

4. SELLING IN CHINA

4.1 USING AGENTS AND DISTRIBUTORS

Finding and managing agents and distributors

Before making any decision on how to sell in China, thoroughly research and then visit the market to build relationships and seek first-hand advice and information from various sources.

If you decide to go down the contracting out route, then you have to decide between an agent and a distributor ie selling through a third party.

- an agent is your company's direct representative and is paid commission
- a distributor buys your products and then sells them on to customers. Their income comes from the difference between their buying and selling price.

Issues such as the size of the market, language and cultural differences and the sheer amount of choice available make finding the right agent or distributor, and then managing them, challenging.

Advantages and disadvantages of agents

The advantages of agents are:

- the principal has greater control over terms of sale
- the freedom to choose customers with whom to deal
- direct contract between manufacturer and customer

- greater control over methods of marketing
- the manufacturer able to retain risk of stock
- the commission paid to agent is typically lower than margin of profit a distributor will make.

The disadvantages of agents are:

- agents have the right to lump sum compensation upon termination of agency agreement
- tax implications: sometimes a principal will be treated as trading in a territory if he has an agent there. Local law and double taxation considerations should be given
- Maintaining stock inventory can be costly.

In all likelihood an agent will also be selling similar products to yours and this has to be managed.

(Poon, K. (2005). Business Guides. London: China-Britain Business Council.)

How to find an agent

There are a number of ways you can get in touch with potential local sales agents:

- discuss with your partners in China to get a recommendation
- commission research through consulting firms
- get a recommendation from another company already operating in China

- attend and work the foot traffic at trade shows, seminars and exhibitions in China and Hong Kong
- use reputable business matching websites.

Before making a final decision on who to use, you should do thorough research and go to China yourself to check out first hand what you are getting yourself into. Business people in China also prefer to do business face-to-face and build up friendship and trust to underpin the business relationship. For more information on relationships, see the “Entering the Market – Building Relationships” section.

Be very wary of ‘walk in’ agent candidates. It has been fairly commonplace for businesses to recruit someone as an agent on a sight unseen basis via a website. Large sums of money have been lost in this manner.

Likewise be cautious about taking on someone you have met casually at a trade show who vaunts their extensive networks or their abilities as an interpreter. Being bilingual is not sufficient in itself to make an effective representative for your company.

Ask the question – you might be the best partner for them, but are they the best partner for you?

It is important to do a thorough due diligence on any agent, distributor or customer before you hand over any goods, money or intellectual property. For more information on doing due diligence see the “Entering the Market Doing Due Diligence and Avoiding Scams” section.

KIWI LESSON – BEWARE OF OVERSELLING

“Many agents in China will promise much and deliver little.”
– Dr Anatole Bogatski, Director Student Services and Market Development, AIS St Helens

What to look for in an agent

An agent is your direct representative so it is important to get the choice right. Attributes you should look for in an agent include:

- good references
- proven track record
- English language skills
- enthusiasm and fit with your product
- the number and quality of sales staff
- solid finances and payment record
- client coverage
- good networks
- geographical coverage
- network of sub-agents
- knowledge of market/market segments
- familiarity with your product.

What should be in a contract?

Contracts need to be detailed and well put together as there’s not much Chinese law governing agents and distributors.

A contract should:

- Guard against exclusive agreements. No agent can cover the whole country and it is recommended to keep your options open by having several regional agents to introduce an element of competition between them. If one regional agent does particularly well you can negotiate for them to set up a sub-agent network beyond their immediate region. When introducing competition, keep an eye on any undercutting of prices that may result.
- Have escape clauses, including performance reviews.
- Control risks, for example transportation and warehousing.
- Contain the terms of the standard individual sales order.
- Allow for arbitration in case of dispute. For more information on arbitration, see the “Navigating China – Getting Legal Advice and Resolving Disputes” section.

Managing performance and incentives

It’s up to you to get the best out of your agent(s) by supporting and encouraging them.

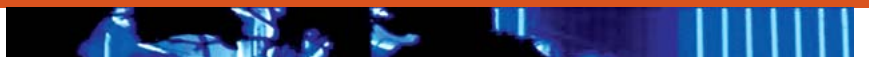
To keep the agent on track you should:

- link performance to incentives and agree on milestones
- have regular reports on progress and prospects
- write a marketing and sales plan
- provide regular training for the sales staff and after-sales training for the technical staff (in New Zealand and China)
- do sales support trips to keep your products and services front of mind. This will also help ensure they are not taking on competing suppliers who pay higher commissions.

Sales commission should only be paid to agents when the customer has paid. This incentivises the agent to encourage customers to pay on time, and to not deal with customers who are late payers.

All advertising and promotional material must be verified by you, especially material written in Chinese. Agents will often demand marketing ‘budgets’ and they need to be tightly controlled. Translate all your own materials, print them and deliver to your agent without hidden margins.

You should also have a Chinese speaker who can verify for you the material being produced. A number of New Zealand companies have been caught out by claims made in promotional material by Chinese partners that the New Zealand company does not only disagree with, but have never even heard of.



Advantages and disadvantages of distributors

The advantages of distributors are:

- the supplier can pass a greater degree of risk to the distributor
- greater incentive for the distributor to sell the product
- avoids the need for the supplier to have an established place of business in the territory (reduces costs)
- supplier only needs to monitor the accounts of one distributor rather than for each customer
- no compensation payable on termination.

The disadvantages, suggested by Penningtons, a British law firm, are:

- loss of control over activities of the distributor
- exclusive distributor is the supplier's entire credit risk in respect of sales rather than with each customer
- distribution agreements will be regulated by competition law.

(Source: British law firm, Penningtons)

How to find a distributor

Do lots of research first. Industries are not structured the same as in New Zealand or other Western countries. For example, many large Chinese firms have large procurement departments in-house which go direct to manufacturers and not through distributors.

