

**A PHENOMENOLOGICAL INVESTIGATION OF MARKETING STRATEGIES AND  
PRACTICES: THE CASES IN CHINA'S TOWNSHIP AND VILLAGE ENTERPRISES**

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**By**

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## **ABSTRACT**

### **A PHENOMENOLOGICAL INVESTIGATION OF MARKETING STRATEGIES AND PRACTICES: THE CASES IN CHINA'S TOWNSHIP AND VILLAGE ENTERPRISES**

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University of Guelph, 2001

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Three Chinese Township and Village Enterprises (TVEs) in Jiangsu Province were investigated and analyzed through a phenomenological approach. The data provide evidence with regard to the link between managers' perceptions of the business environment and the marketing strategies and tactics adopted in response to the changing marketplace. In particular, this research identified several themes relating to the primary focus of marketing practices in these selected enterprises. These themes include competitor-centered orientation, innovative imitation strategy, and competitive advantages based on low-cost labor and market expansion. The implications of these themes can be better understood from a socio-cultural perspective, taking into consideration a series of factors including the immaturity of the Chinese market, the great disparity between rural and urban areas, and the socially oriented cultural tradition. As one of the pioneer efforts, this study highlights insights on marketing practices in China's TVEs and provides baseline documentation that may facilitate a more structured research in this domain.

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## I. INTRODUCTION

The rapid growth of Chinese Township and Village Enterprises (TVEs) represents perhaps the most significant change as a result of China's economy reform. TVEs are those rural enterprises that are created collectively by farmers and engage in non-agricultural industries with their community feature and the family style (Wang, 1998). In 1978, the number of TVEs in China was 1.5 million, with the number of employees of 28 million and the total output of CS 9 billion<sup>1</sup>, while by 1994 the corresponding figures had soared to 25 million, 120 million and 774 billion respectively (Wang, 1998).

TVEs have made significant contribution to China's economy. The Chinese economy has relied on collectively-owned businesses, whereas other transitional economies have built mainly upon growth in the new private sector (Perkins, 1994). TVEs, as the dominant power in the Chinese collectively-owned businesses, have played an important role in accelerating China's phenomenal growth (Jefferson *et al.*, 1992). The output of TVEs accounted for approximately 30% of the country's GDP in 1997 (Rural Statistical Yearbook of China, 1998).

The rapid growth of TVEs has received increasing academic attention in recent years. Some scholars studied TVEs' business strategies from managerial perspective (Tan and Li, 1996; Luo, 1999). While emphasizing the relationships between environments and

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<sup>1</sup> The exchange rate of CAD to RMB (Chinese currency) applied in this research is 5.5:1, an official exchange rate at the time of writing. The numbers cited hereinafter, unless otherwise indicated, have all been converted into CAD according to this rate.



business strategies, they didn't take marketing into their consideration. Others focused on TVEs' market orientation and their marketing practices (Zhou, 2000; Zhang, 2000). In these studies, however, the impact of environment-related factors on marketing activities was not adequately addressed.

Furthermore, what is absent in the previous research on TVEs is the socio-cultural context in which TVEs operate. We believe that any marketing activities do not emanate from a vacuum. rather, they reflect complex environment and embody certain socio-cultural values. It may well be the case that Chinese TVEs have developed the marketing strategies and tactics in their own ways as their responses to the environments. Though not necessarily in accordance with the generally accepted Western-style of marketing, the Chinese approach is perhaps more appropriate to the local needs (Zhou, 2000). But to date, there is few studies have been found that reveal the rationale of the Chinese-style of marketing activities in TVEs, largely due to a lack of research that provides insight into the impacts of the environmental factors and the socio-cultural values on TVEs' marketing activities.

### **1.1. Research Objectives**

To fill up such research vacancy, this study attempts to explore the Chinese ways of marketing activities in TVEs by linking the formation and implementation of their marketing strategies and tactics with the impacts of environmental factors and contextual conditions. Strategies and tactics are firms' responses to the environmental factors that

may influence their businesses. The environmental factors such as market and competition are abstractions that are given meaning through managers' cognition and perceptions (Day and Nedungadi, 1994). Managers' perceptions of environmental factors, in turn, shape the corresponding strategies and tactics in response to the marketplace. Thus more precisely, what matters here are managers' perceptions that interpret the environments and transfer the impacts of perceived environmental factors into firms' strategies and tactics. From this perspective, this study attempts to explore the rationale of the Chinese ways of marketing in TVEs by identifying managers' perceptions of the environments underlain by the Chinese socio-cultural values. Specifically, the objectives of this study are to:

- (1) Identify the managers' perceptions of their marketing environments;
- (2) Explore how their perceptions of the environments shape the formation and implementation of the marketing strategies and tactics;
- (3) Explore how socio-cultural values influence the managers' perceptions of the environments and thus the formation and implementation of the marketing strategies and tactics.

## **1.2. Research approach**

An in-depth case analysis was employed in this study. This approach allows the researcher to reach below the surface to explore the managers' perceptions and the marketing practices in TVEs. Different data collection techniques, including in-depth

interviews and participant observations, were used. Though time consuming and demanding, these techniques do provide detail, depth and range of data which cannot be otherwise achieved.

In using the so-called phenomenological approach, the success of fieldwork is crucial. The fieldwork of this research was conducted in Jiangsu, a southeastern province in China. Jiangsu is one of the most economically developed provinces in China. Chinese TVEs originated in this region. In 1994, industrial output produced by Jiangsu TVEs accounted for 19% of the nation's total (China Statistical Yearbook, 1995). In 1997, industrial output produced by TVEs accounted for 31% of the province's total, contributed by all types of enterprises (Jiangsu Township and Village Enterprises Yearbook, 1999). Due to the leading position of Jiangsu Province in terms of TVEs' development, a number of United Nations research projects have used this area as the research context for understanding TVE development and experience.

In this study, three TVEs in Jiangsu Province, namely, F.H. Food, XT Garment, and J.J. Food<sup>2</sup>, were investigated and analyzed with an average of five working days spent in field investigation for each. All these three TVEs were created in the 1980s with very little investment. F.H. Food is now engaging in manufacturing instant noodle product with its annual sales volume of about CS 25M. Located in a small township with about 300 employees, XT Garment manufactures its garment products for both domestic and international markets. In 1999, its sales volume reached CS 17M. J.J. Food has been one

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<sup>2</sup> For the sake of confidentiality, all of the true company names and persons involved in this research have been disguised.

of the major competitors in the Chinese candied and preserved fruit market with its sales volume of CS 6M in 1999. In-depth interviews of the general managers and the marketing (sales) department managers in each of the selected TVEs were conducted and participant observations were carried out in their staff offices, production workshops, and factory sales outlets.

### **1.3. Significance of this study**

There are both theoretical and managerial implications of this research. From theoretical perspective, marketing has been dominantly a Western theory embedded in Western social and cultural environment. This research suggests the very importance of environmental adaptation when marketing theory is brought into societies with different cultural traditions, in this case, China. The marketing environments in China exhibit great differences with those in Western countries. such environmental factors as dynamic competition, the low income of the majority of the population, and the underdevelopment of marketing infrastructure greatly influence managers' perceptions and their strategic choices. The Chinese social and cultural values underlie the dynamics such as *guanxi* in Chinese business that drive TVEs to form and implement their marketing strategy in their own ways. Environmental adaptation of marketing strategies and tactics holds promise as a valuable focus for future theoretical development of marketing in China, which may lead to thorough understanding of Chinese-style of marketing.

From practical perspective, this research reveals that unique Chinese social and cultural values are deeply ingrained in the TVEs' marketing practices. Marketing tools are often moderated by conscious preference of such values. It also reveals that a competitor-centered orientation, competitive advantages based on low cost labor and market expansion, and an innovative imitation strategy are some of the characteristics of marketing practices in China's TVEs. With the Chinese market evolving rapidly, it may be necessary for TVEs to balance attention to both competitors and consumers and to develop sustainable competitive advantages.

There are also some lessons for those multinational companies who have penetrated or are planning to penetrate China's market. Many of them are facing challenges from TVEs in some product categories, and the competition between multinational companies and TVEs tends to be stronger in the near future. Better understanding of TVEs' marketing practices will help global marketers to be better prepare for the competition in China's market.

## **II. CHINESE TOWNSHIP AND VILLAGE ENTERPRISES**

Like other transitional economies (that is, former centrally planned economies), the Chinese economy is characterized by a diversity of organizational forms generally including state-owned, collectively-owned, privately-owned, and foreign joint ventures (Luo, 1999). The Chinese economy differs from other transitional economies in that it has relied on collectively-owned businesses whereas other transitional economies have depended mainly upon growth in the new private sector (Perkins, 1994). Township and Village Enterprises (TVEs), as the dominant power in the Chinese collectively-owned businesses, have played an important role in the Chinese economy (Jefferson *et al.*, 1992).

### **2.1. Definition and the Historical Background**

“Township and Village Enterprises” (TVEs) in the Chinese economy refers to those enterprises that are created by farmers, individually or collectively, and are engaged in non-agricultural industries, especially in the manufacturing industry (Wang, 1998). Before 1979, a very rigid, planned economy dominated almost all the production activities in China. “People’s Commune” was the sole form of economic organization and administrative unit in rural areas. Farmers were allowed to create enterprises only in the names of the People’s Communes. After 1979, the People’s Communes as economic organizations were dismissed and township governments were restored as the successors of the administrative functions and the assets of the People’s Communes. Township and

Village Enterprises were officially admitted and the development of TVEs was encouraged by the central government.

## **2.2. Distinctive Features**

A communal nature and family-like style characterize TVEs. TVEs' communal nature has been recognized in Chinese academics for a long time. According to Wang (1998), the basic connotation of "communal nature" is that this kind of economic organization is economically and socially attached to rural communities that have been formed by traditional consanguinity and geographical relations. The TVEs' communal nature is characterized by its nativeness, collectiveness, and localness. Nativeness refers to TVEs' tight connections with local farmers in terms of consanguinity and geographical relations. Collectiveness means that TVEs, especially Village Enterprises are brought into the collective autonomy of villages; a village is actually a union of administrative and economic organization responsible for arranging all the economical and social affairs concerning villagers' daily lives. Localness refers to the fact that TVEs, especially Township Enterprises, are actually owned by community (township) governments; community governments accept or secure all the economic responsibilities of Township Enterprises and thus have great influence on Township Enterprises' operation.

On the other hand, family-like style is manifested in a TVE's daily operation. The leader of a TVE often plays dual roles both as a boss and as the head of a family. Family-like style helps TVEs to develop a low-cost interpersonal network in market. Employing

family members, friends or the like saves the cost of building necessary trust relationships with “outsiders” otherwise employed by TVEs and simplifies the supervision system, although it shows a tendency of exclusivity. An “able man” in the community who is highly trusted by the community members is usually appointed by the community government to be the leader of a local TVE and asked to sign managerial contracts. Due to consanguinity and geographical relations, community members usually have full and strong confidence in him/her, and he/she, in turn, often shows a high sense of responsibility and honor to community members (Chen, 2000).

### **2.3. The importance of TVEs to the Chinese economy**

TVEs have experienced tremendous growth during the past two decades. In 1978, There were only 1.5 million TVEs with the number of employees of 28 million and the total output of about 9 billion in CAD. By 1997, the corresponding figures had increased to 25 million, 120 million, and 774 billion respectively (Wang, 1998). The output of TVEs accounted for approximately 30% of the country’s total in 1997 (Jefferson *et al.*, 1998). TVEs have become one of the country’s dominant output contributors. While most of large state-owned firms have undergone losses in the past years, TVEs net profits and contributed taxes have been increasing. In no other transitional economies have collectively-owned enterprises played such a dynamic role (Luo, 1999).

In addition to their contributions to the national economy, Chinese TVEs have also become major generators of local revenue and have played an important role in



improving living standards in rural areas. For example, in Jiangsu Province where this research was conducted, one third of the local revenue was contributed by TVEs. For an average farmer, one third of his/her annual income came from TVEs in 1998 (Jiangsu Township and Village Enterprises Yearbook, 1999).

### **III. LITERATURE REVIEW**

Although the rapid growth of TVEs has received increasing academic attention in recent years, little research has been done to relate TVE managers' perceptions of marketing environments with marketing activities in TVEs and to understand the relationship between the perceptions and the environments from a socio-cultural perspective. To do so, an extensive review of relevant literature was conducted, which led us to propose a conceptual framework (see Table 1). This framework was then used as a guide for in-depth case analysis.

#### **3.1. Proposed Research Framework**

Firms initiate strategies including marketing strategies to respond to the challenges and opportunities posed by the environment. However, not all the environmental factors play a role in the firms' strategic decisions, rather, only perceived ones do. "Environmental factors such as market and competition are abstractions that are given meaning through managers' cognition and perceptions." (Day and Nedungadi, 1994) To start, a manager's perceptions of the environment of his business are central to this framework as a function of his response to and interpretation of environmental stimuli. His perceptions, in turn, direct the formation of the business strategy from which the marketing strategy is derived and the marketing tactics are implemented.

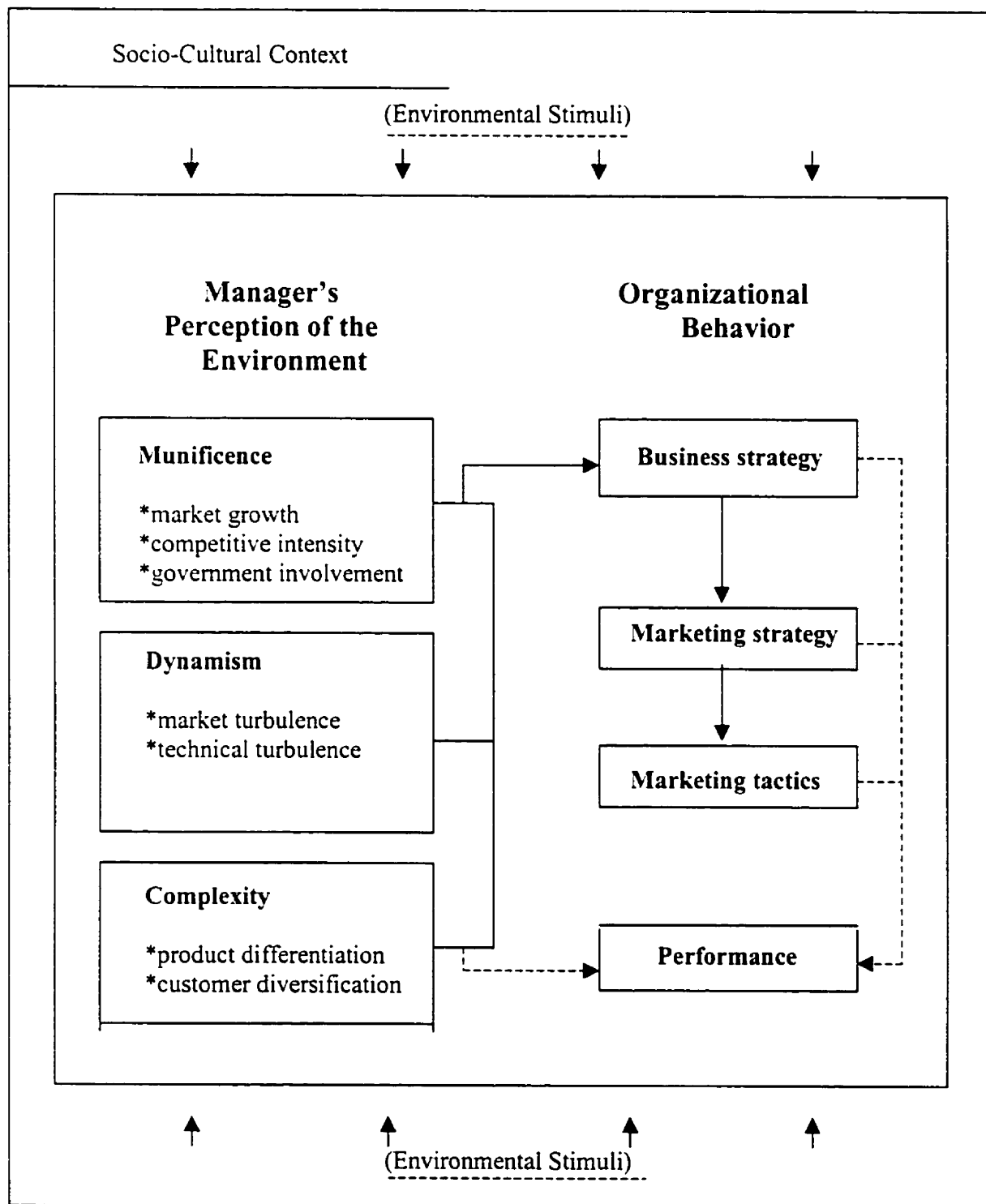


Table 1 Proposed Conceptual Framework for This Research

We follow Dess and Beard's (1984) categorization of environmental dimensions to categorize perceived environmental factors into munificence, dynamism, and complexity (to be detailed). Subdivisions of these broader constructs may influence firms' strategies to a greater extent (Pelham, 1999). Pelham's (1999) notion of subdivisions of the three dimensions is adopted in our conceptual framework to segment these broader constructs so that they could be more easily applied at the operational level. According to his notion, subdivisions of munificence include market growth, competitive intensity, and profitability. Subdivisions of dynamism include market turbulence and technical turbulence. Subdivisions of complexity include product differentiation and customer diversification. Considering both the specific conditions of TVEs and the scope of this research, The influence of government involvement is added into the subdivisions of munificence, while profitability is deleted not considered because of the lack of available data.

An important consideration for us in adding or deleting certain items in the subdivisions of the environmental dimensions is that the specific Chinese socio-cultural context in which TVEs operate manifests itself much differently than that of Western societies. Marketing theory cannot be applied universally without taking context into account (Anderson *et al.*, 1999). Many distinctive features of the so-called Chinese-style of marketing in TVEs may be traced from traditional Chinese social and cultural values. This context serves as the "atmosphere" for our conceptual framework.

In summary, the proposed conceptual framework is composed of several components. These components include the manager's perception of the environment or the perceived environmental factors, the firm's business strategy, marketing strategy and tactics, and the socio-cultural context. Mapped by this framework, a discussion of the literature is organized as follows in the rest of this chapter. First, environment, strategy, and their relationship with focus on marketing strategy are discussed. Second, the relationships among environmental reality, manager's perceptions, and strategy are reviewed. Third, the Chinese socio-cultural context that has been documented in the literature is highlighted. Finally, the previous research on TVEs with regard to the environment-strategy relationship and marketing activities are discussed.

