Chinese Trading Companies in the U.S.

OVERVIEW

Entering and marketing products in foreign markets is not only an important concern for companies from advanced nations, but also for companies from developing and less developed countries. Over the past two decades, companies from newly industrialized countries such as Korea, Taiwan, Brazil and Mexico, as well as companies from less developed nations such as China, have increased their presence in the global market through various market entry strategies.

By the end of 1993, there were more than 4,000 Chinese companies trading in Asia, Africa, Europe, South America, and North America. Behind this international marketing drive was China's economic reform and its goal of realizing the Four Modernizations in Agriculture, Industry, Defense, and Technology and Science by the year 2000. A recent study was conducted among 53 Chinese trading companies registered in the United States. Its purpose was to assess how Chinese companies perceive market environmental factors, their motivation for entering the U.S. market, their market entry strategies, their marketing strategies to approach current and potential U.S. customers, and their promotion strategies in the U.S. market.

Although still new in the U.S. market, Chinese export trading companies were generally optimistic about their sales performance. Over 56% of the Chinese companies saw their sales steadily rising, while about 35% of them indicated that their sales had been up and down over the past several years.

Most of the trading companies indicated that their primary objective was to increase exports from China. Over 50% of the surveyed Chinese companies stated that their second primary objective was to expand their current market. Only 13% indicated that knowing the U.S. market was one of their objectives. Obviously, the Chinese companies' motivation to enter foreign markets was driven by the national drive to increase its exports and expand China's presence in the global market place.

Promotion of Chinese Products

Various marketing strategies were adopted by Chinese trading companies in the U.S. to promote Chinese products. Over 80% considered calling on clients very important to promote their business operations in the U.S. The next often-mentioned activity was telephoning clients, which was considered important by over 60% of the companies. Other less favorable means of promotion included brochures, journal ads, trade shows, trade groups, and referrals. The least desirable means were newspaper, television, and radio ads.

Advertising Chinese Products. A majority of the Chinese trading companies conducted advertising through their parent companies in China, while less than a third of them let their U.S. importers and wholesalers handle advertisements for their products. Advertising managed by individual U.S. importers, retailers and wholesalers was minimal.

Customer Development. Most Chinese companies preferred to contact their potential customers through correspondence, and over half of the responding Chinese companies approached potential customers through their previously established client network. The Chinese Embassy and consulate generals were not considered favorable media for contacting potential customers. Other less favorable means of contacting potential customers were trade delegation visits, other Chinese companies, and friends.

EXAMPLES

In order to enter a market where they did not have any previous presence, the Chinese companies adopted direct exporting strategies in most cases. They sold directly to U.S. importers, and most of the time these importers were also wholesalers. About 50% of the companies said that they sold to U.S. import/wholesale companies, while over 37% of them said they dealt directly with U.S. importers, and wholesalers. One third of the Chinese companies sold directly to end users and other intermediaries. Some Chinese trading companies tended to use multiple approaches to sell Chinese products to U.S. buyers.

The Chinese companies considered the U.S. a very competitive market. Yet in this market, a majority of the trading companies (nearly 70%) considered other Chinese companies to be their major competitors—not U.S. companies or other foreign companies. This head-to-head competition among Chinese companies is basically the result of recent economic reforms and the decentralization of foreign trade in China.

Facing such competition in the U.S. market and more open market conditions in China, many Chinese trading companies in the U.S. started to expand their businesses to include wholesaling, retailing, commodity trading, real estate, consulting and tourism. Over 26% of the companies had already started their wholesale business, and about 25% of the respondents said they would do the same in the future. Thirteen per cent of the companies were also conducting commodity futures trading, and 11% were involved in real estate business in addition to their importing business.

IMPLEMENTATION

Market Entry Strategies

Making a right market entry decision is essential to a company's total marketing strategy. In general, there are four groups of strategies that can facilitate entering foreign markets: indirect exporting, direct exporting, direct investment in foreign markets, and contractual agreements. Each of these market entry strategies differs in terms of the company's financial and management commitments. Chinese companies operating in the U.S. have used all of the market entry strategies. Product type, the financial strength of the export company, political conditions at home and in the U.S. market, and market conditions in the U.S. dictate which methods are most appropriate. The basic methods apply to all firms wishing to enter foreign markets.

Indirect Exporting. This strategy requires the least amount of commitment from a company that would like to sell its products abroad. The company sells products to an intermediary such as an export trading company, or an export management company, or an export broker. Export intermediaries can either be paid a commission for their services, or they can take title and buy the product from the company at a discount and resell it in foreign markets. The advantage of this entry strategy is the ability to utilize already-existing international marketing and distribution networks and expertise without having to pay to set up a new department or company. Disadvantages include loss of control over product and the inability to expand marketing overseas later, since the company must build its own international marketing network from scratch.

Direct Exporting. A company can sell directly to a foreign end user, or it can locate a foreign representative to sell its product in that market. The advantage of exporting directly is that the company is close to the foreign market. It deals directly with foreign end users or its foreign representatives. Direct exporting requires more financial and management commitment from the exporting company. In return, this commitment offers the exporting company higher profit margins and tighter controls than does indirect exporting.

Foreign Direct Investment. Foreign direct investment, as a market entry strategy, requires a foreign company to set up an office, a subsidiary company, or a manufacturing facility in the local market. These can be joint or wholly-owned ventures. This strategy requires the most investment in money, management know-how, and technology.

