Title: Marketing Practices of Chinese Township Enterprises

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Abstract

Title: Marketing Practices of Chinese Township Enterprises

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Aim: The aim is to explore the Chinese way of marketing activities in township enterprises by linking the formation and implementation of marketing strategies and tactics with the impacts of environmental factors and contextual conditions. Specifically, the aims are:

- Identify the managers’ perceptions of their marketing environments;
- Explore how their perceptions of the environments shape the formation and implementation of the marketing strategies and tactics;
- Explore how social cultural values influence the marketing activities at these enterprises,

Method: Fieldwork was conducted in the summer 2007, at three enterprises in Fujian province in southern China. In depth case analysis was employed in this study. Interview guides, designed to learn their experience through their own words were used.

Result and Conclusion: The research reveals that unique Chinese social and cultural values are deeply ingrained in the three township enterprises’ marketing practices. It also reveals that a competitor centred orientation, competitive advantages based on low cost labour and marketing expansion, and an innovative imitation strategy are some of the characteristics of marketing practices.

Suggestions for future research: One of the disadvantages of a case-based approach is that it may be difficult to achieve generalizability. This research is also limited as it is focused on the three enterprises whose products all fell into consumer goods. Future research could also combine both qualitative and quantitative aspects. Such as looking at data on profits, return on assets and revenue we could also look to see the correlation between performance and market orientation of these types of enterprises.

Contribution of the thesis: This research provides a reference frame for township enterprises 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 township enterprises with whom they are competing or will compete in the Chinese market.

Key words: marketing strategy, competition, China, guanxi, rural enterprises, township,
I would like to begin by thanking all the participants who took part in this study. Despite the fact that I was an industry outsider they showed me great patience and candour.

Special thanks also go to my supervisor: Dr. Maria Fregidou – Malama and my thesis opponent Anneli Fors, both of whom gave me valuable advice.

Finally, I reserve my greatest appreciation for my wife, who has been giving me her utmost support and encouragement during the writing of this paper as well as over the entire course of the HIG study program.
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1. Introduction

1.1 Background on Chinese Township Enterprises

The rapid growth of Chinese Township Enterprise (TE) represents perhaps the most significant changes as a result of China’s economy reform. TEs are rural enterprises that are created collectively by farmers and engage in non-agricultural industries within their community. (Wang, 1998). In 1988, the number of TEs in China was 2.5 million, with the number of employees of 28 million, while by 2004 the corresponding figures had soared to 32 million, 210 million respectively (Rural Statistic Yearbook 2004)

TEs 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. According to the Rural Statistical Yearbook of China, the output of TEs account for approximately 25% of the country’s GDP (Gross Domestic Product) in 2004.

The rapid growth of TEs has received increasing academic attention in recent years. Some scholars study TEs’ business strategies from managerial perspective (Tan and Li 1996). While emphasizing the relationships between environments and business strategies, they didn’t take marketing into their consideration. Others focused on TEs’ market orientation and their marketing practices (Zhou 2000, Zhang 2000). In these studies, however, the impact of environmental related factors on marketing activities were not adequately addressed.

Furthermore, what is absent in the previous research on TEs is the social cultural context in which TEs operate. Any marketing activities reflect complex environment and embody certain social and cultural values. It may well be the case that Chinese TEs 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).

Like other transitional 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 Enterprises (TEs), as the dominant power in the Chinese collectively owned businesses, have played an important role in the Chinese economy.

“Township Enterprise” (TEs) 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 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 townships governments were restored as the successors of the
administrative functions and the assets of the People’s Communes. Township Enterprises were officially admitted and the development of TEs was encouraged by the central government.

TEs’ 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 TEs’ communal nature is characterized by its collectiveness, and localness. Collectives means that TEs, 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 TEs, especially Township Enterprises, are actually owned by community governments; community government 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 TE’s daily operation. The leader of a TE often plays dual roles both as a boss and as the head of a family. Family-like styles helps TEs 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” 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 the local TE and asked to sign managerial contracts. Community members usually have full and strong confidence in him/her, and he/she, in turn, often shows a high sense of responsibility and honour to community members (Chen, 2000).

1.2 Research Aim & Objectives

Although the rapid growth of TEs has received increasing academic attention in recent years, little research has been done to related TE managers’ perceptions of marketing environments with marketing activities in TEs and to understand the relationship between the perceptions and the environments from a social cultural perspective. Therefore objective of this study is to explore the Chinese way of marketing activities in TEs by linking the formation and implementation of their marketing strategies and tactics with the impacts of environmental factors and contextual conditions.

The objective of this study is to explore the Chinese way of marketing activities in TEs 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 firm’s 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 Bedungadi, 1994). Managers’ perceptions of environmental factors, in turn, shape the corresponding strategies and tactics in response to the market place. 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 TEs’ ways of marketing by identifying managers’ perceptions of the environments underlain by the Chinese socio-cultural values. Specifically, the objectives of the 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 social cultural values influence the managers’ perceptions of the environments and thus the formation and implementation of the marketing strategies and tactics.

