

# CHINA'S NON-STRUCTURAL BUILDING MATERIALS MARKET: LEVERAGING COMPETITIVE ADVANTAGES TO OVERCOME ENTRY BARRIERS

*Due to housing reform encouraging Chinese citizens to own their own homes there has been a steadily increasing demand for interior wood products. At the same time, rising incomes have made expensive imports accessible to Chinese citizens. On the supply side, regional logging bans have limited the domestic supply of wood. Together, these factors have made China's non-structural building materials (NSBM) market more attractive to foreign firms. Though the market seems promising, few foreign companies are successfully supplying products to China. Existing research on non-structural building products in China falls short of specific market information, concluding only that there is a potential market. There is little information that identifies Chinese product-market characteristics, company competitive advantages, entry strategies, and how these factors relate to company performance. There is also no information for companies to use to evaluate the links among these factors or how to make decisions with the information they have. CINTRAFOR's study therefore seeks to fill this void by characterizing successful business strategies of foreign firms in China's NSBM market.*

CINTRAFOR researchers conducted in-depth interviews with foreign companies currently in the business in China and with Chinese companies that are using foreign suppliers. The interview findings were then used to develop a cross-case analysis to identify relationships between success in business and the strategies firms employed.

A significant finding from the interviews was that Chinese and foreign businesses had widely divergent business objectives. While Chinese companies valued establishing long-term relationships with their foreign suppliers, foreign companies valued faster business dealings.

It was also found that foreign suppliers were more willing to invest in overseas representation and partnerships than Chinese buyers. Though the Chinese government encourages joint ventures and strategic alliances for the purposes of foreign investment and technology transfer, the Chinese buyers in this study were interested in maintaining 100% ownership of their companies.

Strong relationships were found between competitive advantages and entry barriers. Foreign companies that successfully entered the Chinese market strategically leveraged company-specific competitive advantages in overcoming challenging entry barriers. The entry barriers were divided into six categories: cost advantage, product, capital, customer switching costs, distribution, and government barriers. Cost advantage entry barriers were overcome by target marketing to wealthy consumers looking for quality and status products. Product entry barriers were overcome with the unbundling, customization, and variety of products. Capital barriers were overcome with company reputation, acceptance, and the use of international financing. Customer switching costs were overcome with investments in promotion and education. Distribution barriers were overcome with increased Chinese representation, location in SEZ

(special economic zone), and identification of import license holding Chinese buyers. Finally, government entry barriers were overcome with policy knowledge and ethical business practices.

The study leaves open the possibility of further research by academics, including proving the research model, confirmation surveys of the findings, exploration of other model components, and affects of China's impending WTO (World Trade Organization) membership on the NSBM market. The study also suggests implications for business managers. These include customizing products to buyer preferences, acceptance of longer payment collection periods, increasing their representation in China in order to overcome distribution barriers, and changing marketing plans to take advantage of the Chinese government policy. China is a complicated market and new entrants may have to be willing to adapt their products and management practices in order to succeed in it.

*China's Non-Structural Building Materials Market: Leveraging Competitive Advantages to Overcome Entry Barriers* will be available from CINTRAFOR as Working Paper 85 in October 2001.