You may need to integrate your products into complementary ranges. Find win-win scenarios.

Companies should consider China in a regional framework, with the primary commercial areas being the coastal regions of Bohai Gulf, Yangtze River Delta and the Pearl River Delta:

- Northern China; the provinces of Heilongjiang, Jilin, Inner Mongolia
- Bohai Gulf; the cities of Beijing and Tianjin and the provinces of Liaoning, Shandong and Hebei
- East China/Yangtze River Delta; the city of Shanghai and the provinces of Jiangsu, Zhejiang and Anhui
- Central China; the city of Chongqing and the provinces of Shanxi, Henan, Hubei, Shaanxi and Sichuan
- Western China; the Autonomous Regions of Xin Jiang, Tibet and the provinces of Qinghai, Gansu, Ningxia
- Southern China/Pearl River Delta; Guangdong (includes Guangzhou), Fujian, Hunan, Yunnan, Jiangxi, Hainan Island, Guizhou, Guansi (includes the Autonomous Region of Zhuang). Also included in southern China are the Special Administrative Regions of Hong Kong and Macao.

The Chinese government is promoting the investment into the western provinces, but for most New Zealand companies, the coastal cities and provinces will be the first areas to concentrate on.

Consider having a different distributor and strategy in each, possibly including pricing and market channels.

There are a number of ways you can get in touch with potential distributors:

- via your agent or other Chinese partners
- recommendation from another company already operating in China
- attend and work the foot traffic at trade shows, seminars and exhibitions in China
- use reputable business matching websites
- research through consulting firms or NZTE

Despite the size of the country, you may find that there are only a few very good representatives in some industries (for example wine).

It used to be common for foreign suppliers to appoint Hong Kong companies to act as their distributors in China. Payment may be easier to get out of Hong Kong, but China is now much more open and the Hong Kong route may simply add additional costs.

It pays to keep in mind that China does not have an efficient nationwide distribution system. Distribution channels are dominated by regional and provincial players whose abilities vary enormously. Smaller cities and rural areas in particular are badly served. For more information on China's logistics see the "Navigating China – Managing Logistics" section.

Finally, get independent due diligence done before signing any agreements. For information on doing due diligence see the "Entering the Market – Doing Due Diligence" section.

KIWI LESSON – WATCH FOR OPPORTUNISTS

"Identifying the appropriate distributor is particularly challenging. There are lots of opportunists clouding the view and taking advantage of newcomers." – Tim McIvor, Managing Director, Lanocorp Pacific

KIWI LESSON – GOOD ONES ARE EXPENSIVE

"If a distributor is very good, they will be very expensive and using a product from a multi-national. They will invariably run their own brand and will not be willing to deal with you exclusively. If a distributor is interested in selling only your products, you have to ask about their track record." – David Percy, CEO, Pertronic Industries

What to look for in a distributor

When looking to engage a distributor, factors you should consider are whether the distributor:

- has a stable financial background
- has enough quality sales staff
- is enthusiastic and right for your product
- has foreign trading rights (or a good relationship with an import/export company)

- has an appropriate business focus
- can store and distribute your goods adequately.

You should also check out:

- the types of outlets the distributor covers
- their after-sales service
- their marketing abilities
- English language skills (and not just at head office).

Again, as with an agent you need to look for a representative that knows your industry and has the links.

A distribution agreement

Distributor contracts need to be detailed and well drafted as there's also little Chinese law in relation to distributors – the supplier-distributor relationship is primarily governed by the contract.

The contract should:

- guard against exclusivity (most Chinese distributors want exclusive rights for the whole country even if their network is limited to one province or even an area within a province)
- agree on volume targets
- manage risks, for example transportation
- cover intellectual property issues
- contain the terms of the standard individual sales order
- have escape clauses including performance reviews
- allow for arbitration in case of dispute.

Before signing a contract with a distributor, make sure they can directly enter into contracts with foreigners.

Also be wary of using the Ministry of Commerce's standard sale contract. They favour the distributor.

Contracts signed in China often need to be in Chinese which is the binding language as well. Always have a qualified law firm review any translated documents or even English ones for compliance with local laws.

As with agents, you need to be cautious when granting exclusive territories.

Managing performance

It's up to you to support and encourage distributors to do their best. Ways to do this include:

- regular visits to the market to meet with them
- performance agreements
- regular reports on progress and prospects
- write a marketing and sales plan and tightly control marketing budgets
- provide regular training for the sales staff and after-sales training for the technical staff (in New Zealand and China).

Resolving disputes

Avenues to resolve disputes include arbitration, litigation and mediation. For more information on ways to resolve disputes see the "Navigating China – Getting Legal Advice and Resolving Disputes" section.

KEY LEARNINGS

- Thoroughly research your options before making a decision.
- Always do due diligence on any prospective agent or distributor.
- Be aware of conflicts of interest – does the agent or distributor sell products or services similar to yours?
- Look for a representative who knows your industry and is well connected.
- Make sure contracts are detailed and have escape clauses.
- Keep a close eye on what your representative does with your marketing material.

4.2 DIRECT SALES

How do I sell directly to customers in China?

An alternative to having your own base in the market, or using agents and distributors, is making direct contact with buyers and end users.

The do-it-yourself option, though low cost and a good way of getting a relatively low-risk feel for China, is not an easy route to market.

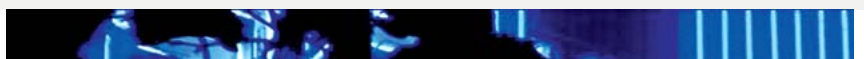
The Chinese market is the opposite of New Zealand's. Whereas a small number of large players dominate in New Zealand, 90 percent of the Chinese retail market is run by small 'ma and pa' operations.