### **3.2. Environment and Strategy**

#### *3.2.1 Environment*

Firms and their activities do not arise simply by chance. Rather, they are a reflection of a particular environment in which they are operating. Organizational environments are manifested in many ways. However, there is an emerging consensus among researchers on a few important dimensions (Dess and Beard, 1984). Aldrich (1979) discussed six dimensions derived from an extensive review of the literature on population-ecology theory and resource-dependence theory. Dess and Beard (1984) categorized Aldrich's environmental dimensions into a more parsimonious set including munificence, dynamism, and complexity. Pelham (1999) suggested that subdivisions of these broader

constructs might influence strategy success to a greater extent than broader constructs. According to Pelham (1999), these subdivisions include market or technical turbulence (dynamism), market growth, profitability, and competitive intensity (munificence), and product and customer differentiation (complexity). In the TVE context, these dimensions and the subdivisions have been adapted in our conceptual framework.

Munificence is defined as the extent to which the relevant environmental segments can support sustained growth or the availability of external resources that are crucial for firm growth (Dess and Beard, 1984). Organizations seek out environments that permit organizational growth and stability. Such growth and stability may allow an organization to generate slack resources, which in turn provide a buffer for the organization during periods of relative scarcity (Miles and Snow, 1978).

In the TVE context, market growth, competitive intensity, and government involvement may be among the most important subdivisions of environmental munificence. Due to hard budget constraints, TVEs are forced to follow the rules of the market to a greater degree than state-owned firms (Perkins, 1994). They usually make rapid changes in product lines to take advantage of changing market opportunities and to avoid being stuck too long in industries that face declining market trends (Luo, 1999). Thus market growth has great influence on TVEs' strategic actions. From a competitive strategy perspective, TVEs tend to rush to newly discovered profit opportunities as quickly as possible and often have a competitive edge over their major rivals (Luo, 1999). Thus they may benefit from low competitive intensity brought by new opportunities. Since TVEs

are owned by community collectives represented by community governments, they can access more capital and raw materials than do privately-owned firms, while also being more protected from central government interference (Nee, 1992). Relatively high government involvement becomes an important external resource that is sometimes crucial for TVEs' growth.

Dynamism can be conceptualized as the rate of change and the degree of instability of the environment (Duncan, 1972). It is manifested in the degree of instability or turbulence of such key operating concerns as market and industry conditions as well as more general technological, economic, social, and political forces (Dess and Beard, 1984). Dynamism should be restricted to change that is hard to predict and that heightens uncertainty for key organizational members (Dess and Beard, 1984). When there is greater environmental dynamism, firm managers may face situations that are unclear and that present few well-developed alternatives and few clear evaluation criteria by which to select alternatives (Venkatraman, 1989).

Environmental dynamism is composed of subdivisions of market turbulence and technical turbulence (Pelham, 1999). Luo (1999) measured this dimension in his empirical research on environment-strategy-performance relations in TVEs. In his study, dynamism was measured by variability (how much change have you observed in last five years?) and by unpredictability (to what extent do you think each environmental segment has become unpredictable?). He suggested that when the industrial environment is dynamic, TVEs tended to be adaptive and aggressive.

Complexity refers to the heterogeneity and range of factors in various environmental segments with which a firm must contend (Dess and Beard, 1984). The complexity dimension is related to homogeneity/heterogeneity of industry/market and concentration/dispersion of organizational activities/organizational density. Managers facing a more complex environment will perceive greater uncertainty and have greater information-processing requirements than managers facing a simple environment (Dess and Beard, 1984).

According to Pelham (1999), the subdivisions of environmental complexity are product differentiation and customer differentiation. In Luo's (1999) study, complexity was measured by diversity (how many factors does your company need to deal with in each segment?) and by unpredictability (to what extent do you think each segment has become unpredictable?). It was suggested that TVEs were highly innovative and proactive in responding to complex environments. In our research, Pelham's (1999) notion is adopted to measure environmental complexity.

### 3.2.2. *Business Strategy and Marketing Strategy*

Strategy exists at multiple levels in a firm: corporate, business, and functional (Varadarajan and Jayachandran, 1999). *Corporate strategy* specifies the business arenas in which the firm will compete—the choice of businesses to be in. Due to the fact that an overwhelming majority of TVEs are small businesses (Luo, 1999) and engage in a single



business, corporate strategy is thus irrelevant to the topic of TVEs and is excluded from the discussion presented below. *Business strategy* specifies how a particular business in the firm's portfolio will compete in the marketplace. The goal of business strategy is the achievement and maintenance of competitive advantage in specific product-market domains (Varadarajan and Jayachandran, 1999). *Marketing strategy* is marketing activities and decisions related to generating and sustaining competitive advantage. Marketing strategy focuses on achieving competitive advantage by building relationships with important constituencies (customers, partners, and channel members), offering appropriate products, identifying the timing for changes in relationships and product offerings, and the deployment of sufficient resources to realize the choice of relationships and offerings (Varadarajan and Jayachandran, 1999).

In general, there are three aspects to the strategy of firms, regardless of the level of the strategy: content, formulation process, and implementation strategy (Varadarajan and Jayachandran, 1999). *Strategy content* (what the strategy is) refers to the specific relationships, offerings, timing, and pattern of resource deployment planned by a business in its quest for competitive advantage (e.g., generic strategy of cost leadership versus differentiation; push versus pull strategy). *Strategy formulation process* (how one arrives at the strategy) refers to the activities that a business engages in for determining the strategy content (e.g., market opportunity analysis, competitor analysis, decision-making styles). *Strategy implementation* (how the strategy is carried out) refers to the actions initiated within the organization and in its relationships with external constituencies to

realize the strategy (e.g., organizational structure, coordination mechanisms, control systems) (Varadarajan and Jayachandran, 1999).

Business strategy making is the firm-level process that incorporates the range of activities that the organizations undertake to formulate their strategic mission and goals. These activities include analysis, planning, decision making, and management and are imbued with the organization's culture and shared value system (Porter, 1980).

The marketing function in organizations, besides being responsible for the content, process, and implementation of marketing strategy at the product-market level, plays an important role in the strategy formulation process and the determination of strategy content at the business level. The strategic role of marketing in organizations arises as a result of the boundary-spanning nature of the function (i.e., its extensive interactions with customers and competitors, and monitoring of the external environment) (Varadarajan and Jayachandran, 1999).

Clearly, in terms of principal concerns, constructs used, and the nature of decisions involved, there is considerable overlap between marketing strategy and business strategy (Varadarajan and Jayachandran, 1999). There are numerous product, pricing, promotion, and place decisions arising ostensibly in the marketing domain that will probably not be decided exclusively at the functional level. In addition, often business-level management may be extensively involved in the formulation of marketing function-level strategy, with marketing decision-makers playing either a lead role or a participatory role.

Varadarajan and Jayachandran (1999) assessed the state of the field of marketing strategy research, and summarized that extant research on marketing strategy was indicative of a number of broad research streams including:

- (1) Research focusing on organizational issues germane to marketing strategy (e.g., branding, competitive behavior, positioning, and segmentation)
- (2) Research focusing on organizational issues central to marketing strategy, but whose scope spans multiple organizational functions (e.g., innovation and quality)
- (3) Research focusing on issues at the interface of business and marketing strategy (e.g., generic strategy of differentiation, market pioneering, and strategic alliances); corporate and marketing strategy; or corporate, business, and marketing strategy.
- (4) Research focusing on organizational-level phenomena that affect marketing strategy and management in important ways (e.g., corporate culture, market orientation, and strategy formulation process)
- (5) Research focusing on the outcomes of marketing and business strategy (e.g., competitive positional advantages, market share, customer satisfaction, and market-based assets)

Varadarajan and Jayachandran (1999) concluded that a major impediment to the advancement of the field of marketing strategy has been the absence of a shared mental model among researchers, a clear explication of the domain in terms of its principles and theories, and a basis for delineation of competitive business strategy from competitive marketing strategy. Furthermore, although there is evidence of more research in

international contexts, the cultural dependence of strategy formulation processes on environment in international contexts remains under-researched.

### 3.2.3. *Environment-Strategy Relationship*

Strategy has been considered to be under the control of managers and environmental constraints that in certain situations can be proactively changed by managers (Hofer & Schendel, 1978; Pfeffer & Salancik, 1978). Aldrich and Pfeffer (1976) argue that managerial choice may be severely constrained by some environments and that managers must correctly perceive the nature and dictates of those environments. This dependence of strategic actions initiated by firms and the outcomes of such actions on the environment or context of the organization is termed *embeddedness* (Porac and Rosa, 1996).

According to Porac and Rosa (1996), embeddedness is manifest where

- (1) The firm is embedded in a general environment comprising the institutions that lay the guidelines to shape the behavior of firms and macro-societal factors such as the prevailing culture. The institutions that affect firms include those that determine the monetary policy and competitive policies. The embeddedness caused by culture is reflected by the role of cultural beliefs and value systems in determining economic transactions.
- (2) The firm is embedded in an industrial environment that comprises the actors within an industry such as suppliers, customers, competitors, and channel partners. The

nature of the relationships among these industry stakeholders influences the firm's strategic actions.

- (3) The firm has an internal environment that comprises its unique sets of skills and resources; collective beliefs about the market, competition, industry, and culture.

A firm's strategy is designed to overcome the constraints imposed by embeddedness in a complex environment and to exploit the opportunities that arise on account of embeddedness. This applies to strategies at both business and functional (e.g., marketing) levels (Varadarajan and Jayachandran, 1999).

Research on environment-strategy relationship has documented the central role of environmental scanning and manager's perception of the environment in strategy planning (Day and Nedungadi, 1994). In essence, both environmental scanning and manager's perception of the environment are processes of human cognition. In other words, it seems that it is the perceived environments, rather than the "real" ones, which influence a firm's strategy formation. This raises a further question. That is, what are the relationships among environmental reality, a manager's perception, and a firm's strategy?

### **3.3. Environmental Reality, Manager's Perception, and Strategy**

The implicit assumptions in previous research on strategy concerning how managers respond to their market environments are: (1) market environments are tangible and independent entities waiting to be discovered; (2) managers are rational and well-

informed information processors with their conceptual framework; and (3) there is consensus among managers of a business on the nature of the market and relative competitive position (Day and Nedungadi, 1994). These implicit assumptions are being challenged by an emerging revisionist view that what matters are the mental models that managers use to make sense of their environment (Day and Nedungadi, 1994).

One of the arguments in favor of methodologies that recognize the perceptual and cognitive aspects of managerial decisions maintains that it is increasingly clear that market environments are not unambiguous realities (Day and Nedungadi, 1994). Instead, such constructs as markets, segments, competitive forces, and entry barriers are abstractions given meaning through processes of selective search and attention, selective perception, and simplification. Such processes are learned through experience, shared through industry conventional wisdom, warped by functional biases, and tempered by ready availability of data (Day and Nedungadi, 1994). Thus problem sensing, that is, the cognitive processes of noticing and constructing meaning about environmental change so that organizations can take action, is a crucial component of managerial behavior in rapidly changing environments (Kiesler and Sproull, 1982).

According to Kiesler and Sproull (1982), managers pay attention to environmental variables that their past experience has taught them they cannot afford to overlook and then impose interpretations on the levels and trends of these variables that simplify decisions. Thus the strategist's perception of environmental "reality" is simply a function of the categorization and interpretation processes imposed on the environment.

According to social perception theories, perception is a process in which the perceiver constructs reality by performing cognitive operations on cues derived from the environment (Brunswick, 1952). In these processes, individuals may over-, under-, or mis-estimate the importance of particular environmental features as causal agents (Kiesler and Sproull, 1982).

To deal with upheavals in the external environment, a manager uses a mental model, or a managerial representation to serve as a knowledge framework that then selects and actively modifies experience to arrive at a coherent, unified, expectation-confirming and knowledge-consistent representation of experience (Diesler and Sproull, 1982). A mental model gives a manager a coherent structure of knowledge about a domain. However, because organizations differ in the way they choose and process information, there are likely to be variations in the content and structure of these representations. In their empirical study of senior managers of 190 businesses, Day and Nedungadi (1994) identified four different types of representations of competitive advantage, varying in the emphasis placed on customer or management judgments about where and how competitors differ. The results reveal that these representations were influenced equally by pressure points in the environment and choice of strategy. The type of representation was strongly associated with constrained patterns of information search and usage.

In summary, a firm's strategy is influenced by those environmental factors that are selectively noticed and interpreted by the manager. In other words, it is a manager's perceptions of the environment that are more relevant in the discussion of environment-

strategy configuration, rather than the environmental reality. Furthermore, what can be inferred from the literature is that, different environmental factors may result in different perceptions and thus different business and marketing strategies. Since social and cultural considerations are probably the most constraining uncontrollable variables in firms' marketing environments (Kindra, 1984), when we attempt to identify managers' perceptions and their marketing strategy in the Chinese context, distinctive Chinese social and cultural values must be taken into consideration.

### **3.4. The Chinese Socio-Cultural Context**

The marketing implications of social and cultural differences may be seen in terms of a number of activities within the overall marketing function such as marketing research, the understanding of consumer behavior, organizational behavior and salesman activity, and marketing-strategy formulation (Redding, 1982).

To measure cultural differences, Hofstede (1980) defines four cultural dimensions. Among these dimensions the individualist vs. collectivism dimension is relevant to the discussion of cultural dependence of marketing activities. This dimension is concerned with the relationship between an individual and other members of a society. Countries that are less economically developed score closer to the collectivist end of the scale. Within a marketing context, the collectivist view of value drives marketers to work closely with their clients (Fam and Merrilees, 1998). These marketers are also more likely to want to cultivate a friendly relationship with their stakeholders as they believe



their existence is dependent on the stakeholders and vice-versa. Therefore, relationship marketing and personal relationships fit well in collectivist societies (Fam and Merriees, 1998).

It has long been recognized that maintaining personal relationships, or *guanxi*, is one of the major dynamics in Chinese society (Yau *et al.*, 2000). Although the word *guanxi* has literally the same meaning of “relationship” in English, in reality it has a much more sophisticated meaning than “relationship”. It consists of two Chinese characters, *guan* and *xi* that mean “relating” and “bonding” respectively. Hence, *guanxi* virtually means the social relationship between two persons under a particular bonding. Originally, this bonding referred to one of Confucius’ five cardinal bonds (*wu lun*) that included the bonds between sovereign and minister, father and son, husband and wife, old and young, and friend and friend. However, these bonds have been further extended to include the following: relatives in the same kinship system; townsmen; classmates; colleagues; heirs of friends for more than two generations; people with the same hobbies; past superiors, past subordinates; those taught by the same teacher; past students; members of the same school or clan; and acquaintances, friends of close friends. These relationships address the similarity between two parties in terms of origin and serve to remove doubt, create trust and form close relationships between two parties (Yau *et al.*, 2000).

Most Westerners are ambiguous about exactly what a relationship is in the Chinese context. The meaning of the term “relationship” itself is subtle and complex. Trust is vital, but is bound by the closeness of kinship. The Chinese believe that one should build

long-term relationships first; then, if that is successful, transactions will follow. Westerners, according to Ambler (1994), build transactions first; if they are successful, a relationship may follow.

Compared with the individualism of American culture, Chinese society has a communal tradition, focusing more on development of the social self rather than on a private self (Kindel, 1983). "Face", or "*mianzi*" in Chinese, refers to reputation and prestige obtained through one's effort or conduct, and is related to tangible and intangible personal success. Face makes the Chinese risk-averse and slower to accept new products, and more loyal than Westerners once brand image is established. Ho (1974) observes that because Chinese are socially oriented, they seem to act according to others' expectations instead of their own personal wishes or personal integrity. He suggests that several "faces" are associated with a variety of social roles enacted in society over time. Similar to respect, face is granted by others and tradition suggests that losing face will cause the Chinese to lose confidence in front of others and in personal interactions. Losing face is therefore believed to be a serious matter that will affect one's ability to function effectively in society. Hence, the Chinese are believed to rarely express their differences because they do not want to lose face (Le Claire, 1993).

In summary, the collectivist view of value, personal relationship or *guanxi*, and the concept of "face" are among the most important social and cultural factors that may underlie Chinese-style marketing activities and result in unique characteristics of the Chinese market.

### **3.5. Relevant Research in Strategies and Marketing in TVEs**

TVEs, with their distinctive features and important role in the Chinese economy, have aroused increasing academic interest in recent years. Some scholars have studied TVEs' business strategies from a managerial perspective (Tan and Li, 1996; Luo, 1999). Others have focused on TVEs' market orientation and their marketing practices (Zhou, 2000; Zhang, 2000).

Using Miles and Snow's (1978) model to investigate the environment-strategy relationship in TVEs, Tan and Li (1996) found that Chinese Township and Village Enterprises (TVEs) in Northern China (Beijing and Tianjin) tended to be hybrids between the proactive and defensive modes in responding to the external environment. As Tan and Li acknowledged in conclusion, their findings could probably not be generalized to other regions, particularly Southern China where TVEs enjoyed more liberal economic policies, a more advanced investment and operation infrastructure, and greater integration with international markets.

To respond to Tan and Li's (1996) research on TVEs in Northern China, Luo (1999) conducted his empirical study on environment-strategy-performance relations in TVEs in Southern China with a focus on Jiangsu Province. His research data was collected through a survey of TVE managers in Jiangsu area. It was found that environmental characteristics such as complexity, dynamism, and hostility influenced TVE managers'

perceptions of environmental uncertainty and potentiality, which in turn affected the firm's strategic orientations such as innovation, risk-taking, and proactiveness. It was also found that a TVE's innovation and proactiveness were positively associated with increased environmental dynamism. When environmental conditions were complex or hostile, however, strategic decisions were made more deliberately. Luo's (1999) key findings suggested that small TVEs used a wary prospector orientation to align with environmental conditions, and that this strategy-environment configuration led to superior financial and market performance.

