



Doing it Again, for the First Time: “Continuous Market Entry” in China

For most foreign companies establishing a business in China, the phrase “China market entry” is a one-time process of market assessment, strategy planning and corporate structuring. Once the business license is issued, there is a palpable sense of relief among the management team – “Whew, market entry is done,” they say, maybe hoisting a few congratulatory pints between them, “Now bring in the implementation team to get things going!” However, those that have been here for awhile understand that “China market entry” is not a one-time thing and that successful companies – i.e. those that are making money here – are continuously revisiting and refreshing their market penetration strategies.

In a similar way, a manufacturing theory that originated in Japan called “Kaizen” – roughly translated into English as “continuous improvement” – advocates that quality improvement is not a one-time thing: do it once and you’re done. Rather, quality should be a constant concern for everyone in the manufacturing environment and companies should always be evaluating how they make their products and how they can improve them.

In this article, I will review a related concept in the market strategy area that I will call “continuous market entry”, an attitude and a process whereby companies approach their on-going China market assessment and strategy planning as if they are facing it for the very first time. This approach is especially important for companies that have been in China for awhile, typically 5-10 years (or even more). Our market strategy consulting firm has been on-the-ground in China since the mid-80s and helped many of these companies on their first market entry. We are now working with many of them to “re-enter” China by taking a fresh look at today’s market conditions and then crafting an appropriate response.

Continuous Market Entry: “Re-asking” Questions

Going “back to the beginning” is nothing new. Sports professionals talk about maintaining

their love for the game by remembering what it was like to play as children on the playground. Therapists recommend couples to find ways to keep their relationship fresh by imagining that they had just met. Buildings are renovated, torn down to the foundation and rebuilt, as if new.

For those who have been here for some time, it is difficult to go back to the beginning because we cannot help but look at China through the lens of the lessons we have learned from the past, through our successes and failures. Most of us would not want to return to the naïve attitudes we had when we first came to China: how easy we thought it would be, how smart we thought we were ourselves. No, many foreigners here “walk with a limp” and we would not trade our battle scars for anything.

So when I talk about continuous market entry, I am by no means advocating naïveté and downright stupidity (there is already too much of that here among foreign companies entering China!). What I am encouraging us all to return to is the exploration of the many questions we had about the China market and how we could be successful when we first came here. Deep down, we knew that we didn’t know much, and we were hungry for information and any bit of insight that could give us a leg-up in our market entry. It is this non-stop asking of questions that lies at the heart of continuous market entry.

There are three categories of questions that I would like to briefly address below: questions about market demand, distribution chains and competitors.

Market Demand: Who is my Customer?

One of the first questions anyone asks when getting into a new market is, logically, “who will buy my product?” A simple question, no? Well, no...at least not in China! Identifying, with any level of precision, who in China would buy your product and what product features, functions and pricing would satisfy was very difficult in the “old days.” Getting access to potential buyers

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By Kent D. Kedl.

was difficult: travel was hard, phones didn't work, we didn't have the Internet or email. Secondary data, when available, was very thin and was too loaded with political overtones to be very accurate.

However, many early foreign entrants showed up with their products and – wonder of wonders – they sold some. Sometimes they sold a lot! Slowly but surely, the foreign companies that survived developed a customer base that kept them in business. The smarter ones moderated their expectations, following a fortune cookie I once read: “Set your goals low and you will always attain them.”

But many of these companies became satisfied and somewhat complacent with their success, even moderate success. Slowly, they stopped asking themselves the questions that got them there: Who is my customer? What do they want? What else can I provide them? They slid comfortably into defining their China market as “the segment in which I am successful” rather than “all the segments I could possibly address.”

In recent years, segmentation of many markets in China has become much more complex and fragmented. Take the automotive market: there used to be only a few kinds of cars to choose from with very few private buyers. There are now well over 100 brands of cars in China with hundreds of models to choose from in a dizzying array of quality, price and performance tiers, all being purchased by private owners. If you are selling into this market now, you had better understand, in detail, what your opportunities are in each segment, for each kind of buyer.