1.3 Importance 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 difference 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 TEs 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 TEs’ marketing practices. Marketing tools are often moderated by conscious preference of such values. It also reveals that a competitor centred orientation, competitive advantages based on low cost labour and marketing expansion, and an innovative imitation strategy are some of the characteristics of marketing practices in China’s TEs. With the Chinese market evolving rapidly, it may be necessary for TEs 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 TEs in some product categories, and the competition between multinational companies and TEs will only intensify in the near future. Better understanding of TEs’ marketing practices will help global marketers to be better prepared for the competition in the Chinese market.

1.4 Limitations of Research

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 are 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".

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 TEs whose products all fell into consumer goods. More importantly, most of the Chinese TEs are operating in the same socio-cultural context analysed in this research. Thus what can be expected is that, to some extent, the research results should be generalizable as it does suggest explanations for why other Chinese TEs are likely to be, or not to be, involved in similar marketing circumstances.
2. THEORETICAL DISCUSSIONS

Although the rapid growth of TEs has received increasing academic attention in recent years, little research has been done to related TE managers’ perceptions of marketing environments with marketing activities in TEs and to understand the relationship between the perceptions and the environments from a social cultural perspective. To do so, an extensive review of relevant literature was conducted, which led me to the following conceptual framework. This framework was then used as a guide for in depth case analysis.

2.1 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. His perceptions, in turn, direct the formation of the business strategy from which the marketing strategy is derived and the marketing tactics are implemented.

Dess and Beard’s (1984) categorization of environmental dimensions to categorize perceived environmental factors into munificence, dynamism, and complexity. Pelham’s (1999) notion of subdivisions of the three dimensions is adopted in the conceptual framework to segment these broader contracts 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. Subdivisions of complexity include product differentiation and customer diversification. Considering both the specific conditions of TEs and the scope of this research. The influence of government involvement is added into the subdivisions of munificence, while profitability is not considered in this study because of the lack of available data.

An important consideration for me in adding or deleting certain items in the subdivisions of the environmental dimensions is that the specific Chinese social cultural context in which TEs operate manifests itself much differently than that of Western societies. Marketing theory cannot be applied universally without taking context into account (Anderson, 1999). Many distinctive features of the so-called Chinese style of marketing in TEs may be traced from traditional Chinese social and cultural values. It is indeed this very context that serves as the atmosphere for the 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 social 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 social cultural context that has been documented in the
literature is highlighted. Finally, the previous research on TEs with regards to the environment strategy relationship and marketing activities are discussed.

2.2 Environmental Factors

Firms and their activities 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 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 turbulences, market growth, profitability, and competitive intensity, and product and customer differentiation. In the TEs 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 firms 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.

In the TEs context, market growth, competitive intensity, and government involvement may be among the most important subdivisions of environmental munificence. Due to hard budget constraints, TEs are forced to follow the rules of the market to a greater degree than state owned firms. 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 TEs’ strategic actions. From a competitive strategy perspective, TEs 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 TEs 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. Relatively high government involvement becomes an important external resource that is sometimes crucial for TEs’s growth.

Dynamism can be conceptualised as the rate of change and the degree of instability of the environment. 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 dimensions in his empirical research on environment strategy performance relations in TEs. 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, TEs 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 of industry and markets 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 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 TEs were highly innovative and proactive in responding to complex environments. In our research, Pelham’s (1999) notion is adopted to measure environmental complexity.

### 2.3 Business strategy and Marketing Strategy

Strategy exists at multiple levels in a firm: corporate, business, and functional. Corporate strategy specifies the business areas in which the firm will compete, the choice of business to be in. Due to the fact that an overwhelming majority of TEs are small business and engage in single business, corporate strategy is thus irrelevant to the topic of TEs and is excluded from the discussion presented below. Business strategy specifies how a particular business in 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 domain. 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 change 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 refers to the specific relationships, offering, timing and patterns of resources deployment planned by a business in its quest for competitive advantage (eg, generic strategy of cost leadership versus differentiation). Strategy formulation process (how one arrives at the strategy content (eg, 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 (eg, organizational
structure, coordination mechanisms, control systems) (Varadarajan and Jayachandran, 1999)

Business strategy making is the firm’s 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 imbedded 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 determinations 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 (Varadarajan and Jayachandran, 1999).

Varadarajan and Jayachandra (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.

2.4 Market Reality vs. Manager’s Perception

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?

The implicit assumption 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 relational and well informed information processors with their conceptual framework,

3- there is consensus among managers of a business on the nature of the market and relative competitive position. 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 favour 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 Nedungdi, 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 organization can take action, is a crucial component of managerial behaviour in rapidly changing environments.

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.

In summary, a firm’s strategy is influenced by those environmental factors that are selectively noticed and interpreted by the managers. In other words, it is a manager’s perception of the environment that is 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 in the most constraining uncontrollable variables in firms’ marketing environments, 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.

