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Sales Challenges In China As A Dynamic Competitive Opportunity

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Introduction

China is an important market for sales organizations because it is the fastest growing economy in the world. In addition, China has overtaken Japan as the leading exporter to the United States at \$110 billion and the standard of living has

improved dramatically. From a selling standpoint, Customer Relationship Building and “Quanxi” which is networking, trust and giving back are recurring selling themes.

Why Rapid Growth?

In 1997 80-90% of the traffic in the streets in Beijing, China’s capital city, were full of bicycles like a third world country. Now, the percentages are reversed and those same streets are full of cars, and in some cases they are better cars than in the U.S. The mushrooming traffic, the growing number of cell phones at Chinese ears and pagers in Chinese pockets, the new Beijing airport and the proliferation of Western-style clothes are all symbols of the phenomenal economic expansion in China in recent years and the standard of living is improving dramatically.

The keys to sales growth in China have been the increased manufacturing and availability of high quality technology and quality products at affordable prices. World Trade Organization membership has also promoted foreign investment, sales activity and has opened up more sectors for investment. Joint Ventures have been the most common mode of sales entry, Free Trade Zones have also facilitated foreign entry and the Chinese Banking Industry is more actively extending credit to large companies there.

Since 1978, when the late ruler Deng Xiaping began the opening of the Chinese economic system, China has seen unprecedented growth. The average personal income rose nearly four times, from \$200 to \$300 per year in 1978 to \$1100 per year in 2003. That is still very low, of course, but represents huge progress in a relatively short time. The economy on the whole has grown nearly 10 percent per year in the last two decades.

In China, in 1997 most people had never heard of the Internet. Now, there are 30 million Internet e-mail accounts in China. The big word in China is e-commerce and nearly \$92 billion of revenue in business-to-business transactions is expected this year alone. By 2004, that figure is expected to top \$1 trillion so that if you compare all those figures, you get a sense that something’s happened from 1978 to 2004.

Foreign investment is responsible for much of the economic expansion and driving a lot of the growth in China. One very successful U.S. company in China is Motorola, which in 1986 made a \$1.5 billion investment in manufacturing and marketing, building a factory for cell phones and pagers in a coastal city not far from Beijing in an effort to capture the Chinese. Motorola saw \$20 billion in sales revenue from 1995 to 1999 and their return on investment is phenomenal. So, there are tremendous opportunities for American sales organizations in China. There is no reason that companies from the U.S. should not take advantage of increasing trade with the nation of more than 1.3 billion people.

For example, Motorola is the largest foreign investor in China and in 1986, they invested \$1.5 billion to enter the market and \$3 billion in total since. Their sales practices are relationship building, trust building, ads and Customer Advisory Boards. From 1995- 2003, they generated \$40 billion in revenue, making China their most profitable market and accounting for 27% of their overall revenue.i

“Open Door Policy”

The “ Open Door Policy” which began in 1978, made growth reforms that wited the emphasis from a central planning system, to a market oriented system. This change resulted in an increase of 200 million industrial jobs in China, economic growth of 9% each year from 1978-2003. Also, individual income grew from \$300 annually in 1978 to \$1,100 in 2002 and 250 million people at the poverty level in 1978 decrease to 80 million in 2005. The education levels went from an average of 5 years in 1978 to 10 years in 2006 and foreign investment has noticeably increased, from \$40 billion per year in the 1990’s to \$53 billion in 2005.

Sales Role

In order for a corporation to be a player in the global economy it is hard for them to ignore the China market. Two decades after China initiated market driven economic reforms, its appeal to foreign investors is still strong. In recent years, Motorola, Sony Corporation, Intel Corporation and Matsushita Electric Industrial have invested billions of dollars in China. General Motors alone is investing \$1.5 billion to build a new auto factory in Shanghai. What attracts these corporations is

growth of the economy, size of the population at 1.2 billion and Chinese consumers that prefer and trust foreign products. Consumer spending in China is increasing with retail sales in 2006 up 13% over 2005 levels. While the average urban Chinese consumer per capita income of \$700 per year is low by western standards, it still reflects a rise in average urban household income and has driven increased household spending. At \$40 billion, China has attracted more foreign capital than any other developing country in 1996. China is now the world's 11th largest trading nation and a commercial export power.

