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Working Paper
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HOW COMPETITIVE ADVANTAGES CAN LOWER ENTRY BARRIERS IN CHINA: CASE STUDIES IN THE INTERIOR BUILDING PRODUCTS INDUSTRY

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EXECUTIVE SUMMARY

Over 20% of the world's population, or 1.2 billion people, live in China, and more than 20% of the urban workforce is employed by foreign and private firms. Disposable income is growing, 10% annually since 1991, making imported products more accessible. China continues its transformation from a centralized to a market economy, and gross national product has grown from 10% in 1978 to 36% in 1996 (Luo, 2001). China's real estate industry is expanding rapidly due to privatization, tax incentives, and plentiful mortgages. Due to housing reforms that encourage Chinese citizens to own homes, there has been a steadily increasing demand for building products.

Though the Chinese market seems promising, relatively few US firms report successful participation, and managers say this is due to a dirth of complete China business information. Current research on interior building products in China falls short of specific market information, concluding only that there is a potential market. There is little information identifying Chinese product-market characteristics, company competitive advantages, entry strategies, and company performance. This study sought to fill this information gap. The research first developed a model depicting the affects of business objectives, product-market, competitive advantages, and entry strategies on firm performance. Based on this model, a questionnaire was developed and administered using in-depth interviews with Chinese firms and foreign firms doing business in China.

Study findings suggest that foreign firms in China successfully leverage competitive advantages to overcome entry barriers. Cost advantage entry barriers were overcome by scale and scope economies; product barriers lowered by customization and broad product mixes; capital barriers by partnering with Chinese firms experienced in global business; switching cost barriers through shared promotion and education; distribution barriers by increasing Chinese representation, and government barriers by acquiring policy knowledge.

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INTRODUCTORY REMARKS

Over 20% of the world's population, or 1.2 billion people, live in China, and a fifth of the of the urban workforce is employed by foreign and private firms. Disposable income is growing, 10% annually since 1991, making imported products more accessible. China continues its transformation from a centralized to a market economy, and gross national product has grown from 10% in 1978 to 36% in 1996 (Luo, 2001). Much of this growth is due to market reforms, and the large percentage of young Chinese employed by foreign firms (Dresdner 2000).

China's real estate and construction industries are expanding rapidly due to privatization, tax incentives, and plentiful mortgages. More specifically, housing reforms that encourage Chinese citizens to own homes has resulted in an increasing demand for building products (China Daily 1999a). A new home in China generally means purchasing a concrete shell, with no fixtures, doors, windows, flooring, or stairs, in an apartment building. Furthermore, purchasing previously owned (i.e. government) housing requires retrofitting and remodeling outdated or dilapidated apartments. The increasing number of homeowners has caused a surge in interior building materials expenditures. The Beijing Statistical Bureau reported that household per capita expenditure on construction materials increased 310% between 2000 and 1999 while do-it-yourself building materials increased 1,420% (Asia Pulse Analysts 2000a).

This project focuses on interior building materials for two main reasons. First, structural wood products in China have not enjoyed much success, perhaps because wood is not an officially recognized structural building material in China. Universities exclude wood from construction and engineering curriculums, instead focusing on brick, steel, concrete, aluminum, and glass. As such, there is little knowledge and faith in the viability of wood as a construction material and its safety from fire (Krieger 1999). There are three building codes in China; design code, inspection code, and fire code. These building codes do not include wood frame construction, although much work is being done by organizations like American Forestry and Paper Association to assist in creating wood codes. From the perspective of the US firms wanting to sell in china, interior building products may represent a more immediate opportunity. Wood is valued in interior applications like flooring, cabinetry, and doors, so there is no mindset to be overcome. Second, there has been much time and effort devoted to the structural building products market, so this project does not wan to duplicate such efforts. The American Forestry and Paper Association is actively conducting seminars and trade shows advocating wood for construction. Seminars demonstrate construction techniques, earthquake resistance, and fire safety of wood (Clear Thinking 2000b).

Though the Chinese market seems promising, relatively few US firms report successful participation, and managers say this is due to a dirth of complete China business information. Current research on interior building products in China falls short of specific market information, concluding only that there is a potential market. There is little information about this market, in terms of a variety of variables like Chinese product-market characteristics, competitive advantages, entry strategies, and performance. This study sought to fill this information gap, and conducted in-depth interviews with firms in China.

CHINA SCENARIO

OPPORTUNITIES

Housing Reform

China has been steadily moving from a state centralized economy to a market economy since reforms were announced in 1978. State owned enterprises are being privatized, and foreign investment and competition are increasing. Due to such market reforms, China's gross national product has grown from 10% in 1978 to 36% in 1996 (Luo 2001). China's market reforms include housing. Privatization of housing was introduced in 1987, when a 50-year land lease of state owned land was granted to a private developer in Shenzhen, a special economic zone in southern China. State-owned facilities have been privatized, tax incentives given to developers, and mortgages have emerged and become available to citizens (Luo 2001). Since 1998, 58 taxes and levies have been eliminated for developers, encouraging investment by lowering land and construction costs. Foreign investment is being heavily solicited by preferential policies that include exemption from investment regulatory taxes, access to funds, and the ability to remit after-tax profits abroad. Of the 25,000 real estate enterprises on the Chinese mainland, over 20% are overseas developers (Asia Pulse 2000c). The sale of government owned housing to individuals has been successful. On average, 60% of public housing has been sold to individuals (Asia Pulse 2000b), and 70% of urban housing has been or is the process of being sold to individuals (Xinhua News Agency 2000d). As of April 2000, rent tripled in Beijing to encourage house purchasing over renting. (Agence France Presse 2000). Multi-layered housing policy has been introduced in order to make home ownership accessible to all income classes. High-income families are required to pay the market price for housing; middle-income families pay government chosen prices below market value; and low-income families rent under government-subsidized rent control. Chinese citizens are encouraged to own homes. A new home in China generally means purchasing an apartment concrete shell, which has no fixtures, doors, windows, flooring, or stairs. Furthermore, purchasing previously owned or government housing requires remodeling outdated or dilapidated apartments.

Mortgages have become widely available, and the types of housing loans have expanded to include repair loans. Liang Xiaoqing, Deputy Director of the Housing Industrialization Promotion Center, is trying to innovate methods of developing intermediary services and reducing loan costs for borrowers. She has called on the Ministry of Construction and the People's Bank of China to collaborate on innovative housing finance and repayment methods (Xinhua News Agency 2000e). One stumbling block in long-term financing has been that western construction experts estimate that the useful life of the typical Chinese concrete construction housing is only 15 years, leaving borrowers with no collateral after 15 years (Clear Thinking 2000).

Rising Incomes

China has one fifth of the world's population, one quarter live in urban areas, and one fifth of the urban workforce is employed by foreign and private firms. The 25-34 years old age bracket represents one third of the population, and this demographic will drive China's housing market into the foreseeable future. Disposable income is growing, 10% annually since 1991, making imported products more accessible. Between 1991 and 1999, China's gross domestic product grew an average of 10% annually (Luo 2001; China Statistical Yearbook 1999). For the first time in six years, income is growing faster than household savings (Dresdner et al. 2000).

China's Limited Wood Supply

There is increased demand for imported wood products due to China's limited supply of wood. In response to major flooding in over-logged areas, in 1998 China instituted logging bans in along the Yangtze and Yellow Rivers. The logging-ban trend has continued to include forested areas in all regions of China. It has closed timber markets and timber-processing plants to discourage illegal logging (China Online 2000). Many of the new regulations are not adhered to, so last February China's State Administration of Forestry announced that it would perform a nationwide checkup on logging and logging ban violations (Xinhua News Agency 2000a. Even though logging violations persist, China's national conservation policy has resulted in a limited supply of sawn lumber and wood products.

Imports of sawn wood products have increased almost 29% since the ban (Xinhua News Agency 2000c).

THREATS

China's impending entry into the WTO, increasing logging bans, rising incomes, and extensive housing reforms create favorable market conditions for US interior building materials in China. WTO entry will lower trade barriers, increasing market accessibility. The logging ban decreases supply while housing reform and rising incomes increase demand. However, there is a unique set of business obstacles in China.

Trade Barriers

Many trade-related barriers exist in China like value added tariffs, corruption, bias against wood, lack of technology transfer, unfavorable building regulations, and language barriers are daunting. Tariffs are considered the largest threat to interior building materials importers, due to the value added tax. While raw log imports have no tariff, the value added tax (VAT) is 13-17%, and VAT is calculated after first imposing an import tariff and consumption tax. This results in a total tax ranging from 37-47% (US Department of State 1999). Smuggling from SE Asian and Russian borders is widespread because it bypasses VAT. Product standards and requirements differ for products originating from different countries and for domestic products. China's policy-making process is not transparent, making it difficult to determine the policy-making process behind operating conditions for foreign companies, product standards, import quotas, and licensing (US Department of State 1999). Interior building materials manufacturers must deal with non-transparent business partners; promises made by Chinese business partners on marketing claims, sales networks, management goals, and government investment incentives must be scrutinized and confirmed by the foreign firm (Helsell 1999).

Lack of Technology Transfer

China does not have the qualified work force or advanced technology needed to meet rising demand for safe and modern residential and commercial buildings (Business World 2000). Wood is not a recognized building material in China and is not included in engineering or architectural curriculums at Chinese universities. There will need to be considerable educational efforts on the proper applications and installation of foreign interior building materials to ensure optimum product performance.

Uncertain Business Environment

Though China has shown consistent economic growth over the last few years, the economy is not considered stable and could change quickly. Political stability is viewed as questionable, and China's economic commitment to foreign investment , while significant, is not backed by sufficient a business-friendly legal structure. Regulations change often and are not consistently enforced.

Insufficient Distribution Channels

Foreign companies lack a usable physical infrastructure, and confusing local and federal regulations compound this problem. Distribution channels are questionable and there is a lack of telecommunications and computerized records and data. Foreign firms say that even more challenging than physical distribution in China is the distribution policy. Confusing regulations are not consistent. The right to engage in distribution services is limited to a few companies with state authorization, causing many foreign investors to set up factories in China and distribute products through Chinese partners. China has vowed to change these confusing policies with entrance into the WTO, allowing US companies to establish, own, and operate distribution services within three years of WTO entrance (US Newswire 2000).

RESEARCH OBJECTIVES

US companies appreciate China's market potential but are floundering for information to overcome market threats. The information void may be due to China's lack of business data collection and reporting, with consumption statistics being largely unrecorded. Trade data can be contradictory across agencies and tends to not be standardized among regions. China is a rapidly changing market, making most information prone to obsolescence.

In order to understand why so few US companies are participating and successful in the Chinese market, this project will study pre-existing conditions and strategic options of firms in the Chinese market. This study aims to close the information gap in undertaking a multi-phase, multi-year project. Phase one calls for borrowing, adapting, or developing a broad conceptual model that attempts to reflect a full range of relationships between Chinese market conditions and strategic choices, and then testing that model through case studies in China. By identifying variables important to the Chinese market and then examining the relationships among those variables, we hope to better understand the reasons behind the lack of US participation and success in China. Hopefully, this will enable firms to better understand and capitalize on opportunities presented by China's impending WTO entry, supply constraints of the logging ban, and increased demand caused by housing reform.

MODEL

The literature reviews suggested a preliminary model, the Entry Strategy Model by Green, Barclay, and Ryans (1995). Their model investigates the relationship among product-market characteristics, entry strategy, sources of advantage, competitive positioning, and firm performance. The Green model was domestic, so we created an augmented model (Figure 1) that includes components relative to China. Preliminary interviews with foreign firms doing business in China suggested that business objectives might be important, so components of Paun's (1993) model were incorporated. The model was augmented based on the literature reviews. Model components include are described below.