Positives of doing it yourself:

- It cuts out the middlemen.
- You get an understanding of buyers or end users' technical needs and an ability to customise accordingly.
- It's an opportunity to learn the hard way, though this should always be on the back of a lot of preparation.

Negatives of doing it yourself:

- Not having a physical presence in the market can make it difficult to get business in China. Some Chinese clients will not do business with companies with no presence or representation in China.
- New Zealand dollars can't directly be paid offshore. Payments will first have to be made in currencies convertible into Renminbi (RMB), usually US dollars. If the product you are selling is imported into China, the buyer must either import it themselves or have an import agent do this on their behalf.



- If your product is made in China it is deemed a domestic sale and the transaction must be completed in RMB which you can only repatriate with a registered entity after taxes have been paid. If it is a service, it may be possible for the client to pay offshore as long as you can prove the work was not executed in China. Otherwise a firm wanting to pay hard currency overseas must have proper justification and importation documents or they will be subject to withholding tax of up to 20 percent.

Issues you need to consider:

- the frequency of visits needed to China
- high maintenance for the home office
- the lack of a presence on the ground can lead to communication problems
- you need an effective technical interpreter who understands your business and approach
- daily follow up of genuine leads in China can come second to home business
- delays could lose you good will and business
- prompt troubleshooting cannot be done remotely and will require additional visits
- competitors with a local presence will have an advantage
- after-sales commissioning and service will tie up your technical people and require Chinese language capability
- a commitment to a presence will have to be made at some stage should the business continue to grow
- the possibility of losing control of the transaction.

Getting started

The recommended steps to start direct selling are:

1. Use New Zealand Trade and Enterprise (NZTE) or private consultants to conduct market research and draw up a short list of pre-qualified buyers.
2. Your chief executive writes an introductory letter and brochure in Chinese for the preferred buyers identifying how the product can meet their needs. For more information on how to address people in China and translate marketing materials see the “Researching the Market – Making the Most of Your Visit” section.
3. NZTE or the consultants can then set up meetings in China with prospective customers over a one to two week period. Senior management and a marketing/technical person should make the visit, the latter to ensure both Chinese decision makers and technical advisors are briefed. For more information on visiting the market see the “Researching the Market – Market Visits” and “Making the Most of Your Visit” sections.

Contact NZTE for a list of consultants.

E-commerce

More and more foreign and Chinese companies are using the internet to promote and sell their products in China. Holding the e-commerce sector back are the low use of credit cards and inadequate operator billing systems, but both situations are improving.

KEY LEARNINGS

- Direct selling can be a low cost way of selling in China, but you need to be wary of hidden costs.
- Do thorough research before committing to the market.
- The lack of a physical presence in the market can make it difficult to get business in China.

4.3 MARKETING

How do I market my product or service in China?

The Chinese market is huge and is predicted by Nielsen to be the world’s second largest consumer market by 2014.

But it’s not an easy market to get your products and services in front of thanks to the varied cultural backgrounds, the sheer size of both the population and the country, and differing levels of wealth and sophistication.

There is no such thing as a typical Chinese consumer – the country needs to be broken down into provinces to be able to understand consumer preferences and market dynamics. Information on these potential markets tailored for your needs can be bought from specialist agencies.

While information on regional economies is increasing, little up to date, accurate and comprehensive marketing research and consumer insight data is available publicly.

Apart from wealthy modernised pockets of population, the idea that you can market and position your products and services is a relatively new one in China. In many places China is still a developing country.

How to identify your target market

In examining the China market it is important to break China down into regions. Within those regions, segment the market further to identify consumers interested and able to afford specific products or services.

Tom Doctoroff, advertising agency J. Walter Thompson’s CEO for Northeast Asia, prefers to subdivide the country’s population into four major categories: youth, the emerging middle class, women and the old – each of which he says demands a customised approach.

Comprehensive marketing research and consumer insight data in China is mostly poor or lacking, so you may have to commission research yourself.



Jade Grey, Beijing-based Kiwi entrepreneur and owner of Lush Bar and Pyro Pizza says even if you do find relevant data be wary, as numbers are often guessed at by departments or contrived to suit the result they would like to see. Ideally try to get two sources of information for each fact.

He also advises anyone looking to sell in China to become "obsessed" with focus. Even the smallest of markets can be highly lucrative if you become number one or two. He says each time you expand your target market the strain on company resources is massive. "First nail one small market, turn it into your foundation or cash cow in China, gain the necessary contacts and experience, then starting looking towards larger ones."

Basic information on the regions and urban areas and some demographic information can be found in the latest China Statistical Yearbook.

The Hong Kong Trade Development Council publishes market profiles on Chinese cities and provinces which include general background information on the province as well as more detailed statistics such as GDP per capita, the leading industries and a breakdown of household spending.

Another source of regional information is the Asia Times Online website which has an interactive map of China with a province-by-province breakdown of economic details, transportation, official contact information, population, climate and maps.

For more information on how to do research see the "Researching the Market – Research" section.

For more information on China's regions see the "Entering the Market – Choosing a Location" section.

KIWI SUCCESS – SEE CHINA AS A CONTINENT NOT A COUNTRY

"A lot of people get confused with China and think it's a mysterious beast and you've got to approach it in a totally different way; that's not at all correct. China is a market place – it's a very open market place.

I strongly suggest to anybody, especially if you are in a small or medium sized enterprise, that you don't look at China as a country; look at it as a continent, similar to if you went to South America or Europe. You've got to look at it that way in terms of what they want. You need to be very clear about which part of the market you want to attack.