Future economic growth in China will be favorable because there is still a lot of investment opportunity, especially in many basic industries, such as manufacturing, transportation, services, communications and electronics. Many of the foreign firms entering China are using joint venture arrangements which allow them to share costs and risks, as well as complementary assets and skills with host country partner firms. By doing so, these firms are able to reduce the long term investment uncertainty at a lower cost than through pure hierarchical or market approaches.

Understanding how to reconcile the structural balance in Chinese economy between potential high market growth and a sizable low income consumer base is important. The rapid growth of China's population minimizes the average per capita income level because there are enough of Chinese citizens with very high income levels that still provide significant consumer income potential. For example in the Wang Fu Jing Street shopping district in Beijing the Civic Store which sells high priced commodities still makes a profit even if only 2%-3% of its potential customer base shops there, because in China this still represents many purchases.

Sales effectiveness is playing a big role in China. For example, Qing Shue, which is a liquor company in Tianjin, had marginal annual sales. They started to use television ads in 1995 which cost \$7.5 million. This was the highest amount spent on commercials in that year in China. However, in 1996 their sales revenue increased to \$125 million and they are continuing to buy television commercial time and will spend \$413,000 on advertising. While the actual use of advertising, to this extent, is a relatively new phenomenon in China, it can have significant sales potential. Not only has advertising been an underutilized form of promotion, but using the government organized television stations viewed by the whole nation

can provide broad exposure. Coca-Cola is an example of a firm that has commercials on television that are more popular than regular television programming.

Other American companies that have used Sales to drive their efforts in China are McDonald's and Kentucky Fried Chicken. The various reasons for their success is that they use the product, price, place and promotion strong points of marketing through good food, affordability, convenient and visible locations. With China's "one child" policy, every child that is treated by a company like a king or queen can be rewarded with customer satisfactions. Core competencies are very important because of the level of competition in China. Many firms are also using Customer Advisory Boards which are groups made up of senior executives or consumers that are current or prospective customers, as a way to monitor customer satisfaction.

Sales Process In China

Selling in China means developing friendships and trust. It is important to get to know customers and let them get to know the sales force responsible for customer development. This takes time and it can mean attending functions, joining organizations, pursuing memberships and doing the things that demonstrate interest, involvement, reliability and trust. These are the things that must occur first before business activity will take place. The key factor to reach and sell to Chinese customers is the ability to identify product or service needs and affordability. Firms must conduct customer research prior to entering China to understand the nature of the market and those factors that will help reach and sell to Chinese customers. It is also important for sales organizations to have a strategy and a long term plan and ensure that the product or service meets standards and customer expectations.

Further Growth

Newly built highways opened to traffic totaled 4,740 km, including 1,895 km of expressways. A total of 1,005 km of newly laid railway tracks and 547 km of double-track lines were opened to traffic. 35.6 million - The number of e-mail accounts in China at the end of last year. Of these, 26.7 million are Web-based

free e-mail accounts. 5% - The average income increase Beijing Mayor Liu Qi promises his fellow Beijingers this year. In 1999, the annual per capita income of workers in the capital was 13,500 yuan (US \$1,625), while the average farmer pulled in just 4,316 yuan (US \$520). The financial crisis that wracked the region beginning in mid-1997 forced many companies in manufacturing and trade to retrench. But it had a surprising positive effect: It spurred the emergence of e-business, according to international research firm Gartner Group. The crisis did slow the region's adaptation to the new "e-economy", though. That is set to change, with regional businesses now "rapidly" adopting e-business practices.

In 1999, revenue from B2B – or business-to-business – e-commerce in the region was just US \$9.2 billion. But by 2005, revenue is expected to be closer to US \$1 trillion – an annual growth rate of 155%. Of course, even newly imposed government regulations can barely dampen the enthusiasm here for investing in the Net and the enormous opportunities it represents. According to government figures, e-commerce turnover in China leapt to US \$400 million in 1999 from US \$8 million in 1998. Investing in China's Internet industry is not without its headaches, though, particularly ones induced by the government, which fears being unable to control the Net. While Beijing is actively seeking high-tech investment, its actions seem also to be discouraging investors. In February, the government banned the discussion of "state secrets" on the Web. These could include anything from discussions of the weather to the mention of statistics and figures released by the official China News Agency. Last year the government tried but failed to prevent foreign companies from owning a piece of the country's Internet industry. Foreigners can now own up to 50% of an Internet or telecoms-related venture on the mainland.