Business Objectives

A comprehensive paradigm of international business objectives is offered by Paun (1993). In general, firms enter new markets in order to accomplish one or more of eleven business objectives. Increase profits – enhance performance through new markets. Strong bargaining power – access new markets with a favorable negotiating environment. Increase sales volume – follow new opportunities for sales. Long--term relationships – establish long-term relationships for building trust and involvement. Secure government contracts – increasing competition for a decreasing number of government contracts means exploiting global opportunities. Gain entry into new markets – saturated markets drive firms to new market to achieve target sales. Excess production capacity – large production capacities than exceed existing demand led firms overseas. Generate customer goodwill – generating customer goodwill now may later yield customer loyalty. Dispose of surplus products – sell mature or obsolete products. Access distribution channels and marketing expertise – partnering with firms that have extensive channels and marketing expertise. Overcome an overvalued currency – enter new markets to gain currency advantage.

Product-Market Characteristics

The product-market portion of the model is comprised of five components. Product means the quality, standards, customization, and technological requirements needed for product success. Market size refers to the market's current size plus the annual growth and potential size. Customers denotes demographic characteristics, buyer needs, and target market cultural preferences. Competitors is the number and concentration of competing firms. Entry barriers, found to be a key component in this phase of the research, are various and include tariff, infrastructure, and buyer expectations (Czinkota, 1994; Onkvisit and Shaw, 1986). Because entry barriers factored heavily into study findings, data was consolidated into Porter's (1980) entry barrier framework of cost disadvantages and economies, product differentiation, capital requirements, customer switching costs, and government policy.

Figure 1. China Market Model

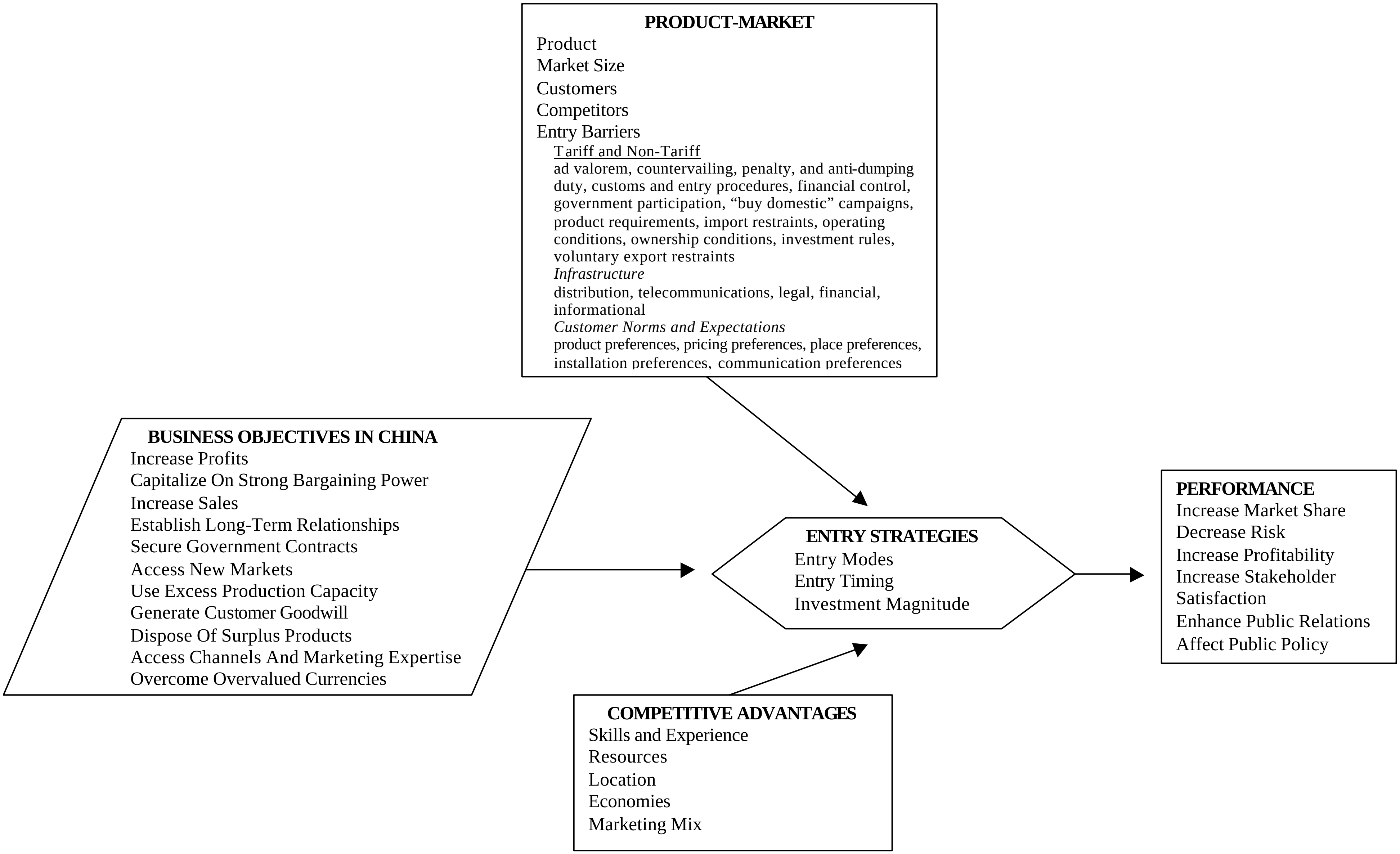

Table 1. Components of Model Variables

CHINESE PRODUCT MARKET	
Product 1. Quality 2. Standard vs. customized 3. Standards requirements 4. Technological requirements	Market Size 1. Current size 2. Potential size 3. Expected annual size growth rate
Customers 1. Cultural preferences 2. Demographics 3. Needs 4. Financial resources	Entry Barriers Protectionist 1. Tariff Barriers a. Ad valorem duty (% of assessed value) b. Specific duty (fixed charge per physical unit) c. Countervailing duty (import charge to offset domestic subsidy) d. Penalty duty (incorrect/false documentation, failure to comply with customs procedures, attempted smuggling) e. Anti-dumping duty (imposed on goods imported at a lower price than sold in domestic country) 2. Non-Tariff Barriers a. Customs procedures (administrative fees, documentation, valuation) b. Entry procedures (administrative fees, documentation) c. Financial control (profit remittance limits, exchange control) d. Government participation (procurement policies, domestic assistance programs, subsidies) e. “Buy Domestic” campaigns f. Product requirements (labeling, standards, packaging, phyto-sanitation certification) g. Import restraints (quotas, embargoes, proportion restrictions of foreign to domestic goods, boycotts) h. Operating conditions (forced sourcing from specific places, # of local employees, % exports) i. Ownership conditions (% foreign ownership) j. Investment rules (limits on FDI) k. Voluntary export restraints (country of origin agrees to limit exports) l. Government takeovers (host country takes ownership of goods or facilities) Infrastructure 1. Distribution (transportation) 2. Telecommunications systems (phone, fax, computer) 3. Legal 4. Financial (banks) 5. Informational 6. Social (housing, health, education system) Customer Norms and Expectations 1. Product preferences 2. Pricing preferences 3. Installation preferences 4. Communication preferences 5. Place preferences
Competitors 1. Concentration 2. Number	

BUSINESS OBJECTIVES IN CHINA	
1. Profits 2. Capitalize on strong bargaining power 3. Sales volume 4. Establish new long-term relationships 5. Secure government contracts 6. Gain entry into new markets 7. Use excess production capacity 8. Generate customer goodwill 9. Dispose of surplus products	

10. Dispose of obsolete or perishable products 11. Gain access to distribution channels 12. Gain access to marketing expertise 13. Gain access to new technologies 14. Overcome Currency controls or an Overvalued Currency	

COMPETITIVE ADVANTAGES

Resources 1. Human resources 2. Foreign government contacts 3. Capital 4. Brand Name 5. Proprietary technology 6. Sourcing capabilities 7. Ethical and transparent business practices	Skills & Experience 1. Market knowledge 2. Consumer knowledge 3. Research and development 4. Language 5. Marketing 6. Production operations
Location 1. Proximity to domestic base 2. Special economic zones 3. Urban vs. rural	Economies 1. Scale a. Production (lower unit costs due to high volume) b. Purchasing (lower unit costs through large quantities) c. Financing (access to funds at lower costs) d. Distribution (lower unit costs due to high volume) e. Advertising (ability to standardize across markets) 2. Scope a. Flexibility in production design b. Flexibility in product mix c. Rapid response to market shifts d. Increased control and predictability e. Reduced waste f. Faster throughput g. Distributed processing capabilities 3. Learning
Marketing Mix 1. Product 2. Price 3. Place 4. Promotion	

ENTRY STRATEGIES

Entry Modes 1. Export a. Direct b. Indirect 2. Foreign sales office 3. Licensing 4. Franchising 5. Contract manufacturing 6. Foreign assembly 7. Foreign production 8. Partnership: joint venture 9. Partnership: alliance with a. US partner b. Chinese partner c. Asian partner d. International partner 10. Wholly owned subsidiary	Entry Timing 1. Number of previous entrants 2. Product life cycle stage 3. Time since first entrant
Investment Magnitude 1. Distribution 2. Product research and development 3. Product adaptation 4. Promotion	

BUSINESS PERFORMANCE

Increase Market Share 1. Annual market share growth 2. Current size	Decrease Risk
Increase Firm Profitability 1. Return on equity (ROE)	Increase Stakeholder Satisfaction 1. Customer

2. Return on investment (ROI) 3. Return on net assets (RONA)	2. Employee 3. Supplier 4. Other (e.g. Chinese government)
Enhance Public Relations 1. Content 2. Impression 3. Number 4. Policy impacts	

Competitive Advantages

Competitive advantages include five categories. Skills and experience refers to prior overseas business in terms of market and buyer knowledge, research and development, and marketing skills. Resources are firm specific assets like capital, proprietary technology, brand name, and sourcing capabilities. Location includes the location of foreign offices (e.g., Special Economic Zones) and distance from domestic base (Tse, Pan, and Au, 1997). Economies include economies of scale, scope, and learning (Porter, 1980). Marketing mix is product positioning in the market, in terms of product, price, place and promotion.

Entry Strategies

The entry strategies portion of the model includes the following: Entry mode or the strategy chosen to enter the market; Entry timing refers to when the market was entered as well as the current stage in the product life cycle; Investment magnitude is the amount invested in distribution, research and development, product adaptation, and promotional efforts.

Performance

The performance portion of the model contains six variables: market share, risk reduction, profitability, stakeholder satisfaction, public relations, and public policy. Market share is the company's current share of the market and annual market share growth. Risk reduction refers to a company's ability to limit exposure to various negative influences like political and investment risks. For the variable profitability, typical profitability ratios (ROE, ROI, RONA) reflect the firm's financial performance. Stakeholder satisfaction is a means to measure business performance and includes customer, employee, supplier, and other stakeholder perceptions of the company. Public relations was a variable added to the Green model because of the relevance to China. It includes the variables content, impression, and number of news or other press release hits (Freitag 1998). Finally, public policy was added. Much concern in China is over unfair barriers to trade. This variable was added to reflect changes in public policy brought about by the company as a way to measure success.

LITERATURE REVIEW

The model described in the previous section laid out a framework on which to organize the literature review. Five literature review streams were conducted following the five model components: the Chinese product market, competitive advantages, business objectives, entry strategies, and performance. The searches consisted of ABI/Inform, Lexis-Nexis, Social Science Citation, and Stat-USA database searches, as well as specific searches through the Journal of Marketing and Journal of International Business Studies, chosen due to their prominence in marketing and international business.

