

Free mission to China for the construction and mechanisation sectors



A group of European furniture manufacturers, looking to expand their markets to east Asia, travelled to Guangzhou in China to visit one of the largest furniture fairs in the region. Translated business cards in hand, this group spread out across the floor to talk with potential distributors and partners. Much to shock of a few of the small companies in the group, they found exact replicas of their European-made products.

Further conversations with higher-end Chinese manufacturers attending the same fair revealed that even local companies refused to ship product in China for fear of copying. Intellectual property protection was simply stronger in other markets.

Stories like these are one of the reasons why European SMEs often avoid doing business in China—a lack of intellectual property protection stops companies from forming lasting business relationships and also from exporting their products.

Not just a customer journey, but a culture journey

Fortunately, this group of SMEs that we were escorted in China stayed longer than the fair, and we had the opportunity to challenge their perceptions of doing business in China. We challenged the company's perception that the only way to protect their business was through legal protections. Rather, through the “culture journey”, we provided the companies with a cultural insight into why Chinese consumers buy European products, and how companies could use this knowledge to protect themselves.

Similar to markets such as Russia, segments of the Chinese market that are not purely price driven are driven by status. The fastest growing segments of car sales in the US, according to a study conducted by McKinsey, are sport-utility and luxury vehicles. And the premium market is where European companies are, of course, the strongest—especially from a status perspective.

Our furniture manufacturers had the same perception of their own industry—high-end European furniture might be a good entry point for their products, as long as they could protect the integrity of their brand.

Importance of the aspirational class

By the end of their journey, however, the companies had learned a few industry-specific cultural lessons on doing business in China:

- 1) While not always the case, status still drives purchases on the higher-end, but there is an “aspirational class” that looks to buy into a European brand name, but cannot necessarily afford higher price tags. There is a growing market for mid-level quality from Europe.
- 2) Building relationships with local suppliers and distributors who would “sell the story” was key to success in the market. Those consumers that were part of the aspirational class did not want copies of products, but the genuine article. Understanding who in the market could convincingly carry that message was key.

The importance of local partners cannot be underestimated in China, and this means building trust relationships, something which is particularly difficult where companies will already have low levels of trust due to IPR concerns. This is one of the reasons why the companies on our journey learned new methods to find and build trust with local partners, but also came to learn that an investment into China as a new market for exports is a long-term plan.

A journey to China is a long one, though potentially rewarding for those companies who understand the local culture and take the right path.

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