### 2.5 The Chinese Social and 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 behaviour, organizational behaviour and salesman activity, and marketing strategy formulation (Redding, 1982).

It has long been recognized that maintaining personal relationships, or *guanxi*, is one of the major dynamics in Chinese society. 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.

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. As Chinese, we 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. “Face”, or “*mianzhi*” 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 theirs’ 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.

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.

2.6 Relevant Research in Strategic and Marketing in TEs

TEs, with their distinctive features and important role in the Chinese economy have aroused increasing academic interest in recent years.

Tan and Li (1996) found that Chinese Townships and Village Enterprises in Northern China (Beijing and Tianjin) tend to be hybrids between the proactive and defensive modes in responding to the external environment. As Tan and Li acknowledged in conclusion, their finding could probably not the generalized to other regions, particularly Southern China where TEs 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 TEs in Northern China, Luo (1999) conducted his empirical study on environment strategy performance relations in TEs in Southern China. His research data was collected through a survey of TE managers in Jiangsu area. It was found that environmental characteristics such as complexity, dynamism, and hostility influenced TE managers’ perceptions of environmental uncertainty and potentiality, which in turn affected the firm’s strategic orientations such as innovation, risk taking, and proactive. It was also found that a TE’s innovation and proactive 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 finding suggested that small TEs 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 showed that with their market orientation TEs were adept at responding to environments and they skilfully 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 TEs’ marketing activities was not adequately addressed and the relationship between environment and marketing strategy in the TEs remained untapped.

Although evidence has been found in previous research that TEs have developed a marketing strategy and tactics all their own, few studies have revealed the rationale behind Chinese style marketing activities. A lack of sight into environmental impacts and the social cultural context in which TEs are embedded has been a major impediment to the advancement of the research on marketing in TEs. I 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 TEs’ marketing strategy and tactics with environmental impact and social cultural context.
3. METHODOLOGY & DATA COLLECTION

3.1 Using the Case Study Approach

This research is exploratory in nature. A case based approach is used to explore Chinese ways of marketing in TEs in the specific social cultural context. Marketing theory cannot be applied universally without taking context into account. Clearly, this context is distinctive and complicated. First, the TEs 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 subject, permitting the researcher to effectively understand how it operates or functions. A case study approach requires the researcher to get close to the respondent in order to develop a picture of his learning and values. Several data collection techniques, including semi structured interviews and participant observation, were employed in this research. The interview guides used were designed to learn of their experiences through their own words. 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, I cannot count or measure it, the best I could do is to judge its impact. 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?”.

3.2 Research Approach

An in depth case analysis was employed in this study. This approach allows me to reach below the surface to explore the managers’ perception and the marketing practices in TEs. Different data collection techniques, including in depth interviews and participant observations, were used. Though time consuming and demanding, I have found these techniques do provide detailed and in-depth 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 townships near my home town of Xiamen city, in the southern Chinese province of Fujian. In 2004, industrial output produced by TEs accounted for 31% of the province’s total, contributed by all types of enterprises (Fujian Township Enterprises Yearbook, 2005).

In this study, three TEs in Fujian Province, namely: CHIN LONG Food, XING TIAN Garment, and JIAN LIAN Food, were investigated and analysed with an average of 2 working days spent in field investigation for each. All these three TEs were created in the 1980s with very little investment. CHIN LONG Food is now engaging in manufacturing instant noodle products. Located in a small township with about 1500 employees, XING TIAN Garment manufactures its garment products for both domestic
and international markets. JIAN LIAN Food has been one of the major competitors in the Chinese candied and preserved fruit market. In depth interviews of the general managers and the marketing sales department managers in each of the selected TEs were conducted and participant observations were carried out in their staff offices, production workshops, and factory sales outlets.

3.3 Data Collection

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.

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. At the design stage of this research, prior work in locating appropriate guides was deliberately carried out.

In this particular case, I gain the majority of the contacts used for this study through my cousin who works as a journalist for the local newspaper in the city of Xiamen. Due to the nature of her job, she is well connected with the region's business leaders at both the city and township level. These relationships were effectively employed and they proved to be extremely helpful in the fieldwork of this research.

The actual field interviews and participant observations were conducted during my vocation back in Fujian, China in spring and later in the summer of 2007. It is understood that when case studies are properly undertaken, they should not only reflect the specific organizations, but generally represent similar organizations. In this case, although the companies examined come from vastly different industries, there are similarities in their approach to marketing, competition that is representative of modern Chinese companies.