CHINESE PRODUCT-MARKET

The product-market portion of the model is broken up into five portions: competitors, customers, entry barriers, market attractiveness, and products. The literature review was conducted in order to characterize the interior building materials product-market in China. Literature in this field remains anecdotal, giving optimistic statistics for increased demand based on logging bans and housing reform.

Product

Fischl (1997) wrote an article on China's building materials market said that the need for new construction is immense. In 1997, the Ministry of Construction announced that 1.65 billion square meters of residential urban housing and 6.5 billion meters of residential urban construction would be needed over the next 15 years. The Ministry predicted that 2.9 billion square meters of residential housing would have to be renovated. Wolcott et al. (1997) reported that China's infrastructure modernization efforts will put tremendous pressure on domestic resources for building materials. Consequently, the use of imported building technologies and materials is increasing. In an article for the US Department of Commerce, the building materials market in Shanghai was studied (Shen 1998b), and five identified building materials opportunities are in transportation infrastructure projects, residential housing, renovation of existing housing and public facilities, industrial construction, and development of Pudong. Benny (1999b) did a study on China's housing market in 1999 and identified regional design preferences for construction. Beijing residents favor two bedroom apartments with a hallway, while Shanghai residents favor one-or two-room suites with no hallway. Shanghai favors the use of energy efficient doors and windows. Wang (1998) studied the decorative building materials market. Housing reform has fueled increased demand for interior products, and new office construction and hotel and office renovations have increased demand. Imported wall coverings, coatings, ceiling materials, wood doors and door frames, and energy saving windows have opportunities in luxury hotels and office buildings. AF&PA (2000b) reports that the majority of US hardwoods exported to China are going to Guangzhou for furniture production. Benny (1999c) described the furniture market in Kunming using secondary research and observation. Both solid wood and wood veneer laminate are used in furniture construction. Sun (1999) interviewed 26 Chinese furniture manufacturers to characterize their needs for materials and opportunities for US manufacturers and found solid hardwood products and wood-based panels are used by China's furniture industry.

Market Size

Housing reform and remodeling has fueled demand for interior products (Fischl 1997, and the wooden - flooring market is expected to increase 10-20% annually between 2001-2010. Strengthened wooden flooring is expected to have 10% of the market share in 2002, with 90 million square meters (Financial Times and China Economic Information Network 2001). The furniture and interiors markets in 2000 were estimated at US$28.5 billion (Clear Thinking 2000b). Furniture exports from China doubled from 1997-1999 (Shi 2000). A foreign agricultural service report (Clear Thinking 2000b) noted that China imports of forest products has continued to grow, especially for softwood and hardwood logs and hardwood lumber. The construction sector forecasts are expected to expand with a Ministry of Construction goal of 380 million square meters of new housing in 2000. The ECE/FAO Annual Forest Products Market Review (Shi 2000) says China is the world's third largest wood importer, importing one third of consumption. Wolcott et al. (1997) said China is experiencing an increasing need for new construction, fueling the oriented strandboard industry. Home ownership has boosted decoration and furnishing markets, increasing the retail market (The Economist 2000).

Customers

The literature focused on two types of consumers, end-users and manufacturers adding value to imports and retailers and designers.

End-Users. Suen (2000) looked at the interior building products market in southwest China and concluded that although demand is high, per capita income is relatively low, making US imports unaffordable to most families. Shen et al. (1998a) looked at the furniture market in China. China's rising incomes and the revival of traditional expressions of wealth is not seen as sufficient for buying imported furniture, although coastal regions are more affluent and more accepting of foreign imports. However, the availability of housing funds to Chinese citizens is increasing. Premier Zhu has called for establishment of minimum wage to help hourly paid workers and increase national income (Gittings 2001). It is now required that employees be given funds for housing, which can raise incomes up to 50%. Also, chousing is available at a discount to workers (The Economist 2000). Both the China Construction Bank (CCB) and Industrial and Commercial Bank (ICBC) of China have increased home loans by 43 billion RMB and 33.2 billion RMB, respectively. ICBC plans to grant US$12.1 billion in home loans in 2001 (China Online 2001). Also, CCB and ICBC have committed to increasing mortgages up to 25% by 2005 (AF&PA 2000b). Li (2000) looked at the housing market Guangzhou where a sample of new homes was tracked to follow the housing allocation processes. The results show that residents in open market housing generally have higher incomes and hold higher-status jobs than those in the subsidized housing. Households with children tend to have a higher likelihood to own, whereas single person households have a higher likelihood to rent.

Manufacturers/Retailers/Designers. Sun (1999) interviewed 26 Chinese furniture manufacturers to characterize their needs for materials and opportunities for US manufacturers. Customers with higher incomes prefer solid or veneer-laminated hardwood furniture instead of furniture made of wood-based panels. Imported high quality hardwood lumber wood veneer will be needed for upper-end solid furniture manufacturing. Panel products, will retain their dominant positions for middle and low-end furniture. Besides manufacturers, there is an increased demand from retailers and designers of interior products. There are 300,000 remodeling companies in China. According to China Building Decoration Association, this figure is up from 0 design companies in 1996 (Michaels 2001). These designers and manufacturers are developing product and shipment preferences, and the trend is toward more but smaller shipments, greater variety of product, more source countries, and more semi-finished and finished products (AF&PA 2000b).

Competitors

*The characterized China's forest products markets (*Shi 2000*)*. Sources of raw materials, especially softwood logs, have moved from North America to Russia and New Zealand (Shi 2000). Fischl (1997), writing on China's building materials market, found that domestic competition is considerable, but US products are seen as superior. Wang (1998) studied the decorative building materials market for the US Department of Commerce, to characterize opportunities in the current decorative building materials market in China for US companies. Domestic manufacturers dominate the market, due to price sensitivity, with Guangdong's manufacturers being the most efficient. The top ten countries in the high-end market are Italy, the US, Germany, South Korea, Britain, Canada, Australia, Finland, Spain, and Japan. The mid-standard market is dominated by Taiwan, Singapore, Malaysia, and Indonesia. American products enjoy high market confidence. Shen et al. (1998), in a US Department of Commerce study, characterized the opportunities in the current furniture market in China for US companies. Competition is fierce from local and foreign firms. Benny (1999c), in another US Department of Commerce study, described the furniture market in Kunming. The article concluded that US furniture manufacturers could not compete in this region, simply due to price sensitivity.

Entry Barriers

Tariff and Non-Tariff. China imposes high tariffs on semi-and finished wood products. Value added tax (VAT) is 13-17%. However, this is calculated after first imposing an import tariff, averaging 17%, and a consumption tax. This results in the VAT being calculated based on the product value plus the import and consumption tariffs. Some domestic and foreign firms avoid the VAT through negotiation and bribing. Suen (2000) and Chao (Clear Thinking

2000b) say that tariffs will be lower with WTO entry. AF&PA (2000a) outlined the changes in the wood products market if China was given WTO membership in more detail. Paper and wood tariffs, which now range from 12-25%, would be reduced to 5-8% with some tariffs as low as 1-2%. China will join the forest products initiative upon accession, meaning elimination of tariffs on wood and paper products. Wang (1998) studied the decorative building materials market and found that US companies faced high import tariffs, lack of standards, limitations on the ability to directly hire sales people, limitations on foreign access to China's wholesale and retail markets, lax enforcement of intellectual property rights, and a dispute resolution system. Import quotas and licenses are a protectionist barrier allowing China to limit the number of imports. The Ministry of Foreign Trade and Economic Cooperation (MOFTEC) determine import quotas based on domestic demand, which is determined by data collection and negotiation. However, there is little transparency in this process. MOFTEC requires import licenses on some goods. Many products are subject to quotas and import licenses (US Department of State 1999). China restricts the type and number of companies and agencies that have the legal right to import. Only sanctioned entities may import and distribute certain products into China (US Department of State 1999). However, the process for obtaining import and business licenses for foreign funded enterprises will be changing in 2001. Government participation is another way to minimize imports. State owned enterprises (SOE) are being reformed, but the state maintains control of key industries, and SOE reform has led to asset stripping, de-capitalization, wage manipulation, and tax evasion in some cases. Many SOEs are technologically inefficient leading to subsidization of these industries (Broadman 1999). Besides government subsidization of domestic industries, Chinese government procurement policies are non-transparent and no published laws and regulations are available. Preferential treatment is given to domestic bidders on government projects. Foreign bidders are often asked to provide technology transfer, given investment requirements, and required other counter-trade agreements that are not required of domestic firms (US Department of State 1999). There is an import substitution policy. The government sometimes denies importation of a product because a domestic substitute exists. Pricing formulas for imports differ based on the existence of a domestic substitute. Also, exemptions from limits on profits exist for domestic companies if their product replaces an import (US Department of State 1999). Many projects are inaccessible to imported material. It is required that all building materials for government and workplace-subsidized housing be domestically provided (Clear Thinking 2000a). Corruption and bribery are major problems in China at all levels of government. Premier Zhu has launched a campaign to end corruption and arrests have been steadily increasing. President Jiang has said that corruption is a threat to the communist party's power. The situation is seen as a race between economic development and corruption (Kazer 2001). China has a lack of transparency in its laws and business regulations. An Asian Investment Outlook Survey resulted in only 11% of Asian respondents showing increased transparency as a top three priority for 2001. Transparency International listed China as the 8th most corrupt nation in Asia. China's product standards and requirements are not transparent. It is difficult to determine the appropriate set of standards for the imported product. There is widespread use of different standards for products from different countries, as well as differing domestic product standards. Chinese standards may differ from international standards without explanation (US Department of State 1999).

Besides the lack of transparency in policy-making and product standards, there is a lack of transparency with Chinese business partners. Helsell (1999) characterized the investment climate in China and how companies can avoid certain pitfalls of Chinese investment. Investors must confirm marketing claims of partners, verify national sales networks, scrutinize management goals, double-check marketing plans, and confirm incentives' legitimacies. Puttock et al. (1994) studied trends in international forest products markets, and among many prominent domestic policies that serve as non-tariff barriers to trade, international trade in forest products is being affected by trade agreements, green consumerism, and global deforestation. Ruddell et al. (1998) identified emerging environmental barriers for US forest products companies in international markets in a 1998 secondary research study. The study talked about the need for trade policies and sustainable forest management practices that are complimentary rather than conflictive. The study concludes that it will be challenging to develop systems like eco-labeling and certification that provide credible environmental information while remaining consistent with GATT and WTO rules.

Infrastructure. Reliable information and business statistics are lacking in China, and growth statistics may be grossly exaggerated (The Economist 2001). China's legal system is not fully developed, due to three main obstacles. First, the legal code is ambiguous with property rights say that the Communist party owns land, but its use belongs to the people. Second, there is a lack of judicial independence (city and state authorities appoint and pay judges salaries).

Finally, corruption is rampant. Rather than argue cases, many litigants will pay kickbacks (Liu 2001). Ye's (2000) analysis of the investment climate in China suggested ways of preventing cooperative investments from turning into commercial disputes. Chinese law is ambiguous. Management control is not based on more than a 50% interest in a joint venture. Chinese companies believe that regardless of ownership weight, a joint venture should be jointly managed. Contracts are not binding in the same way as in the US. They are considered a framework of future cooperation by arbitral bodies and not enforceable obligations. Chinese law does not have a provision for liability in the case of contract misinterpretation, and the government does not have much influence. Despite these challenges, the Chinese legal infrastructure is changing and improving. The State Administration of Forestry is working on new administrative regulations to encourage foreign investment. They are setting up rules to protect the rights of land use to foreign companies. These rights will be safeguarded by law, giving foreign companies rights and benefits of forest utilization, ownership of trees, and other legitimate rights without the threat of interference by individuals or groups (AF&PA 2000b). There is a lack of intellectual property rights and increased trademark piracy in China. China poses a risk for private investors because of this lack of protection and lack of transparency in existing laws (Dorn 2001). However, education of proper enforcement is increasing and a legal framework for trademark and intellectual property law is being established (US Department of State 1999).