These findings empirically applied the environment-strategy paradigms in the context of Chinese TVEs and identified some important strategic features of TVEs. Although they emphasized the relationship between environment and generic strategy in TVEs, they didn't take marketing strategy into consideration. Furthermore, the nature of quantitative research didn't allow these researchers to explore why these distinctive features were exhibited in the TVEs' strategic choices and how the strategies were formulated and implemented.

Some other studies were found in the literature on market orientation and marketing practices in TVEs. Zhou (2000) conducted field interviews of top managers in Zhejiang Province. He contended that there was a general consensus that top managers in TVEs had increasingly recognized the important role of marketing in a market-based economy. The marketing 4P's appeared to be old-fashioned in the mind of TVEs' managers. Instead, 4C's (Customer, Convenience, Cost, and Communication) had become "cool".

From a historical point of view, Zhou (2000) identified that TVEs' market orientation and managerial practices had evolved in response to the ever-changing market environment in which three transitional changes had taken place since 1978.

Also in Zhejiang Province, Zhang (2000) investigated the manager's market orientation through in-depth interviews. She found that relationships with local government could facilitate TVEs' market orientation. Top managers' entrepreneurship was the most important organizational characteristic that affected TVEs' market orientation. Other environmental factors impacting TVEs' market orientation included competitors, consumers, and market infrastructure. In terms of marketing practices, it was suggested that TVEs' product strategies reflected their considerations of consumers' perceived value, the pricing strategies reflected different emphases of market orientation, and the main communication technique was television commercials.

These findings showed that with their market orientation TVEs were adept at responding to environments and they skillfully employed various marketing tactics. At the same time, entrepreneurship played a key role in their marketing activities. In these studies, however, the impact of environmental factors on the TVEs' marketing activities was not adequately addressed and the relationship between environment and marketing strategy in the TVEs remained untapped.

Although evidence has been found in previous research that TVEs have developed a marketing strategy and tactics all their own, few studies have revealed the rationale

behind Chinese-style marketing activities. A lack of insight into environmental impacts and the socio-cultural context in which TVEs are embedded has been a major impediment to the advancement of the research on marketing in TVEs. We believe that marketing activities do not emanate from a vacuum, rather, they reflect a complex environment and embody certain social and cultural values. This research attempts to fill the research void in the field by linking the formation and implementation of TVEs' marketing strategy and tactics with environmental impact and the socio-cultural context.

As illustrated in the conceptual framework of this research, this study attempts to: (1) identify managers' perceptions of their marketing environment; (2) explore how perceptions of their environment directs the formation and implementation of marketing strategy and tactics; and (3) explore how the Chinese social and cultural values influence the managers' perceptions of their environment and thus the formation and implementation of marketing strategy and tactics. To achieve these objectives, the research approach must paint a picture of the "real world". In the next chapter, We will describe our research methodology.

## **IV. METHODOLOGY**

### **4.1. A Case-Based Approach**

This research is exploratory in nature. A case-based approach is used to explore Chinese ways of marketing in TVEs in the specific socio-cultural context. Marketing theory cannot be applied universally without taking context into account. Clearly, this context is distinctive and complicated. First, the TVE is a unique organizational form that cannot be found in other parts of the world; second, China is a country with a five-thousand-year cultural tradition and a two-generation-long history of planned economy. This context leaves plenty of room to explore marketing operations in detail and calls for a comprehensive approach, which intends to reach below the surface to understand what is going on and why.

A case study approach involves systematically gathering enough information about a particular person, social setting, event, or group to permit the researcher to effectively understand how it operates or functions. It is not an actual data-gathering technique in and of itself, but a methodological approach that incorporates a number of data-gathering measures (Hamel, Dufour, & Fortin, 1993). Extremely rich, detailed, and in-depth information characterizes the type of information gathered in a case study.

The scientific benefit of the case study approach lies in its ability to open the way for discoveries (Shaughnessy & Zechmeister, 1990). On the other hand, its objectivity is also

questioned. Qualitative research of any type is often viewed as suspect when questions of objectivity are asked. However, objectivity is closely related to reproducibility (replication). For many researchers, objectivity rests on the ability of an investigator to articulate what his or her procedures are so that others can repeat the research if they so choose (Berg, 1998).

A case study approach requires the researcher to get close to the respondent in order to develop a picture of his meanings and values. To the researcher, a case study will be nothing but scientific disaster without a variety of extensive fieldwork. Several data collection techniques, including semi-structured interviews and participant observation, were employed in this research. Although time consuming and demanding, they did provide detail, depth and range of data which could not otherwise be achieved.

The investigation involved in this study is complex. Perception is intangible, we cannot count or measure it; the best we can do is to judge its impact. This is because human action is so different from natural phenomena and because it is not “given” to the investigator. To achieve the research objectives, an investigation should be expanded to include not only the managers’ perceptions, but also the corresponding strategic and tactical marketing activities; not only the perceived environments, but also the influences of social and cultural values. The questions that this research tries to answer are, “What is done in this context?” and “How is it done?” as well as “Why is it being done?”



To answer these questions the researcher must rely on multiple sources of evidence, rather than a single one. It must be assumed that reality is deeply affected by evidence from the various types of sources. Every piece of evidence is a different beam of light directed toward the same point, reflecting the “real world”. By combining different beams of light with different methods, that is, triangulation, a better and more substantive picture of reality can be obtained. In this way answers to the above questions will be more objective.

#### **4.2. *Getting In: Accessing the Field***

Once the approach had been established and the research prepared to commence, there appeared the problem of *getting in*, that is, accessing the field setting. This particular problem, as Shaffir et al. (1980) suggested, is one central problem shared by all field investigators. It involves consideration of the nature of the setting. That is particularly relevant for researchers doing research in China. In Chinese society, *guanxi* traditionally works as an identification marking by which people build up their interpersonal network (Zhou, 1999). Of the network, family members and relatives form core layers, and teachers/students, neighborhoods, fellow villagers (or townsmen) and schoolmates form the next important layers. Furthermore, *guanxi* plays a key role in interpersonal communication and basically determines the depth of communication among people. When a person communicates with strangers without identifying any appropriate *guanxi*, he has to pay a high price (not simply a money issue). In a research context, the

effectiveness of the field investigation and the significance of the data collected in the field will be questionable when such limiting circumstances occur.

To deal with the problem of *getting in*, Berg (1998) suggested that one way to handle initial relationships is to locate *guides*. Guides are indigenous persons found in the setting that is studied. During initial phases of research in the field, researchers typically rely heavily on guides. Guides may be located before the research starts through friends, acquaintances, or colleagues who know someone among the group being studied. Ostrander (1993) suggests that sometimes a bit of luck, taking advantage of certain relationships, considerable background work, and making the right contact frequently aids an attempt to access restricted groups. At the design stage of this research, prior work in locating appropriate guides was deliberately carried out. Certain relationships were effectively employed and they proved to be extremely helpful in the fieldwork of this research.

As mentioned above, the teacher-student relationship is one of the very close interpersonal relationships and is highly valued by the Chinese. The researcher's wife had been teaching for years in an official adult institution, whose mission is to offer executive training courses to economic management cadres including government officers and entrepreneurs in Jiangsu Province. Many of her students hold leading positions at county and township level governments and local government departments. Most of the *guides* in the field investigations were identified by taking advantage of this teacher-student relationship.

Among the merits of having those cadres as guides is that they are very familiar with TVEs in their counties or townships and in fact some of them started their careers in TVEs. The presence of these guides extremely enhanced the chances to gain further cooperation and maneuverability in the field. It would be unimaginable to access such rich information concerning these companies' marketing strategies and operational tactics that are thought to be highly secret without guides and relationships.

Although the field was accessed very smoothly, one obstacle to the field investigation of this research was the very presence of the researcher in the field, which has been encountered by many other researchers. As Denzin (1970) suggested: "Reactive effects of observation are the most perplexing feature of participant observation, since the presence of an observer in any setting is often a 'foreign object.' The creation of the role of participant observer inevitably introduces some degree of reactivity into the field setting." In other words, when subjects know they are subjects in a research study, they will alter their usual (routine) behavior. Although this effect is typically short-lived, and the behavior of subjects eventually returns to a more routine style, the persistent presence of the researcher in some specific settings does reactivate this effect in varying degrees every time someone new is introduced to the researcher (Berg, 1998). Our way of coping with such a difficulty in the fieldwork was to "melt" myself into the setting in order to achieve the status as an *invisible researcher*. Stoddart (1986) called it erosion of visibility by personalizing the researcher-informant relationship. The researcher's many years of experience living and working in China, as well as the guides' help, facilitated building

up comparably easy relationships between the informants and the researcher. The informants dismissed their concern over my research activities because they were able to view me as a person, rather than as a researcher, and this was the key to my easy relationship with them.

#### **4.3. Data Collection**

The field interviews and participant observations were conducted during the summer period in 2000. Sample case selection was considered a month before the fieldwork was conducted. Because of the exploratory nature of this research and the limited resources available to the researcher, accessibility, rather than representativeness, was the most important concern. It is understood that when case studies are properly undertaken, they should not only reflect the specific organizations, but generally represent similar organizations (Berg, 1998). In this case, we do not contend that the marketing activities of the TVEs' involved in this study inform us why *all* other TVEs conduct marketing activities. We do contend, however, that this study suggests an explanation for why some other TVEs are likely to do so. The logic behind this has to do with the fact that few human behaviors are unique, idiosyncratic, and spontaneous. Thus case study does have scientific value even though the question of representativeness is not addressed (Berg, 1998).

Company Code No.	Industry involved	Location	Accessing approach	Status in this research	Reason for exclusion
01 (F.H. Food)	Food	Huaiyin	Guide used	Analyzed	
02 (X.T. Garment)	Garment	Yangzhou	Guide used	Analyzed	
03 (J.J. Food)	Food	Taizhou	Guide used	Analyzed	
04	Power source	Jiangyan	Guide used	Investigated	Incomplete information provided
05	Garment	Yangzhou	Guide used	Visited	Unwillingness to cooperate fully
06	Sports shot	Wuxi	Guide used	Visited	Unwillingness to cooperate fully
07	Daily necessities	Huaiyin	Phone call	Invitation refused	
08	Garment	Yancheng	Phone call	Invitation refused	

Table 2: A List of the Enterprises Approached in This Research

Eight TVEs (See Table 2) in Jiangsu Province were contacted. Not surprisingly, two of them refused the invitation to participate. The researcher contacted the two companies directly with a researcher's identity, and no guides were available. The failures provided side evidence showing the very importance of guides. Another three were visited, but were excluded from analysis because of either incomplete information provided or unwillingness to cooperate fully as only brief interviews were agreed upon. The remaining three TVEs were investigated. They kindly provided as much information as they could. The researcher was given privileges so that interviews and observations could be conducted as needed. An average of five working days was spent in field investigation for each case.

A number of qualitative data collection techniques including semi-structured in-depth interviews and participant observation were used to gather field data. Creswell (1998) notes that, although approaches to data collection have continually expanded in the qualitative area, two of the four basic types of information collection techniques are observations and interviews. The technique of in-depth interview was chosen because it has considerable advantages over other quantitative techniques in enabling respondents to give explanations for their perceptions to external and internal variables, their attitudes to marketing, and their operations in terms of marketing activities. Using the participant observation technique, the researcher is able to observe the naturally unfolding worlds of the informants under study (Berg, 1998). This includes those times when several parties in the field come together to spontaneously hold a conversation, discussion, or argument.

This natural evolution cannot be presented in any artificially created situation (Berg, 1998). Morgan (1989) suggested that, in effect, researchers tended to conduct participant observation in settings where there was something available to observe. Topics such as organizations and organizational structures seem especially well suited for participant observation. Indeed, the observations conducted in staff offices, factory sales outlets, and production workshops dramatically enriched our research data.

Before field interviews were conducted, a number of open-ended questions were predetermined. Using the proposed framework as a guide, the questions were grouped into the dimensions of perceptions of environments, competitive advantages and business strategy, and marketing strategy and tactics (see Appendix). For each question some probes were prepared to provide a way to draw out more complete ideas from the respondents. Two scheduled interviews of the general manager and the marketing (or sales) department manager were conducted in each of the three TVEs. In the course of the interviews, the questions were asked in a systematic and consistent order, but interviewees were allowed freedom to digress; actually they were expected to venture far beyond the direct answers to those predetermined questions. The interviews varied in duration from two to five hours.

Observations were carried out in all the staff offices of functional departments in their head offices and some branch offices of the three TVEs, as well as their workshops. In a very friendly and relaxed way, the researcher was often told stories of situations in the salespersons' or marketers' daily business lives. Observations were also conducted in

some points of sale where valuable data such as conversations among salesclerks and customers were collected.

All the interviews with the general managers were tape-recorded. Field notes were immediately made after other interviews and observations. It is important to note that the data is “natural”; it was collected in natural settings with a low possibility of contamination by research procedures. If the researcher were to use quantitative techniques such as an experiment or a questionnaire survey for this study, the data would appear to be relevant to the research frame, but could only be answered in the researcher’s terms. In contrast, qualitative techniques permit the “real world”, or at least the respondents’ real world, to shape the data (Anderson *et al.* 1999).

In the next chapter, we will present an analysis of the information obtained at the three TVEs, namely, F.H. Food, XT Garment, and J.J. Food. For the sake of protecting business secrets and privacy, all the names of the companies and the persons involved have been changed.



## V. CASE 1: F. H. FOOD CO., LTD.

### 5.1. The Company

Originating in a small flour mill, F.H. Food Co. Ltd. is a TVE that engages in manufacturing instant noodle product. It has four production lines, with a total production capacity of 9 million bags per month. Mr. Wang, the General Manager, has been associated with the company since the company was founded in 1988, when he was the director of the flour mill. He is regarded as one of the wisest people in his township.

#### 5.1.1. Initiation

In 1988, after their visit to the southern coastal cities where instant noodle was initially promoted, the leaders of the township decided to transform the small flour mill into an instant noodle factory with investment of about C\$300,000. At that time, the Chinese government promoted a policy to encourage the development of TVEs so *"it was quite easy to get a loan from the bank at that time"* (Mr. Wang). But one year later, following the rectification policy aimed at cooling down the hot national economy, the money market turned very tight and the development of TVEs was limited. *"All we could do was to maintain the operation"* (Mr. Wang).

### 5.1.2. Taking-Off

In the next two years the Russian market saved F.H. Food when frontier barter trade between China and Russia exploded *“as if in one night and the demand for low-grade instant noodle seemed so strong that we could hardly believe that making money was so easy”* (Mr. Wang). In the first year as F.H. Food’s business spanned the Sino-Russia frontier, its sales volume tripled compared with that in the year before, reaching near C\$1.5M. Actually very high risks were hidden behind the barter trade. Due to various reasons, there were serious problems in terms of money withdrawal in this business. F.H. Food was fortunate that it earned money from barter trade; many other producers were ruined because they sold the goods and failed to collect the money. *“We made the decision to reject all the following orders and turned to the domestic market quickly when we realized that there were too many dangers beyond our control in the barter trade”* (Mr. Wang).

Fortunately the domestic market recovered and showed potential in 1992. F.H. Food made one more important decision to re-position its products as mid-grade bag noodle at a low price. They purchased a production line of another factory that was facing closing down due to its failure to collect money from the buyer in a Sino-Russia barter trade. From then on, F.H. Food has been concentrating on the domestic market. In 1996, the sales volume of F.H. brand instant noodle reached a new record of about C\$ 25M.

## **5.2. The Chinese Instant Noodle Market**

### *5.2.1. Market Size*

In 1996 instant noodle was almost a US\$ 3 billion business in China and the consumption level reached 10 bags per capita. Although the number per capita was only one fifth of that in Japan in the same year, the growth rate stayed dramatically high since Japan introduced this product into the Chinese market fifteen years before.

### *5.2.2. Product Offerings*

Instant noodle product is graded in three levels according to different packaging types. High-grade instant noodle is packed with foam bowl (bowl noodle), with two pieces of different seasonings and a spoon in it. The retailing prices of bowl noodle range from 3 to 3.5 Yuan. Mid-grade product is packed in a plastic bag (bag noodle), with two pieces of different seasonings in it. Mid-grade bag noodle is usually priced in the range of 1.5 to 1.7 Yuan. Low-grade product is also packed with bag, but with only a single kind of seasoning in the bag. The low-grade bag noodle is sold at the lowest price level, from 0.6 to 1 Yuan.

### *5.2.3. Consumers*

The main benefits an instant noodle product delivers to consumers are convenience, hygiene, and satisfaction of hunger. Instant noodle satisfies Chinese consumers'

preferences to “color”, “fragrance”, and “flavor”, the three basic features in a Chinese dish. It is also very consistent with the habit in Chinese cuisine that almost everything should be heated before eating. Among the most important factors that has made this product so popular in China is that the mobility of Chinese people has increased dramatically since the open policy was undertaken twenty years ago. For millions of travelers, hot water can be accessed everywhere, not only in the hotels, but also in trains (a basic means of travel in China) and in railway stations. Hot water is the only basic ingredient for the use of instant noodle product. Another important fact is that the present average price of instant noodle is cheaper than that of fifteen years ago when it was initially promoted in China, while the average personal income has been increased significantly.

### **5.3. Competition**

#### *5.3.1. Major Competitors*

Companies in this industry can be roughly divided into three categories. In the first category are Mr. Kang and Tongyi, both Taiwan-based companies, which are absolutely dominant in the bowl noodle market; their financial strength and sales volume is far greater than that of any other companies in the industry. In the second category, Huafeng, Hualong and some other national brands hold the lead in the bag noodle market. Numerous unknown local brands in the third category have to survive in the low-grade noodle market.

Due to too many competitors, companies in the third category struggle in a tough situation; enlarging the production scale is commonly regarded as the sole way out. Most of the second-category companies have reached a “safe scale”, but with the dilemma that the growth of their profits cannot at all parallel that of their production scale. Another serious threat to the second-category companies is that Mr. Kang and Tongyi, the two giants in the first category, are expanding their product lines to mid-grade bag noodle, even though their strategy to keep their market shares from big loss, at least at present, is low price or even zero profit. While fighting for monopolization and carving the bowl noodle market as Coke and Pepsi do in the world cola market, Mr. Kang and Tongyi have to keep eyes not only on the battle between themselves, but also on those second-category companies who are getting their feet wet in the bowl noodle market with low price strategy. The most dangerous factor for the first category companies is that they have not understood these new brave challengers very well.