A List of the Enterprises Approached in This Research

<table>
<thead>
<tr>
<th>Company</th>
<th>Industry</th>
<th>Location</th>
<th>Access Approach</th>
<th>Status in this Research</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chin Long Food</td>
<td>Food Processing</td>
<td>Huayin County</td>
<td>Guide Used</td>
<td>Analyzed</td>
</tr>
<tr>
<td>Xing Tian Garment</td>
<td>Garment</td>
<td>Taizhou County</td>
<td>Guide Used</td>
<td>Analyzed</td>
</tr>
<tr>
<td>Jian Lian Food</td>
<td>Food</td>
<td>Huayin County</td>
<td>Guide Used</td>
<td>Analyzed</td>
</tr>
<tr>
<td>Leap Ltd</td>
<td>Sporting Goods</td>
<td>Taizhou County</td>
<td>Guide Used</td>
<td>Visited, however incomplete information were provided</td>
</tr>
<tr>
<td>Uni-Plast, Ltd</td>
<td>Plastics</td>
<td>Long Yan County</td>
<td>Phone call</td>
<td>Refused to participate in research</td>
</tr>
<tr>
<td>JJ, Garment</td>
<td>Garment</td>
<td>Long Yan</td>
<td>Guide Used</td>
<td>Refused to</td>
</tr>
</tbody>
</table>
A total of six enterprises from around Xiamen, Fujian province were contacted. While two of them refused invitation to participate. Another was visited but was excluded from analysis because of incomplete information provided as only brief interviews were agreed upon. The remaining three TVEs were investigated. They kindly provided as much information as they could. I was given privileges so that interviews and observations could be conducted as needed. An average of 2.5 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. 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. Using the participant observation technique, I was able to observe the naturally unfolding worlds of the informants under study. This includes those times when several parties in the field came together to spontaneously hold a conversation and discussions. 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 enhanced other research data. Before field interviews were conducted, a number of open-ended questions were predetermined. (Appendix: Interview Guide)

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. 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 TEs. In the course of the interviews, the questions were asked in a systematic order, but interviews 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 one to two hours. Observations were carried out in all the staff offices of in their head offices and some branch offices of the three TEs, as well as their workshops. Interviews were carried in relaxed and friendly atmosphere, I was often told stories of situations in the salespersons' or marketers' daily business lives.

3.4 Data Analysis

Data analysis occurred simultaneously with data collection. Immediately following each interview, I critically reflected and elaborated in my reflective journal on what was said to allow insights to emerge while the data was still fresh. In the cases when the interview was tape recorded, I transcribed the interviews myself so that, I became immersed in the data. Beginning with the very first interview, I searched for themes or topics within the words of the interviewees. This enabled me to revise my semi-structured questions early on in the data collection process when needed.
"Data interpretation and analysis involve making sense out of what people have said, looking for patterns, putting together what is said in one place with what is said in another place, and integrating what different people have said" (Patton, 2002, p.380).

The data were analyzed using the constant comparative method which involves:

(a) studying the interview transcripts in order to generate tentative categories and coding into the various categories;
(b) integrating categories and their properties;
(c) reducing categories into fewer categories; and
(d) writing the researcher’s interpretation of the data.

I analysed transcripts of the interviews by looking for key themes and making notes in the margins to identify these themes. Then, I looked for common threads among the coded themes and integrated them into categories. These themes are discussed in detail under chapter 5: Analysis and Discussions.
4. EMPIRICAL STUDY

4.1 Chin Long FOOD CO., LTD.

4.1.1 The Company Profile

Originating in a small flour mill, Chin Long Food Co. Ltd. is a TE 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.

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 an initial investment of about RMB 450,000. At that time, the Chinese government promoted a policy to encourage the development of TEs 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 TEs was Limited. "All we could do was to maintain the operation" (Mr. Wang).

In the next two years the Vietnam market saved Chin Long Food when frontier barter trade between China and Vietnam 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 Chin Long Food's business spanned the Sino-Vietnamese frontier, its sales volume tripled compared with that in the year before, reaching near RMB 15 million. 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. Chin Long 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 cross border trade" (Mr. Wang).

Fortunately the domestic market recovered and showed potential in 1992. Chin Long 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 cross border trade. From then on, Chin Long Food has been concentrating on the domestic market. In 1996, the sales volume of Chin Long brand instant noodle reached a new record of about RMB 6 million.

4.1.2 Pricing, Product and Competition

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 intense competition, companies in the third category struggle in a
tough situation; enlarging the production capacity thus enabling economies of 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 challengers very well. 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 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 pioneer 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.

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 25 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 competition and to play as a market leader in the whole industry. Instead, they set up examples for those domestic companies to imitate and follow. Also, their miracles of success in the Chinese market - in a short time rom not too high starting points - greatly encouraged Chin Long Food as well as other domestic producers. "When Mr. Kang entered the mainland market, it was a very small company in Taiwan. Its huge success has testified to the high potential of instant noodle industry." (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 war field.

"There are limited types of flavours such as beef, pork, chicken, seafood, and vegetarian flavours, and every producer offers almost all the types of flavours, almost no difference 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 one with the best value." 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 all 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 with anything new. It really had better results than the old ones 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 labelled 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 costs became higher. But it was worth it because we got an increase of nearly 2 million in sales."