Identify which segments of the economy or which provinces really suit your product and start to build your network in that area." Jade Grey, Beijing-based Kiwi entrepreneur

KIWI SUCCESS – CHINESE MARKET NICHES ARE BIG

"Niche marketing is a numbers game. You just find the niche and that will be more than sufficient to get you going and up and running in China. I am probably the classic case of that. We focus purely on foreign students studying in China. You've got American kids, European kids, Australian and New Zealand kids studying in China and living in China. You wouldn't get much

more of a niche market than foreign students studying in China. Yet this market is growing faster than we can handle it. So why would I want to attack something bigger when firstly I would have so much more competition and secondly your resources are not going to be able to handle what you have taken on."

– Jade Grey

How to check out the competition

Business directories are a useful way of finding information about the number of competitors operating in a particular market and who they are.

Another avenue for finding information about competitors is by searching either current or past trade fair directories to get an idea of the companies that are operating in a market.

How to hire local knowledge

The best way of dealing with the complexities of the Chinese market, marketing and advertising is to hire local knowledge.

For a list of specialists used by New Zealand companies in China contact New Zealand Trade and Enterprise.

How to differentiate in China

Not only do you need to adapt your products and services for the Chinese market and to meet regulations, you will need to change the way you market them.

Don't assume that China is a market that is always on a par with other developed nations – most of the country is still developing and with this comes all the associated risks. For example, the variability of the quality of infrastructure and distribution channels makes national campaigns difficult.

Before you start a marketing campaign you should fully understand factors influencing Chinese buying decisions relating to differences in geography, culture, age, education and wealth.

Even major international companies have come to grief with their Chinese marketing campaigns because they have not invested sufficient time and money in understanding markets in China.

Simple examples of cultural traps for the uninitiated include using inauspicious numbers or colours or inadvertent slights to Chinese national pride (see the "Entering the Market – Chinese Culture" section). Also promoting individualism runs counter to Chinese culture.

Foreign products and services are especially appealing to younger Chinese, but older ones remain fiercely patriotic in their buying decisions.

All are decisively price driven. This is partly due to the lack of credit and the Chinese inclination to save rather than spend.

Another key factor in buying decisions is the 'Little Emperor' phenomenon – China's one child policy means children have a strong influence over household purchasing. Thanks to China's

economic boom and internationalisation, they also have much more money and are consumer savvy.

Obviously the best way to communicate in the spoken word to consumers in China is in Chinese, either in the national language Mandarin (although only about 50 percent of the population speak Mandarin, they are the most highly educated), or if appropriate, a local language. Written Chinese in the simplified form is the same nationwide.

You will also need to consider adapting your packaging to suit the requirements, tastes and budgets of regional Chinese consumers.

The best way to do all this is to hire some expert local knowledge, including a quality translation service. Local means the city or region you are planning to do business.

Understand your strengths

“We need to understand our own strengths and how coming out of New Zealand enhances the quality of what we can deliver. We have high spending on R&D and leverage off our attributes to try and keep ahead of other competitors.” – David Ritchie, CEO, Provenco

How to set prices

When setting prices, remember costs will very likely be higher than you expect. Examples of additional costs that have not been anticipated include translation costs, tariffs, regulations and protecting your intellectual property.

You should also build into your prices the likelihood that there will be changes to agreements and contracts. The Chinese have flexible attitudes to these and they expect their partners to be the same.

One New Zealand exporter to China advises that the China price may need to be higher than elsewhere because of the number of additional costs faced after products leave the importer.

You should also allow for the fact that it will almost certainly take longer than you expect to get your product or service into the market in China.

Watch for exaggerated first orders. When you offer a price based on a high number, the Chinese can come in with a low first order, resulting in a non-profitable sale. You should base your price on the agreed order, or use a scale of prices.

Don't start out with your 'best price' in negotiations – leave yourself sufficient room to move on price.

Trade marketing

KIWI SUCCESS – DO THE BASICS FIRST

“Marketing at the point of sale is the most effective place. We've seen examples of companies spending a lot of money on advertising before they've even built distribution for their product.

“A lot of the marketing in the early stages is oriented towards what we call trade marketing, investments at the point of purchase, investments that support the building towards distribution. I think as the market matures and it goes through its evolutionary cycles the nature of the marketing will change, as it would in a mature market, and one will get sophisticated about segmenting and targeting segments. But at this stage in China it's still very early days – the basics are appropriate and one doesn't want to get ahead of oneself, patience is very important.” – Brendan O'Toole, Managing Director, Summergate International

How to create and market brands

Brand equity – the identity, history and heritage underlying a brand – is a whole new ball game in China.

The Chinese language and culture represent unique challenges for the creation and marketing of brands. For example, you need to be careful not to breach Chinese intellectual property (IP), especially relating to calligraphy.

Carefully research a brand name before launching into the Chinese market.

The brand name has to mean something to the Chinese. Chinese characters are either pronounced phonetically or visually conceptualised. This means that when you register your trademark you will need to register the English language name and a transliteration of that name (Chinese characters that approximate the actual sound of the English), but which should also strive to have an auspicious meaning.

For example Kiwi natural healthcare products company Comvita has chosen the characters Kang Wei Di as a phonetic translation. They also mean Health Safeguard Earth.

The Chinese like names that express longevity, good health and luck, happiness and wealth, so it is often difficult to translate Western brands into Chinese.

Brand imitation is a problem in China and it's essential to protect your brand IP before you enter the market. For more information on how to protect IP see the “Entering the Market – Protecting your IP” section.

KIWI SUCCESS – THE STEPS TO CREATING A NEW NAME

“With respect to choice of brand names for the China market, the way we do it is to have a team from across our offices, people who have shown they are good at this sort of thing, naming names. We will put a team together and they'll take an English brand name and work on coming up with a range of options. Some of those will be simply phonetic interpretations of the original English name, some of them may also reflect the brand attributes, the identity of the brand itself. Obviously we will discuss that with the brand owner.



We'll go through all of those options with the brand owner and the best case scenario will be to come up with a name that phonetically reflects the brand well and that also reflects the identity and attributes, the essence of that brand, the personality of that brand, and one that really resonates with Chinese and they enjoy and like and it's easy to recognise and remember.