The listing of PetroChina in Hong Kong and New York in spring, 2006, provides a vivid and successful example of how China's cumbersome State monopolies can be remolded. Even though Petrochina's current performance on securities markets is far from what was originally expected, the listing should be regarded as an overwhelming triumph. PetroChina was spun off from its parent firm, the China national Petroleum Corp., a wholly owned State oil giant. The listing has helped PetroChina diversify its shareholdings, to break a State monopoly in such a way as to open the way for other investors. This lies at the core of China's lingering State-owned enterprise reconstructing program. The listing cements PetroChina's efforts

to form a truly effective “corporate governance” structure the Chinese Government and State-owned enterprises have yearned for a long time.

The new mechanism will help PetroChina take full advantage of its potential on stock markets in the future. The listing provides a good opportunity for China’s leaders to better understand capital markets and to rethink the country’s overall plan for reform.ii

Motorola in China 2005

Motorola is a global leader in advanced electronic systems and services. It liberates the power of technology by creating software-enhanced products that provide integrated customer solutions and Internet access via wireless and satellite communications, as well as computing, networking and automotive electronics. Motorola also provides essential digital building blocks in the form of embedded semiconductors, controls and systems. By the end of 1998, Motorola had already committed more than US \$1.5 billion in China. The largest American investor in China, Motorola has a wholly-owned venture in Tianjin, a holding company registered in China, and is involved in six equity joint ventures, more than 20 branches and dozens of other significant investments.

Due to the nature of its investments, its technology innovation and development and its good corporate citizenship, Motorola has enjoyed solid support from the Chinese government at all levels. In 2005, the company was presented with two certificates by the Chinese government: the Advanced Technology Enterprise Status Certificate and the High-Tech Enterprise Status Certificate. These awards are tangible evidence of the government’s recognition of Motorola’s on-going commitment to prosper with China. Motorola was cited specifically for its achievements in research, development, production, sales and after-sales service in China. In 2005, Motorola was second among the Top 500 Foreign-Invested Enterprises in China.iii

A four-point strategy guides every Motorola investment in China

Investment/technology innovation and development: Motorola has not only committed US \$1.5 billion in China, but reinvested all profits from its China

operations back into the country. Motorola manufactures only world-class equipments in China with the highest technology available.

Management localization: Motorola is committed to localizing the staff of its operations in China as quickly as possible. To this end, the company provides intensive training to its employees and requires that every single employee attend at least five days of training each year.iv

Local sourcing: Motorola spent US \$750 million in China last year on locally-sourced materials, components and services. By the year 2000, the company expects to purchase US \$1 billion in locally-sourced materials each year in China. Motorola works actively with local Chinese suppliers to help them reach top-quality standards.

Joint ventures and cooperative projects: Since 1995, Motorola China has established 6 joint ventures and 10 cooperative projects with some of China's best enterprises and research facilities.

Investments and technology transfer

Motorola first opened a representative office in Beijing in 1987. Since then the company has enjoyed rapid growth and has been an active participant in China's transition to a market economy. Motorola (China) Electronics Ltd. (MCEL), a wholly-owned corporation, was incorporated in March 1992. In June of that year, Motorola broke ground on its first major manufacturing facility in the Tianjin Economic Technology Development Area. The facility became operational in March 1993 and manufactures pagers, cellular phones, two-way radios, communications components and semiconductors, largely for sale in China and other markets in Asia.

In November 1995, Motorola began construction of a large integrated circuit wafer fabrication plant, also in Tianjin. The semiconductors manufactured at the plant supply makers of automotive, communications, personal computer, peripherals and digital products. In addition, Motorola's investments in China include branch offices in Shanghai, Guangzhou, Tianjin, Harbin, Shenyang, Nanjing, Xian, Dalian and Chengud, as well as the Motorola service shop and software center in Beijing

and Motorola University training centers in Beijing and Tianjin. Future plans call for opening sales and service offices in other 20 cities throughout China.