### *5.3.2. Production Technology*

There is little secret in the technology of making instant noodle production. New players in the industry are busily rifling through existing companies to poach technical talents, which directly contributes to product similarity. Furthermore, given the fact that most of the extrinsic and intrinsic features of the product such as packing and seasoning are easy to copy, most companies invest little on R&D. For these companies, product renewal is simply to follow and imitate what the two giants or any other pioneers do. Under such circumstance, the major competition tools in this industry are price-cutting and promotion. Despite the common initial intention of enlarging their market shares, the

tangled price wars among the second- and the third-category brands have resulted in no discernable gain.

#### **5.4. Theme 1: Competitor: The Strategic Focal Point**

Mr. Wang showed very serious concern about the heated competition.

*"There are too many producers in this industry. I guess there are at least 130 quite large companies, not to mention those small ones. The competition is almost nothing but blood war."*

The instant noodle market appeared 15 years ago. The market has been growing so fast that no player in the industry occupies a monopoly position that can threaten new comers and stop them from joining the competition. The presence of foreign brands, Mr. Kang and Tongyi, changed the market landscape dramatically. They opened and dominated the high-grade instant noodle market. But neither of them was strong enough to eliminate smaller competitors and to play as a market leader in the whole industry. Instead, they set up examples for those home counterparts to imitate and follow. Also, their miracles of success in the Chinese market—in a short time from not too high starting points—greatly encouraged F.H. Food as well as other home counterparts.

*"When Mr. Kang entered the mainland market, it was a very small company in Taiwan. Its huge success has testified to the huge potential of instant noodle."* (Mr. Wang)

Increasing numbers of small competitors have fragmented the industry because of the high growth of the Chinese instant noodle market, the absence of a leading brand in some

levels of the industry and the diversification of regional markets. These factors have also contributed to product similarity. The competition has turned into a tangled warfield.

*"There are limited types of flavors such as beef-, pork-, chicken-, seafood-, and vegetarian flavors, and every producer offers almost all the types of flavors, almost no differences in seasonings used by different producers. Generally, the product quality seems no big different among different brands at the same grade level."* (Mr. Wang)

In such a market, Mr. Wang had to choose between imitation and innovation. His choice was imitation, which had to do with his perception of customer needs. *"Customers, especially rural customers, are always looking for the cheaper one or the seeming larger one..."* In his perception, relatively poor incomes made rural customers keep eyes on price and material benefit. Mr. Wang believed that the existing types of instant noodle had well satisfied customers' utilitarian needs, thus product innovation was not necessary. More importantly, his experience taught him that to follow the two giants was wiser.

*"To do technical innovations, both the risk and the cost are very high. We...seldom consider this kind of thing (technical innovation). What we should do is to learn from others and to know when and what we should do."*

In Mr. Wang's perception, it was neither possible nor necessary for his company to put limited resources into product innovation. Instead, "innovative imitation" was chosen as his strategy as more cost-efficient than product innovation. Manager Zhang, the manager of sales and market department, told me a story about a "new product".

*"We never promoted a 'new product' (a 'stolen' idea from competing products) with anything new. It really had better sales than the 'old' one just because it looked larger. What we did was that we adopted two noodle blocks in one bag instead of one block. Actually the weights of the two were just the same and we had labeled it, 100g, on the both bags but it seemed nobody cared. They believed the new one was 'cheaper' than the old one. To promote the 'new' product, we did pay a high price because we had to change the packing machine, the productivity was lower, more packing materials were used, and even transportation cost became higher. But it was worth it because we got an increase of nearly 10 million in sales."*

Recognizing its second-class company position, F.H. Food was satisfied with the short-run increase in market share through successful innovative imitation. Because this strategy undoubtedly would provoke retaliation of the competitors, as self-protection, the company must keep the cost low and the quality high. Mr. Wang's solution was to pursue economy of scale so as to base their "good life" on low cost.

*"...I can do nothing but expand my production scale as fast as I can so as to lower the cost so that we can stay in a comparatively safe area. ...Now we own 4 production lines with the total production capacity of 9 million bags per month. If it cannot be expanded to 8 lines with 20 million bags (per month) in a short time, we cannot expect a good life."*

Facing so many competitors and similar products, the company had to position itself very carefully. Again, it based its positioning choice on comparison with the competitors in terms of competitive capabilities.

*"We have no chance in the high-grade market that has been dominated by Mr. Kang and Tongyi. I know I cannot beat them because they are so strong in finance and technique that I cannot match them. We position our product as low price with medium quality. In this category no company is strong enough to beat us in a short time."* (Mr. Wang)



Inconsistent with the notion in classic marketing theory that positioning should be done in the mind of the prospects, F.H. Food based its product positioning on the analysis of the competitors. Notice that it worked well when the company engaged in extensive market development in comparatively less-competitive rural market rather than in intensive market penetration in urban market where the pressure from competition was high. Or we should say that it was the high growth of rural markets in terms of geographic extension that left plenty of room for F.H. Food to *“beat the competitors with our diligence, but not the excellence of our product or our cleverness”*.

### **5.5. Theme 2: Marketing Tactics: Context-Bound Communication**

An apparent phenomenon in the Chinese market is that the rural market has been far from fully developed while competition in the urban market is becoming white-hot. Considering the fact that over two thirds of the Chinese population live in rural areas, the potential of the Chinese rural market is almost unimaginable. Several factors that hamper companies' promotion of their products in the countryside are: lower per capita income, bad conditions of infrastructure, incomplete distribution channels, conservative consumption patterns, and so on. But behind these obstacles are huge market opportunities. Mr. Wang enjoyed what they had captured in rural market.

*“We spent a lot of money to promote our products in the urban market but we were not very satisfied with the profit performance, which we believe was the result of high promotion expenditures. Surprisingly our gain in the rural market far exceeded our expectations. We found a new land in the rural area and we decided to put more energy into developing the rural market, which was thought by most of the companies a game not worth the candle.”*

F.H. Food initially promoted their products to everyone they met, that is, the whole population, without effort to identify their target market. Like many other companies at that time, they wanted to get a bite of the pie but they didn't know which part of the pie they could have. Obviously the limited resources that F.H. Food possessed didn't allow them to compete head to head with those larger rivals. But what they owned was a strong entrepreneurial posture that gave them a hand in achieving new-market success in a "new land", the rural market, which was seen by their rivals to be a risk to enter. In contrast to its imitator position in terms of product and technology, its strong proactive posture in market innovation that the company distance itself from its rivals.

*"Now our products are mainly aimed towards those rural families with mid- and low-income whose major concerns are low price and medium quality. They are always looking for the cheaper one or the seeming larger one when they purchase instant noodle. ...To learn the market and to satisfy the customers is the only way to succeed in the market. ...I think the core meaning of marketing is to find a market and find the way to access it." (Mr. Wang)*

Mr. Wang had high sensitivity in finding his market. Also, he showed understanding of the importance of customer needs in the implementation of the company's marketing tactics. F.H. Food maintained that price and product quality were the most important things to its target customers. It firmly based its pricing strategy on the understanding of the target customers, making sure that its pricing matched the customers' needs.

*"We have intensive discussions on our pricing issue. Consumers are very sensitive to the prices of the products in this category. Very often nobody buys your product just because your price is ten cents higher than that of other brands. ... Our price is set a little bit lower than that of others because the first thing that consumers consider before they buy is comparing the prices among different brands, and then they consider the qualities. So*

*quality is a factor that can retain the customers but not the one that can solicit them."*  
(Mr. Wang)

In their daily work, Manager Zhang and his colleagues often persuade their clients (distributors) in this way:

*"You can compare F.H. noodle with any other brands. Those with the same quality must be more expensive (than F.H.) and those with the same price must be lower in quality."*

But it is one thing to learn about consumers; it is another thing to satisfy them. Knowing what customers need does not necessarily mean knowing how to access and to deliver satisfaction to them successfully. This is especially the case in the Chinese rural market.

*"Big instant noodle companies usually put a lot of money into advertising. For instance, Mr. Kang spends over a hundred million on ads every year. It spends most of the money on TV commercials. ...(But) in the countryside, TV sets are not as popular as in cities and many of them are black-and-white. The effect of well-produced TV commercials is even more questionable. Furthermore, rural consumers spend much less time sitting in front of TVs than people in cities."* (Mr. Wang)

Several environmental factors caused Mr. Wang to be concerned over effective communication. Poor family incomes, lack of power supply in some rural areas, and other reasons should be taken into consideration when communication media are chosen. More importantly, unlike urban consumers who indulge in watching TV at home, Chinese farmers spend most of their daily time outdoors, working and chatting. Due to the characteristics of farming work, farmers seldom get to bed very late and usually get up much earlier than people in cities.

Mr. Wang's concern reflected his emphasis on both the effectiveness and efficiency of communication through advertising. With their deep understanding of the contextual conditions of the rural market and their familiarity to their target customers, F.H. Food found its own way in terms of effective and efficient advertising in rural market.

Mr. Zhang depicted what they did in the rural market.

*"We surely do advertise, but not with expensive vehicles. The effectiveness of our advertising is absolutely good. The walls of farmers' houses facing village roads are the best carriers. Sometimes 10 Yuan is enough to fully brush your ads on the wall. So sometimes two or three thousand Yuan can make your ads seen everywhere in that township."*

On the walls and all over the villages, F.H. Food exposed its advertising to the rural target audience with extremely intensive reach, high frequency, and great impact. Although such kind of marketing tactics seem specific and trivial, there are some lessons to be learned that may be more basic. What is immediately evident is that marketing communication is complex and context bound. It should be seen to be specific, not broadcast. This type of advertising would not be created without consideration of specific social context. Given the comparatively poor incomes of Chinese rural families and their crudely-made houses, a low compensation would be enough to make farmers disregard the ads as a violation of their private properties, instead, it would be viewed as decorating the houses.

Stories of the sales promotion employed by F.H. Food also revealed information about how social factors were taken advantage of when practical promotion tools other than price cut were developed in the context.

*“Recently we put a cartoon card in each bag that costs 2 cents. The cartoon cards are colorful and some six or eight serial cards composed a simple story. They are quite attractive to children. If children like it, they will ask their parents to buy.”* (Mr. Zhang)

Due to the poor income of their parents, children in Chinese countryside have few toys. Such a small plaything as the little colored cartoon cards that would be thrown away by children in cities are treasured by them because it brings them happiness. Through a bag of noodle with the cartoon card, F.H. Food delivered to the families of their customers more than their expectation of the noodle itself. The perceived value of the card—something that could bring happiness to their children—was much higher than 2 cents to the family. The family is the most important consumer-buying organization in society, and family members constitute the most influential primary reference group. Marketers should always pay attention to the roles and relative influence of different family members, which may vary widely in different societies. In the Chinese context, “one family, one child” policy has made the child have greater influence on a Chinese family’s daily expenditure. In many cases, winning the heart of the child means winning the chance of business. F.H. Food successfully made the child into a strong persuader and influencer involved in the purchase decision.

While numerous chain stores, supermarkets, and big department stores characterize Chinese urban retail outlets, farmers go to millions of neighborhood stores to buy daily

necessities. Distributing to these small stores is so slow and expensive that it prevents many consumer goods from promoting in rural market. F.H. Food developed its distribution channel there and the channel became one of their salient advantages versus competition. What they did was to contract the sales in each region to each salesperson and prepaid them some amount of promotion expenditure, plus a certain number of goods for advance selling.

*"When working in a new county market, we often start from the largest township. First, we select downtown stores in that township, some of them may be local distributors there, to take our goods for advance selling. We put posters in the stores. They like advance selling because they don't have to pay anything, and it makes them believe that we are strong enough to give all the distributors financial support. If you want them to pay you before they have received money from their customers, it will be hard to get their trust and they will never be interested in your products. We may also hire some students to sell our products at country fairs that are important daily necessities markets for farmers. In the first one or two months, promotion is necessary, say, customers can collect three empty bags for one free (buying three getting one free). After we do so in three or five townships, it will be much easier to find good county-level distributors because we have 'heated' the market. Often they find us before we find them. Generally half a year is enough in one county. Once the first county is done, the nearby counties will be easy to do. So if we do well in one county, then we will be success in a larger region. In this way we can develop 30 new county-level markets in one year." (Mr. Zhang)*

Mr. Zhang and his colleagues did excellent jobs because they understood not only the distributors but also the retailers in the rural market, and they did so not only economically, but also socially and psychologically. The old saying "following the neighbor" has long been one of the features of Chinese farmers' behaviors, which mirrors the feature of a collectivist society. Those who do something better than others will naturally become the example for his neighbors to follow. Small retailers like to follow bigger ones and downtown stores in the township are usually examples for neighborhood stores in villages. The goods that sell well in a large township today will be sold in other

small townships tomorrow. These collectivist features have important marketing implications in terms of consumer behaviors and business practices. Either consumers or business organizations tend to see what others are doing and follow their examples, and we call this “example effect”. Taking advantage of such “example effect”, F.H. Food developed its distribution channel efficiently.

### **5.6. Theme 3: Community Government: A Stakeholder**

For many companies in China, government influence is often considered crucial, either favorable or unfavorable. Mr. Wang’s reaction was positive when the question concerning the influence of government policies on his business was asked.

*“Our company is a rural enterprise. It has many things to do with local farmers. So many surplus farming laborers are working in the factory and we provide revenues for the township. Naturally the township government always does its best to satisfy our company in what it can do, such as financial credit guarantee, land use, and employment. ...It provides protection for us when the central economic policies are unfavorable to TVEs.”*

There are obvious mutual interests between F.H. Food and the township government. F.H. Food is owned by all the members of the township communities collectively in name, but by the township government in reality. The initial objectives for the community government to create F.H. Food were profit maximization, output maximization, employee income maximization, and community benefit maximization. That is, F.H. Food performs certain functions for the community government. While F.H.

Food constitutes one of the primary sources of revenue for the community government, it also receives enormous amounts of aid from the government.

To protect the mutual benefits, the community government assists F.H. Food greatly in securing production factors such as land and working laborers, accessing infrastructure, arranging marketing channels, and taking advantages of central government policies. Analyzing the company's history, we are exposed to important evidence that manifests the great, sometimes determinant, influence of the assistance from the community government on the business activities of F.H. Food. On one hand, the township government has lent a hand to F.H. Food in its marketing activities. In the Russian market, for instance, the township government played an agent's role, assisting F.H. Food to locate clients and to withdraw money. In addition, the credit guarantee from the township government made it possible for F.H. Food to get an extra bank loan that would otherwise not have been granted.

The credit guarantee from the township government has effectively cushioned possible harms and amplified the potential benefits to F.H. Food brought by the cyclical fluctuations of central economic policies. In China, governmental economic policies endure cyclical movements along with the fluctuations of domestic and international political and economic circumstances. It is especially the case in terms of financial policies concerning TVEs. When the government emphasizes economic growth, a very loose money market will be encouraged and TVEs always show much better performances by their more market-oriented characteristic (Deng and Dart, 1995). When



the Chinese economy is too “hot”, which has been the case recently, TVEs’ grow with a high rate and the money market will be constrained. In this case, TVEs will suffer much more than state-owned enterprises protected by the central government. It was the credit guarantee from the community government that maximized the effects of favorable central government policies and minimized that of unfavorable ones to F.H. Food in terms of fund raising.

#### **5.7. Theme 4: Personal Experience: The Basis of Marketing Decision**

*“Staying in the industry, you will naturally learn more and more about the consumers and other companies. ... Experience is often more important than investigation. Through investigation you will get a lot of information but if you want to know whether the information is correct or false, you have to make an accurate judgement which relies heavily on your rich experience.” (Mr. Wang)*

It was the salespersons’ feedback that was relied on to collect and report data, rather than normal marketing research. Then based on personal experience, subjective judgements and decisions were made. In addition, they were much more interested in collecting the information related to competitors than in that related to consumers. This pattern of decision making process had many things to do with Mr. Wang’s perception to the role of customer needs in his business.

Mr. Wang appreciated the influence of customer needs to his business, but he did not think that consumers were always right. Consequently, he believed that the company should “guide” consumers in some ways. In the long history of planned economy,

Chinese consumers used to have their consumption behaviors determined and arranged by external powers that basically ignored individual preference due to very low personal incomes and short supply. Almost all of the daily necessities were allocated to households by the State without any options, and the quantities were strictly limited, while people's income didn't allow them to purchase more than what they had to have for survival. When facing the increasing choices of personal consumption brought by the economic transition in the past 20 years, the Chinese consumers have been involved in the learning process of becoming mature consumers. Firms who adapted to the economic transition rapidly in the early stage of economic reform often played the role of market educators and, in fact, power exercisers in market, taking the positive position in supplier-consumer relation. In such circumstance Mr. Wang's experience did work well for him to learn or even to "create" the market which has contributed to the previous success of his company. The previous success in turn enhanced his confidence in his past experience.

Mr. Wang tended to believe that customer needs should be viewed as a collective phenomenon where consideration of overall estimation was more appropriate than individual evaluation. China has been recognized as a collectivist society and Chinese needs may range from social to physiological to safety to self-actualization in the service of society, instead of individual aggrandizement (Nevis, 1983). This collectivist feature of social culture results in a tendency for organizations to estimate people's needs from a collective perspective where the differences in individual preferences are not emphasized. Unlike formal marketing research that is based on the emphasis of individual preference,

personal experience may work to simply contribute to overall estimation. It may suggest the reason why Mr. Wang put more emphasis on personal experiences when it came to market investigation.

In addition, a lack of basic marketing research infrastructure such as accessible information sources, qualified agencies, and skilled personnel makes it difficult to conduct necessary marketing research. All the numbers and facts Mr. Wang cited in his statement concerning the industry and the market were quoted from newspapers. News report in papers seemed to be the only available source for Mr. Wang to learn more than what “*is heard*” and what “*I guess*”. Consequently, only intuitive judgements could be made to estimate the competitors and to evaluate the consumers.

## **5.8. Summary**

F.H. Food as a grass-root enterprise had no inborn marketing ability. It was born at almost the same time as when such words as “marketing”, “competition”, and “consumer needs” had been introduced to both Chinese consumers and enterprises. No one in F.H. Food had any marketing education background. Doing marketing was a learning process for the company. The presence of foreign companies and brands in the industry provided marketing examples for F.H. Food to imitate. However, they didn’t simply imitate, they used cost-efficient innovative imitation to create product strategy.