That's the process we go through and I think it is an important exercise. I think there is real value in coming up with a really good name." – Brendan O'Toole, Managing Director, Summergate International

How to advertise

Traditional advertising in China often does not have the influence on purchasing decisions you'd expect in the West. Chinese are more reliant on third-party endorsements from friends and colleagues or their own research and reading. Many decisions are made at the point of sale. Also, especially among the elderly, there is not the brand awareness needed for successful advertising.

However, China's advertising industry is growing even faster than the economy as a whole. According to Nielsen Media Research, advertising expenditure increased 25 percent of the first quarter of 2006 compared with the same period in 2005.

Almost 100% of Chinese households have a TV, with the government claiming 1.2 billion viewers, with each household having access to 32.5 channels.

All the major international advertising firms are present in China. There is also no shortage of local agencies that can provide smaller scale tactical advertising such as flyers, internet ads or mobile advertising.

Advertising in China is heavily regulated by advertising law which says advertising should "be good for the physical and mental health of the people" as well as "conform to social, public and professional ethics and safeguard the dignity and interests of the State".

This law can be confusing and lead to inconsistent and arbitrary interpretations, especially from region to region, highlighting the need to use experienced local specialists.

Using the media

Print and broadcast organisations have enormous reach in China. The People's Daily newspaper for example has a circulation of three to four million.

It is difficult to get stories placed in the mainstream media as there are strict limitations on space and lead times can be long.

More useful for New Zealand companies looking to set up in China is the myriad of specialist publications – almost every industry has its own publication though not many are published in English.

Attending trade events/promotions

As with other potential markets, attending trade shows and exhibitions can be a good way to gauge the level of interest in your products and services, develop leads and make sales.

Taking part in shows and exhibitions in China can be expensive, so take time to ensure that the trade show or exhibition is appropriate for your company.

Also take care negotiating all the official requirements for attending a trade show in China.

For information on visas and other practical issues see the "Researching the Market – Visits and Business Etiquette for Visits" section.

In general, goods bought in for display or demonstration at trade shows and exhibitions are exempt from customs duty, provided they are re-exported within three months.

The status of exhibits for food and beverage shows can be tricky as the 'not-for-sale' sample-entry rules are not clearly defined and appear randomly applied.

Biosecurity New Zealand maintains summaries of the phytosanitary requirements required by other countries for plants and plant products within documents called Importing Countries' Phytosanitary Requirements.

The New Zealand Food Safety Authority (NZFSA) maintains Overseas Market Access Requirements, which are documents outlining requirements for animal and plant products exported from New Zealand. These documents are password protected, and restricted to New Zealanders registered with Ministry of Agriculture and Forestry/NZFSA as exporters or operators.

Each show has its own assigned agent. Unless you have the product in the country, New Zealand Trade and Enterprise generally recommends using the assigned agent for the show, however it pays to research their services and fully understand and negotiate costs.

The show's organisers can also provide advice on Chinese regulations relating to bringing in materials for their show.

It is not advisable to bring in exhibits as hand luggage.

KEY LEARNINGS

- Use Chinese-based experts.
- Break China down to digestible pieces.
- Don't take research results at face value – cross check the results.
- Remember a small Chinese niche is huge by New Zealand standards.
- Carefully research a brand name before launching into the Chinese market.
- Watch out for cultural traps around colours, numbers and images.

- Adapt your packaging.
- Price is a crucial factor in sales.
- When setting prices, remember costs will very likely be higher than you expect.

HEALTHERIES CASE STUDY

MARKETING IN CHINA – SMALL BUDGETS, HUGE MARKET

China offers rich opportunities for Auckland-based Healththeries. But how does a medium-sized New Zealand company successfully market its health products in a vast country like China and overcome the significant language, cultural and regulatory challenges?

Using a partner to enter the market

Healththeries makes and markets a broad range of health products, including dietary supplements and vitamins, health foods and beverages, and wheat and gluten free products. Its China business is currently based on bovine dairy colostrum, an immune-enhancing food supplement largely aimed at children and the elderly.

Healththeries entered China seven years ago after being approached by a Chinese distribution company with a New Zealand office. The Chinese distributor buys product from Healththeries and on sells it to supermarkets and drug stores, working with a network of 32 sub-distributors throughout China.

To help overcome the huge marketing challenges of entering China, Healththeries relied heavily on the experience of its distributor, says Healththeries General Manager of International Business Brian Dewar. “To get the branding and marketing right you need a fair degree of local knowledge, so our marketing is a joint effort. Our distributor makes the bulk of in-market decisions, but because it is our brand we obviously have an involvement.”

The distributor manages the relationship directly with the retail chains in some provinces and is responsible for expanding into new markets and provinces through sub-distributors in other areas. Healththeries provides collateral for promotional and advertising material. The distributor uses a range of marketing avenues, including TV advertising, magazines, in-store promotions, billboards and give-aways.

Marketing the New Zealand connection

The marketing collateral emphasises the product’s New Zealand origins and Healththeries’ reputation as a 100 year old New Zealand company. “Our brand equity and company heritage is used to help market the product, and we provide our distributor with a lot of resources that include those messages,” says Dewar.

Labelling is very important for delivering information to customers, and labels and packaging must be in excellent condition. “Chinese consumers of imported products are paying a premium so they expect very high standards. If they see any defects – even minor ones like a label that doesn’t fit properly – they will assume the product is a fake and will reject it.” As a result, the standards Healththeries imposes on its products for China are at least as high, if not higher, than they are for other markets.

The importance of public relations

Healththeries also learned the importance of good public relations management in China when media reports that a child became sick from contaminated milk powder caused the whole milk powder market in China to plunge. “The media in China is incredibly connected and a story that gains a lot of publicity in one part of the country can very quickly spread throughout China. Our business was significantly reduced by this story and we had eight months of low volumes.”