Distribution in China is complicated. Foreign companies are not allowed to own and manage distribution networks, wholesaling outlets, or warehouses outside of certain Special Economic Zones. Foreign companies are required to use Chinese state-owned companies to deliver goods. Transportation services are discriminatory and unreasonably priced for foreign companies (US Department of State 1999). The distribution infrastructure is expanding rapidly in China. China now has 7,500 miles of highway connecting provinces, compared to no system 12 years ago (The Economist 2001). China has four million road transport businesses employing 12 million people, but there are no state laws or administrative regulations dedicated to road transportation/distribution of goods. There are two pieces of regulation being worked on currently: Regulations for Road Transport (including an approval system for transport of passengers/dangerous articles and registration for operational businesses, vehicle examinations) and Measures to Approve Foreign-Funded Road Transport Service (encouraging foreign investment in road transport industries and infrastructure construction in a manner consistent with WTO rules) (Xinhua 2000b).

China's financial infrastructure is daunting for foreign investors. China's banking system has been historically run and owned by the state. Though the government has vowed to reform the banking system and put it on a more commercial base, four of the largest banks in China are still state owned. The Communist Party appoints virtually all of the key financial positions, and allots resources to wherever it deems fit (Business Week 2001). In 1998, 76% of these banks' lending went to state owned enterprises rather than to private companies or individuals. However, individual or household savings deposits make up 65% of all bank deposits (Lawrence 1998). Depositors trust that the government will cover any bank losses or failures, even though SOE bad debt to the banks is US$150 billion (Gilley 2000). China has tried to implement financial reform. They have announced policies to collect on loans given to SOE, even though these SOEs may go bankrupt in the repaying. However, at a May 2000 financial reform conference in Beijing, Chinese Premier Zhu Rongji announced that they would be taking a softer approach to financial reform. SOE would be given more time to pay off debts in hopes that they can grow. This would allow the government to implement economic reforms to increase competition and liberalize markets. However, this softer approach could possibly result in a loan recovery rate of only 10%, and the incurrence of more bad debt (Gilley 2000). Impending WTO entry has fueled financial reform. Chinese banks will have to compete directly with foreign banks. As such, the government has implemented changes encouraging banks to list on the Shanghai Stock Exchange and lend more to profitable, private sector businesses. Within two years, banks will be able to set interest rates (Roberts 2000). China has a long history of financial exchange control. They have maintained the RMB's value, letting it only move within a small range of value. Individuals are not allowed to exchange their money into US dollars, or deposit their money into foreign banks (Lawrence 1998). All Chinese enterprises borrowing foreign capital are required to register with the State Administration of Foreign Exchange (SAFE), meeting stringent criteria (Jones 1998). More recently, the government has slowly experimented with widening the RMB's value band. Although, there have been no announced plans for full currency convertibility (Lo 2000). There are 170 foreign bank branches in China. However, most of these banks are restricted to operating in foreign currency and with foreign individuals. Thirty-two foreign banks have obtained licenses to conduct RMB transactions with foreign firms and individuals in restricted geographic locations. According to China's WTO agreement with the US, foreign banks will be allowed to conduct RMB corporate business with Chinese companies within two years of entry, and retail RMB banking with individuals within five years of WTO entry (Ma 2001).

Customer Norms and Expectations. Four Shanghai based timber companies have set up a Shanghai timber test station, recognized by the Shanghai Quarantine Bureau for Import and Export. It is for wood traders to test the quality and grades of imported timber. It will serve to confirm the high quality and durability of foreign grades and help in timber identification and measurement. This will increase Chinese familiarity with foreign products. The facility has an international standard test facility (AF&PA 2000b). US$3 million has been invested in the Beijing International Forest Products Exchange, which opened in April 2000, in anticipation of increasing imports of unfamiliar products. It is located 20 km south of downtown Beijing and is the largest of its kind in China. It uses a computerized market information network to facilitate retail and wholesale sales, giving translation and internet services to suppliers in the exchange. The exchange is 13,000 square-meters and contains 140 rooms for imported timber dealers and major timber companies (China Daily 2000a). Officials claim that the first floor showroom has been leased to a US decorative wood products manufacturer (Clear Thinking 2000b). China has opened similar markets in Shanghai (Shanghai Furen Forest Products Wholesale Market) and Fujian (National Wood Exchange, East China Region) (Asia Intelligence Wire, 1999).

BUSINESS OBJECTIVES

The business objectives portion of the literature review will describe interior building materials articles that included company business objectives. There were no specific studies on business objectives in the Chinese interior building materials market, and so not all of the 14 business objectives will be represented here. The model section has already described each business objective individually (Paun 1993). Katsikeas (2000) and Dickerson (1998) studied US hardwood lumber exporters. Their studies did not focus on business objectives, but mentioned some of the reasons hardwood lumber manufacturers entered the export market. The most common reasons mentioned in studies were to increase profits, increase sales, and gain entry into new markets. Dickerson goes on to mention that hardwood companies export in order to use excess production capacity and dispose of surplus products. Hammett (1993) performed a study of southern hardwood lumber mills across 7 states in 1990. The survey found that access to a greater marketing base was considered the most important reason to export. Haas et al. (1997) studied the value-added hardwood industry in terms of demographic variables, international market position (product mix, markets served, channels used), and the importance of business relationships. They surveyed US hardwood dimensional lumber and flooring manufacturers. The study found that business relationships with domestic customers were more long term and partnership oriented than business relationships with international customers. Chinese businesses were cited as having different business objectives when using foreign suppliers. For thousands of furniture manufacturers, it is to gain access to new technologies. China has 30,000 furniture manufacturers that are looking for digitized, high-grade machinery. These companies said that automation of equipment is needed to meet rising demand and increase product quality.

COMPETITITVE ADVANTAGES

This review was conducted to identify how the forest industry competes in international markets, and to identify what lessons can be learned and applied towards China. A search was conducted for characteristics of companies showing success in China. This was to identify what competitive advantages in other industries leading to Chinese success can be applied to the US forest products industry.

Dickerson et al. (1998) studied marketing characteristics of hardwood products exporters through a survey of Michigan hardwood companies whose primary product exported was hardwood lumber. The most active firms exported more than one product, have been in business fewer years, and are larger than less active exporters. Active exporters have more internationally oriented marketing scope, use a variety of sales elements, and seek to increase the use of multiple sales channels. Active exporters have higher self-rated levels of knowledge concerning international business elements, although there are no significant differences in the respondents' levels of experience and training in international business activities. McCain (1999) reported the needs of training managers and executives from US companies doing business in China. The American Society for Training and Development held a symposium in Beijing in 1998. US executives and managers attending this conference were interviewed about their skill requirements for employees in foreign-based companies in China, and challenges/difficulties in addressing these needs. Prioritization of needs for managers was management development, technical training, and sales training customized to Chinese culture. Other current needs are skills in creativity problem solving, quality management and the use of technology in learning. Yang et al. (1999) surveyed 286 Shanghai-based managers of US, Japanese, and German subsidiaries to determine whether firms adapt their management to China, and what the differences among these home country multi-national corporations (MNC) are. The survey showed a high level of adaptation to Chinese or international business practices, regardless of the home country. The survey identified a few cases in which practices among US, Japanese, and German firms varied statistically. In particular, respondents viewed German management as less flexible than either US or Japanese management. German firms prefer to remain wholly foreign-owned. This, plus German companies' relative lack of flexibility, may be the source of the higher number of managerial problems in German-owned ventures than in US- or Japanese-owned ventures. The similarities among the management priorities and practices of Shanghai's Japanese, German, and US subsidiaries may indicate that local culture and conditions and general international business practice have had a greater impact on MNC management practices and policies than home-country customs-although some home country impact is present. Many firms surveyed found it worthwhile to localize human-resource functions and give local managers more power over the formation of key policies in the early stages of a venture's involvement in Shanghai. MNCs have increasingly adopted similar management policies worldwide-namely, those that emphasize merit, performance, experience, and some specialization. The survey results indicate that MNCs with flexible business policies may have the best chance for a lasting presence in China.

Dickerson et al. (1998) studied marketing characteristics of hardwood products exporters and concluded that a common goal of these companies is to increase exports. However, these companies may experience difficulty further expanding their foreign markets due to low allocations of financial and human resources directed toward exporting. Haas et al. (1997) studied the value-added hardwood industry in terms of demographic variables, international market position (product mix, markets served, channels used), and the importance of business relationships with domestic and international customers by surveying US hardwood dimensional lumber and flooring manufacturers. More than 75% of respondents were from single-site operations, and 77% had less than $6 million in total sales that year. Almost one-third of the study's 505 responding firms exported hardwood components. The channel most frequently used by hardwood component producers, for domestic and international markets, was an in-house sales force. Though many of these firms had low financial resources, they still successfully exported and utilized their company sales force to secure export markets. Wolff et al. (2000) examined the differences in competitive patterns of exporting among small firms and whether firm size plays a role in these differences, using secondary data taken from 157 actively exporting small firms. Larger (small) firms exhibited competitive patterns consistent with their size-related resource base. Larger firms have more resources to draw upon and invest in competitive patterns. Smaller (small) firms did not exhibit competitive patterns that could be viewed as consistent with their size-related resource base. In other words, small companies were not limited by their resources in what competitive patterns they chose. No significant difference in export intensity across three size categories was found. Though very small firms exhibited the highest absolute level of intensity. Guerin et al. (1998) studied product and supplier factors affecting US wood products sales in the UK through a mail survey of resellers in England and in-depth interviews. Consistency, promise keeping, and trustworthiness were the most important supplier attributes. Delays in delivery, price, delivery schedule, and minimum order size were the most important sources of supplier conflict. The study stressed the need for good after sales services in international transactions with a highly skilled sales staff.

Pan et al. (1999a) surveyed and interviewed 1000 MNC operations in China to study the impact of entry timing, mode of entry, market focus, and location advantages for MNCs in China. MNCs that entered China in an earlier year had a higher level of profit than those that entered in a later year. Equity joint ventures (EJVs) had a higher profit level than cooperative operations or wholly foreign-owned subsidiaries. MNCs that utilized well the location advantages in China had a higher profit. EJVs were more likely to survive compared to cooperative operations, while wholly owned subsidiaries did not differ from EJVs.

ENTRY STRATEGIES

The entry strategies portion of the model includes entry modes, entry timing, and investment magnitude. The search for entry strategy research was conducted in two streams: general entry strategies and China-specific entry strategies. It is important to identify what strategies companies use to enter new markets, and how those strategies were chosen. With that in mind, it is then vital to identify methods of entry into the Chinese market, and why these methods are chosen over other methods (i.e. the government encourages direct investment, direct exporting leaves the company with little control, etc.).