Certain external reasons may require a foreign company to invest directly. The host country may restrict the inflow of foreign products by imposing quotas and tariffs, for example, or it may require a foreign company to include more local material content in its product. Foreign direct investment is riskier than other market entry strategies because of its high investment. However, such investment in foreign markets may bring the highest returns, and may give more control to the foreign investing company on a long term basis.

Contractual Agreements. Contractual agreements usually include licensing and franchising. Under this strategy, the licensor or franchisor may grant rights to a foreign firm (the licensee or franchisee) to produce or use its product in exchange for a fee or a percentage of the revenue. This arrangement gives the licensee or franchisee the right to use production processes or techniques, trademarks, patents, and copyrights in the host country. The advantages of contractual agreements are that they require no capital investment, and allow easy access to foreign markets. This type of market entry gives licensing or franchising companies the opportunity to make a profit with a minimum of risk and investment.

Marketing Environment—Host Country

Before launching any marketing activities in the overseas market, a company should seriously examine the marketing environments in both the foreign and domestic markets. The political, economic, social, and cultural characteristics of the foreign market can strongly influence a company's market entry strategies. A foreign country's political situation, for example, can determine which market entry strategy is appropriate for that country. The government in the host country may issue trade policies that encourage or discourage foreign companies from entering their domestic market for a variety of political reasons. For instance, the host country government may encourage foreign companies to engage in foreign direct investment, such as joint or sole ventures, instead of exporting. Foreign direct investment, of course, often brings more advanced technology and management know-how to host countries than does exporting.

Economic conditions in the host country can also determine a foreign company's market entry strategy. Inefficient economic infrastructure in tele-communications, transportation or energy in the host country may hinder a high tech company from engaging in foreign direct investment. Economic growth rates can provide encouraging or discouraging signs for foreign companies. High growth rates may indicate rapid economic development, encouraging foreign investments, while low growth rates may indicate slow economic progress.

Market competition is another aspect of the host country's market environment that can influence foreign companies. If the host market is dominated by a few firms or a single company, this may discourage small and mid-sized foreign firms because of the potentially large investment needed to compete with the dominant companies. In this case, a less sophisticated market entry strategy, such as licensing, may be preferable.

Another market environmental factor is the local marketing infrastructure, including local distributors or agents, advertising agents, and marketing research firms. If a qualified agent or distributor in the host country is not available, foreign companies may have to establish their own branch or subsidiary as a market entry.

In addition to the political and economic environments, social and cultural factors also influence a company's strategies for entering a foreign market. When social and cultural gaps exist between host and home country environments, it is important for managers to understand and appreciate the host country's cultural values, languages, social structure, and way of life. Understanding the host country's social and cultural environment aids foreign com-panies in achieving their long term objectives in their target country. In contrast, a lack of appreciation of these social and cultural differences may result in companies resorting to non-equity entry modes, such as indirect exporting. While this mode does not require a full commitment from the exporting company, it will also limit the company's opportunities in the host country.

Market Environment—Home Country

In analyzing the marketing environment, the home country's environment should also be examined in a way similar to that of the host country's. Environmental factors, such as political and economic situations in the home country, influence a company's choice of market entry in a foreign market. In general, during an economic downturn, governments are more likely to use taxes and other incentives to encourage companies to export. Governments may discourage imports from foreign companies via trade barriers or other means, to protect domestic interests.

A clear understanding of the market environment in both the target market and home market country places the company in a better position to decide on the best market entry strategy for its target foreign market.

Example: Environmental Influences

Research shows that Chinese trading companies consider the Chinese domestic market environment a very important influence on their marketing strategies in the U.S., while discounting the importance of the U.S. market environment. Fourteen major environmental factors in China were identified as greatly influencing the success of trading companies abroad. The most impor-tant was the quality of Chinese export products, as measured by product durability, product design/style, product coloring, and material content.

Other important environmental factors included Chinese foreign trade policies, a stable supply of Chinese export products, Chinese domestic economic conditions, the competitiveness of Chinese products, the Chinese domestic market infrastructure, political conditions, the domestic market in competition with the Chinese export market, Chinese domestic production capacity and their flexibility, and the bureaucratic procedures and/or complication of business practices in China.

Although the Chinese companies considered the U.S. market environment less important, nearly 70% identified ten variables as influencing their U.S. business operations. U.S. trade tariffs and non-tariffs, competition in the U.S. market, and market demands in the U.S. were considered to be the most influential environmental factors.

On the other hand, the U.S. social and cultural factors received the lowest rating; 26% rated these as very unimportant. Such a low rating may indicate that the Chinese companies lacked understanding and appreciation of the social and cultural background of the U.S. market.

CONCLUSION

Chinese trading companies in the U.S. conducted limited marketing activities due to the environmental influences of both China and the U.S., but particularly of China. Their market entry and marketing strategies in the U.S. were confined to a number of forms, mainly direct exporting through Chinese trading companies. They were also limited in their ability to conduct extensive marketing activities, as shown by the following:

1. Chinese trading companies had limited manpower to conduct extensive marketing activities for the products or domestic companies they represented.

2. Company budgets for marketing activities were minimal, and some did not even have a budget for marketing activities such as sales promotion, or advertising.

3. Because of the separation of production and marketing functions in the current Chinese economic structure, trading companies in the U.S. had little initiative to engage in any extensive marketing activity.

4. Since the Chinese trading companies in the U.S. are subsidiaries of Chinese national trade corporations, they tend to rely on their parent companies to provide campaign support, such as

running advertising in Chinese owned journals or newspapers distributed overseas. The effectiveness of these campaigns is hard to determine.

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