Recognizing its second-class company position, Chin Long 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 selling points 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 would not reach our short term goals." 

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. We position our products as low price with medium quality. Our target consumers are those in the rural areas and our goal is to maintain our leading position in this niche." (Mr. Wang)

Inconsistent with the notion in classic marketing theory that positioning should be done in the mind of the prospects, Chin Long 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 Chin Long Food to "beat the competitors with our diligence, but not the excellence of our product or our cleverness."

4.1.3 Developing New Market Potential

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 very intense. 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 as not worth the effort."

Chin Long 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 Chin Long Food possessed didn't allow them to compete head to head with those larger rivals. But what they owned was a strong entrepreneunal 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 managed to 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. Chin Long 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 customers but not the one that can solicit them. " (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 customer, Chin Long. 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 RMB is enough to fully brush your ads on the wall. So sometimes two or three thousand RMB can make your ads seen everywhere in that township."

On the walls and all over the villages, Chin Long 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 contest.

Stories of the sales promotion employed by Chin Long 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 colourful 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 play thing 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, Chin Long 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. Chin Long 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 neighbourhood 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. Chin Long Food developed its distribution channel there and the channel became one of their salient advantages versus competition. What they did was to contact 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 county fairs that are important daily necessities markets for farmers. In the first one or two months, promotion is necessary. Customers can collect three empty bags for one free (buy 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 neighbour" has long been one of the features of Chinese farmers' behaviours, 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 retailer like to follow bigger ones and downtown stores in the township are usually examples for neighbourhood 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", Chin Long Food developed its distribution channel efficiently.

4.1.4 Guanxi – Relationship Marketing

For many companies in China, government influence is often considered crucial, either favourable or unfavourable. 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 labourers are working in the factory and we provide revenues for the township. Naturally the township government always does its best to satisfy our company what it can do, such as financial credit guarantee, land use, and employment. …It provides protection for us when the central economic policies are unfavourable to TEs"

There are obvious mutual interests between Chin Long Food and the township government. Chin Long Food is owned by all the member of the township communities collectively in name, but by the township government in reality. The initial objectives for the community government to create Chin Long Food were profit maximization, output
maximization, employee income maximization, and community benefit maximization. That is, Chin Long Food performs certain functions for the community government. While Chin Long 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 Chin Long Food greatly in securing production factors such as land and working labourers, accessing infrastructure, arranging marketing channels, and taking advantages of central government policies. Analysing the company's history, I cam to important evidence that manifests the great, sometimes determinant, influence of the assistance from the community government on the business activities of Chin Long Food. On one hand, the township government has lent a hand to Chin Long Food in its marketing activities. In the Russian market, for instance, the township government played an agent's role, assisting Chin Long Food to local clients and to withdraw money. In addition, the credit guarantee from the township government made it possible for Chin Long 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 Chin Long Food brought by the cyclical fluctuations of central economic policies. In China, governmental economic polices 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 TEs. When the government emphasizes economic growth, a very loose money market will be encouraged and TEs always show much better performances by their more market-oriented characteristic. When the Chinese economy is too "hot", which has been the case, TEs' grow with a high rate and the money market will be constrained. In this case, TEs 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 favourable central government policies and minimized that of unfavourable ones to Chin Long Food in terms of fund raising.

4.1.5 Summary

Chin Long 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 Chin Long 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 Chin Long 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. My findings support Dess, Lumpn, 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 Chin Long Food's success. Entrepreneurship encouraged Chin Long Food to have a high sensitivity towards the market and adaptability to competition that is shared by many Chinese TEs.

The intensified competition had crucial influence on Chin Long Food management's perceptions to the environment. It focused on its competitors. The two salient features of a competitive market are customers and competition (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, Chin Long 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, customers 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, Chin Long 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.

4.2 XING TIAN GARMENT CO.

4.2.1 The Company Profile

Located in a small township with about 300 employees, XING TIAN Garment now manufactures garment products for both domestic and international markets. Its main product is an XING TIAN brand suit. In 2005, its sales volume reached Chinese RMB 17M.

Mr. Yang, now the General Manager of XING TIAN 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 woollen mill. With six sewing machines and an old building provided by the local township government, the small factory started its business. They had an old friend who recommended the factory for processing Chinese suits that were in fashion at that time for a garment store in Shanghai. In the first year, XING TIAN Garment sold about CS 10,000 Chinese tunic suits.
Two years later, western-style suits for school uniforms appeared in some universities. XING TIAN Garment came to a prompt decision to contract school uniform business from universities.

"Every university in Fujian 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. In 1987, XING TIAN Garment's sales volume reached over 300,000 units. "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 TE development was warmly encouraged by the state government and XING TIAN Garment gained a loan about Chinese RMB 700,000 to replace their production lines and factory buildings. In that year, the company created its brand "double horse". 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 in only you have good products."