Entry Mode

Winter (1999) performed observation and secondary research to examine the reasons why there has been a fall in foreign investment in China and what opportunities are still open to companies considering this market. The study concluded that investment in China has decreased for two reasons: foreign investors have not seen the returns they were expecting and the government no longer wants low value-added investment. Suen (2000), in a report for the US Department of Commerce, looked at the building products market in southwest China. Potential exporters will probably have to at least establish an office in China or Hong Kong to establish the representation needed to secure customers. Joint ventures are encouraged by the government and seen as the best way to tap the market in the long run. Hammett's (1993) study of 890 southern hardwood lumber mills found 116 mills that exported, or had exported, some or all of their production to international markets. When selling to international markets, most of these mills chose to go through agents or brokers as their preferred mode of entry. Pan et al. (1999a) surveyed and interviewed 1000 MNC operations in China to study the impact of entry timing, mode of entry, market focus, and location advantages for MNCs in China. Equity joint ventures were more likely to survive compared to other cooperative operations, and wholly owned subsidiaries did not differ from EJVs. In a similar study by Pan et al. (1999b), a sample of 14,466 foreign firms in China was surveyed to determine the impact of order and mode of entry on profitability and market share. It was found that EJVs have a higher profitability than either wholly owned operations or contractual joint ventures.

Tse et al. (1997) examined how multinational corporations choose mode of entry and form alliances in China by looking at a longitudinal sample of 2,998 foreign business activities in China between 1979 and 1993. The study found that 41% of the companies entered as joint ventures and 35% chose the export mode. About half of all operations worked with the municipal government and 30.4% worked with provincial governments. The Open Cities and the Special Economic Zones (SEZs) attracted 48.7% and 44.5% of all operations. Firms choosing to go into China on their own made up 91.8% of the sample, 2.9% formed alliances with firms from their own country and 5.3% formed alliances with firms from other countries. Among these international alliances, 77.3% (4.1% out of 5.3%) chose to work with Asian firms (including Japanese and non-Japanese Asian firms). As China gained more experience as a host country, foreign investing firms adopted more equity-based ventures in China. Foreign operations did not spread to other parts of China as the country gained experience in attracting foreign operations. This may result from the lack of infrastructure outside of the SEZs and Open Cities, factors critical to foreign operations. Firms from countries with longer diplomatic ties assumed more equity-based operations than those with shorter diplomatic ties. Length of diplomatic ties affect location choice, confirming that firms from countries with longer diplomatic ties spread their operations into other parts of China (non-SEZs and non-Open Cities). Firms from higher power distance cultures preferred to have an equity-based entry mode. Firms can reduce their investment risks if the operations are set up in less risky locations (i.e., SEZs and Open Cities) or they work with higher-level governments. The larger the operations, the more firms engaged in equity-based operations. The larger the size of the operation, the more likely the firms chose to work with lower level governments. Operations that are located in SEZs preferred the equity-based entry mode. There are two reasons. First, firms are motivated by the investment incentives in SEZs and Open Cities. Such incentives are associated more with equity-based investments than with export and licensing arrangements. Second, part of the products from joint ventures can be sold in China and the purchasing power in SEZs is higher than in other parts of China. To capture the growing China market, firms are motivated to choose an equity-based mode.

Ross (1999) established a framework to assess a company's strategy within different cultures. The study utilized Hofstede's cultural dimensions together with Porter's generic business-level strategy typology to provide a specific 2-country (China-US) illustration of the strategy-culture fit. Culture provides a hidden context for strategy making. Knowledge of national (and regional) cultural dimensions provides a necessary starting point for understanding co-workers, partners, and competitors. The greater the power distance, collectivist, and uncertainty avoidance scores for a culture, the greater the preference for centralized, hierarchical organizations and large scale production facilities which appear to support firms pursuing cost leadership strategies. High long-term orientation suggests a cultural preference for continuing, stable, harmonious relations, within hierarchical organizations. Cultures with high collectivist scores depend to a great extent on connections to establish and maintain business relations. High individualist scores (along with high masculinity scores) tend to result in highly competitive organizational climates.

Walsh et al. (1999) focused their study on determining how firms make a foreign direct manufacturing investment (FDMI) vehicle choice in China. Seventy-four FDMI decisions made by manufacturing firms entering China were examined using a survey and case studies. Traditional FDMI decision models were not able to accurately predict the firm's end choices. The higher the degree of technological sophistication of a company, the more likely the company would choose the wholly owned foreign subsidiary (WOFS) vehicle. Firms focusing on the domestic market chose Equity Joint Ventures (EJVs) while firms with more of an export strategy chose WOFS. Firms chose EJVs for small markets and WOFS for large markets. Large firms vertically integrated (WOFS) in order to manufacture components. If a company was pursuing non-traditional customers, EJVs were chosen. A first-to-market-strategy led to WOFS. The more new-product development done at the foreign location, the more likely a WOFS approach was chosen. If new-product development was dependent on Chinese product and/or process technology, the more likely an EJV strategy was chosen.

Davis et al. (2000) surveyed 1383 strategic business unit managers from US based pulp and paper firms to examine two sources of isomorphic pressures (host country institutional environment and internal institutional environment), and how they affect a strategic business unit's entry mode choice. The results indicate that the distinguishing characteristics of firms primarily adopting wholly-owned modes of entry are their high levels of sharing with sister units within the parent company of plant and equipment, research and development, advertising and promotion, sales force and raw materials. Firms using exporting as their only entry mode were distinguished by their external (host country) isomorphism. The defining characteristics of this group are provided by the variables illustrating pressures to adapt to the local market including: differences in product usage, language and culture, channels of distribution, transportation costs and risks of selling in foreign markets. Mixed modes of entry were evident whenever managers felt less pressure to maintain either internal or external isomorphism.

Entry Timing

Pan and Chi al. (1999a) surveyed 1000 MNCs in China to study the impact of entry timing on success. MNCs that entered China in an earlier year had a higher level of profit than those that entered in a later year. Pan and Tse studied the business activities of a sample of 14,466 foreign firms in China to determine the impact of order on profitability and market share. Early entrants were found to have significantly higher market shares and profitability than late followers.

Investment Magnitude

Based on the findings of previous studies in the literature, greater investment magnitude modes of entry seemed to have better success in China. Pan and Chi (1999a) found that EJVs had a better success and survival rate than lesser modes of entry. Though this is true, there has been a consistent decline in foreign business investment in China. Winter (1999) performed observation and secondary research to examine the reasons why there has been a fall in foreign investment in China and what opportunities are still open to companies considering this market. The study concluded that investment in China has decreased for two reasons: foreign investors have not seen the returns they were expecting and the government no longer wants low value-added investment.

PERFORMANCE

The business performance portion of the model contains six variables: market share, risk, profitability, stakeholder satisfaction, public relations, and public policy. Katsikeas et al. (2000) reviewed more than 100 empirical studies to assess export performance measurements. It was found that there are problems conceptualizing the background and intervening parameters affecting export performance and that measurement selection was arbitrary rather than scientifically based. There was a tendency to employ measures used by other researchers regardless of their applicability to the specific research design. In order to remain consistent, the search for performance literature involved identifying articles for measuring performance based on strategic decisions. The reason for this was to identify how and why decisions that are made in various situations result in success or failure. With forest products companies being new to the Chinese market, it is important to identify keys to successful performance.

Green et al. (1995) developed and tested an entry strategy performance model using archival data on companies in the software industry. This model formed the basis for the research model developed for this study. It was found that product entry strategy, the timing of entry, the magnitude of investment at entry, and the area of competitive emphasis at entry, affects long-term performance in the marketplace. Pan et al. (1999b) studied the business activities of a sample of 14,466 foreign firms to determine the impact of order and mode of entry on profitability and market share. It was found that early entrants have significantly higher market shares than late followers.

Abrahmson et al. (1990) performed a multi-sector survey study of 138 Canadian companies doing business in China with 30 confirmatory interviews with managers of Chinese companies to determine success factors. Local Investment through value chain transfer, high levels of perceived uncertainty, prior Chinese and international experience, and the ability to build business relationships were significantly positively related to profitability and performance. The study found that less formal business relationships were more successful than formal committee based relationships. Pan et al. (1999a) surveyed 1000 MNC operations in China to study the impact of entry timing, mode of entry, market focus, and location advantages for MNCs in China. MNCs that entered China in an earlier year had a higher level of profit than those that entered in a later year. Equity joint ventures (EJVs) had a higher profit level than cooperative operations or wholly foreign-owned subsidiaries. MNCs that utilized well the location advantages in China (like location in cities and SEZs) had a higher profit. EJVs were more likely to survive compared to cooperative operations, while wholly owned subsidiaries did not differ from EJVs. Pan et al. (1999b) studied the business activities of a sample of 14,466 foreign firms in China to determine the impact of order and mode of entry on profitability and market share. Early entrants have significantly higher profitability than late followers. Equity joint ventures have a higher profitability than either wholly owned operations or contractual joint ventures. Company efficiency and size affect the performance of firms.

Freitag (1998) studied possible measurement methods to assess public campaign effectiveness using observation and secondary research. It was concluded that measurement approaches need to be brought in at the campaign planning stage; the plan must include clear identification of the campaign elements; desired effects must be tied to overarching goals and objectives; individual campaign elements should be pre-tested; measurement should be taken before, during and after campaign; a mix of tools should be used; “bottom-line” measurements must be included; and quantitative and qualitative assessments should be mixed. It was suggested that possible measurements be: distribution, coverage, impressions, advertising value, content analysis, goals and objectives achievement.

METHODOLOGY

This research was conducted in two parts. First, preliminary interviews were conducted to test the accuracy of the original model. Second, case study interviews were performed to test the model in its entirety. Each section of the methodology will contain explanations for the preliminary interviews and case studies.

SAMPLE

Preliminary Interviews in the US

United States companies that were interviewed were a sample of small-to-medium sized forest products manufacturers headquartered in Washington. A list of prospective companies was obtained from the Washington State Office of Trade and Economic Development. The list included international trade in which these companies are currently engaged. Companies producing interior building products and listed as doing business in Asia were chosen. Of these ten companies, only three actually conduct trade with China, and these companies were interviewed. Because of the small number of companies, the sample was widened to include forest products companies outside of Washington. Our total sample was increased to six companies. Two Chinese companies were interviewed in Seattle.

Case Studies in China

Twenty-seven interior building products firms (Table 1) underwent in-depth interviews, and the sample contained Chinese firms doing business with foreign suppliers (12, letter acronyms) and foreign firms (15, number acronyms) conducting business in China. Respondents were identified with the assistance of support organizations, government institutions, and industry experts in China. Contact information was obtained for the international marketing manager, vice president of international marketing, and export manager.

Table 2. Case Study Sample

Chinese Companies			Foreign Companies		
Pseudonym	Nationality	Product	Pseudonym	Nationality	Product
A	Chinese	Flooring	1	US	Interior Building Support Agency
B	Chinese	Flooring	2	Canada	Interior Building Support Agency
C	Chinese	Flooring	3	US	Interior Building Support Agency
D	Chinese	Cabinetry, Furniture	4	US	Government Agency
E	Chinese	Cabinetry, Furniture	5	US	Interiors and Structural Products
F	Chinese	Cabinetry, Furniture	6	England	Interior Building Retailer
G	Chinese	Interior building materials	7	US	Interior Building Materials Supplier
H	Chinese	Interior building materials	8	Australia	Interior Building Materials Supplier
I	Chinese	Windows	9	US	Interior Building Materials Supplier
J	Chinese	Interiors and Structural	10	US	Interior Building Materials Supplier
K	Chinese	Government Agency	11	Canada	Interior Building Materials Supplier
L	Chinese	Interior building materials	12	US	Interior Building Materials Supplier
			13	US	Interior Building Materials Supplier
			14	US	Interior Building Materials Supplier
			15	US	Interiors and Structural

DATA COLLECTION METHOD

After creating a working model, it was apparent that some of its components might not be researched at this time. For example, because the market is so new, companies have a shallow history in China, and business performance may not be quantifiable or meaningful at this stage. We needed to identify which components of the model were most importance to companies in the Chinese market in terms of the need and availability of information.