All foreign companies – and particularly those that have been here awhile – need to understand the details of their market segmentation and to identify, clearly, which segments they should pursue and which they should leave alone. For the latter, this is not easy. A client of ours in consumer products with over 10 years in China is currently going through a ground-up market assessment,

looking at the market as if they were not yet here. Our early strategy meetings were full of statements that started with “based on our experience...” or “we know that...”. They have now moved into a stage of asking questions of the market and exploring ways of looking at it that they have never done before. The deep market probes we are doing among customers, distributors and competitors are guided by these questions and we are looking at how our client's products are used in the market, not how our client sells them. This, in turn, has led to new ways of segmenting (and selling to) the market that is resulting in some real growth.

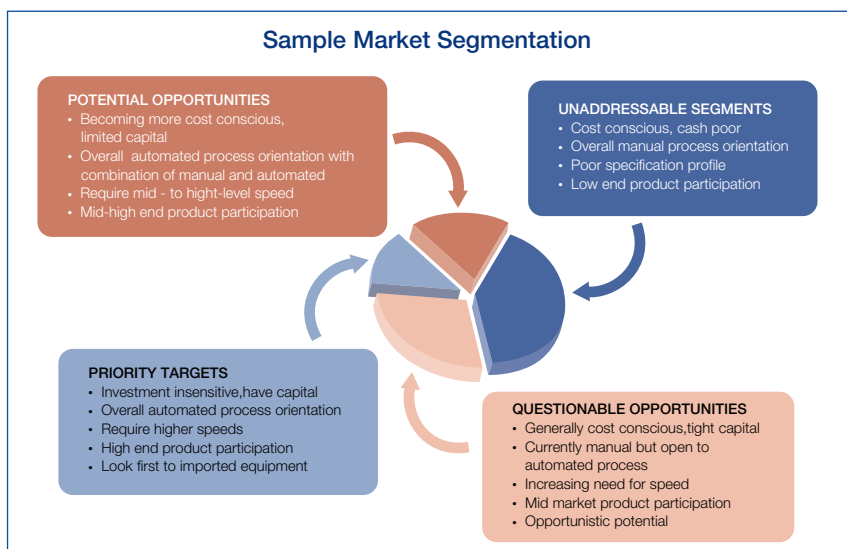
**Distribution:
 Finding New Routes to Market**

Not only have veteran foreign companies in China lost touch with their customer segments, but they often miss key distribution routes to those customers. It is logical to think that if my customer is “A” then the way to reach them is “B”. However, as markets have changed and segmented, so have routes to those markets and it is healthy to continuously review one's distribution strategies.

A client of ours brought a product in over 12 years ago and used some Hong Kong distributors to do so. At that time, the Hong Kong distributors knew the market as well as anyone and besides, there simply were not any “local” distributors. In fact, many foreigners at that time did not differentiate between those from Hong Kong and those from the Mainland, naively calling them all “Chinese”.

Depending on the industry and channel, there are now many local distributors that are quite mature. They know their markets, they often know technology, and they certainly know how to sell to local buyers. In the case of our client, their Hong Kong distributors are now actually losing deals to local distributors because the local buyers consider those from Hong Kong to be “foreigners” who don't understand local markets. I am in no way saying that all Hong Kong distributors are a bad idea in China today – but I am saying that what was appropriate several years ago may not be appropriate today.

Companies pursuing continuous market entry are re-mapping distribution channels at the same time they are re-segmenting their markets, all the while trying not to be biased by the distribution channels they worked so hard to establish already. It is not an easy thing to do, but they are critically analysing the “reach” of their present distribution and are assessing whether or not it is as broad or deep as is required. We have done many projects over the past year to objectively map just how far a foreign company's distribution reached. In all cases, we found that penetration was not as great as the distributor was telling our client nor was it often even in the right channel. These discoveries didn't necessarily

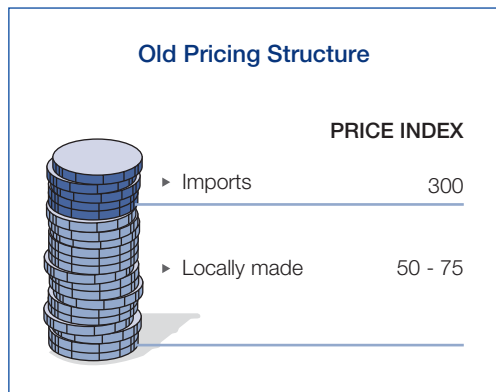




lead to our clients replacing distribution; rather, they were able to add partners to get into areas they had no access to. Only an attitude of continuous market entry led them to such conclusions.