But imitation was not the only thing the company did in its marketing practices. Oriented towards entrepreneurship, it identified and developed its own competitive advantage in market expansion, which was an important element in its marketing strategy. Our findings strongly support Dess, Lumpkin, and Covin's (1997) conclusion that uncertain and complex environments necessitate a strong entrepreneurial posture in strategy making. Market expansion might be the key to F.H. Food's success. Entrepreneurship encouraged F.H. Food to have a high sensitivity towards the market and adaptability to competition that is shared by many Chinese TVEs.

The intensified competition had crucial influence on F.H. Food management's perceptions to the environment. It focused on its competitors. The two salient features of a competitive market are customers and competitors (Day and Nedungadi, 1994). The company's strategic actions were significantly based on the assessment of its competitive capabilities compared with its competitors and expected competitive reactions. Correspondingly, the company gauged its competitive edge and marketing performance on the basis of cost and profitability comparisons with competitors. Through competitor-centered market analysis, F.H. Food formulated its marketing strategy and tactics that avoided competition with strong rivals, head to head.

While competitor impact dominated the company's strategic choice, customer needs were taken seriously in its implementation of marketing tactics. The company recognized the importance of customer needs to its market performance and formed a set of context-bound marketing tactics to fit the rural market. Given the unique features of rural

consumers in terms of living style and consumption patterns, it is not as simple to satisfy price-sensitive consumers as it looks. Using knowledge brought by experience, F.H. Food developed its own effective and efficient marketing practices tailored for the target market in terms of communication and distribution.

Previous success and cultural background enhanced the management's confidence with its experience in meeting customer needs. In addition, since customer needs were assumed to be simple and homogenous, the major concern in meeting customer needs was how to reach the consumers, while consumers' reactions received little attention. Basically, the communication between the company and its customers was one-way.

Personal experience played a key role in the company's strategic decision-making and strategy formulation process. Observing the information search and usage pattern of the company, its sales force was the major information channel and the manager tended to make intuitive judgement based on personal experience. In contrast, formal marketing research was not appreciated. Due to the limitation of experience, there was the potential for the company to under-evaluate or misunderstand the changes of important environmental factors such increasingly complicated customer needs as the Chinese market evolved toward a mature one. It became evident when the development of F.H. Food's business became stagnated after 1996.

## VI. CASE 2: XT GARMENT CO., LTD.

### 6.1. The Company Profile

Located in a small township with about 300 employees, XT Garment now manufactures garment products for both domestic and international markets. Its main product is an XT brand suit. In 1999, its sales volume reached CS 17M.

Mr. Yang, now the General Manager of XT Garment, and some of his friends created a small garment processing factory in 1980 with the intention to make use of the scrap material and substandard product that were thrown away by a nearby county-owned woolen mill. With six sewing machines and an old building provided by the township government, the small factory started its business. They had an old friend who recommended the factory for processing Chinese tunic suits that were in fashion at that time for a garment store in Shanghai. The only technician was a senior tailor from Yangzhou city 20 kilometers away from their township, who came to work only on weekends. In the first year, XT Garment sold about CS10,000 Chinese tunic suits.

Two years later, Western-style suits for school uniforms appeared in some universities. XT Garment came to a prompt decision to contract school uniform business from universities. *“Every university in Jinagsu, Shanghai, and nearby regions was called in a very short time. We were highly welcomed because students in these universities longed*

*to be dressed with suits but few state-owned factories in cities were willing to do the business. It was too new a thing for them and they just didn't want to change doing the same old stuff in production. It is really good business. They seldom bargain with us and always pay in advance"*(Mr. Yang). To follow the nation-wide fashion, many enterprises and administrative units in cities also began to buy suits for their employees as allotted material benefits. In 1983, XT Garment's sales volume reached over C\$300,000. *"The thing we were most worried about was that we couldn't finish so many orders. You know all these orders were paid in advance"*(Mr. Yang). Their products were not branded until 1987 when TVE development was warmly encouraged by the state government and XT Garment gained a loan about C\$700,000 to replace their production lines and factory buildings. In that year, the company created its brand "ABC". It began to ascend to the family of Chinese first-class garment producers.

Mr. Yang concluded when talking about the company history.

*"The success of an enterprise depends on both market opportunity and good government policy. ... In 1980, Mr. Hu Yaobang (the former Chinese leader) took the lead to wear a suit and everyone followed him in one night. We seized a huge opportunity almost without effort. It was sent to your door and you could sure earn money if only you got onboard. When good policy is undertaken, money will be sent to your door if only you have good products."*

## **6.2. Theme 1: Entrepreneurship: The Key Orientation**

When we examine the company's history, it can be found that it was their strong impulse to seek opportunity that helped them start the business and then to find the right position

for themselves in the market. Opportunity-seeking is often associated with entrepreneurship. In the interview with Mr. Yang, he described the ambitious goal he set for XT Garment—to create brand name for the common Chinese people.

*“My slogan is ‘Create Brand Name for Common Chinese People’. When we began to engage in suit production, there were no well-known domestic brands while foreign brands were too expensive for common people to afford. We saw that once suits became popular, there would emerge a huge market. Chinese enterprises should create our own brand-name products that are affordable for common people. The present situation is that foreign brands don’t want high market shares, instead, they seek extra profits. None of the domestic brands can dominate the market. Now ABC is among the ‘Big Ten’ Chinese brand names. But I think it is only at the beginning of realizing our slogan.”* (Mr. Yang)

Mr. Yang drove the company to move forward along his ambitious goal when the company was still a very small township enterprise. He instilled his ideal into every employee’s mind, changing a slogan into a particular value system shared by the whole company. He asked his employees to consider *“whether it is in conformity with our goal”* when they did their jobs. A strong leader who possessed a particular value system, Mr. Yang showed his essential qualification as an entrepreneur.

People may argue that entrepreneurship should be enduring and it cannot be concluded through accidental examples of opportunity-seizing or a piecing together of words like a slogan. Mr. Yang’s statement of his company’s strategy gave us some other cues.

*“We have a trilogy for our branding strategy. The first objective is to change our brand image from a regional brand to a nation-wide brand and more importantly, to make it a really nation-wide product with a larger market share. It will significantly improve our competitive position in the industry. The second thing is to set up a partnership corporation with our foreign client to export our products with our own brand (instead of with that of the client’s). Through this window, it will be possible for us to follow the*



*world's latest trends of development in technology, pattern, and other aspects on our own initiative. The third thing is that we will adjust our product structure to match the change of the brand. Once we have realized the trilogy, we will reach a very initial position among the competition."* (Mr. Yang)

The Chinese suit market reveals a regional characteristic, and regional consumption patterns differ significantly. It also lacks a developed marketing infrastructure such as a national-level distribution system. All these factors hamper the emergence of a nationwide product. That is the reason why *"foreign brands don't want high market share"*. Most of the domestic companies also have little interest in taking the risks to promote their products in the underdeveloped national market. But in Mr. Yang's perception, these were also interpreted as opportunities. In his words, "when everyone says there is no chance, then you have a chance." He identified the chance for his company to expand its business, so he took new market entry as the core of the company's strategy, that is, entering the national market. New entry, as Lumpkin and Dess (1996) suggested, is the essential quality of entrepreneurship, as well as the launching of new ventures. Mr. Yang knew that entering a new market and setting up new ventures could be highly risky, but what he sought was the great opportunities hidden behind the high risks. He would rather have taken the risks than to have given up the opportunities.

It is not exaggerated to say that the company's branding strategy was very aggressive. So was its advertising strategy. When talking about their advertising practice, Mr. Guo, the manager of the sales department, compared the appeal of the advertising of ABC brand with that of Firs (another one of the "Big Ten"):

*"...Firs states 'not to be too unrestrained'. We don't think that 'unrestrained life' is appealing to common Chinese people. In contrast, the appeal of our advertising is 'visible material benefits'. It is also in conformity with our principle of 'brand name for common Chinese people'. We believe working-class people, especially the mid-aged prefer material benefits to other kinds of appeals. In fact, more and more mid-aged working-class customers like to buy our products..."*

The company's branding strategy was impressive not only with its aggressiveness, but also with its risk-taking. Although there were risks, XT Garment pursued exporting the products with its own brand. It was viewed as a great way to increase the brand equity and to improve the company image in the domestic market. As Mr. Yang said *"developing the export business has another psychological influence on home consumers"*, he understood the deeper social and economic factors that underlie such influence. For a long time, in China there was obvious difference between the quality of domestic sold goods and that of exported goods. Inferior quality always described the goods sold in the home market. Chinese consumers tend to believe that the quality of the products that are produced by a company with export business should be better than the quality of the products that are produced by a company that merely serves the domestic market.

XT Garment also *"spent a lot of money to contract design experts from Hong Kong and Taiwan to do some design work"*. They knew that, because of both social and practical reasons, Chinese consumers tend to view the products designed by experts from Hong Kong or Taiwan as the products designed by foreign designers, thus tend to believe such

products have superior performance. Although such investments could be risky, they dyed their brand with an international color hoping to allure more home consumers.

Since its initiation, XT Garment had been proactively seeking opportunities that could benefit the company. Driven by their belief in creating a brand name for common Chinese consumers, they would rather take the high risks of developing a new market and new ventures aggressively. As Dess, Lumpkin, and Covin's (1997) concluded, entrepreneurship must be associated with opportunity seeking, risk taking, and decision action catalyzed by a strong leader possessed of a particular value system. Entrepreneurship was a key orientation of XT Garment and produced great influence on the company's competitive strategy.

### **6.3. Theme 2: *Guanxi*: The Magic of Relationship**

Mr. Yang put relationship, that is, *guanxi*, in the first place when he was asked what kinds of advantages his company possess compared with his competitors.

*"We entered the industry very early and we enjoy good interpersonal relationships in our distribution channel. Core members in our company have been working here for a long time and it has brought a very good and stable interpersonal network. The network can remedy many defects of our company."*

*Guanxi* often plays a key role in terms of marketing in the Chinese context. In fact, the concept of relationship is by no means unique to China. Marketing theory has long advised Western firms to choose a relationship marketing approach for key customers and a transactional approach for the less important ones. Ganesan (1994) notes that the

interest in relationship marketing may be due to a need for a sustainable competitive advantage. Relationship marketing has its roots in North American and European cultures. But it could be considered even more appropriate within China's cultural context, for the Chinese tend to prefer long-term personalized and mutual cooperation as the basis for most of their business dealings. Mr. Yang highly valued the role of relationships in the marketing activities of his company.

*"No matter what kind of methods, everything that helps sales is marketing. For us, the annual Distributors Party may be the most important marketing activity. For instance, our Year 2000 Party was held just a month ago. It took almost two months to prepare with 20 persons involved and the party lasted 5 days in Jinglin Hotel (a five-star hotel). 300 local distributors from different regions were invited including many big department stores that have not been our distributors yet. More than 180 out of them attended. We booked 6 floors of the hotel and paid for everything including food, accommodation, entertainment, and sight-seeing for the guests, in addition, a 300-Yuan gift was given to each guest. 220 million Yuan (about C\$400,000) was spent on it. All of our company leaders showed up from the beginning to the end. The party was held for friendship, but not for business. Investing in friendship per se is marketing. All the guests are our friends. The party is the best way for us to set up and consolidate good relationships with both old friends and new ones. It's really an efficient way to expand our distribution to new regions. We never ask any guest to bring his order with him, but more or less, he will be sure to bring it to save face. No matter how many orders we received at the party, it's worth doing because it's an investment for the future. Moreover, a good Distributors Party definitely has positive influence for future business. It's also a good chance for both our company and the guests to exchange information. We base many business decisions heavily on the information we have gotten from the Party."*

The reason why the "Distributors Party" was viewed as the most important marketing activity was that it helped the company add some value to its customers, which made the difference between the company and its competitors. When its products and prices held constant, adding value became crucial to the art of relationship, especially considering that the company's products and prices were similar to its competitors. In Mr. Yang's

perception, the Distributors Party was a better way to add value than other marketing efforts such as increasing promotion and advertising or changing the packaging because the competitors could do those things too. Good marketing relationships, in contrast, were difficult for the competitors to imitate, because such relationships required structural consideration and take time to nurture and sustain.

XT Garment didn't consider developing relationship as an add-on approach, rather, they took much time and effort to make it an integral part of the company's basic marketing strategy. Its business would not have started if they hadn't found that one of their old friends could help them build "*guanxi*" with their first client, the garment store in Shanghai. They built up and maintained relationships that might not even seem useful and important yet. They did it like building a bridge before crossing a river. The company encouraged adaptability and creativity in terms of integrity between its marketing strategy and socio-cultural environment.

*"Consumers know what kinds of brands are sold in what kinds of stores. Brand-name stores sell brand-name goods and big department stores sell reliable goods. In the garment industry, you have to find a corner in big department stores, otherwise you have no chance to become a brand-name. As early as we started our business we put much emphasis on maintaining good relationships with the key persons in those stores. One task of my salespersons is to learn what their likes and tastes are and whether there is any favor we can give them. I am not saying to send money to them, but to keep them in mind and give them help when they are in need; the result can be better than expected."*  
(Mr. Guo, the manager of sales department)

The "favor" here is actually an investment in *guanxi*. Although in many societies a favor can be a good beginning in developing good relationships and acceptance of the principle of reciprocity is required. In Chinese culture, however, the magic of a favor is that the

value of a favor involved in reciprocal exchanges never remains constant. Rather, it will continue to increase. When people return favors, unless they repay favors with greater value than what they have received, the Chinese will not be regarded as “gentlemen” and thus will not reach a state of psychological balance. As the proverb goes, “If you honor me a linear foot, I should in return honor you ten feet”. That is why Mr. Guo believed that the return of their investment in *guanxi* could be more than expected. That may well express why maintaining interpersonal relationships is one of the major dynamics in Chinese society.

#### **6.4. Theme 3: Moderation: The Underlying Principle**

A heavy emphasis on interpersonal relationships reflects the concern among the Chinese for their interactions with others. As a result, the Chinese have been traditionally seen to be in pursuit of a harmonious society (Le Claire, 1993). In other words, they value moderate words and deeds that are thought to ensure harmony. Such a view was reflected in XT Garment’s strategic choice, resulting in some conflicts with mainstream business theories that are cultivated by the Western value system.

*“Our cost is among the lowest in the industry. We must keep advantage in cost control. The profitability is very different in the garment industry, largely depending on the prices of raw materials and semi-manufactured goods. There is often a great disparity in the prices. I make very strict demand on purchasing personnel, who are strictly forbidden to gain anything from the business. Once anyone is found doing such things, he is at once fired and we will force him to re-pay for what he has gained. It is a quite simple but efficient way to keep the cost low, but not every company is able to do so. ...I also make strict demands to the quality control department. Our products must be excellent in quality. ... I never grudge investing in new equipment. I will buy any kind of new machines if it helps to improve quality. ...We are now applying ISO 9002 quality*

*assurance certification that few companies in the garment industry have done before. ..."*  
(Mr. Yang)

There was a superficial inconsistency in XT Garment's business strategy. While it pursued low cost and viewed low cost as its major competitive advantage, on the other hand, however, it kept investing in improving product quality so as to differentiate its products from competing offerings. This strategy contrasted sharply with the classic business theory that has identified differentiation strategy and low-cost strategy as two alternative types of business strategy that may be appropriate for small manufacturing firms under certain industry conditions (Porter, 1980). Although XT Garment's strategy was nearer to the low-cost end of this strategy dichotomy, it was moderated by some differentiation effort.

It seemed that Mr. Yang didn't want to put all the eggs in one basket. While actually employing a low-cost strategy, he modified it with efforts towards quality differentiation, making it look as if a compromised solution. Mr. Yang's moderate strategic thinking mirrored the principle of "Zhong-Yong", a basic code of conduct in Chinese culture. Interpreted as Moderation or Mean, "Zhong-Yong" suggests that people should avoid extreme forms of behavior (Le Claire, 1993). This principle impacts the behaviors of both Chinese consumers and companies. Influenced by this principle, Chinese consumers tend to make compromised decisions when facing quality-price issue in their purchases. "Cheap and fine" ("*Jia Lian Wu Mei*") has long been a basic criterion in consumption for common Chinese people. For the company's part, a moderated strategy avoided extreme

decision in strategic choice. The effort put in for product differentiation served as an “insurance policy” to morally pay for the seemingly extreme low-cost strategy.

Furthermore, Chinese consumers usually believe that the qualities of homemade products are not comparable to that of foreign brands. It will be extremely difficult for a home brand in the mid-grade category to adopt product quality differentiation strategy so as to create customer loyalty, price-inelasticity, and higher margins. But this strategy may be at some extent efficient to differentiate ABC brand from its home counterparts since there is still much room for home brands in mid- and low-grades to improve both the intrinsic and extrinsic qualities

Consequently, XT Garment priced its product with the compromised principle that “*our price can never be higher than that of others in the same grade*”, coinciding with their moderate strategy. On one hand, they didn’t want the brand image harmed by low price, so they never provoked a price war by offering low price on their own initiative; on the other hand, they prepared to response to price wars at any time.

## **6.5. Summary**

Compared with other types of Chinese enterprises, the success of TVEs in the Chinese economy is often attributed to their ability to seize short-lived market opportunities and adapt themselves to the fast-changing markets. As a successful TVE, the XT Garment case proves this conventional view. The suit market in which XT Garment was involved



was marked by the absence of a national-level distribution channel and the absence of a nation-wide leading brand. While its competitors had little interest to take risks to expand their businesses to the national market, XT Garment did so. Oriented with entrepreneurship, XT Garment identified and developed its competitive advantage in terms of market expansion. It kept seeking opportunities to develop new markets with good timing. New market entry was the core of the company's strategy.

Mr. Yang's entrepreneurship was associated with his knowledge of the Chinese market, as he said, *"when everyone says there is no chance, then you have a chance"*. A noticeable feature of the Chinese market is the so-called "herding phenomenon". Chinese consumers are very curious about foreign cultures and new products. They want to keep up with their neighbors. This so-called "herding phenomenon" significantly accelerates product adoption and shortens the life cycle of products. Not surprisingly, the product adoption rate in China is three times that of the United States (Yan, 1998). Chinese companies also exhibit this herding behavior when they add capacity to take advantage of what they believe are attractive opportunities, causing likely over-capacity. In such a market, the entrepreneurial orientation played a key role for XT Garment successfully to become one of "the Big Ten" while many Chinese companies failed in the market just because they timed their market entry badly or simply acted too slowly and missed the boat.