Preliminary Interviews in US

The companies were initially contacted and appropriate respondents identified through formal "gatekeepers" (Seidman 1991). Individuals with job titles like international marketing manager, vice president of international marketing, export manager, and international sales manager were then contacted directly at another time. The interviews were about an hour. Interviews with US companies were recorded in order to maintain reliability and validity (Seidman 1991). In order to test the comprehensiveness and clarity of the model, a preliminary questionnaire was developed based on all components of the model (basic model description in next section). It is designed to identify the need for information in each model component and then the availability to the company of that information. A component with a high "need" ranking and a low "availability" ranking would be a gap in available resources, and of great importance to research.

Case Studies in China

After the preliminary interviews, it was decided that the case study method would be used. The case study approach was chosen for three main reasons. First, survey and quantitative data answer "what" questions. This research project will not only be addressing what questions, but how, why, and relationship questions. Second, survey and quantitative data cannot be collected or manipulated due to the small number companies in the interior building products market in China. Those companies that could be surveyed have shallow experience. It would be impossible to have statistically significant results. Finally, because we will be identifying pre-existing characteristics and independent variables during the study process, we are unable to form formal hypotheses before the research began.

A multiple case study project was chosen over a single case study approach. Single case studies are chosen for one of three reasons: the case is unique, is testing a well-formed theory, or revelatory (provides previously unavailable information) (Yin 1989). Cases of successful wood products businesses in China may not be unique, but there are few of them. There is no way to formulate a theory as to why certain wood products companies are successful in China over others at this point because there is little information. There have been multivariate analyses using survey data from companies in China, concluding that certain characteristics or choices have led to their success. These, however, are not wood product specific, and most of the surveyed firms are not wood product related. Finally, in this project, all cases are revelatory. China is not consistent or predictable. Different companies will have different business objectives, competitive advantages, products, entry strategies, and performance levels. This project will be determining the relationship of these aspects to one another. Choosing one single company would be limiting the possible revelations. Also, by interviewing multiple participants, researchers can compare and check the validity of answers across respondents (Seidman 1991).

Questionnaire

A questionnaire was developed and pretested. The first section of the questionnaire was devoted to the business objectives. Three questions were aimed at illuminating the importance, achievability, and method of achieving business goals. The second section of the questionnaire, in general covering product-market characteristics, focused on entry barriers, and asked respondents to identify their most formidable entry barriers. The third questionnaire section focused on competitive advantages. Respondents were asked to describe those competitive advantages they felt had helped the firm to overcome or lower barriers. The fourth section addressed entry strategies, including modes, timing, and magnitude. The questionnaire ended with a section of demographic questions. The same questionnaire was used for foreign and Chinese companies, with some minor differences. Questions focused on business in China for foreign firms, and business with foreign suppliers for Chinese firms. The instrument was repeatable and documentable (Seidman 1991).

DATA ANALYSIS

In order to become familiar with each case and its own identity, each interview was typed and analyzed separately. Preliminary relationships were uncovered and proposed within each individual case. Each of the preliminary relationships was then organized into categories to uncover patterns or themes (Eisenhardt, 1989, Seidman, 1991), and a spreadsheet was used to track inter-variable relationships. Emergent propositions were tested on each separate case to identify repetition and replication across cases, and explanations for each were searched for within each case to explain why these relationships were being exhibited (Eisenhardt, 1989). The iterative process shaping our propositions ended as marginal theory improvement became very small (Eisenhardt 1989).

FINDINGS

Each case was first analyzed individually to extract any inter-firm relationships. Next, the cases were compared to one another to find emerging patterns across firms. It was found that two of the variables, business objectives and entry strategies, did present consistent relationships with other variables. However, relationships were strong between competitive advantages and entry barriers.

BUSINESS OBJECTIVES

Business objectives were added to the model after preliminary interviews suggested their importance in the Chinese market. However, case study analysis did not reveal a noteworthy relationship among business objectives and other model variables. While no emergent relationships could be identified from the interviews, some descriptive findings are interesting. Foreign suppliers seek to enter a new market to increase sales whereas Chinese firms focus on establishing relationships with foreign suppliers. Eight Chinese firms (73%) said that establishing long-term relationships with foreign suppliers was a primary goal. Only two foreign firms (13%) said establishing relationships was the main business objective.

ENTRY BARRIERS AND COMPETITIVE ADVANTAGES

We were able to consolidate data and find patterns at a broader level by placing these propositions into an accepted framework by Porter (1980). Porter's six main sources of entry barriers encompassed all of the entry barriers in the propositions. Below are definitions of each broad category barrier under which the propositions were enfolded.

Scale and Cost Advantages

Porter describes cost-advantage barriers as proprietary technology, favorable sourcing, special locations, and preferential subsidies. Economies refer to the net profit margin, through enhanced prices (patents, trademarks) or lowered costs (subsidies, scope, scale, learning, experience). The literature stated that increasing profits can be difficult in the price-sensitive Chinese market. However, this study found that many firms provide value-added niche products that earn a premium price.

Company A and Company C sold high quality, respected brands of wood flooring in the Chinese market. Chinese consumers had high brand recognition of and loyalty to these companies. Companies A and C were able to charge premium prices for products based on the company's reputation for producing high quality products. Consumers able to afford these brands were in a high-income bracket and were status-conscious. Company E, a furniture and cabinetry manufacturer, had a clear strategy for increasing profit margins. They were building a reputation for producing high quality and fashionable products, and developing a recognized brand name capable of drawing a premium price and wide profit margin. Company G, an interior building materials retailer, remarked that products with no substitutes in a unique niche are well received regardless of price. Many of these types of products are foreign and denote status. Company G described a foreign company that localized manufacturing to decrease costs. However, the same foreign product manufactured in China could not command the premium price previously charged for the import. By not being manufactured abroad, the product's premium decreased. Chinese consumers perceived it as lower quality, because it was domestically produced. Company I, a window manufacturer, was a specialized, high-end company targeting the niche market of wealthy consumers, specifically, high-class government officials and government contracts. The company's marketing strategy focused on imported German hardware. The company concentrated on "German engineering" in product promotion, to illustrate superior design and quality. Companies H and Six emphasized imports as foreign products are well respected by Chinese consumers. They are status symbols, denoting wealth and prestige. Companies H and Six, as interior building materials retailers, were successful in selling expensive foreign products, based solely on brand and country of origin. Company Fifteen promoted western-type living in order to charge a premium. Chinese citizens who returned from school or work abroad and Chinese striving for the western lifestyle are willing to spend more money to achieve these status symbols. Company Fifteen built demonstration wood frame housing in a suburb of Shanghai. The demonstration homes were so popular, that a large percentage of the entire development was dedicated to wood frame construction, rather than the originally planned few demonstration homes. The interiors of these homes were valued highly because they used western cabinets, flooring, doors, windows and fixtures. Western products are standardized and perceived as precision engineered. They are considered more desirable than the low to middle-income option of having workmen custom build the interior. Company Eight supplied raw materials to the Chinese interior building materials market. They were able to charge premium prices because they offered unique species that no competitors offered. The Chinese market is filled with choices; anything atypical is seen as a status symbol. Company Eight was able to command a premium price, due to the product's uniqueness.

Good Business Strategy 1: Your firm can increase cost advantages by a) increasing scale, scope, and learning economies or b) charging premium prices for proprietary or one-of-a-kind products.

Product Differentiation

Porter's definition of product entry barriers is based on the product differentiation of established firms in the market. Established firms can deter entrants by having strong brand name and customer loyalty (Porter 1980). However, product entry barriers in China for interior building products revolve around a unique set of circumstances. There are no building standards in China for door and window sizes, counter heights, stair rise and run, etc. Door and window sizes within the same apartment building and even within the same apartment are not standard. As such, interiors are highly customized in the low to middle-income market. Adding to this problem is the ready availability of inexpensive labor. It is inexpensive to hire a team of workers to completely outfit the interior of an apartment exactly to the owner's specifications and desires.

Company G emphasized that the lack of standards, and low to middle-income customers must either special-order doors and windows from the manufacturer or, more frequently, doors and windows are custom built on site. Company Three remarked that the lack of standards is an entry barrier for foreign, standardized, finished products. The Ministry of Construction has committed to establish standards and is working with US help on establishing codes and standards. Company Six, an interior building materials retailer, encountered the same barrier. Until there are standards and builders adhere to these standards, raw materials will continue to be more successful than kitchen and bathroom sets and standardized windows and doors.

Companies Nine and Ten supplied raw materials to the Chinese interior building materials market. Both were successful. In order to achieve this success, they offered high quality products and good customer service to attract and retain customers. Because Chinese buyers have many choices, and are discerning, even commodity-like products must be differentiated through quality and service in order to secure customers. A company offering undifferentiated or commodity-like raw materials to the middle-income market may do better than a door or window manufacturer due to the high need for customization in the Chinese market. The lack of standards in China, leads to the need for custom built interiors, doors, and windows. A foreign company cannot export a standard sized door and expect it to fit in a Chinese doorway. It was found, however, that though raw materials enjoyed greater success in the middle-income market, the deciding factors for Chinese consumers were the high quality of products and the offering of differentiating services.

Good Business Strategy 2: Product entry barriers decrease when your firm offers high quality, undifferentiated products.

Product adaptation and customization was found to be important in the Chinese market. Chinese consumers have preferences and needs that may differ from domestic country consumers. Company G specified that there is a need for foreign companies to adapt products to the Chinese market. They cited the failure of a US door company as an example. The company did not adapt their molded door skin technology to Chinese-preferred solid wood doors. Also, the US company did not respond to the unpopularity of glass doors in the Chinese market. Company I had sizeable resources allocated to the development of new and better products for the Chinese market based on consumer preferences. They were critical of foreign firms not adapting products for the Chinese market. They cited foreign windows opening out rather than in, being difficult to clean, and not being available in large enough sizes. Companies Two, Ten, and Nine all mentioned flexible production designs as being a competitive advantage. Chinese customers had specific needs and preferences for lumber cuts. This included direction and sizes of cuts.

These companies discussed the needed specifications with customers and then adapted production to produce the desired characteristics. Company Twelve, a veneer producer, claimed product adaptation as a competitive advantage. Most veneer produced in the US is by a process where the logs are peeled into long thin strips and then cut to size. However, in the Chinese market, logs crosscut into thin veneer is the preferred method and resultant look. Company Twelve told us that they were able to modify production designs to accommodate this need. Adaptation and customization was found to be important in the Chinese market. Several examples of the need to customize production were revealed. Having the ability to adapt production to suit the market was a competitive advantage. It is important for a foreign supplier to communicate with Chinese customers and have the ability to adapt production to the Chinese customer's preferences.

Good Business Strategy 3: Foreign firms can decrease product entry barriers by adapting and customizing products.

Product variety is needed to meet diverse target buyers' needs in China. Firms G, H, I, One, Five, and Six were successful in offering a broad product mix. They were able to attract target markets by giving buyers choice a wide range of products at different prices. Firms G and H's retail centers carried everything from groceries to furniture and decorative materials for do-it-yourself building projects as well as delivery and contracting services. Company G's retail centers carried everything from groceries to furniture and decorative materials to do-it-yourself building materials and interior building materials to restaurants. They offered delivery and contracting services. Company G stressed the importance of traveling to the US twice a year to find new products. Company H offered a wide range of products and services. They devoted a floor of their store to leasing space to design firms, giving customers the convenience of finding contractors on the retail site. Customers were able to hire a design company, and then buy interior fittings alongside a contractor who would be doing the work. Company G is in the preliminary stages of further increasing their product mix. They are developing relationships with a foreign furniture retailer and foreign discount retailer to develop 3-store shopping centers around China.

