the market. Dr Gao threw a question to the participants in the symposium, 'when your Chinese partner says I love NZ, would you be genuinely prepared to say 'I love China too?' to signal the importance of emotional interactions in building brand and managing channel relationships in China - no matter how good the NZ firm perceives their product or service is, they cannot succeed with a transactional mindset in China.

When a SME exporter has got little brand awareness, limited access and power in the market, growing the pie (guided by a value-cocreation perspective) is more important than competing for the shares of the pie (guided by a competitive view of the market). Putting the value co-creation in the context of channel management, Dr Gao suggested NZ firms should focus on emerging channel partners rather than those well established channel members and also explore opportunities in tier

2 and 3 cities in China. Where to find those emerging channel partners, Dr Gao suggested a marketing orientating entrepreneur in the selected market in china is the first choice, of course not everyone fit into that category would be interested in working with NZ SMEs with two conditions are emphasised. First the China party has to be passionate about NZ, and s/he has to be seen as a “good person” in Chinese networks. In Dr Gao’s view, developing guanxi with the channel partner is critical. Guanxi is all about gaining access to the right people (customer, govt officials, key influencers) at the right time. The core of the intricacies of guanxi is looking after personal and social gains of the people you deal with in china as well as the business interest. Dr Gao also made a comment about the importance of contract in china but contract has to been seen from a relational and value co-creation perspective. This means 3 things, clarity (technical terms and technical quality delivery terms), flexibility (relational terms) and mentality of growing together (social and marketing support).

In summary, when penetrating the China market two aspects of doing business in China are extremely important but present a great difficulty for NZ firms due to their size constraint, and also geographic and institutional distance between NZ and China. One marketing strategy to achieve success in China is to charge premium price for the NZ-origin product or service. However, premium pricing has to be supported by a prestigious brand and effective channel relationships. The 2nd China business symposium combining latest academic research with experiences from those with direct on the ground experience in China has made for an incredibly informative day of mutual learning and networking among the forerunners in academia and business, and the participants. This ensured that both business and academia learned from each other in a mutually reinforcing synergy of learning that has undoubtedly advanced each other’s knowledge of doing business in China.