To enter a new market successfully, one of the keys is to build up an efficient distribution channel. With deliberately developed "relationships", *guanxi* might be the most important

dynamic in XT Garment's marketing activities. It is true that developing relationships is not a unique feature of Chinese society. What is special in our case is that the company had turned the art of relationships into a carefully calculated science. Giving gifts, offering non-business favors, practicing social interaction, and holding informal discussions, all of these techniques aided in building relationships that were integrated into the "Distributors Party", which added much value to its stakeholders.

## **VII. CASE 3: J. J. FOOD CO., LTD.**

### **7.1. The Company Profile**

J.J. Food Co., Ltd. is now one of the major competitors in the candied and preserved fruit market that is an estimated C\$ 120M business in China. J.J. Food's sales volume was C\$ 6M in 1999, compared with the number of C\$170,000 in 1984 when it was founded.

The township where J.J. Food is located, with its hilly country, has been a traditional place of plum planting. Farmers used to sell their plums to the processing factory 20 kilometers away from the township, which was owned by a state-run foreign trade company of the County. Plums were roughly processed, packaged, and exported to Japan and other countries as semi-manufactured products. This business was so unstable that farmers were often harmed as long as the international market fluctuated and when the foreign trade company stopped purchasing and processing plums.

To protect their farmers, the township government decided to create their own plum-processing factory. In 1984, J.J. Food was set up with about C\$120,000 invested by the township government. They began to produce preserved plum products for the home market while they sold semi-processed products to state-run exporting companies with the purpose that J.J. Food would be able to keep purchasing enough from local farmers in case the international market became unstable. The situation of the home market was

much better than they expected. In the first several years after they entered the home market, a strong need for well-packed candied and preserved fruit products became obvious. Their products were in high demand and the sales volume has doubled and redoubled. In 1995, a new factory was built up with investment of about CS 3M.

## **7.2. Theme 1: One-Way Marketing Communication**

*“There has been too much change of the market in this decade”.* Mr. Li, the general manager of J.J. Food, felt that its company was lucky that it could survive and develop, while too many peer companies closed their doors.

*“Ten years ago, few local manufacturers thought that candied and preserved fruits should be sold with small packages, and nobody expected to spend money on advertising and brand. ... Almost in one night those joint ventures entered the market. The quality and the tastes of their products were not better than that of ours at all. But they just spent much more money on attractive advertising and packaging. With advertising and cute packaging they beat the competition and many local companies had to close their doors. At that time it was really unimaginable why consumers paid doubled price just to buy the cute package. ... We are lucky because we learned and followed quickly.”*

It was the first marketing lesson J.J. Food learned. What the company learned was that the joint ventures won with marketing tools that the local companies had never thought of. The locals failed because of the attacks from the competitors who were good at marketing; and the reason why J.J. Food survived was that it reacted and followed quickly. Then what was the role of consumers in the change?

*“Consumers used to buy loose candied and preserved fruits with no brand in street-corner stores. They felt curious about the advertising and packages of the joint-venture*

*products and so they bought. ... The success of those joint ventures is that they let these consumers know that poorly packaged nibble with no name will make them lose face. They are good at promoting their products. ... Customers are actually blind. If your product is displayed in brand-name supermarkets or in upscale department stores, they will view your product as high-grade and superior in quality and buy it at a high price. So the joint ventures always do what they can to display their products in these stores. So do we."*

In Mr. Li's mind, consumers looked very passive and their consumption was largely determined by appropriate marketing activities of the sellers. Mr. Li attributed the success of those joint ventures to the fact that they successfully guided consumers with their good promotion techniques. Good promotion techniques, in Mr. Li's perception, were attractive advertising and cute packaging. Do attractive advertising and cute packaging guarantee the success of the product?

*"The product must be good. A good product means good quality and good taste. But that's not enough. The importance of excellent advertising is that you can communicate to consumers what the advantages of your product are. You have to give the customer a reason to buy. It is also necessary if you want to display your product in a big store. ... To be successful in the market, good product, good packaging, and good promotion techniques are necessary. Furthermore, you have to keep your eyes on your competitors, especially those joint ventures. Their bosses have rich experience in marketing."*

That was the lesson Mr. Li learned from the competition. Competitors were important. So were a good product and excellent promotion techniques. In his criteria of "good product", there was no place for customers' reactions and judgements. Actually, he did notice the differences among different groups of consumers. But he did not think that the differences among consumers were difficult to find. He believed that these differences seemed to be common knowledge and could be sensed through experience.

*"...Especially for those white-collar young women, they like to go to brand-name department stores or modern supermarkets. Some of them never buy anything in small stores or public markets. So do many schoolgirls from rich families although they don't earn money. ... They often share their nibbles with their colleagues or schoolmates. But housewives from low-income families like to stroll in public markets to find something cheap. They often want to taste the products before they buy. They don't care about packaging patterns but they care the prices and the tastes. ... This difference is clear. Just look at the people around you, you will learn that."*

So it was clear to Mr. Li that, to be successful in the market, keeping watch over and learning from joint-venture competitors was important because they were good at marketing. Successful marketing activities meant good products, cute packaging, and excellent promotion. The key of marketing communication was to reach the customers and convince them. Customers were important, but common sense and experience would let him know them well and appropriate marketing communication could guide customers to buy. As a result of such a perception, marketing communication in J.J. Food was basically a one-way business.

*"Our products are sold in both supermarkets and upscale department stores where those white-collars and rich schoolgirls buy and in street-corner stores and public markets where poor housewives go. The major difference of the products sold in different places is their packages. ... The individual consumer may have her own taste, but that doesn't matter. Our products have different tastes. She can find the one she likes. We spend heavily on commercials and point-of-purchase posters to let them know what we offer to them. The important thing for us is to design cute packages for white-collars who are always face-savers and to offer cheap price to housewives who are always price-sensitive." (Mr. Li)*

In China, like in many other developing countries, there are distinctly different retail outlets that exist side by side, serving different customers. By selling well packaged, brand name goods at relatively high price upscale department stores and modern

supermarkets serve customers with comparatively high incomes who are quality- or brand-conscious and are often “face-savers”. Face (*mianzi*) is very important in the Chinese culture. In China, which evolved from a long feudal society, position in the social hierarchy is demonstrated through this concept, and is related to price (Anderson and He, 1998). The-most-frequently-shopping place is viewed as evidence showing how an individual succeeds economically and socially in the fast-changing society. In contrast, simply packaged or inferior-quality goods, with no names or even with counterfeit brands, are sold cheaply through small street-side stores and public markets that serve customers with relatively low incomes who are often price-sensitive or cheap-goods seekers.

Such a “natural” market segmentation helped Mr. Li to learn the difference in terms of quality-price comparison among people with different incomes so that he thought common sense worked in identifying different customer needs. It contributed to the formation of the one-way marketing communication.

### **7.3. Theme 2: Distribution: Managing the Risks**

Mr. Li cited distribution problem as the biggest challenge in the company’s marketing activities where high risks lay.

*“I can only say that the present situation of the distribution channel is chaos and lack of credit. Most of my time is expended on things concerning distribution channel management because most of the risks of our business happen there. ... To set up our own sales network is too expensive, given our present sales volume. We have to take*

*advantage of distributors' networks. But the thing is that it's very difficult to find competent and creditable distributors."*

Mr. Chen, the manager of the sales department, described the difficulties of his job.

*"The biggest challenge is that we must enlarge the number of distributors while we have to control the risks brought by the expansion. We contract many distributors in different areas. I should feel happy when new distributors are developed but actually I'm really afraid of that. The more distributors we have, the higher the risks. More and more time is used to press the distributors to pay in time. They will never pay if you don't press them."*

Distribution channel management has become one of the buzzwords of Chinese business.

The problem stems primarily from the chaotic, fragmented state of China's existing distribution system, in which remnants of the old, State planned networks co-exist with more independent forces that are usually small and weak.

Prior to the mid-80s, state distribution networks were organized along rigid, vertical lines solely according to the dictates of the State plan. Tier-1 distributors were located in four major cities, namely, Beijing, Tianjin, Shanghai, and Guangzhou; Tier-2 consisted of wholesalers in the provincial capitals and medium-sized cities; and tier-3 wholesalers operated in smaller cities and towns. With no market forces at work, each level of the network passed on products to State retailers and enterprises at the next level, as instructed from above. When the economy transitioned, the system broke down. Manufacturers could now bypass wholesalers and sell directly to retailers. Moreover, the three traditional tiers competed against each other as well as against new, privately owned distributing companies that were usually very small and weak.



One of the results of the breakdown was that the previously existing nationwide distribution network had disappeared and chaos and fragmentation had become the *status quo* of the distribution system. Although the company preferred to look for exclusive distributors, it found that *"few distributors can get more than 10% of local markets, not to mention regional or even national markets"* (Mr. Chen). At the same time, *"the effectiveness of other marketing activities such as advertising is significantly lessened due to the poor coverage rate"*. State-run distributing companies still enjoyed some leftover business from the traditional three-tier system. However, these companies tended to be reactive, rather than proactive, that is, they simply sold to the next level, rather than develop new business. Privately owned distributors, in contrast, tended to be more flexible and market-oriented but generally had very limited geographical scope. This circumstance resulted in very low efficiency of the channel.

Another serious problem was the deteriorating conditions in business trust. J.J. Food's salespersons were told that one of their most important tasks was to keep a close watch on the distributors and to press them to pay on time. The company's biggest expectation of the distributors *"has changed from raising the rate of coverage and expanding sales to paying what they should pay in appropriate time"* (Mr. Li). To prevent loss caused by unreliable credit, the company had to lessen the average shipping amount for one lot and increase shipping frequency. But when J.J. Food's exclusive distributor in its home county was interviewed, the person-in-charge complained,

*"Actually they just don't want to sign an exclusive right contract. They are preparing to find another company to be their exclusive distributor at any time once we cannot match*

*the required sales volume. I have to keep some of their money in my hand so as to protect my rights”.*

To a large extent, the focus of the marketing objectives of J.J. Food in terms of product distribution shifted from maximizing the market share to minimizing the risks. This was also the case with the distributor. Due to lack of stability and reliability in terms of normal business relations, the company could not be expected to concentrate on market development wholeheartedly. Therefore, transaction cost increased and efficiency lowered in the marketing system.

Legal and cultural factors may play important roles in the development of such a situation. Although more and more business laws have been issued in the past several years in China, the efficiency of law enforcement is questionable. Under such circumstance, companies would rather adopt some self-protection measures to lower risks than to maximum interest by using legal rights. In the Chinese culture, people tend to give credit to “one of us”—someone who is thought to be on their own side, and to remain vigilant with “outsiders.” As the saying goes, “never forget to prevent yourself from being injured by others.” The lack of a common view of value shared by the whole society leads to the lack of trust in interpersonal and business relationships.

#### **7.4. Theme 3: Trust: Bridging the Gap**

From another point of view, this situation corroborates the necessity of relationship marketing in Chinese context. When talking about his solution to the troubles they met in their distribution channel, Mr. Li said,

*"No company avoids such troubles, and no one expects to solve these problems through legal procedures from the beginning. This is the last thing I want to do. Good 'guanxi' will make things easier to do. I think if guanxi doesn't work, then nothing will."*

Relationship marketing should be viewed as an interactive process in the Chinese context where relationship building is a vital concern. In Chinese culture, the magic of the relationship is its ability to bind two parties together, even though they do not necessarily start with a common goal. In a western context, marketers begin by laying out a network of channels, key agents, and contacts, then analyzing the firm's strengths, weaknesses, and opportunities, focusing on the relationships that matter most (Yau *et al.* 2000). In contrast, the Chinese start by assessing their relationships and focusing on how to make use of them by incorporating them into business strategies. Shared values and goals are not necessary conditions.

*"Good relationship means good credit. Our salespersons are quite worried about possible bad debt because the company binds the possible bad debt with their personal income. I remind our salespersons time and again that if the distributors can become their private friends, they will feel much more comfortable."* (Mr. Chen)

Mr. Chen wanted his subordinates to have their clients treat them as "one of us" instead of "outsiders". Centered on themselves with the longitude of a father-son relationship and the latitude of a brother-sister relationship, this multi-dimensional network characterizes traditional Chinese interpersonal relationships (Chen, 2000). A Chinese person brings almost everyone he knows into his network and locates them according to how close those people are to him. The different "distances" of relationships between person A and other people determine A's different attitudes to those other people in the same situation and his different attitudes to the same people in different situations. A core segment

nearest to the center of the interpersonal network is intangibly “circled”. People located inside the core part are “one of us” and the rest are “outsiders”.

The Suguo supermarket chain based in Nanjing held third place in terms of sales volume among Chinese food retailers. It was a very important regional distributor of J.J. Food in Jiangsu Province. While J.J. Food tried to build up its business relationship with Suguo, the competition for Suguo’s retailing space intensified greatly. The salesperson from J.J. Food kept contact with the person in charge of the purchasing department of Suguo.

*“Our salesperson invited him to dinner many times. Then our salesperson learned that the man had a baby at home and a baby-sitter was urgently needed. Our salesperson introduced a girl in our township for him and the man was very satisfied with the girl’s working performance” (Mr. Chen).*

In China, a baby-sitter usually comes from the countryside and lives with the host family. Families always spend a lot of effort and energy to look for baby-sitters through their interpersonal network because a baby-sitter introduced by a relative or a friend is thought to be reliable. In contrast, a baby-sitter found in the market is viewed as a stranger and thought to be not safe for the family. In the case of J.J. Food’s, the salesperson finally became a private friend of the person-in-charge, that is, successfully entered the core part of that gentleman’s interpersonal network, because of the presence of the third party—the baby-sitter, and Suguo became one of the most important distributors of J.J. Food.

Some circumstances make a person change his treatment of someone from “outsider” to “one of us”. Once the treatment is changed, the attitude will change dramatically. One of

these circumstances is that the “outsider” does a favor for the person. The salesperson of J.J. Food understood this well. Introducing a reliable baby-sitter was a big favor to the person-in-charge and it constructed a basis of familiarity to bridge the gap between two parties. Making himself a private friend of the person-in-charge in this way, the salesperson successfully changed the attitude of the person-in-charge. As a result of this relationship, “*Suguo always pay us on time and our products have been displayed in most of its retailing outlets.*” A good relationship facilitated a decrease in transaction cost and an increase in the company’s efficiency of its marketing effort.

## 7.5. Summary

Marketing was a learning process for J.J. Food. The first lesson it learned from the competition played an important role in its own marketing practices. The manager perceived how those joint ventures, with their skilled marketing techniques, had successfully “guided” consumers to buy such products that would have been unimaginable to local companies. For J.J. Food, the importance of customer needs had been recognized, but understanding customer needs was assumed simply to be a common sense and experience issue. The existence of the dual distribution system that served for the rich and the poor was viewed as evidence that different customer needs could be identified in that way. Consequently, the company engaged in developing its one-way marketing communication. Central to this mode of marketing communication was how to reach and guide the customers who were viewed as a passive audience.

Since the company believed that to reach consumers was the main challenge in its marketing activities, distribution channel building was taken the most seriously and was regarded as the most difficult and risky. For the company, the chaotic and fragmented distribution system was perceived as one of the most important environmental factors. To respond to this environmental factor, the company had to revise its marketing objectives and pay the most attention to the potential risks rather than the potential benefits. Moreover, each party in the company's distribution channel suffered from distrust to some extent. A common problem for the channel members was that it was very difficult to come to terms with neutral relationships where they could not "read" trustworthiness. They tended to work at creating trust beforehand. This may be due to the undeveloped market structure in China and poorly specified property right, which make market exchanges uncertain and costly. Lacking a stable political structure and developed markets further compounds unpredictability and can lead to difficulties in approaching a business exchange (Yau *et al.* 2000).

In the Chinese context, creating trust among parties beforehand is necessary to ensure exchange of favors. Often, trust plays a more crucial role than legal contracts among Chinese business people. To create trust so that the risks can be minimized and the benefits maximized, J.J. Food believed that building up good relationships was the most efficient way. What the salesperson did, in this case, was to create and enhance his influence over his counterpart by becoming "one of them" so that a good business relationship could be developed. To the Chinese, *guanxi* leading to business is more

possible and more attractive than business leading to *guanxi*. They are more willing to honor a deal as long as the other party in the deal is “one of them” or has a good *guanxi* with them. Even if anticipated conflicts of interest arise or future problems with the deal occur, these will eventually be counterbalanced by friendship and trust. As to the detailed problems, they can be worked out or compromised as long as *guanxi* lasts. In this context, *guanxi* dramatically amplifies the effectiveness of the marketing effort.

## VIII. CONCLUSION AND DISCUSSIONS

The objectives of this research are to identify managers' perceptions of their marketing environment and to explore how their perceptions of the environment direct marketing practices in these TVEs. In addition, of interest is how socio-cultural values influence managers' perceptions of the environment and thus their marketing practices. Through analysis of the three cases, it becomes clear that some environmental factors, especially competition, were given special attention and thus played key roles in marketing decisions in these TVEs. While innovative imitation was viewed as a cost-efficient strategy in product and technology competition with strong rivals, these TVEs developed their competitive advantages by using low cost labor and market expansion. Furthermore, emphasis on interpersonal relationships, or *guanxi*, represented a major business dynamic in these TVEs.

### 8.1. Competitor- vs. Consumer-Orientation

Competitors and customers are the two most salient features of a competitive market (Day and Nedungadi, 1994). Each of these dimensions played a different role in the marketing activities in the three TVEs studied. Specifically, the TVEs largely based their marketing decisions on competitors' actions and reactions. While they recognized the importance of satisfying customer needs, customers were understood basically through intuitive and experience-based judgement.



#### *8.1.1. Competitors: The basis of strategic actions*

In the industries involved in the case studies, the competition had intensified to such an extent and so many competitors had emerged in the past decade that these TVEs tended to view competition as a more uncontrollable environmental variable than the consumer. They generally attributed the failure of peer companies to attacks by their competitors. Learning from this experience, they tended to focus on direct comparisons of their businesses' attributes with those of competitors in terms of strategy content decision-making and strategy formulation process. In particular, they tended to position their products directly against the competing products, they generally based the decisions of market entry on competitor-centered market analysis, and they gauged their performance on the basis of cost and profitability comparisons with the competitors.