Foreign companies noted the importance of product mix. Company One talked about the competitive advantage of US companies as being their ability to offer many grades and many species to the market, giving consumers aesthetic and pricing choice. Company Six, an interior building materials retailer, attracted customers at all income levels by offering products in a wide range of prices. Company Five offered a variety of products from single structural or interior building components to wood frame houses with finished interiors. They could even provide company labor.

Good Business Strategy 4: Your firm can decrease product entry barriers by increasing the variety of products sold in China.

Foreign products are growing in popularity among Chinese consumers. Companies A and C wanted to introduce foreign materials into their manufacturing processes in order to take advantage of this trend. However, both companies were not familiar with the foreign products they would need. Both mentioned that initial misunderstandings of the quality and species of foreign products were commonplace and lead to the delivery of unsuitable materials for production needs. These misunderstandings diminished with experience. Once they were able to familiarize themselves with foreign products and corresponding quality, they continued to use them. Both firms invested time in establishing trust with foreign suppliers in order to learn about foreign products and determine if they were appropriate for the Companies' manufacturing. Companies E and F battled miscommunication in species and grades of foreign products. Company E, in order to become familiar with foreign products, always ordered small amounts on trial before committing to big orders. Company F claimed to have bought a whole container of all species and grades from the US in order to become educated about those products and determine which grades and species were best suited for manufacturing purposes. Companies Nine and Ten realized the need for Chinese consumers to familiarize themselves with foreign products. Foreign grades and species are unfamiliar to Chinese consumers. Companies Nine and Ten met with resistance when introducing new products to market. Though there was an initial reluctance to try a new foreign product, once the Chinese companies were convinced to try the lumber, the quality of the foreign products was respected. Once Chinese companies became familiar with foreign products, they continued to use them. Both Chinese and foreign companies cited the efforts of Chinese companies to familiarize themselves with foreign products. Initial reluctance to use foreign products was attributed to a lack of consumer knowledge about foreign grading systems and species. As Chinese companies became accustomed to foreign systems, their willingness to use foreign products increased. Due to the popularity of foreign products, more and more Chinese buyers are taking the initiative to become familiar with foreign products.

Good Business Strategy 5: As Chinese buyers increase their experience in using foreign products, product entry barriers decrease for foreign firms.

Capital Requirements

Capital, be it for production, research and development, or extending buyer credit, can present a formidable barrier. In China, buyer credit was the major capital barrier cited by respondents. Banks in China control international finance transactions, and Chinese and foreign firms said banks take three months to process payments to foreign firms. Interestingly, the long delays occur despite the availability of funds in buyers' bank accounts and the proper goods-received documentation. Banks are state owned, and financial exchange is strictly controlled, causing long payment delays for international transactions. Chinese firms need to convince foreign firms that payment delays were due to bank procedures and not to their inability or unwillingness to pay. Firms B, C, and D experience problems when paying international suppliers, and firms Ten and Fourteen experienced difficulties in getting paid. Chinese firms with experience in international transactions seem to smooth the payment process.

Chinese firms try to establish trustworthy reputations with foreign firms by proving their financial stability, listing on an exchange, and showing consistent payment of debts. Firms B, D, and F were concerned with gaining credit from foreign suppliers. Firm D presented itself to foreign firms as a financially stable firm with previous successful, trustworthy, and consistent international payments. Firm F was able to establish trust with foreign firms by being listed on the Shanghai stock exchange. Firms C and E had to establish good financial reputations and responsible payment records in order to secure new foreign suppliers.

Good Business Strategy 6: Capital entry barriers decrease as Chinese firms a) increase their experience in international business transactions and b) increase their trustworthiness with foreign suppliers.

Customer Switching Costs

Whenever a supplier enters a new market, it must convince buyers to use their products, and customers incur costs by switching from one supplier to another. Suppliers have to overcome these costs to their customers, before the customers will try a new product. In China, buyers are being encouraged to switch from plastic, metal, and composite products to wood products. Engineered wood products are brand new to this market, and not understood, tested, or trusted by Chinese consumers yet. The cost to the supplier of convincing new consumers of the efficacy of their product is referred to as the customer switching cost.

Companies One, Two, Three, Four, Six, Seven, Ten, Thirteen, and Fourteen talked about the need for promotion in the Chinese market. Consumers are generally unaware or unconvinced of foreign products and their uses. Company Six, an interior building materials retailer, complained that there was not enough promotional effort from manufacturers, and that retailers were investing more in advertising the manufacturers' products. Company Seven planned to set up a marketing center in mainland China in order to show products and promote products that were new to China (like engineered wood products and certain species). All of these companies attended trade shows and conferences in order to increase consumer awareness of foreign products. Companies H, J, and Six, interior building materials retailers, produced fliers with weekly specials and sales to promote products and attract consumers to retail locations. Companies Six and Nine described customer service as a form of promotion. Company Six introduced a special customer service training course that taught appropriate techniques for explaining specifications and applications of foreign products to Chinese consumers. This company rotated employees so that no retail location would be without experienced staff helping new employees. Company Nine implemented a similar program. Its salespeople became experts with the grades and species of raw lumber the company offered. The objective was for the supplier's salespeople to be able to prescribe the right product for the end-use described by the Chinese buyer. Foreign grades and species are not well understood in China. Simply telling a Chinese buyer the grade and species could result in delivery of an inappropriate product. Company Nine's salespeople are able to decide which grade and species were appropriate to the buyer's use, without having to explain the complicated foreign grading systems. Company C complained of the miscommunication in products from some foreign suppliers, and the time and monetary expenses associated with re-grading foreign products. Company Nine, with its training program, bypassed this confusion. Companies in this sample described promotion in three main ways: the ability of salespeople to accurately describe products to customers, product advertising, and special offers. With the lack of knowledge of foreign grades and species, the ability of a foreign company's salespeople to describe and prescribe the correct foreign product for the specific application is important. Telling a Chinese customer grade and species may result in confusion and delivery of the wrong product. Salespeople were able to determine the customer's end-use and prescribe the correct species and grade for that use. Several foreign companies implemented employee-training programs to increase salesperson product expertise. Advertising is important in this new market, because of consumers' lack of experience in foreign products. Many Chinese retailers stocking foreign products criticized the lack of advertising being done by product manufacturers. Billboards, commercials, and brochures helped to increase product awareness and brand recognition. Finally, for retailers, special offers were seen as important in attracting customers to stores. Coupons and weekly sales were common at foreign and Chinese retail locations.

Good Business Strategy 7: Customer switching costs lower as firms increase promotional efforts.

Education is important in this growing market. Companies One, Two, Three, Four, Seven, Nine, Thirteen, and Fourteen realized the Chinese customers' lack of knowledge about foreign species and grades. These organizations and companies held seminars and produced brochures defining and explaining terminology, grading systems, and species. Grades and species were clearly identified so that the Chinese buyers could choose the correct product for the desired use. It was stressed that educational efforts had to be provided in Chinese language, though many brochures have yet to be translated. Companies H and Three stressed the need to educate consumers about engineered wood products. Company H talked about the poor sales performance of medium density fiberboard due to the preference of consumers for solid wood. Chinese consumers are unfamiliar with and unconvinced of the value of this engineered wood product. Company Three talked about the need to educate Chinese consumers about the superior performance of engineered wood products over solid wood products. Chinese consumers thought that solid wood products are always the strongest and most aesthetically pleasing. Many companies spoke of the prejudice against wood as a building material in China. Wood is seen as susceptible to earthquakes, humidity, insects, fire, and decay. Moreover, foreign wood is not trusted as much as SE Asian wood. Company One discussed the reasoning behind this. SE Asia has similar climatic conditions as China, and therefore, wood from SE Asia is seen as better suited to withstand China's climate. China's humidity and insects increase the perception that foreign wood flooring and doors are less appropriate than SE Asian wood flooring and doors. Companies J, Five, and Fifteen talked about wood as a structural material and the huge prejudice against wood frame construction. Company J even considered changing to steel frame construction to overcome this hurdle. Company I talked about the preference of vinyl windows over wood windows. Environmental concerns have recently gained favor with the government. The government encourages the use of energy efficient vinyl windows over wood windows. Companies and organizations held seminars and training on the building specifications of wood as compared to other materials in order to diminish this opposition. Companies saw this education as vital to foreign success in China.

Correct installation of new products received foreign educational efforts. Improper installation led to product failure and loss of consumer confidence. Company J, Five, and Fifteen talked about the close attention that must be paid to the construction of wood frame housing. Company J talked about a project with improperly installed sill plates resulting in moisture build-up and rot in the wall studs. Companies Five and Fifteen talked about building only with company-trained framers to avoid product failure. The Do-It-Yourself concept is new to the Chinese market. As such, clear and thorough directions are a necessity for foreign products. Companies G, H, and Six talked about the need for manufacturers to include clear installation directions in Chinese, for do-it-yourselfers and Chinese contractors that may not have used the products before. Incorrectly installed windows, flooring, and doors have led to product failure and loss of consumer confidence. Prejudice against wood and ignorance of foreign products are two important educational needs for the Chinese market. Both foreign and Chinese companies implemented educational programs to teach consumers about foreign species, grades, and engineered wood products available, as well as corresponding performance specifications under correct applications. The third need, installation training, was even more important than the first two. Proper installation of unfamiliar products was key to their successful performance. Improperly installed windows and flooring or improperly framed housing had devastating results. Product failure resulting from incorrect installation was seen solely as product failure. Consumer trust in the product was lost and the products failed in the market. Chinese and foreign companies expressed the need for expert installation training for each new specific product or process introduced to the market.

Good Business Strategy 8: As firms increase their educational services, customer switching costs lower.

Distribution Channels

A new entrant to a market must secure distribution for its product. Porter defines this barrier as established competitors monopolizing existing channels. New entrants have to convince distributors to take new products through strategies like price breaks and cooperative advertising (Porter 1980). For the purposes of this study, distribution refers to the storing, transporting, and retailing of a company's product. It is the product's journey from the manufacturing plant to the consumer.

Company Seven encountered problems with Chinese import licenses. Chinese companies with import licenses are the only companies allowed to buy foreign products and bring them into the Chinese market. Manufacturers with an import license may import raw material directly from a foreign supplier, paying the VAT only once. Manufacturers without one of these licenses must buy foreign materials through an importer or other middleman. This adds a mark-up, and increases the cost of foreign products to the consumer. It is unclear how or why certain companies are given licenses over others. However, Chinese manufacturers with an import license have lower raw material costs and can increase profit margins. In a price sensitive market, this is a major competitive advantage.

Companies Two, Eight, Eleven, and Fourteen formed overseas sales offices in China to ease distribution logistics. Each of these companies cited the need for in-country representation to deal with customs officials, distribution companies, and the various local officials enforcing local regulations. Companies Two, Eleven, and Fourteen had Chinese agents; and Company Eight was in the process of finding one. Again, the decision to gain market access through an agent was made due to the complicated distribution networks in china. All of these companies felt it necessary to be represented by a native Chinese speaker with specific expertise in delivering products to market. Company Fourteen was planning to open a sales office in China in the future in order to increase control of their representation and their product markets. They were considering consignment venturing directly with distributors in order to capitalize on Chinese distribution expertise.

Foreign companies struggled with the complicated distribution system in China. It took time and effort to decipher China's system, and find consistent means of delivery. The foreign companies established representation in China to research the complicated distribution system and meet with customs officials and distributors. This local representation took on many forms, from hiring a Chinese agent, contracting with a distribution company, to establishing a local sales office out of which contacts could be made. While the methods varied, it was always stressed that in-country representation and Chinese language skills were necessary in overcoming distribution barriers.