4.2.2 Product, Promotion, Competition

XING TIAN Garment "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 are costly, they brought their brand with an international colour hoping to allure more home consumers.

Since its initiation, XING TIAN 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 catalysed by a strong leader possessed of a particular value system. Entrepreneurship was a key orientation of XING TIAN Garment and produced great influence on the company's competitive strategy.

When I examined 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 XING TIAN Garment to create brand name for the common Chinese people.
"My slogans 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 Double Horse is among the top twenty of Chinese suit 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. Mr. Yang's statement of his company's strategy gave us some other clues.

"We have a trilogy for our branding strategy. The first objective is to change our brand image from a regional brand to a national 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 and design. 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 pattern 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. 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 market 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 Double Horse brand with that of Firs (one of the top twenty garment makers in Southern China):

"... 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 customer 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, XING TIAN 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 underline such influence. For a long time, 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.

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 XING TIAN 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…(Mr Yang)

There was a superficial inconsistency in XING TIAN 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 XING TIAN Garment's strategy was nearer to the low-cost end of this strategy dichotomy, it was moderated by some differentiation effort.

4.2.3 Guanxi - Relationship Marketing

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 relationship 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 2006 party was held recently. It took almost two months to prepare with 20 persons involved and the party lasted 5 days. 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 sightseeing for the guests, in addition a RMB 500 gift was given to each guest. The cost for the event contribute a significant portion of our annual marketing expenditure. 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. I am not under illusion that all will be our customers. 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 is worth doing because it's an investment for the future. Moreover, a good Distributor's Party definitely has positive influence for future business. It is 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 competition. 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 competition 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. XING TIAN 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. They built up and maintained relationships that might not even seem useful and important yet. 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 well 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 sales persons is to learn what their likes and taste are and whether there is any favour 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 "favour" here is actually an investment in guanxi. Although in many societies a favour 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 favour is that the value of a favour involved in reciprocal exchanges never remains constant. Rather, it will continue to increase. When people return favours, unless they repay favours 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 Chinese proverb goes, "If you honour me a yard, I should in return honour you ten yards". 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 on the major dynamics in Chinese society.

4.2.4 Summary

Compared with other types of Chinese enterprises, the success of TE's 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 TE, the XING TIAN Garment case proves this conventional view. The suit market in which XING TIAN 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 competition had little interest to take risks to expand their businesses to the national market, XING TIAN Garment did so. Oriented with entrepreneurship, XING TIAN 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 neighbours. This so-called "herding phenomenon" significantly accelerates product adoption and shortens the life cycle of products. Chinese companies also exhibit this herding behaviour 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 XING TIAN Garment to be successful 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 XING TIAN Garment's marketing activities. It is true that developing relationships is not a unique feature of Chinese society. What is special in this case is that the company had turned the art of relationships into a carefully calculated science. Giving gifts, offering non-business favours, 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.

4.3: JIAN LIAN FOOD CO., LTD.
4.3.1. The Company Profile

JIAN LIAN Food Co., Ltd. is now one of the major competitors in the candied and preserved fruit market that is an estimated RMB 200 million business in China. The company was founded in 1984. The township where JIAN LIAN 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 kilometres 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, JIAN LIAN Food was set up with about RMB 200,000 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 JIAN LIAN 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 RMB 1.5 million.

4.3.2 Pricing, Product and Competition

“*There has been too much change of the market in the past ten years*”. Mr. Li, the general manager of JIAN LIAN 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 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 JIAN LIAN 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 competition who were good at marketing; and the reason why JIAN LIAN 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 products are displayed in brand name supermarkets or in upscale department stores, they will view...*”
your products 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 consumes 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 products?

"The products must be good. A good product means good quality and good taste. But that is not enough. The importance of excellent advertising is that you can communicate the 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 promoting techniques are necessary. Furthermore, you have to keep your eyes on your competition, 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 school girls from rich families although they don't earn money. They often share their nibbles with their colleagues or school mates. But house wives 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 price and the tastes. This difference is clear."

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, good 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 JIAN LIAN Food was basically a one-way business.

"Our products are sold in both supermarkets and upscale department stores where those white collars and rich school girls buy and in street corner stores and public markets where common 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 our packages to attract for white collars and local distributors who would take care of the mass market." (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. Face (rénliàng) is very important in the Chinese culture. 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.

Such a "natural" market segmentation helped Mr. Li to learn the difference in terms of quality-price 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.

4.3.3 Risk Management

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 spent on things concerning distribution channel management because most of the risks of our business happen there...To set 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 is very difficult to find competent and creditable distributors who wants to build on long relationships." 

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 buzz words 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 segmentation 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, no 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. JIAN LIAN 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.

To a Large extent, the focus of the marketing objectives of JIAN LIAN 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.