To make direct comparisons with the competitors, an effective information channel could be crucial. These TVEs made great effort to build up tight connections with their distributors so as to acquire necessary information about the actions and reactions of their competitors. One important task of the salespeople in these TVEs was to keep their eyes open for any changes in the marketplace's competing products and to report the information on a regular basis. In contrast, they were not asked to collect and report information concerning consumer reactions to their own products or the competing products.

### *8.1.2. Consumer needs: Intuitive and experience-based learning*

Clearly, these TVEs recognized the importance of meeting customer needs. They tended to believe that they had well learned what customers needs were through experience and industry conventional wisdom. They were generally very confident with their previous knowledge about and experiences with consumers. Largely due to the fact that the customers (farmers and urban working class) whom these three TVEs targeted generally fell into middle-low income categories, they tended to assume that customer needs were simple and homogenous, summarized as “cheap and fine”. While they put energy into collecting competitor information, they rarely paid attention to consumer information.

Low emphasis on consumer orientation in these TVEs’ marketing activities was founded on their prior experience which had worked well for them in understanding or even “creating” their markets. Chinese consumers had not had any choices in personal consumption until two decades ago when economic reform in China began. Firms like TVEs who adapted to the economic transition rapidly in the early stage of economic reform often played the role of market educators and took a leading position in supplier-consumer relations. These TVEs had benefited from such a position and it influenced their estimation of the consumer’s role. They tended to believe that consumers were not always right and they could to some extent “guide” consumers.

In addition, the managers in these TVEs tended to believe that customer needs should be viewed as a collective phenomenon where overall estimation was more appropriate than

individual evaluation. Traditionally, China has been a collectivist society where the differences in individual preferences are not emphasized. Organizations tend to estimate people's needs from a collective perspective (Nevis, 1983). In these TVEs, the managers tended to believe that, in order to make an overall estimation of customer needs, intuitive judgement based on experience was more reliable than the conclusion of scientific marketing research that addressed individual differences. Consequently, intuitive and experience-based learning about consumers resulted in these TVEs' weak consumer orientation.

In summary, these TVEs were basically competitor-centered. They set their marketing strategy based on their competitors' moves rather than their consumers' reactions. On the positive side, this kept these TVEs on constant alert, watching for weaknesses in its own position, and watching for competitors' weaknesses. On the negative side, it might have caused uncertain fluctuations in the companies' strategic actions without preplanned directions, resulting in difficulty in setting long-term goals. Especially, with Chinese consumers evolving rapidly, they might fail to track the changes in customer needs that would impact the companies' future development.

## **8.2. Innovative Imitation**

Marketing was a relatively novel experience for these TVEs. With foreign competitors entering the Chinese market, they set up marketing examples for the TVEs. Imitation became an important component in the marketing activities of these TVEs, especially

with respect to their product strategy. However, these TVEs did not simply copy products; they deliberated to modify the imitated products according to what they thought were more applicable to their markets. They did not pursue crucial breakthroughs in product attributes, which might have required heavy investment in R&D. Instead they sought to develop local versions of the products with minor changes that were cost-efficient. Thus “innovative imitation” was a main feature of their product strategy. As shown in the F.H. case, what had been changed was just the shape of the noodle block. The change was minor, but its effect on sales was great.

Both internal and external conditions contributed to the formation of this innovative imitation strategy. Specifically, the lack of qualified marketing personnel and the low cost/low price orientation did not allow these TVEs to develop their capacity for product innovation. The presence of foreign companies and brands provided the external conditions for the TVEs to employ this imitation strategy. In addition, the so-called “herding phenomenon” in the Chinese society facilitated the innovative imitation strategy.

#### *8.2.1. Internal conditions: resource constraints*

The lack of qualified marketing personnel and the low investment in R&D were among the main internal conditions that resulted in the innovative imitation strategy. First, these TVEs were all born in the 1980s, at almost the same time that China began to embrace the marketing concept. Few of the managers in the three companies had received formal

marketing education or training before they started their businesses. The local rural laborers who made up their marketing and sales teams had little prior knowledge of marketing. Due to inconvenient geographical locations, it was extremely difficult for these companies to recruit marketers from colleges or other sources. The lack of qualified marketing personnel was a serious marketing resource constraint for these TVEs.

Second, because low price was viewed as one of the main appealing aspects of the products, these TVEs tended to believe that heavy investment in R&D would cause a cost increase, which was inconsistent with their low price/low cost orientation. They were concerned more about keeping and lowering the cost and the price than about improving the product performance. As a result, the investment in R&D in these TVEs was kept at a very low level. This constrained their capability for product innovation.

#### *8.2.2. The presence of foreign competitors: The possibility of imitation*

The presence of foreign-invested companies and brands had changed the Chinese marketing landscape. With their presence, various types of marketing know-how and novel product categories were introduced, along with production technology and competitive mechanism. In most consumer product categories, the offerings from foreign-invested companies represented better, alternative solutions to consumer demand (Zhou, 2000), and this offered good examples for the TVEs in their learning process. F.H. Food was among the excellent learners. Choosing instant noodle—a newly parleyed

product— as its main product, the company consolidated their first achievement in the learning process. In following the foreign brands, the company benefited from an imitation strategy, which brought higher efficiency in marketing to the company. While the presence of foreign-invested companies and brands made it possible for these TVEs to benefit from an imitation strategy, some distinctive features of China's market made this strategy necessary. The "herding phenomenon" was among the most important features.

#### 8.2.3. *"Herding phenomenon": The necessity of imitation*

Chinese consumers are very curious about foreign cultures and new products. They want to keep up with their neighbors. This so-called "herding phenomenon" significantly accelerates product adoption and shortens the life cycle of products (Yan, 1998). Chinese companies also exhibit the herding behavior when they add capacity to take advantage of what they believe to be attractive opportunities, resulting in over-capacity. Under such a circumstance, these TVEs felt it difficult to set up long-term strategic goals. They tended to believe that limited resources and limited impacts on the marketplace made it neither possible nor necessary for them to put too much energy into long-term R&D. Consequently, imitation became an optimal strategic alternative with which short-term goals were easier to achieve, requiring very little investment in R&D.

### **8.3. Competitive advantage**

From the perspective of international comparison, there are four possible sources for competitive advantage for small firms (Agmon and Drobnick, 1994). The first one is some kind of unique endowment that gives firms a monopoly position. It may be based on natural resources, specialized marketing channels, or brand image. The second one is comparative-cost advantage such as the accessibility of low-cost materials and the availability of low-wage skilled workers. The third one is some sort of specific factor such as management. The last one is the relative strength of factors or a unique combination of factors such as a competitive edge based on a continuous R&D effort combined with an ability to identify and effectively sell in market segments.

A complete understanding of a competitive advantage requires a complex, multidimensional portrayal of all the points of superiority or deficiency between a business and its competitors (Day and Nedungadi, 1996). This is a daunting task in most markets. To interpret a competitive situation, managers pay attention to those environmental factors that past experience has taught them they cannot afford to overlook. In these cases, the managers tended to understand their own competitive advantages in terms of the low labor cost and their ability in market expansion.

### *8.3.1. Labor cost*

The managers in these TVEs generally viewed low labor cost as one of their most salient competitive advantages. Wage labor cost was the main competitive factor in the industries (food and garment) in which these TVEs are involved because the most labor-intensive part of the cost structure—cutting and assembly, for example—was also the most significant, especially in the low-price category. The wage rate in these TVEs, according to their statements, was at least 30% lower than that in the primary competition, located in urban areas. This was due to the much lower income level of local farmers than that of urban residents. The labor-intensive nature of the industries and low wage rate made up the cost advantage in these TVEs.

### *8.3.2. Market expansion.*

The managers showed great confidence with their ability in market expansion and tended to view it as their another salient competitive advantage. Several factors favored their view and made it possible for them to develop this competitive advantage.

First, the underdevelopment of integrated distribution channels in the Chinese market weakened the ability of the big rivals to distribute their products nationally. Due to a lack of appropriate distribution channels in many small towns and rural market, big companies concentrated more on the urban market, leaving room for these TVEs to expand their



businesses in these underdeveloped markets. This market accounted for at least 60% of the whole population. The underdevelopment of national-level distribution channels was an important prerequisite for these TVEs to gain competitive advantage in market expansion.

Second, the employees in these TVEs who were accustomed to living and working in the countryside generally could stand very hard working conditions in developing their own distribution channels in remote town and rural markets, while few workers from urban areas could do so. Hard-working and diligent employees greatly helped these TVEs to enter new markets without head-to-head competition with the big rivals.

Third, a strong entrepreneurial orientation directed these TVEs to engage in new market entry. Previous research (Zhang, 2000) on TVEs suggests that entrepreneurship is one of the most important organizational characteristics of TVEs. This study supports Zhang's findings. While other companies were stopped by the substantial possibility of failure in the underdeveloped market, these TVEs sought the chance for high returns hidden behind the high risks. They took the risks and designated resources for new market entry. As Lumpin and Dess (1996) point out, an essential quality of entrepreneurship is new entry. The TVEs' entrepreneurial orientation highly motivated them to expand their businesses to new markets and to gain competitive advantage from market expansion.

While these TVEs did gain some competitive advantages in terms of labor cost and market expansion, it remained questionable whether these competitive advantages could

be sustainable as the Chinese market evolved and the marketing infrastructure such as distribution channels developed further. It is not impossible that, for example, the future presence of integrated distribution channels in the Chinese market could destroy the prerequisite of market expansion as a competitive advantage in these TVEs. It seems necessary for these TVEs to consider how to develop the existing advantages into sustainable ones.

#### **8.4. *Guanxi*: A major dynamic**

“*Guanxi*” was one of the most frequently heard words in my interviews of the managers. The managers in the three TVEs all held the same view that *guanxi*—personal relationships—were more important in most cases than impersonal business relationships such as contracts. They put substantial effort into building up and maintaining good interpersonal relationships with their stakeholders.

There has been intensive discussion about *guanxi* in the literature. A conventional point of view is that diminishing importance of *guanxi* in Chinese business practices can be expected as China move towards a market economy (Arias, 1998). In this view, the importance of *guanxi* depends on the need of connections to government to gain access to licenses, approvals, and resources. As the level of government intervention decreases and more and more areas are subject to market mechanisms, the structural foundations of *guanxi* will be eroded and consequently, the importance of *guanxi* will decline.

The result of our research, however, does not support this conventional view. In this case, the managers generally recognized the diminishing government intervention in their businesses and showed less interest in relationships with government officers. But it did not lessen their effort on *guanxi* because most of their efforts were put into building up and maintaining relationships with their business partners such as distributors (many of these partners were not owned by the state). Obviously, the connotation of *guanxi* has evolved.

We argue that the managers' understanding of the importance of *guanxi* in these TVEs cannot be interpreted within the narrow meaning of government intervention vs. market mechanism relation. *Guanxi* in these TVEs had become synonymous with a long-term relationship based on trust and mutual benefits, which has its historical roots in traditional Chinese culture. The marketing practices in these TVEs showed no evidence of a diminishing importance of *guanxi*. Instead, *guanxi* had been a major dynamic in their practices.

## 8.5. Summary

We have identified a series of typical behaviors that reflect facets of the marketing practices in the three TVEs. We have also identified the main perceived environmental factors that have influenced these behaviors. Generally, these TVEs were competitor-centered and their strategic marketing decisions were largely based on competitors. They

recognized the importance of customer needs but understood those needs through intuitive and experience-based learning of consumers. Due to the short history of marketing in China, innovative imitation has been an important component of their marketing strategy. While they followed the foreign brands in product decisions, they developed their competitive advantages in terms of labor cost and market expansion. Their marketing activities embodied some distinctive social and cultural values, with *guanxi* continuing to be the primary dynamic in their marketing practices.

Table 3 shows a summary of the major findings in this research. As can be seen, the findings are organized in reflection of the research objectives as well as the major components of the conceptual framework.

Perceptions of Environmental Reality	Distinctive Themes	Typical Marketing Behaviors	Social and Cultural Factors
<ul style="list-style-type: none"> <li>▪ Competitors as a more uncontrollable factor</li> <li>▪ High market growth</li> <li>▪ Assumed simple and homogeneous customer needs</li> </ul>	<ul style="list-style-type: none"> <li>▪ Competitor-Centered Orientation</li> </ul>	<ul style="list-style-type: none"> <li>▪ Competitors as basis of strategic actions</li> <li>▪ Intuitive and experience-based learning about consumers</li> </ul>	<ul style="list-style-type: none"> <li>▪ The explosive growth of the number of rival players</li> <li>▪ The collectivist way of thinking</li> <li>▪ The absence of consumer dominance in history</li> </ul>
<ul style="list-style-type: none"> <li>▪ Resources constraints</li> <li>▪ Limited impact on the market</li> <li>▪ Low cost-efficiency of R&amp;D investment</li> </ul>	<ul style="list-style-type: none"> <li>▪ Innovative Imitation</li> </ul>	<ul style="list-style-type: none"> <li>▪ Little investment in R&amp;D</li> <li>▪ Imitating competing products</li> <li>▪ Pursuing cost-efficient changes</li> <li>▪ Short-run goals</li> </ul>	<ul style="list-style-type: none"> <li>▪ The short history of marketing in China</li> <li>▪ The shock wave of foreign brands</li> <li>▪ Herding behaviors in Chinese business</li> </ul>
<ul style="list-style-type: none"> <li>▪ Low cost laborers in rural areas</li> <li>▪ Diligence of rural laborers</li> <li>▪ Low coverage of competing products</li> </ul>	<ul style="list-style-type: none"> <li>▪ Low Labor Cost</li> <li>▪ Market Expansion</li> </ul>	<ul style="list-style-type: none"> <li>▪ Engaging in niche market with hard conditions</li> <li>▪ New market entry</li> <li>▪ Entrepreneurial orientation</li> </ul>	<ul style="list-style-type: none"> <li>▪ The great disparity in rural and urban incomes</li> <li>▪ The absence of a national-level distribution system</li> </ul>
<ul style="list-style-type: none"> <li>▪ Interpersonal relationships more important than formal business relationships</li> </ul>	<ul style="list-style-type: none"> <li>▪ Relationship Marketing</li> </ul>	<ul style="list-style-type: none"> <li>▪ Emphasizing long-term relationship based on trust and mutual benefits</li> </ul>	<ul style="list-style-type: none"> <li>▪ Socially oriented cultural tradition</li> <li>▪ <i>Guanxi</i> as one of the major dynamics in Chinese business</li> </ul>

Table 3 Research Summary

## **IX. LIMITATIONS**

Due to the exploratory nature of this research and the limited resources that were available, limitations are inevitable. As in any other type of qualitative research, the researcher is significantly involved in the whole process in a case-based approach. Hence there is potentials of subjectivity. The potentials may appear either on the part of the respondents or on the part of the researcher as data collection instruments, which may influence both the collection and analysis of the data. To deal with such a problem, various sources of information were used in this research to triangulate the picture of the “real world”. In addition, the research procedures of this study were articulated to ensure its reproducibility (replication) so that the potentials of subjectivity could be eliminated to the greatest extent.

For a case-based approach, another disadvantage is that it may be difficult to achieve generalizability, although there is clearly scientific value gained by investigating some single cases. Built upon the accessibility of the respondents and the available resources, this research focused on the three TVEs whose products all fell into consumer goods. More importantly, most of the Chinese TVEs are operating in the same socio-cultural context analyzed in this research. Thus what can be expected is that, to some extent, our research results should be generalizable as it does suggest explanations for why other Chinese TVEs are likely to be, or not to be, involved in similar marketing circumstances.

## **X. CONTRIBUTIONS AND IMPLICATIONS**

This study represents one of the pioneer efforts to explore the Chinese-style of marketing practices in TVEs by linking the formation and implementation of their marketing strategies and tactics with the impacts of the environmental factors and the socio-cultural context. It makes important theoretical and managerial contributions. There are also several implications for both researchers and TVEs.

### **10.1. Theoretical Implications**

This study enriches the marketing literature in that it provides meaningful exploration of the transferability of Western marketing theories and practices to TVEs in China, a non-Western society. In particular, this study supports baseline documentation in terms of Chinese-style marketing activities in TVEs. The result reveals the specific patterns in which the three TVEs dealt with the consumers and the competitors, developed their competitive advantages, and adapted their marketing practices to social and cultural values. The findings may serve as breeding ground for insights and hypothesis generation for more structured research in this domain. Specifically, the theoretical implications of the findings are:

1. TVEs' marketing environments exhibit great differences with those in developed countries. The managers in the TVEs tend to pay select attention to some environmental factors such as dynamic competition, the low income of the majority

of the population, the simple and homogenous customer needs in some market segments, and the underdevelopment of marketing infrastructure. These perceived environmental factors shape the managers' perceptions and thus influence the strategic choices of these TVEs.

2. The way in which the managers selectively notice and interpret the perceived environmental factors is strongly associated with the patterns of search for information and usage of this information in these TVEs. Formal marketing research is not appreciated. Instead, the sales force composes the primary information channel and the managers tend to make intuitive judgements based on their previous experience. Thus the strategic decisions in these TVEs are largely dependent on the managers' experience.
3. The Chinese social and cultural values underlie the dynamics such as *guanxi* in Chinese business that drive these TVEs to form and implement their marketing strategy in their own ways. Although marketing techniques such as pricing and advertising planning have been widely accepted and well applied, these TVEs often turn to find marketing solutions from cultural tradition. The cultural dependence of marketing strategy in TVEs holds promise as a valuable focus for future theoretical development of marketing in TVEs.
4. High market growth and underdevelopment of national-level distribution channels are among the necessary external conditions for these TVEs to identify and develop their competitive advantages. The former provides the potential for the TVEs to expand their businesses in new markets or new market segments and the latter weakens the edges of big rivals. Entrepreneurial orientation drives these TVEs to



seek great opportunities behind high risks. The low-cost and hard-working laborers help them to prevent head-to-head competition with big rivals.