Good Business Strategy 9: Distribution entry barriers decrease when foreign firms use Chinese representatives or import license holders.

Government

Many firms mentioned the importance of knowing Chinese tariff regulations. After researching the market, some found that imports of materials for remanufacture and export from China enjoyed a zero tariff. Firm Four mentioned that border trade had a reduced value added tax. For example, a foreign firm can locate a firm in Russia or Southeast Asia that exports to China in order to bypass the value added tax (VAT). Firms F, Seven, Eight, Nine, Eleven, and Fourteen circumvented the VAT a different way. China's tariff regulations state that primary materials imported for remanufacture and export from China are not subject to tariff. Each foreign firm is allotted a quota of material that can be imported under this zero tariff.

Another policy was the Chinese government endorsement of environmentally friendly products. With China's bid for the Olympics, the government is advocating the use of "green" products. Firm I noticed increased sales in vinyl windows advocated by the government as energy efficient. They also secured government contracts for energy saving windows in new apartment complexes. Company Six's "green" products sold well. Their marketing plan included taking advantage of this trend, by advertising and bringing attention to products that are environmentally friendly or have been responsibly produced. Company One noted benefits of this trend for North American companies. US and Canadian companies have continued to enjoy long-term advantages because their products come from well-managed sustainable forests. Company Five capitalized on their use of wood frame construction as an environmentally friendly practice. Due to the use of concrete and brick, a lot of dust is generated in cities like Beijing, resulting in degraded air and water quality. Compounding this problem in Beijing is the regular dust storms from the Gobi Desert. A new housing development in northern Beijing was being built. However, there were concerns that concrete and brick construction would not be appropriate in this area. Dust storms blow in through this area and then over Beijing, dumping sand onto streets and eroding buildings. Concrete and brick dust would exacerbate this effect. The foreign company was able to win the opportunity to build this housing development solely due to the reduced environmental impact of wood construction.

Company Four mentioned that border trade enjoyed a break on the value added tax (VAT). A foreign company can locate in Russia or SE Asia and export to China across those borders, bypassing the VAT. Companies F, Seven, Eight, Nine, Eleven, and Fourteen circumvented the VAT a different way. China's tariff regulations state that raw materials imported for remanufacture and export from China are not subject to this tariff. Each foreign company is allotted a quota of material that can be imported under this zero tariff. Respondents mainly exported hardwoods to furniture and cabinetry manufacturers in southern China, who then re-exported finished products. Many companies mentioned the importance of knowing Chinese tariff regulations. After researching the market, some companies found that imports of materials for remanufacture and export from China enjoyed a zero tariff.

Good Business Strategy 10: Government barriers decrease when a foreign firm increases its understanding of Chinese government policies.

ENTRY STRATEGIES

Entry strategies did not offer any consistent patterns or relationships with other study variables. However, some interesting findings were discovered in comparing foreign and Chinese entry strategies with each other and with Chinese government rhetoric. Company K, a Chinese government agency, advocated strategic partnerships and joint ventures between Chinese and foreign housing companies. Partnerships and joint ventures facilitated technology transfer and accelerated the modernization of housing technologies and expertise. However, none of the other Chinese companies in this sample expressed interest in partnerships or joint ventures. Companies A and J were involved in direct importing from foreign producers. Company A had foreign purchasing offices in Hong Kong and Europe, and Company H utilized agents for some products. All of the Chinese companies opposed the idea of partnerships and joint ventures, saying that they wanted to maintain 100% ownership of their companies. Company B emphasized that there was no advantage to having foreign partners. Company G was actually founded through a foreign company interested in a joint venture. However, after Company G received employee training and supplier contacts from the foreign company, they opted to maintain full ownership and to directly import foreign goods.

Only three companies expressed interest in dealing with foreign companies in deeper business relationships than simple importing, and those relationships were minimal. Company J wanted to obtain technical expertise and literature from North American companies in order to promote new housing technologies in China. However, Company J did not express interest in strategic relationships beyond technology transfer. Company I, a window manufacturer, acted as an agent for a foreign window manufacturer, but was considering terminating that relationship. Finally, Company H was interested in establishing a strategic alliance with foreign furniture and discount retailers in order to create three-store shopping centers throughout China. However, Company H was not interested in losing any ownership of their company. In contrast, many of the foreign companies were interested in developing deeper business relationships than simple exporting. Companies Nine, Ten, and Thirteen entered China with direct exporting but had since increased their investment and risk to opening foreign sales offices. In the future, Company Nine was considering increasing risk through a joint venture with a Chinese company, which would produce bamboo flooring for the North American export market. Company Seven entered China with direct exporting, but planned on opening an educational center and showroom. Companies Twelve and Fourteen entered the market with indirect exporting and have switched, or are planning to switch, to higher investment modes of entry. Company Twelve planned on establishing Chinese production in the future. Company Fourteen was interested in opening a foreign sales office and starting consignment venturing through distributors. Some foreign companies broke into China starting with high investment modes of entry. Company Five entered the market with a representative sales office and increased its investment to a joint venture. Company Six entered the Chinese market creating a wholly owned subsidiary and distribution center. They were considering creating several joint ventures with Chinese firms. Their strategy was to partner with local Chinese firms that have good reputations and recognized brand names in order to expand into other markets throughout China.

Companies Eight and Eleven were the only foreign companies to not express interest in increasing investment in China. Company Eight simply wanted to go from direct exporting to exporting through a Chinese agent. Company Eleven planned on going from indirect exporting through a US agent to indirect exporting through a Chinese agent, with no further plans to expand investment.

CLOSING COMMENTS

Chinese buyers perceived foreign firms as too focused on profits and not enough focused on building trust and mutually beneficial relationships. Patience is important in business dealings with Chinese companies. Many meetings, dinners, and correspondences are necessary to build relationships and for the Chinese and foreign company to understand each other's needs and goals. Companies wishing to enter China should not forget the time that must be invested before successful business can take place. Goals of increased profits and sales volume need not change for foreign companies, but they may consider building the relationships that Chinese customers value as part of their strategy.

China is generally perceived as a price-sensitive market. The availability of inexpensive domestic products can put imports at a disadvantage. However, this study that the Chinese market is heterogeneous, and some consumers are willing to pay more for high-quality, status products. Standardized products are seen as the epitome of western living, and affluent consumers strive to buy these products. However, for middle to low income consumers, interior decoration is highly customized. Workmen build much of the doors, windows, moldings, staircases, and cabinetry on site. Raw materials are better suited to this market. Due to fierce competition, quality and after-sales services are deciding factors for buyers, even with commodity-like raw materials.

There is a need for foreign companies to adapt products for the market. Chinese consumers have certain preferences for sizes and direction of cuts in raw materials. There are preferences in finished goods, like solid wood doors and easy-to-clean windows. Foreign companies entering the market may consider becoming familiar with customers' preferences and be willing to alter production to accommodate them.

There are capital requirements for foreign firms of extending credit to Chinese customers. In China, the banks have a lot of control over the movement of money across borders. China is still going through the processes of financial reform, and institutional restructuring, as well as promising to speed the availability of foreign capital after WTO accession. However, in the near future, both Chinese and foreign firms find getting bills paid a challenging problem. Banks may take three months to pay an international letter of credit after receipt of the proper documentation. Companies entering China may consider either accepting longer collection periods or circumventing Chinese banks by financing through international banks in Hong Kong and SEZs.

Customer switching costs are costs to the foreign company incurred while convincing Chinese consumers to try new products. In China, there are several challenges to foreign companies in doing this. There is a general prejudice against wood as a building material. There is ignorance of foreign products, their proper uses, and their performance compared to domestic or familiar products. Chinese and foreign firms should increase educational efforts to convince Chinese consumers to try and continue using foreign products. Consumers should be taught the advantages in using new, unfamiliar products and their performance equivalencies and superiorities. This includes running seminars, providing informational brochures in Chinese, and training Chinese workers in the correct installation of new products. A foreign firm entering the Chinese market may consider investing in education to ensure three things. The first is consumer familiarity with the product. This includes the grades and species of the products and equivalent sizes. The second is consumer acceptance of the new product. Chinese customers should be taught that foreign wood products will perform just as well or better under the same climactic conditions, than many domestic and SE Asian species. Foreign companies should teach Chinese consumers about engineered wood products and their performance as compared to Chinese preferred solid wood products. The third is proper installation and performance of the foreign product. Contract workers and the growing do-it-yourself market should be taught how to properly install unfamiliar products. This would include training for workers and providing do-it-yourselfers with clear instructional pamphlets in Chinese. Improper installation can result in product failure and loss of consumer trust.

China has many distribution barriers. Respondents identified increasing representation in China and locating in Hong Kong or SEZs as strategies in overcoming distribution barriers. Local representation allowed companies to have a company representative personally deal with customs officials and distribution companies. Locating in Hong Kong or SEZs gave companies the right to own warehousing and access distribution companies.

Government barriers are the traditional entry barriers associated with international trade. The respondents said this included infrastructure barriers like the lack of a legal system protecting business. This lack of legal protections is forcing Chinese buyers to find foreign suppliers with ethical and transparent business practices. US and Canadian companies are particularly valued suppliers and partners, presenting great opportunities for companies with honest reputations to enter the market. Although all of the rhetoric coming from the Chinese government suggests that joint ventures and partnering are the preferred method of entry in China, many Chinese companies disagree. They want to maintain 100% control of their companies and simply import raw materials. There is opportunity for simple exporters of raw materials not wishing to invest heavily and incur the risks of partnership. However, if a foreign company is a manufacturer of finished products, a joint venture or partnering relationship should be considered, due to the highly customized nature of Chinese homes. Doors, windows, flooring, and cabinets cannot be standard sizes and simply exported. The general nature of interior finishing is that the interior contractor either orders the exact sizes needed directly from the manufacturer, or they are custom built from raw materials on site.

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Appendix

APPENDIX A. CHINA STRATEGY FITNESS TEST

Circle the appropriate number for each question. Scores should then be added for a total number between 14 and 70. The scale at the bottom of the page indicates the prospective fit between your company business and Chinese buyers.

Cost Advantage			
Are premium prices earned for one-of-a-kind or value-added products?	Never	1 2 3 4 5	Always
Are production processes efficient and waste minimizing?	Inefficient	1 2 3 4 5	Very Efficient
Product			
Do you produce high quality products?	Never	1 2 3 4 5	Always
Can your products be adapted and customized for Chinese preferences?	Rarely	1 2 3 4 5	Extensively
Is the product mix broad?	Narrow	1 2 3 4 5	Broad
Are Chinese customers experienced with your products?	Not At All	1 2 3 4 5	Very Familiar
Capital			
Are your Chinese buyers experienced with international transactions?	Not At All	1 2 3 4 5	
How reliable are your Chinese buyers with credit?	Unreliable	1 2 3 4 5	Very Reliable
Are you willing to adopt longer payment collection periods?	Unwilling	1 2 3 4 5	Very Willing
Customer Switching Costs			
Could promotional effort be strong in China?	Weak	1 2 3 4 5	Very Strong
Could product education efforts be strong in China?	Weak	1 2 3 4 5	Very Strong
Distribution			
Can Chinese import license holders be approached?	Never	1 2 3 4 5	Frequently
Are Chinese intermediaries available?	None	1 2 3 4 5	Extensive
Chinese Government			
Do have a good understanding of Chine policies?	No	1 2 3 4 5	Extensive

GREAT 56-70: business success in the Chinese market is highly likely
GOOD 42-55: business success in the Chinese market is likely
AVERAGE 28-41: business success in the Chinese market is possible
POOR 14-27: business success in the Chinese market is unlikely at this time