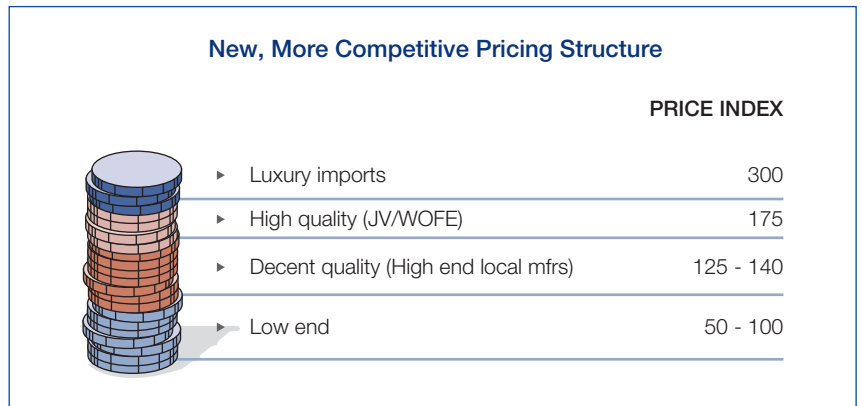
**Competition:
New Players in New Segments**

When many of the “old-timers” came into China, they were some of the first foreign companies entering the market and their ability to differentiate themselves was relatively easy. Price and quality differences were very apparent: the quality and price of the foreign product was very high and the Chinese competitive products were, if they existed at all, typically low price and low quality. It was often easy for foreign companies to charge a premium of several hundred percent because a certain portion of the market was looking for quality and was willing to pay for it. If a foreign company was bringing a product or a technology to the market that had never been seen before, they found buyers (often other foreign companies) willing to pay anything for it. Ask them who their competition was, they would say “no one”...and they were basically right.



A client of ours was in this situation. The capital equipment they brought into China was brand new in the market; there was nothing like it here. Our client considered it “world class” quality – and indeed, they lead most of the rest of the global market in this product category. Their immediate market entry was very successful. There was a small part of the market that would pay any price and our client was always pushing their manufacturing capacity to supply their customers.

However, as the market matured, two things happened: first, more buyers came online who began to see the use of this particular product and thought it would be helpful. However, these buyers were not rich foreign companies but were often privatizing local companies who were looking for “China quality”, not “World Class quality”. Secondly, more competitors – many of them local Chinese companies – rose up to supply these segments with that “China quality” equipment, leaving our client in its own “World Class” bubble.



Recently, our client has been looking at the China market with a fresh perspective and is realizing that the market has not grown beyond them, but has grown up below them. They still have sales in the premium segment of the market, but the sweet spot of the market has shifted to the middle range and competition there is quite fierce. Our client has been going back to find out how their competition is serving this market and how our client can begin to compete. We have had to work together to eliminate the phrase “we have never done it that way before” and still have some distance to go; however, waking up to a market rife with strong competition has changed the way our client is looking at the market and planning their future strategies. Our client no longer claims they have no competition in China!

Conclusion

I certainly do not want to give the impression that a continuous market entry perspective is easy nor is it a cure-all for what presently ails stagnant foreign companies in China. However, for many of us who have been in China awhile, we are victims of our own success, even if success is defined as “still standing.” We have found that returning to the fundamental questions about customers, distribution chains and competition really does begin to help break us out of old ways of thinking.

For those newly arrived in China, I would like to encourage you to start now your process of continuous market entry. For the moment, hide your business plan and the feasibility study you used to get your business license. Get your key sales and marketing staff in a room and ask each other the tough questions about customers, routes-to-market and competition and press yourselves to answer them (or at least establish a plan to come up with the answers to them).

If China has taught us one thing in the past decade, it is that this country and its markets will not stop changing, growing and adjusting to global conditions. The successful foreign company in China will adopt a similar attitude knowing that when they stop entering the market for the first time, it will be their last time. ❄

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