R&D in China

Motorola has spent a total of US \$48 million on research and development in China to date. This investment is expected to reach US \$108 million by 2001. The company has set up 14 research and development centers in China with 435 researchers. By 2003, 20 research and development centers were established to include 900 research staff. Major research items included: advanced semiconductor materials, microprocessors, CDMA & Will systems, cellular phone chips and software development.

Local Sourcing

Motorola is committed to identifying local suppliers for the key components of all equipments manufactured by the company's ventures in China. In 1998, Motorola spent a total of US \$750 million on locally sourced components, materials and services, a figure that represents 42% of total expenditures. The company expects to spend US \$1 billion annually on locally-sourced products at the start of the millenium.

Motorola has accomplished this by forming partnerships with Chinese suppliers and helping them improve their management, efficiency and quality control systems. In addition, Motorola provides suppliers with designs and new technology, helps them secure credit for necessary capital improvements and facilitates advantageous joint ventures with appropriate foreign suppliers.

This approach has helped Motorola develop a pool of local suppliers that has already grown to 200 across China. With Motorola's help, these suppliers were able to export US \$247 million worth of products in 1998, Motorola has also helped local companies grow and improve their technology, an initiative that dovetails with the Chinese government's strategy for upgrading state-owned enterprises.

Joint development: joint ventures and cooperative projects

Since March 1995, Motorola has formed 6 joint ventures with local partners in China to manufacture a range of high-tech products from pagers and multi-media computers to CDMA infrastructure and semiconductor products. These joint ventures afford opportunities to manufacture advanced equipments, in partnership with China's strongest high-tech companies, using world-class technology. Motorola brings cutting edge technology and new technical and management skills to its partners in order to manufacture the highest quality products for the Chinese and oversea markets.

During the last four years, Motorola has provided some 3,000 scholarships to Chinese students at major universities throughout the country. The company has established three micro-processors/micro-controller laboratories at universities in China, and will expand this program to 20 additional universities over the next five years. Motorola has supplied electronic kits and technical manuals to some 30 universities throughout China over the past three years.v

With contributions of more than US \$1.44 million to date, Motorola is one of the largest donors to China's Project Hope. This foundation has built hundreds of Hope Schools in impoverished areas in China, and has helped more than one million underprivileged rural children go to school. Motorola funds have built 24 Hope Schools and provided training for teachers of those schools. Motorola employees in China have contributed additional money and support to encourage children to go to school.

Quality

All of MCEL's products, equipments and management systems are designed to be of the highest quality, in line with Motorola's worldwide standards. At the end of 1996, ISO9002 quality certification was awarded to the semiconductor, pager, cellular communications and land mobile products sectors of the Tianjin facility. In addition, four of MCEL's units, the Paging Products Group, the Finance Department, the Human Resources Department and the Land Mobile Products Sector Materials Department were awarded Motorola's CEO Quality Awards, and

the Paging Products Group won gold medals in Motorola's Worldwide Total Customer Satisfaction Competition early this year.vi

Sales Training

Motorola evaluates each employee based on results and performance on the job. In order to ensure that its sales and marketing staff have the skills necessary to succeed, Motorola University has developed a sales curriculum, customized for the specific needs of the Chinese market. This course helps equip its sales and marketing staff with modern marketing skills that translate into tangible results for the company. Motorola believes that everyone who has a role in selling the company products must be well trained. For this reason, it offers to train its distributors throughout China.

Alcatel in China

Alcatel is a French firm that builds next-generation networks, delivering integrated, end-to-end voice and data network solutions to established and new carriers, as well as enterprises and consumers worldwide. It is one of the world's leading telecommunications solutions providers. With 120,000 employees and sale of EURO 23 billion in 2003, Alcatel operates in more than 130 countries.

In anticipation of the explosive growth of the data/Internet business worldwide, Alcatel has adjusted its strategy in time to maintain and strengthen its competitive edge in the new telecommunications world. In the past 18 months, Alcatel has purchased seven new companies including DSC, Packet Engines, Xylan, assured Access, Internet Devices, Genesys and Newbridge, further consolidating its position as a leading global provider of broadband data/Internet solutions.

Partnering with China

Alcatel has been a highly successful partner in China's telecommunications market. It has consistently applied a proven, two-pronged strategy of early introduction of new technology and timely formation of industrial joint ventures.