4.3.4 Guanxi – Relationship Marketing

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 can avoid 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 analysing the firm's strengths, weaknesses, and opportunities, focusing on the relationships that matter most (Yau 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 sales persons are quite worried about possible bad debt because the company binds the possible bad debt with their personal income. I remind our sales persons time and again that if the distributors can become their private friends, they will feel much more comfortable." (Mr.. Chen)
The Suguo supermarket chain based in Xiamen held third place in terms of sales volume among Chinese food retailers. It was a very important regional distributor of JIAN LIAN Food in Fujian Province. While JIAN LIAN Food turned to build up its business relationship with Suguo, the competition for Suguo’s retailing space intensified greatly. The salesperson from JIAN LIAN Food kept contact with the person in charge of the purchasing department of Suguo.

"Our sales person invited him to dinner many times. Then our sales person learned that the man had a baby at home and a baby sitter was urgently needed. Our sales person introduced a girl in our township for him and the man was very satisfied with the girl's work 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 JIAN LIAN Food's, the salesperson finally became a private friend of the purchaser, 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 JIAN LIAN 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 favour for the person. The salesperson of JIAN LIAN Food understood this well. Introducing a reliable baby-sitter was a big favour 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 purchaser in this way, the salesperson successfully changed the attitude of the purchaser. As a result of this relationship, "Suguo always paid 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.

4.3.5 Summary

Marketing was a learning process for JIAN LIAN 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 JIAN LIAN 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 seriously and was regarded as the most difficult and risky. For the company, the chaotic and segmented 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 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 2000).

In the Chinese context, creating trust among parties beforehand is necessary to ensure exchange of favours. 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, JIAN LIAN 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 honour a deal as long as the other party in the deal is "one of hem" 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.
5. ANALYSIS AND DISCUSSIONS

5.1. Competition: The Basis of Strategic Actions

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 TEs studied. Specifically, the TEs largely based their marketing decisions on competition's actions and reactions. While they recognized the importance of satisfying customer needs, customers were understood basically through intuitive and experience-based judgement.

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 TEs 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 competition. 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-centred 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 would be crucial. These TEs 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 TEs 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.

Clearly, these TEs 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 TEs 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 TEs' 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 a few decades ago when economic reform in China began. Firms like TEs 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 three TEs in the study had all benefited from such a position and it influenced their estimation of the consumer's role. They tend to believe that consumers were not always right and they could to some extent "guide" consumers.
In addition, the managers in these TEs 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 TEs, 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 TEs' weak consumer orientation.

5.2 ‘Innovative Imitation’

Marketing was a relatively novel experience for these TEs. With foreign competitors entering the Chinese market, they set up marketing examples for the TEs. Imitation became an important component in the marketing activities of these TEs, especially with respect to their product strategy. However, these TEs did not simply copy products; they deliberately modified 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 Chin Long 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 TEs to develop their capacity for product innovation. The presence of foreign companies and brands provided the external conditions for the TEs to employ this imitation strategy.

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 TEs 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 labourers 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 TEs.

With the presence of foreign competitors, 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 TEs in their learning process. Chin Long 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 TEs to
benefit from an imitation strategy, some distinctive features of China's market made this strategy necessary.

Chinese consumers are very curious about foreign cultures and new products. They want to keep up with their neighbours. This so-called "herding phenomenon" significantly accelerates product adoption and shortens the life cycle of products (Yan, 1998). Chinese companies also exhibit the herding behaviour when they add capacity to take advantage of what they believe to be attractive opportunities, resulting in over-capacity. Under such a circumstance, these TEs 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.

5.3 Guanxi: The Importance of Relationship Marketing

"Guanxi" was one of the most frequently heard words in my interviews of the managers. The managers in the three TEs 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 this 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.

5.4 Summary

Through the 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 TEs. These TEs 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 TEs 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 pre planned 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.

Another common theme was the fact that ‘innovative imitation’ was utilized and viewed the three enterprises as essential part of their business strategy. 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 TEs to develop their capacity for product innovation. The presence of foreign companies and brands provided the external conditions for the TEs to employ this imitation strategy. In some ways, this imitation strategy is a necessity for these enterprises. Given the fact that these companies often have limited resources and that low price was viewed as one of the main appealing aspects of their products, these TEs tended to believe that heavy investment in R&D would cause a cost in 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 TEs was kept at a low level. This constrained their capability for product innovation.

A further commonality shared by these enterprise is the fact that *guanxi* represents a major business dynamic in their day to day operations.

Interpersonal trust is undoubtedly an important lubricant of relationships, which binds the companies and their customers. Trust in buyer-seller relationships significantly reduces the perception of risk. In considering the role of trust in business transactions, we highlight the personal structure, processes and routines that create a context within which interpersonal trust can develop and persist. This consideration is consistent with the characteristics of Confucian society where *guanxi* is a dominant social phenomenon. Under a high level of interpersonal trust, these TEs are less inclined to rely on elaborated safeguards for specifying, monitoring, and enforcing agreements.