To stay in touch with the market and the distributor, Dewar visits China three times a year; Healththeries also has a market manager focusing on Asia and other Chinese markets. Visits typically include spending time at the distributor’s head office in Guangzhou as well as travelling to the provinces to meet new sub-distributors.

Having gained experience and developed a business in China in one product category, Healththeries is now working with its distributor to expand the range and leverage the brand equity established.

Tips

- Branding and marketing require local knowledge.
- Use labels to provide information to customers.
- Make sure there are no defects in packaging or labelling otherwise Chinese consumers may assume your product is a fake.

www.healththeries.co.nz

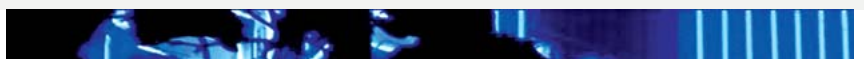
AIR NEW ZEALAND CASE STUDY

GUERILLA MARKETING

In 2006, Air New Zealand launched direct flights between Auckland and Shanghai. Ed Sims, Air New Zealand’s Group General Manager International Airline, says an innovative online guerilla marketing campaign helped the airline successfully hook into its target market.

China was an opportunity Air New Zealand could not ignore.

In 2008 China was the airline’s fifth largest market for passengers flying into New Zealand. Within the following five years it’s expected to be number three.



Be patient

Air New Zealand's decision to start direct flights to Shanghai did not come out of the blue. The airline had a general sales agent in China for six years before the launch.

Sims said one of the key lessons of the launch was the need to be patient and factor in the long lead times of major business projects in China.

The planning cycle for the inaugural flight took up to two years. Sims says relatively simple negotiations in China have to go through quite complex hierarchies.

And once you've established your presence, you can't rest.

"This is such a vast market that it is easy to forget that you can be the centre of attention for a week then be completely forgotten about for the other 51 weeks of the year. I think China is one of those markets where you can never spend enough either on relationships or in the market place."

Guerrilla tactics

Air New Zealand chose a guerrilla marketing campaign because it was seen to be effective in terms of cost and reach.

Sims says conventional marketing channels are state run.

"While we received some good coverage from China broadcasting and mainstream television, the commercial messages were tightly controlled.

Media costs are also incredibly high.

We felt we needed to get a one-on-one relationship with potential travellers to New Zealand in a way that couldn't be done through mainstream marketing."

The campaign also had to market to a new breed of middle class in China – the Tiao bourgeoisie (or 'little bourgeois').

"They are the children of single parents, the product of the Mao era. So these children have a lot of money spent on them and they have quite lavish personal budgets.

They therefore are a perfect audience to attract to an aspirational destination like New Zealand.

They are also very influenced by the media and we thought the perfect way to reach them was through iconic stars they identified with."

Air New Zealand sought out Chinese stars from film, hip hop music and the arts and flew them to New Zealand so they could record their New Zealand experiences on their blogs.

Some of these stars have websites that attract 50 million hits a year.

"By putting footage of New Zealand, full of beautiful imagery, on the celebrity websites we were reaching an audience of a young and highly affluent middle class that we couldn't possibly reach through television or through print.

We had a moment like Tia Yu (the Chinese equivalent of Ewan MacGregor) climbing out of boat in the Bay of Islands in floods of tears because he had just been swimming with dolphins in a way you could never hope to do in mainland China.

That one hit was worth more than any other marketing budget we could have spent."

Air New Zealand believes that the New Zealand material on these celebrity websites has reached close to 50 million Chinese.

Air New Zealand's China dedicated website ExperienceSomethingNew.com also, by the end of 2007, had attracted more than 100,000 hits.

Mobile way to go

When Air New Zealand came to look at channels in China, it saw new technology was hugely popular.

Sims says the key was embracing new technology, whether it was online or it was through mobile telephony. "You can get far greater reach than through conventional press or television."

The airline found that mobile phones were a vital channel. "Mobile ownership in a busy city like Shanghai is at huge levels – higher than in New Zealand.

"For the target audience – the young middle class we were talking to – mobile ownership is around 90 percent."

Air New Zealand ran a text campaign as an extension of the celebrity blog one.

"One of the interesting phenomena we noticed with North Asian customers is that the distinction between online, where you find blogging online, and what they use their mobile phone for, is becoming increasingly blurred.

There is a lot of streamed content available to Chinese travellers over their mobile phones so we have been able to extend awareness and the actual presence of the celebrity websites to mobile phones as readily as we have to PCs.

We found the blurring between the two gives us even greater reach to the young middle class in China."

Sims says the technology allowed the airline to establish personal one-on-one relationships with potential customers by contrasting the escapism and the natural New Zealand landscape with life in busy metropolis like Shanghai.

"We wanted people to feel that they could follow in the footsteps of Tia Yu or Li Bing Bing in a way that conventional newspapers just could never deliver."

www.airnz.co.nz

DIGIPOST CASE STUDY

TIME, COMMITMENT AND MONEY – ATTENDING TRADE SHOWS AND EVENTS

Attending events is not something a company should take lightly. “You’ve got to do it full on – you need to make a big commitment of time and money and see events as an element of your long-term business plan for China,” says Stephen Douglas, Digipost General Manager.

Getting your marketing right

Post production and visual effects company Digipost advises companies to prepare marketing material well in advance to make sure it is right for China and arrives on time. Douglas, a regular visitor to China, says leaving shipment to the last minute creates a real danger of material not arriving in time.

He says translated material should include:

- business cards (and lots of them)
- a well chosen Chinese name for your business
- a one-page company profile in Chinese or preferably your brochure
- an area on your website for Chinese visitors – this area should contain information relevant to the event or show and should be up before you arrive and stay up for a month or more after it ends.