Alcatel came to China in 1983. So far, it has set up 17 joint ventures and 5 wholly owned companies to produce and supply the full range of telecommunications systems and services, including public switching system, SDK/WDM optical fibre transmission system, radio communications network, intelligent network and network management system, space and business communications system. Besides, Alcatel is able to provide turnkey services to its customers by offering integrated telecommunications solutions across space, land and sea.vii

Fully aware of the growing importance and great potential of the China market in the world economy, Alcatel has greatly increased its investment in China in recent years, especially in the field of R & D. More and more Alcatel R & D institutions have been set up, offering tailor-made telecommunications solutions and services to Chinese customers as well as customers from the neighboring countries and regions.

Public Switching

Alcatel was among the earliest providers of digital switching systems and technology to China. From the early 1980s until the end of 1998, Alcatel, including the activities of its joint venture Shanghai Bell, has sold units totaling the equivalent of 54 million lines of public switching equipment to China. Shanghai Bell – officially recognized as one of China’s top 10 foreign joint ventures from 1989 to 1994—has evolved into one of the world’s largest switching manufacturers, with an annual output of 7.8 million lines in 2005.

Transmission

Alcatel is taking the lead in the world SDH/WDM market. In China, Alcatel’s leading technology in SDH and WDM is bringing benefits to its customers in a wide scope. So far, Alcatel has carried out more than 60 different optical backbone transmission projects based on SDH, WDM, digital cross-connect and video products. Alcatel has also supplied microwave transmission systems for many important backbone and inter-provincial links, with a total length exceeding 23,000 km.viii

Major projects implemented by Alcatel over the past two years include:

- Qingdao-Jinan-Shijiazhuang-Taiyuan SDH project
- Chongqing-Chengdu WDM project
- Shijiazhuang-Jinan SDH microwave transmission project
- Cross-connect project for the landing of the Sino-US submarine link

Besides, Alcatel is the number one submarine network supplier in the world. In 1994, Alcatel signed a significant contract with China Telecom and Korean Telecom to supply an international submarine cable connection – a 450 km optical submarine link between China and South Korea. In 1997, Alcatel was awarded the major part of a US \$950 million contract for a new submarine telecommunications network across the Pacific, linking China with the US. This link, with a total length of 30,000 kms, is the largest capacity transoceanic undersea system operating in the world.ix

Radio Communications Network

As a provider of the latest technology, Alcatel entered the mobile communications market in China with digital GSM technology, and was the first to deliver a GSM cellular mobile network to China in 1994 – in the city of Jiaxing in Zhejiang Province. The project has remained the study object for Chinese experts for several years.

Shanghai Bell Alcatel Mobile Communications Systems Co., Ltd. (SBAMC), Alcatel's joint venture with Shanghai Bell, was set up in 1994 and has so far implemented GSM networks in 11 provinces and cities, including Gansu, Guizhou, Jiangsu, Chongqing, Jilin, Ningxia, Shanghai, Shanxi, Zhejiang, Liaoning and Tibet. It remains a major supplier of GSM networks in China with a total contracted capacity of over four million subscribers.

As a world leader of the mobile high-speed Internet technology, Alcatel implemented the world's first commercial WAP and GPRS network in France. It is also the first to run WAP applications on the GPRS system. Alcatel, through SBAMC, is now actively introducing its state-of-the-art WAP and GPRS solutions to Chinese customers. In November, 1999, SBAMC successfully opened a trial

WAP network in Hangzhou, paving the way for the future commercial implementation of the Alcatel mobile Internet solutions.

Alcatel has recently set up its third global R & D center in SBAMC, with a focus on the development of the 3G mobile communications technology.

Alcatel's fixed wireless access technology, particularly catering to the rural but densely populated areas in developing countries, has been well accepted by Chinese customers. In early 1998, Alcatel signed a US \$50 million contract with Sichuan PTA to supply 100,000 lines of wireless access equipment to the vast rural areas of the country's most populated province. In November, 1999, Alcatel was selected by Hubei PTA as the supplier of US \$20 million WLL (Wireless Local Loop) systems to the province.