As demonstrated by the various forms of relationship marketing formats utilized by these three enterprises, *guanxi* is more than the exchange of gifts in order to achieve favorable business exchange. The flexible and socially-based nature of *guanxi* permits members of a *guanxi* network to deal with unforeseen contingencies arising after the agreements are reached. *Guanxi* networks thus possess the capacity to reduce transaction costs associated with environmental and behavioral uncertainties. As a result, *guanxi* networks may handle an increased level of asset specificity. Under the safeguarding of *guanxi* networks, business relationships with transactions become tighter and stable.
6. CONCLUSIONS

6.1 Summary of Conclusions

I have identified a series of typical behaviours that reflect facets of the marketing practices in the three TEs. I have also identified the main perceived environmental factors that have influenced these behaviours. Generally, these TEs were competitor centered and their strategic marketing decisions were largely based on competition. 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 labour 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.

6.2 Implications

This study represents one of the efforts to explore the Chinese-style of marketing practices in TEs by linking the formation and implementation of their marketing strategies and tactics with the impacts of the environmental factors and the socio-cultural context.

As competition becomes intensified in the Chinese market, the Chinese TEs are facing many challenges in this dynamic environment and need to analyse their approaches in terms of marketing strategy and tactics. This research provides a reference frame for TEs 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 TEs with whom they are competing or will compete in the Chinese market. Specifically, the managerial implications for TEs 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 TEs to pay balanced attention to both competitors and customers.

2. It is important for TEs to identify and develop their competitive advantages. More importantly, the competitive advantages should be sustainable. Some TEs 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 three 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 TEs 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 TEs to learn marketing effectively through competition. Innovative imitation as a product strategy may be cost-efficient for TEs, given the limited resources and limited market impacts of most TEs. Those TEs who adopt innovative
imitation strategy should pay attention to the competitors' reactions, considering that this strategy might provoke retaliation from their competitions.

6.3 Critical Reflections and Suggestions for Future Studies

This study provides baseline information about the general management practices of TEs in China. I use the word “general” because this study is a descriptive study giving an overview of TEs operations from within. This study has looked at the key business functions and management aspect; thus, it may lack details. Not every detail of each management area was discussed.

This research is also limited as it is focused on the three enterprises whose products all fell into consumer goods. Future research could also combine both qualitative and quantitative aspects. Such as looking at data on profits, return on assets and revenue we could also look to see the correlation between performance and market orientation of these type of enterprises.

This study points to several interesting topics and management challenges that would be interesting for future research. In my discussion with managers at these three enterprises they all stressed that human resource management is a great concern for them. A study of how TEs can attract and keep competent employees would be beneficial.

Joint ventures would be another interesting topic. There are many TEs looking for joint-venture partnerships with foreign companies in order to tap into new financial backings and product and marketing know-how. It would interesting to see how cooperation with foreign companies might influence the way TEs have traditional managed and marketed their products.

As more and more TEs have changed their identity from a collective to a shareholder or private corporation that means the central government will have less direct influence in the operations of TEs. The question of how ownership structure affects decision-making and ways of doing business would be another interesting topic for future research.

I hope my research provided a reference frame for other Chinese township enterprises when they are involved in marketing circumstances similar to those presented in this research. It is also my hope that this research would also help global marketers to better understand township enterprises with whom they are competing or will compete in the Chinese market.

Appendix: AN INTERVIEW GUIDE
Part 1. The following questions involve managers' perceptions of the external environments.

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?
How are the forces (price, brand, quality, technology, service, talent, ...) ?
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?
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?
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 judgment?

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

If we group resources by technical know how, capital, operational management and others, what would be your advantages and disadvantages compared with your main competitors

1) Do you currently hold a leadership position in terms of technical know how?
---If yes,
How did you get it?
Can it be kept in the future?
How to you maintain it?
---If no, what will you do?

2) DO you have any edge in terms of human resources (managing personnel, engineers, technicians, sales team, marketing team, workers, . . .)

3) Do you have any edge in capital?
   Where did the fund come from?
   What are your main means to get it?
   How to use it?

4) What are your main business objectives?
   What are the relationships among these objectives?
   How is your strategy planned in order to achieve these objectives?

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

Marketing is a hot topic in China these days, each company has its own different understanding.

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?
   What's the difference?
   What's the relationship between marketing and sales?

3) What is the role of marketing department?
   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, . . .)?

A good and quality product is the heart of every company

7) What is your main product?
   Why was this product chosen (market vacancy, competition, resource superiority, in
initiative or in passivity

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Was there any change in terms of main product?

8) 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?
   What is the intended market?
   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?
   What are the main channels of information concerning the market and consumers

9) How do you price your products?
   What is the principle of pricing
   What is the purpose of such a principle (market share, profit, attacking competitors,

10) What is the situation of your current distribution channel?
    How is the channel built up?
    What are the major problems:
    What kind of channel is ideal (exclusive, selective, direct sales, . . .)?
    Are there any conflicts among channel members?
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