

China Asia-Pacific Research: White Paper 17

How European Companies Can Achieve Success in China



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China Asia-Pacific Research Ltd specialises in market research and marketing consultancy in China and Asia-Pacific. We understand that clients today want more than just research data – they want informed interpretations of research findings plus strategic insights and recommendations. Research must deliver “actionable” results that enable clients to improve business performance, in terms of revenue, margins and profitability. This is particularly true when research is conducted in emerging markets such as China, Korea, Taiwan, Vietnam, Indonesia etc. With offices in China, Hong Kong and Singapore we are ideally placed to meet your research needs in Asia-Pacific.

How European Companies Can Achieve Success in China

Synopsis

Foreign companies frequently “fail” in China, or achieve only limited success. Surveys have shown that less than 50% of European companies in China are satisfied with their performance and achievements and 42% had returns that failed to meet expectations. The main reason is that firms don’t appreciate how different China is from other countries. They fail to understand the Chinese decision-maker and assume that what works in Europe will succeed anywhere. It is possible to achieve success in China but this requires European firms to understand the local market environment and conditions.

This is where research consultancy can help. We can identify the right target customers, indicate (where relevant) the role and importance of state and local government departments, highlight the sales messages to be used (and those to be avoided) and can report in depth on the nature and type of Guangxi relationship that must be developed with customers.

This Case History shows how a international aviation supplier used research consultancy to dramatically improve its business in mainland China.

Achieving Success in China

China, of course, represents the greatest opportunity for European companies to expand their export business. There are over 1.4 billion people in China and they are becoming more and more affluent. Already there are over 1 million millionaires in mainland China. Western companies, especially those selling luxury goods, are enjoying spectacular success. However there are also many examples of foreign companies that fail in China, or who achieve only limited success. Surveys have shown that less than 50% of European companies in China are satisfied with their performance and achievements and 42% had returns that failed to meet expectations. Companies that have “failed” in China include such giants as Ford, Peugeot, Whirlpool, Maytag, eBay, Ericsson, Henkel, Procter & gamble, Philips and Ogilvy & Mather.

There are many reasons why companies fail to meet their goals in China, but the overriding issue is a failure to appreciate how different China is from other countries. These companies have often been successful in developing markets in Europe, North and South America and even Asia-Pacific and convince themselves that what has worked in other countries will work in China. They don’t understand that China is totally different especially in how customers buy products and services and how suppliers distribute and market their goods.

In China entirely different sales distribution and marketing practices are required to develop customers. Above all is the need to develop personal relationships with customers, the so-called “Guangxi”. European companies that pay lip service to this process will not succeed in China. They must leave their local ideas and thinking behind and adapt to the Chinese requirements in terms of product quality, pricing, distribution, branding, selling, advertising and promotion. “Western firms and executives must take off their own shoes before stepping into Chinese shoes if they wish to succeed in China” (Piset Wattanavitukul, Managing Director, P.W. Consultants)

Some companies have failed because of poor or unsuitable product design/quality (Ericsson and Whirlpool), others because their brands were not strong (Henkel), some because of incorrect sales and marketing, many because prices were too high for the Chinese customer, or because inappropriate distribution strategies were adopted. Some Western firms have insisted on management systems imported from their home markets and these seldom survive in China. Many have underestimated the cultural differences between China and the West.

Many business-to-business companies fail in China because they are selling to the wrong target, are not using the appropriate sales approaches and adopt incorrect sales messages. Too often they fail to understand the Chinese decision-maker and assume that what works in Europe will succeed anywhere. However it is possible to achieve success in China but this requires European firms to understand the local market environment and conditions.

This is where our services can help. We can identify the right target customers, indicate (where relevant) the role and importance of state and local government departments, highlight the sales messages to be used (and those to be avoided) and can report in depth on the nature and type of Guangxi relationship that must be developed with customers.

Case History

The client is a major manufacturer of advanced navigation systems used in aviation. It sells its products to both the airlines and the airports. This company had been established in China for more than 3 years and had employed senior sales staff to develop business among China’s main domestic airlines – Air China, China Sothern, China Eastern and Hainan – and also principal airports based in Beijing, Shanghai, Guangzhou, Chengdu, Xi-an, Chongqing, Kunming, Hangzhou, Xiamen, Shenzhen, Nanjing, Wuhan and Sanya. The opportunities were tremendous as the Chinese aviation industry was large and growing very rapidly. The country’s existing 175 airports needed expanding and upgrading and a further 45 new airports were to be built. Demand for air travel required that a further 4000 new passenger aircraft would be required over the next 15-20 years.

However, despite a very impressive track record elsewhere in the world, our client had achieved virtually no sales success despite this very positive market scenario. CAP Strategic Research was commissioned to identify how sales performance could be improved.

Research Approach

1. Desk Research

Intensive desk-research was undertaken to identify current attitudes and practices of the Chinese aviation industry towards modern navigation systems, and to understand where and how purchasing decisions are made. Internet searches identified seminars, articles and working papers on this subject and also the names of individuals involved in decision-making within airlines and airports. This research approach also identified the importance of the General Administration of Civil Aviation of China (CAAC) in deciding on new navigation products, especially its Air Traffic Management Bureau (ATMB) division. We learned that individuals employed by CAAC/ATMB at national level and at each of its seven regional operations were important players in this market.

2. Telephone Interviews

We interviewed by telephone over 40 key decision-makers identified by the desk research exercise. These were people employed by the airlines, airports and CAAC/ATMB. Telephone interviewing of business and Government executives is not straightforward in China. There are no published directories and businesses and individuals are very unwilling to give out telephone numbers. Many executives also do not bother to pick up the phone when it rings. What is required is patience and perseverance, then more patience. The interviews were mainly used to identify who are the really important decision-makers in choosing navigation systems and suppliers. Many telephone calls resulted in us being referred to the key executives.

3. Personal Interviews

Desk research and telephone interviews identified 8 executives deemed to be crucially important. Significantly half of these were employed at CAAC/ATMB. We interviewed six of these respondents face-to-face to further confirm who are the important customers that our client should be selling to. We also used these interviews to determine the sales approaches and marketing messages that would prove most effective.

Results

The survey revealed that our client had underestimated the importance of CAAC/ATMB in deciding what happens in the Chinese navigation market. The client had focussed on direct selling to the airlines and airports whereas this should have been secondary to establishing good relationships with CAAC/ATMB. We provided the names of the key decision-makers at CAAC/ATMB, and the important customers within airlines and airports. In addition we found that the client's sales approach was based on its equipment being the most modern and advanced whereas the customers were placing more emphasis on proven reliability. Potential customers placed great significance on the cost-savings arising from using new navigation methods, whereas the client saw this as a secondary feature

Outcome

The client revamped its sales and marketing programme and has already significantly improved its sales performance in China.

“Thanks very much for all the great work you have done. This is terrific. Our team is in the process of implementing your recommendations. Appreciate all the work that you guys have done in China!” **The Client**

For more information on achieving sales success in China please contact

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