Data/Internet

Alcatel has an unparalleled world leading position in the ADSL market, with 50% of the market for ADSL infrastructure systems and a 33% market share for ADSL modems.

In September 1998, Alcatel and Guangdong Post and Telecommunications Administration (PTA) signed a multi-year framework agreement on the deployment of up to 50,000 Alcatel ADSL lines across the province. By selecting Alcatel's leading end-to-end ADSL solution, Guangdong PTA is able to provide a wide range of interactive multi-media services, such as Internet visit, data access, video-on-demand, home working and distance learning, via copper telephone lines at a high speed 100 times that of the ordinary analogue modem.

Other Alcatel ADSL successes in China have been achieved with Fujian PTA, Shanghai PTA, Jiangsu PTA, Beijing Telecom and Heilongjiang PTA. The recent acquisitions have further strengthened Alcatel's competitiveness in the data field.x

Other Areas

In the business systems sector, Alcatel started the sales of PABX via Shanghai Bell and later set up a joint venture – Shanghai Bell Alcatel Business Systems Co., Ltd. (SBABS) – dedicated to PABX manufacturing and sales. Alcatel 4400, the latest PABX product range, is getting popular among the Chinese customers for its strong capabilities and unique features. In the newly emerging Intelligent Network (IN) market, Alcatel was the first company to receive such a contract in China, which is to build up the national toll switching network for the former Ministry of Post & Telecommunications. As one of the largest satellite communications suppliers in the world, Alcatel is now seeking opportunities to cooperate with Chinese partners in this promising area.

Alcatel's full range of cabling systems, including high-speed specialized data cables, connectors and terminations, have equipped hundreds of intelligent buildings and networks in China. Alcatel started to introduce its mobile terminal products to China only four years ago, and its One Touch range of handsets enjoyed great popularity as soon as they were launched. In order to meet the high demand from the Chinese market and other nearby countries, Alcatel has recently established a manufacturing base in Suzhou.xi

With more than US \$420 million investment and 5000 employees in China, Alcatel seeks to grow together with its Chinese partners and customers with a long-term commitment to the high speed construction of China's telecommunications infrastructure.

Conclusion

Global perspectives are an important dimension of doing business and customer dealings. It is important for the sales force to examine strategic issues for an international sales effort because it cannot only point to new market opportunities, but can also show different creative and effective sales methods used in other parts of the world. Besides using “face to face” selling techniques, knowing “How To Select Target Countries” and “How To Enter Target Countries” can help penetrate international markets. A market, in particular, that can pose exciting dynamic sales challenges is China.

American companies can be even more aggressive in taking advantage of China’s economy. There are plenty of lucrative opportunities to base a business venture in China. A key selling factor is building relationships, trust and demonstrating value. To sell effectively in China you must get to know the Chinese people, their culture and customs. You must also be patient and tolerant when it comes to developing a business relationship because it can take time. Even table manners and etiquette during meals become an important criteria to establish a business relationship in China.

Business opportunities are not the only consideration in pursuing customer development in China. Some of the problem issues range from the aftermath of the 1989 Tiananmen Square massacre, reports that orphans are systematically allowed to die, possible threats of military action with maneuvers off the Taiwan coast, poor treatment of its own citizens and the imprisonment of U.S. Human Rights Activist Harry Wu. According to the International Intellectual Property Alliance, piracy in China of intellectual property music, compact discs and software totals \$2.5 billion. Should U.S. firms “carte blanche” rush in to do business in China despite these dilemmas?

By taking a socially responsible position while doing business in China, some U.S. firms may actually serve as a catalyst in helping China face their various dilemmas. It could also facilitate China’s economic transition from a planned economy to a market mechanism. For example, Motorola has developed a supporting educational program called “Project Hope.” This helps the 200 million illiterate people in China, which accounts for 25 percent of the illiterate population in the world. The “Project Hope” program also helps the one million children in China, annually, who cannot afford to go to school. In addition, Motorola has

launched the Employee Home Ownership Program to facilitate home ownership for their employees in Tianjin and Beijing, and they have invested over \$300,000 for fellowships in universities in China in the past three years.

In China, the concept of “quanxi” not only means developing a network of good connections, but giving something back to the community. As Motorola has demonstrated, this should be a part of a customer development strategy in China since

there is far more at stake than sales revenue.

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