Arranging meetings

Douglas says he only sets up meetings (usually by email) a couple of days or so before leaving New Zealand.

“The Chinese hate to commit ahead of time and you have to be prepared for cancellations.”

Get a knowledgeable interpreter

Douglas has found language a real barrier to doing business in China, impacting for example on how to make the most of a trade show or event. Unless you know otherwise, it’s best to assume whomever you deal with in China can’t speak English.

Douglas says while in China he’s often accompanied by a Chinese speaking person, someone he knows or has a connection with from the Chinese television commercial or film industry. “Getting an interpreter who knows your industry is essential if you want to get fruitful conversations going quickly.”

An interpreter who needs to have common technical terms explained causes frustration on both sides. It also increases the risk of bad translations.

Another payoff of having an interpreter around is that they can help reduce the stresses and strains of everyday activities in China such as getting to meetings.

“If I do it alone it can be exhausting. For example if I have an appointment for a meeting when I’m by myself I have to leave really early because I’m scared of being late after losing my way.

Having an interpreter along wipes out a lot of that type of stuff.”

Douglas advises companies to work their networks in China and New Zealand to find an interpreter.

Commitment to follow up

The key to creating a successful long-term business in China is building lasting relationships, he says.

“You’ve got to be consistently in the market and make the Chinese believe you are there for the long haul.

“After you have been to China you have got to follow up – after a week or two find an excuse for dialogue and email the contacts you have made.”

Douglas says don’t treat a visit as a one-off event – it should be part of an all-year plan.

Tips

- Present a professional international image in everything you do. You need to do this both in China and at home – a poor look at home could destroy any positive image you have created.
- Work with other Kiwi companies in China where you can.
- Have two phones – one for New Zealand calls and one for local calls in China. For the latter, pick up a local SIM card at the airport when you arrive in China.
- Make sure your marketing material has interesting, bright, colourful covers and images.
- Have lots of giveaways (there’s a voracious demand for them) and brand everything.
- Take presents that are unusual in China.

www.marketnewzealand.com has a general guide Ensuring Success at Trade Shows.

www.digipost.co.nz

4.4 GETTING YOUR PRODUCTS INTO CHINA

Dealing with Chinese Customs and other regulations

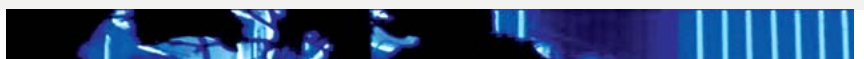
To get your products into China you’ll need to navigate your way through Chinese Customs and other border agencies and their border control rules, standards and regulations. This is definitely not an area for doing it yourself.

Dealing with Chinese border officials

Your Chinese importer (for example your agent or distributor) will normally pull together the documents you need and provide them to Chinese customs agents.

The documents required vary from product to product, but standard ones include:

- certificates of origin
- customs declarations
- sales contracts



- bills of lading
- commercial invoices
- packing lists.

Other documents that may be required include import permits and Quality Supervision, Inspection and Quarantine inspection (AQSIQ) clearance. This clearance is often on the basis of export certificates from the relevant New Zealand agency such as the New Zealand Food Safety Authority or MAF Biosecurity.

Please consult your importer or distributor well in advance of shipment, or seek advice via NZTE.

KIWI LESSON – PRETTY STRAIGHT FORWARD

“The China Customs bureau is not as complex as a lot of people portray it to be. It’s pretty straightforward. The product arrives at the wharf or airport, you register it with the Customs bureau, the Customs bureau will raise a bill to you, you pay the bill and the goods are cleared. There are inspections, but as a company with a good track record over many years working with Customs, we don’t get inspected all that frequently. I guess my key gripe with Customs and China Inspection and Quarantine is the length of time it takes to get clearance.” – Brendan O’Toole, Managing Director, Summergate International

Import licences

Most imports to China do not need an import licence if they are registered with China’s Ministry of Commerce. An import permit may be needed from AQSIQ or other specialist departments to import food products such as meat, dairy, fish and other aquatic products. Registration for imports is the responsibility of the importer, but they may ask for back-up documents out of New Zealand.

Generally, items that face some form of import licensing or permit procedures are:

- all products with import restrictions – including chemicals that may be used for military weapons, toxicants, drugs and ozone depleting materials
- products that are automatically licensed but are subject to monitoring – including poultry, vegetable oil, wine, tobacco, asbestos, copper ore and concentrates, coal, terephthalic acid, plastic raw material, natural rubber, synthetic rubber, waste paper, synthetic fibre cloth, cellulose diacetate filament tow, copper, aluminium, mechanic and electrical products, iron ore, crude oil, processed oil, alumina, chemical fertiliser, pesticide, sliced or chipped polyester, automobile tyre, terylene, steel and steel billet
- food, fibre, and animal feed products considered to have some health risk associated with them.

Normally, MOFCOM or other agencies may ask you to provide samples for selective examination.

If you are using an agent or distributor in China you should check whether they have an import licence. Where a distributor or agent does not have a licence they can subcontract this to an importer. This means more paperwork and links in the chain and therefore higher costs. It can also lead to possible delays in delivery and payment. For example, the importer will need to present the documents to Customs for clearance and then pass to the agent/distributor to arrange delivery and payment.

Tariff rates

For more information see www.ChinaFTA.govt.nz

Rules of origin

For more information see www.ChinaFTA.govt.nz

Meeting food safety and biosecurity requirements

For information on regulations governing animal products and food inspection, sanitary and certification requirements, see the New Zealand Food Safety Authority’s Overseas Market Access Requirements (OMAR) for China (www.nzfsa.govt.nz). They outline China’s sanitary and certification requirements for animal products.

For information on China’s zoosanitary, phytosanitary inspection and certification requirements for live animals, animal germplasm and plant and forestry product exports to China, contact MAF Biosecurity New Zealand (www.biosecurity.govt.nz).