## **10.2. Managerial Implications**

As competition becomes intensified in the Chinese market, the Chinese TVEs are facing many challenges in this dynamic environment and need to analyze their approaches in terms of marketing strategy and tactics. This research provides a reference frame for TVEs to make their marketing decisions when they are involved in marketing circumstances similar to those presented in this research. Also, the findings may help global marketers to better understand TVEs with whom they are competing or will compete in the Chinese market. Specifically, the managerial implications for TVEs are:

1. While competitor-centered orientation keeps companies on a constant alert for competitors, to a large extent it may blind them to a customer focus. With the Chinese market evolving rapidly and the Chinese consumer becoming more dominant in the market, it is necessary for TVEs to pay balanced attention to both competitors and customers.
2. It is important for TVEs to identify and develop their competitive advantages. More importantly, the competitive advantages should be sustainable. Some TVEs have built up competitive advantage well in market expansion. This advantage is gained basically through entering new markets with existing products, accompanied with the high growth of the Chinese consumer market as a whole in the past two

decades. With the diminishing opportunities in terms of geographically extensive development of new markets, such competitive advantage may face challenges. More effort is needed for these TVEs to develop their existing competitive advantages into sustainable ones.

3. The presence of foreign-invested companies and brands in the Chinese market has provided opportunities for TVEs to learn marketing effectively through competition. Innovative imitation as a product strategy may be cost-efficient for TVEs, given the limited resources and limited market impacts of most TVEs. Those TVEs who adopt innovative imitation strategy should pay attention to the competitors' reactions, considering that this strategy might provoke retaliation from their competitors.

The data examined in this research reflects some Chinese marketing styles such as consumer- vs. competitor-orientation, marketing strategy (especially product strategy), competitive advantage, and business dynamics through identifying the linkages between the complex environment and socio-cultural values and marketing practices in the TVEs. It is clear that there is still a long way to go for researchers in this domain to bring the relevant research into an exclusive and systematic framework. We end with a call for continued studies to advance the research on Chinese-style marketing in TVEs.

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## **APPENDIX: AN INTERVIEW GUIDE OF GENERAL MANAGERS**

### **Part 1. The following questions involve managers' perceptions of the environments.**

1. *It is thought that doing business in today's China is difficult and the difficulties could be largely attributed to the external environment. Would you please talk about your views to the external environment of your company?*
- 1) With regard to the competition,
  - How many competitors are there in this industry?
  - How about the stability of the competition?
  - How about the extent of intensification?
  - What are the foci (price, brand, quality, technology, service, talent, ...)?
  - What is the possible impact brought by WTO?
  - What are the main sources for you to get the information?
- 2) With regard to the consumers,
  - What are their requirements to your products?
  - Are these requirements changing fast? How to change?
  - What are the factors that cause the changes (age, region, occupation, education level, ...)?
  - What are the impacts of their requirements on your business? To meet them or to lead them?
  - How do you learn the information about consumers' requirements?
- 3) With regard to government and governmental policies,
  - What's the influence of government and governmental policies on your company?
  - How do the policies change?
  - How about the openness of the policies?
  - How do you access the information concerning the policies?
  - How to study and take advantages of the policies, if you do?
  - What is the relationship between your company and the local government?
  - What's the influence of the local government on your company, if any?
  - How to get along with the local government?
  - What kind of support, if any, can you get from the local government and how?
- 4) With regard to the industry,
  - How do you view the future of this industry?
  - What are the factors that will possibly influence the future of the industry?
  - What is the possible impact of technical turbulence?
  - What are the opportunities and threatens to your company?
  - Why do you make such a judgement?

- How do you deal with them?
- 5) Any other external factors that could have influence on your business? How?
2. *It's really not easy for your company to get today's achievement. To review the development history of your company will be helpful...*
- 1) The origin and the background of the company's creation.
  - 2) Are there any leaps in the process of the development?
    - By what kinds of opportunities in terms of taking advantage of governmental policies or market dynamics?
    - Finding talents?
    - Developing new products?
    - Joint venture or cooperation?
    - Others?
  - 3) How were the opportunities analyzed?
    - How to take advantages of them?
    - How did the decisions were made?
    - What were the results?
  - 4) What was the most important opportunity?
    - Why?
    - What's the experience that can be concluded?

**Part 2. The following questions involve competitive advantages and business strategy.**

3. *To pursue development in such an environment, a company should have some resources. If we group the resources into technique, talent, fund, management, and others, what are your advantages and disadvantages, compared with your competitors?*
  - 1) Do you hold a lead in terms of technique?
    - If yes,
      - How did you get it?
      - Can it be kept in the future?
      - How to keep it? How to prevent from leakage?
    - If no, what will you do?
  - 2) Do you have any edge in talent (managing personnel, engineers, technicians, sales team, marketing team, workers, ...)? Do the companies "rifle" from each other?
  - 3) Do you have any edge in fund?

- Where comes the fund?
  - What the main means to get it?
  - How to use it?
  - What are the possible influences of lack of fund?
  - How to overcome it and change the situation?
- 4) Do you have any edge in management?
- If any,
- What aspect (cost, supply chain, personnel, finance, ...)?
  - How did you get the edge?
  - How to benefit from the edge?
  - How to keep it?
- If none, how to change the situation?
- 5) Any other aspects?
- 4. An entrepreneur like you must have his own strategic thinking to his business.*
- 1) What is your mission?
- Where will the company go?
  - What will be the future business?
  - Why do you think so?
- 2) What are your business objectives (scale, profitability, growth rate, market share, ...)?
- What are the relationships among these objectives?
  - The ultimate aim?
  - Rationale?
- 3) To realize these objectives, what have been done and what will be done in business strategy?
- What are the relationships between the objectives and these things?
- 4) Why these things are viewed as the main components of the strategy?
- 5) How was the strategy made?
- Who proposed it? His reasons?
  - Who participated? Who made the decision?
  - Any revision? How to revise it?
- 6) What are the problems and challenges in the implementation of the strategy?
- Where are they from?
  - What caused them?
  - How to overcome them?



- 7) How to estimate the result of the strategy?

**Part 3. The following questions involve marketing strategy and tactics.**

5. *Marketing is a hot topic in present days. Every company has its own understanding to marketing.*

- 1) What types of things are included in marketing in your opinion?
  - What should be the role of marketing in a company?
- 2) Is marketing the same thing with sales?
  - Why?
  - What's the difference?
  - What's the relationship between marketing and sales?
- 3) What is the role of marketing department?
- 4) Whom does the marketing manager report?
  - Are there any other departments that report the same person?
- 5) What are the relationships between marketing department and other functions departments?
  - Who coordinates the relationships?
- 6) How does the marketing department deal with the market and organizations outside the company (consumers, distributors, government agencies, media, ...)?
  - Suppose the company is facing a complaint, how is the information processed in the company?
  - Who and how to settle it?

6. *A good product may be very important to a company.*

- 1) What is your main product?
  - Why this product is chosen (market vacancy, competition, resource superiority, in initiative or in passivity, ...)?
  - Is there any change in terms of main product?
  - What's the impact of such a change(s) on the company?
- 2) Compared with competing products, what are the main features of yours?
  - Positioning?
  - What about the comparative grade and price?
  - For whom, when, and in what situations the product is most suitable?
  - Why such positioning?

- 3) What kinds of markets is the product marketed in (international, domestic, regional, ...)?
  - Where are the main sales regions?
  - Why (purchase power, consumption pattern, competition, geographic factors, ...)?
- 4) What kinds of customers is the product marketed? Why?
  - What are these consumers' characteristics?
  - What are their requirements to the product?
  - What are their impressions to the product?
  - How do you think of their attitudes?
- 5) What are the main channels of information concerning the market and consumers (marketing research, government agencies, industry, media, ...)?
  - How about the accuracy of the information acquired?
  - What are the factors that influence the accuracy of the information?
- 6) What are the procedures, if any, of product renewal and new product development?
  - Who usually proposes it and how are the ideas generated?
  - Who participates decision-making process?
  - What about the processes of implementation?
- 7) Is there any set objective of a new product? How to set it?
- 8) How to estimate the result of a new product decision?
  - How to compare the result with the set objective?
- 9) What are the experiences and lessons of your new product development?
  - Why do they success or fail?
7. *A good product deserves a good price. How do you price your products?*
  - 1) What is the principle of pricing (follow the market, cost + profit, high price, low price, ...)?
  - 2) What is the purpose of such a principle (market share, profit, attacking competitors, defend the attacks, ...)?
  - 3) What are the bases (low cost, advanced technology, high quality, ...)? Why?
  - 4) What is the procedure of pricing?
    - Who proposes it?
    - Who participate?
    - Who is the decision maker?
    - How to implement it?

- 5) How to assess the result (profit, market share, sales volume, ...)?
- 6) What are the possible problems in the process?
  - What kinds of factors that should be considered?
8. *Do you advertise your product? If not, why?*
  - 1) What kinds of media are usually chosen? Why?
  - 2) What are the major contents that you want the consumers to learn through the ads (quality, technology, brand image, company image, price, home-made, ...)? Why?
  - 3) What are the procedures of decision making and implementation of advertising?
  - 4) How to assess the effectiveness of the ads? What are the bases?
9. *Is promotion employed?*
  - 1) Who designs the promotion, your company itself or specified company?
  - 2) What kind and how to do? What about the planning and implementation procedures?
  - 3) Under what situation and why so doing?
    - In initiative or in passivity?
    - What effectiveness is wanted (sales volume, profit, market share, capital turnover, ...)?
  - 4) How to assess the effectiveness (short-run or long-run, profit or sales volume, ...)?
10. *Distribution channel is an important resource of a company. What is the situation of your company's distribution channel?*
  - 1) How is the channel built up?
    - What are the major problems:
    - How to improve?
  - 2) What kind of channel is ideal (exclusive, selective, direct sales, ...)?
    - Why?
    - What's the benefit?
  - 3) Are there any conflicts among channel members?
    - What are the conflicts?
    - What are the causes?
    - How to resolve the problems?
    - How to control and coordinate?

- 4) How to bring positive factors to the channel members?
- 5) Do you offer any training to the distributors? Any other investment on the channel?

## 乡镇企业管理与营销访谈提纲

### 第一部份 关于对经营环境的看法

1、人们说现在企业比较难搞，企业外部环境是一个重要因素。您能不能谈谈对你们公司外部环境的看法。

1) 关于竞争问题

- 竞争对手有多少？
- 竞争格局的稳定性如何？
- 竞争激烈程度如何？
- 竞争的焦点主要是什么（价格、品牌，质量，技术，服务，人才等）？
- 您主要通过什么方法了解到这些信息？

2) 关于消费者

- 消费者对你们的产品有什么要求？
- 是否觉得消费者的口味变化很快？如何变化？
- 与什么因素有关（年龄，地区，职业，教育程度等）？
- 他们的要求对您有什么影响？是迎合还是引导？
- 主要通过什么方法了解到这些信息？

3) 关于政府影响和国家政策

- 政府及国家政策对您的企业有否影响？有哪些影响？
- 政策变化情况如何？
- 政策的透明度如何？
- 从什么渠道了解政策信息？
- 怎样研究政策并根据政策变化情况调整企业做法？
- 您的企业与地方政府的关系如何？
- 地方政府与企业的关系及影响如何？
- 如何与地方政府相处？
- 是否得到及如何得到地方政府的优惠政策支持？

4) 在行业方面

- 您对行业的前景怎么看？
- 哪些因素会对行业前景产生影响？
- 技术革命对本行业有什么影响？
- 对您的企业来说有什么遇？有什么威胁？
- 凭什么作出这样的判断？
- 您打算怎样应对？

5) 还有什么其它外部因素影响您的经营？怎么影响？

2、企业发展到今天的水平很不容易。回顾企业的创业史和发展过程我们会很大启发(需文字材料)。

1) 企业创办的起因及背景。

2) 是否经历过飞跃式的发展过程?

- 凭借什么机遇? 利用政策或是捕捉市场机会?
- 发现了什么人才?
- 开发了什么新产品?
- 合资合作?
- 或其它什么机遇?

3) 当时如何分析机遇?

- 怎样加以利用?
- 决策过程如何?
- 结果怎样?

4) 现在回顾起来最重要的机遇是什么?

- 为什么?
- 有什么值得总结的经验?

## 第二部份 关于竞争优势和经营战略

3、在这样的环境中发展,企业就要有自己的优势。如果我们把企业优势归结为技术、人才、资金、管理等几个方面,请您谈谈你们与竞争对手相比在这几个方面有哪些优势和劣势?

1) 在技术上是否领先?

- 领先优势是怎样取得的?
- 能否长期保持?
- 怎样保持? 如何防止技术流失?
- 如果落后如何改变?

2) 人才方面有无优势(哪方面人才较强? 管理, 技术, 营销, 工人)? 企业之间互相挖人吗?

3) 有无资金优势?

- 从何而来?
- 有哪些融资手段?
- 如何发挥资金优势?
- 资金缺乏的话会对企业有什么影响?
- 如何克服并改变资金劣势?

4) 有无管理优势?

- 体现在哪些方面(成本管理, 生产管理, 营销, 人员, 财务等)?
- 如何得到这些优势?
- 怎样向管理要效益?
- 怎样保持管理优势?
- 如果落后如何改变?

- 5) 其它方面？
- 4、作为一个企业家，您一定有自己的治厂之道和对企业的战略思考。
- 1) 您的经营理念是什么？
    - 企业将来会向什么方向发展？
    - 将来的业务会是什么？
    - 您这样的定位是出于什么考虑？
  - 2) 企业的经营目标是什么（规模、效益、发展速度、市场份额等）？
    - 这些目标之间的关系如何？
    - 最终目标是什么？
    - 制订这些目标的依据是什么？
  - 3) 要实现这些经营目标，在经营战略是做了哪些事情？还准备做哪些？
    - 这些事情与经营目标有什么关系？
  - 4) 为什么把这些事情作为经营战略的主要内容？
  - 5) 这一战略是怎样形成的？
    - 谁提出？为什么这么提？
    - 谁参与？谁拍板？
    - 有没有修改过？怎么修改的？
  - 6) 在经营战略的实施过程中有哪些阻力和挑战？
    - 来自何处？
    - 原因是什么？
    - 怎样克服？
  - 7) 怎样评价经营战略的实施结果？

### 第三部份 关于市场营销战略和战术

- 5、现在大家都在谈论市场营销，每个企业都有自己的理解。
- 1) 您认为市场营销包括哪些内容？
    - 营销对企业有什么作用？
  - 2) 营销和销售是否一回事？
    - 为什么？
    - 有什么区别？
    - 两这关系如何？
  - 3) 市场营销部门在企业里担任什么角色？
  - 4) 营销部门由哪位领导分管？
    - 他还分管哪些部门？

- 5) 营销部门与其它职能部门的关系如何?
  - 由谁协调?
- 6) 营销部门怎样与市场及外部机构打交道(消费者, 经销商, 政府, 媒体等)?
  - 如果发生顾客投诉, 投诉信息在公司内部怎样流动?
  - 谁负责解决? 怎样解决?
- 6、对企业来说一个好产品是很重要的。
  - 1) 您的主导产品是什么?
    - 为什么选择它作为主导产品(市场空缺, 竞争, 资源优势等, 主动或被动)?
    - 主导产品是否改变过?
    - 这样的改变对企业的影响如何?
  - 2) 与同类产品相比, 您的产品有哪些特点?
    - 怎样定位?
    - 档次、价位如何?
    - 最适合什么人, 在什么时候, 什么情况下使用?
    - 为什么这样定位?
  - 3) 该产品主要供应什么市场(国内, 省内, 当地)?
    - 重点销售地区在哪里?
    - 为什么(购买力, 消费习惯, 竞争, 地理文化因素等)?
  - 4) 主要销售对象是什么人? 为什么?
    - 此类顾客的特点是什么?
    - 他们对产品的要求是什么?
    - 他们对你们的产品有什么看法?
    - 对消费者的意见您怎么看?
  - 5) 这些关于产品的, 市场的及消费者的信息一般从什么渠道获得(市场调研, 政府部门, 行业信息, 媒体等)?
    - 您觉得这些信息的准确性如何?
    - 什么因素影响其准确性?
  - 6) 产品改造和开发是否有一定的程序?
    - 通常是谁提出想法? 这些想法从哪里来?
    - 谁参与决策?
    - 怎样实施?
  - 7) 对新产品有没有预期目标? 怎样设定目标?
  - 8) 怎样评价一项产品决策的效果?
    - 怎样比较预期目标和实际效果?
  - 9) 在产品开发方面有什么经验教训?
    - 为什么成功或失败?



7、有了好产品当然就要卖个好价钱。您怎么给您的产品定价？

1) 定价原则是什么（随行就市，成本加利润，高价，低价等）？为什么？

2) 这样低价的意图是什么（市场份额，利润，攻击对手，抵抗对手等）？

3) 低价依据是什么（成本较低，技术好，质量好等，为什么？）？

4) 低价程序如何

- 谁提议？
- 谁参与？
- 谁拍板？
- 怎样实施？

5) 怎样评价效果（利润，市场份额，销售额等）？

6) 定价过程中会遇到哪些问题？

- 有哪些因素要考虑？

8、您给您的产品做广告吗？（为什么不做？）

1) 一般用什么媒体？为什么？

2) 通过广告您主要希望消费者了解些什么信息（质量，技术，品牌知名度，公司 知名度，价格，国货精品等）？

3) 广告决策的制订和实施过程怎样？

4) 怎样评估广告效果？有什么标准？

9、你们是否也搞一些促销活动？

1) 自己做还是请人策划？

2) 做过哪些？怎么做的？策划与实施过程怎样？

3) 在什么情况下，为什么这么做？策划与实施过程怎样？

- 主动做还是不得不做？
- 希望达到什么什么效果（销售额，利润，市场份额，资金周转等）？

4) 怎样评价促销活动的效果（当期或长期，利润或销售）？

10、销售渠道是企业的一项重要资源。你们的销售渠道是什么现状？

1) 是如何建立的？

- 目前的主要问题是什么？
- 准备作哪些改进？

- 2) 什么样的渠道最理想（总经销，多头分销，直销等）？
  - 为什么？
  - 好处在哪里？
- 3) 和经销商之间是否有过矛盾？
  - 什么矛盾？
  - 矛盾起因是什么？
  - 如何解决？
  - 怎样控制和协调这些矛盾？
- 4) 如何调动经销商的积极性？
- 5) 是否对经销人员进行培训？有没有其它投资？