Complying with labelling requirements

The inspection of import labels is the responsibility of China Inspection and Quarantine (CIQ) offices at the port of entry.

Before packaged products are imported or distributed into China, labelling verification must be sought from CIQ. This takes one to two weeks. When going through this procedure you should consider specifying in your contract with the importer or distributor that you retain ‘ownership’ of the label after approval. This will make it easier to work with other distributors in the future should the need arise.

The main items required for verification of labelling are:

- completion of the Application Form of Import Food Labeling Verification
- brief explanation of the original English label in Chinese. According to the National Standard of the Labelling of Foods (GB7718-1994), the label should include the details stated below
- Certificate of Origin
- registration information and qualifications of distributors or dealers
- samples of Chinese label (see content below)
- sample of product for inspection

The mandatory items for the Chinese label are:

- 1) name and trademark of the product
- 2) ingredients
- 3) net weight and solid content
- 4) name, address and telephone number of the manufacturer
- 5) production date (y/m/d) and storage instructions
- 6) packer/distributor (name and address)
- 7) batch number
- 8) country of origin
- 9) quality guarantee and/or storage period (y/m/d)
- 10) usage instructions

Although the law bans the use of temporary adhesive labels, some foreign exporters continue to attach small and simple labels (translated into Chinese) on the outside of the package. This is done either prior to delivery to China or by the Chinese importer under the supervision of the CIQ in the nominated bonded warehouse. This is a risky option and is something that may be more stringently enforced in the future by Chinese authorities. Always consult closely with your importer or distributor.

KIWI LESSON – HARD BUT ALSO AN OPPORTUNITY

“Many people will talk about Chinese labelling as a negative – a hurdle and obstacle – and having to comply with some very detailed and onerous regulations that relate to that. The whole application and approvals process is not an easy one and can take a long time. But there are two sides to that coin and I think that while those application approval processes aren’t easy, there is an under-utilised opportunity to communicate a lot more information to Chinese consumers that can really help them to understand and appreciate the products that much better. As well, most Chinese read Chinese, not English.” – Brendan O’Toole, Managing Partner, Summergate International

Meeting product and safety standards

For more information see www.ChinaFTA.govt.nz or seek NZTE assistance for introductions to specialist consultants as the undertaking of research.

There are standards consultants who can help you manage standards and certification processes. For a list of consultants, contact New Zealand Trade and Enterprise.

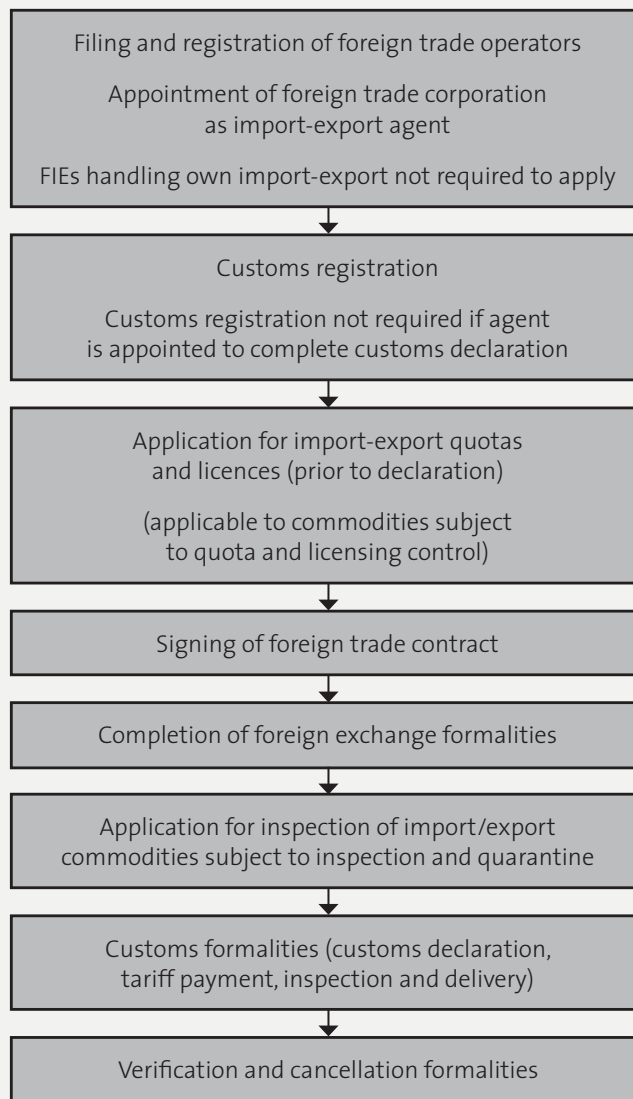
KIWI LESSON – STANDARDS ARE EXACTING

“When importing products into China, the business elements are the same as almost anywhere. It’s about managing and keeping a close eye on inventory. Shipping frequency, product presentation, quality of product are all standard import issues and that’s really no different in China than anywhere else. In fact today I would say some of the standards that we’re being required to meet in China are as exacting as any of our more traditional markets. The needs that we’ve identified are ensuring that we deliver on time, that we deliver as intended and that we meet the customer’s needs.” – Doug Ducker, Managing Director, Pan Pac

Using Hong Kong

Hong Kong is a separate territory from mainland China for many functions of interest to exporters. It has its own rules and regulations which are administered by Hong Kong’s Customs and Excise Department or Food and Environmental Hygiene Department.

Import-Export Flow Chart



(Hong Kong Trade Development Council (2007). Guide to Doing Business in China.

KEY LEARNINGS

- Get professional help. Do not DIY.
- Use customs agents registered with China Customs.
- Clearing Chinese Customs can sometimes be time consuming.
- Numerous government agencies control quality and safety standards.

