

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

It is generally agreed that the opportunity for US non-structural solid wood products in China is large. Housing reform encourages Chinese citizens to own their own homes, which has propelled the do-it-yourself industry and need for decorative wood products such as moldings, interior doors, staircases, and window sashes. Increasing incomes make imported materials accessible to citizens. Regional logging bans across China, implemented in an attempt to protect remaining forests and rehabilitate over-logged areas, have limited the domestic supply of wood resources, resulting in increased importation of wood products.

Housing reform now encourages Chinese citizens to own their own homes. Owning a new home in China means owning a concrete shell in an apartment building. No fixtures, doors, windows, flooring, or stairs are included. Citizens purchasing secondary housing (previously owned) will need to retrofit and remodel dilapidated apartments. The increasing number of homeowners has caused a surge in decoration and retrofitting material expenditures. The Beijing Statistical Bureau reported in May 2000 that household per capita expenditure on construction materials has increased 310% over 1999, and that do-it-yourself repair/retrofit materials expenditures increased 1420% over 1999.

New-homeowners and homeowners living in previously government and workplace subsidized living units are willing to invest more in interior decoration of their homes. More and more Chinese people are seeing the value of using quality products that do not have to be replaced frequently--especially with the emergence of a secondary housing (previously owned) market. US products enjoy a good reputation for quality and are popular among the wealthy. The entire furniture and interiors market value was estimated at US\$28.5 billion for 2000.

Chinese citizens are now able to afford expensive imports. Incomes have been increasing 10% annually since 1991. Much of this growth is due to market reforms, and the large percentage of young Chinese employed by foreign firms.

As demand for interior wood products is increasing, access to domestic wood resources have steadily decreased. China implemented a domestic logging ban in 1998. China's national policy (adopted to save its domestic forests and slow soil erosion in the upper reaches of the Yangtze River) has resulted in increased imports of sawn wood products. These sawn wood imports, primarily utilized for decorative purposes, have increased 28.9% since the ban. As more logging bans are implemented, China will increasingly have to rely on imports.

Though the market seems full of opportunity, very few foreign non-structural building materials (NSBM) companies have entered the market. There are a multitude of trade barriers in China, causing many companies to not even consider this market. Foreign NSBM manufacturers encounter lack of transparency at all levels of government to their business partners. Product standards and requirements differ for products originating from different countries and for domestic products. China's policy-making process is not transparent. It is difficult to determine the policy-making process behind operating conditions for foreign companies, product standards, import quotas, and licensing. NSBM manufacturers must also 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. Smuggling from SE Asian and Russian borders is widespread. These illegal imports bypass the tariffs and value added taxes, making them more price-competitive than legal foreign imports.

This study found that foreign companies that successfully entered the Chinese market strategically used company-specific competitive advantages in overcoming these challenging entry barriers. Products were customized to buyer preferences. Longer collection periods were adopted in order to accommodate payment lags caused by the banks. Companies changed their entry strategies to increase their representation in China in order to overcome distribution barriers. Marketing plans were changed to take advantage of the Chinese government's endorsement of environmentally friendly products. The following table highlights the findings and corresponding business implications.

Highlights of Study Findings and Corresponding Implications	
Finding	Implications
1. The business objectives between Chinese buyers and foreign suppliers are not complimentary.	a. Chinese companies value time and relationships. b. Foreign firms are more focused on speedy transactions.
2. The heterogeneous Chinese market provides opportunities for multiple pricing strategies.	a. There are consumers willing to pay premium prices for brand name and status products. b. Undifferentiated products offered with after-sales services are best suited for the low to middle-income market. c. Offer a wide variety of products to appeal to the broad range of Chinese consumers.
3. It is important to understand buyer needs fully.	a. Listen to consumer demands and needs, and determine how to adapt your product to meet those needs. b. Be able and willing to adapt production to consumer preferences of size, direction of cut, etc.
4. Chinese banking policy and procedure are extremely protracted.	a. Find Chinese buyers with experience in international transactions. b. Accept longer collection periods. c. Use international financing.
5. Sufficient foreign product knowledge tends to be lacking for Chinese buyers and end-users.	a. Teach about the grades of species of their products as well as proper installation. b. Demonstrate the performance of their products compared to the performance of domestic or familiar products.
6. Distribution in China is complicated.	a. Supply products to Chinese manufacturers with import licenses. b. Increase local representation in China to deal with distribution logistics. c. Locating in SEZ can give greater access to distribution companies and allow foreign owned warehousing.
7. Chinese companies value honest suppliers and partners with honest and fair business reputations.	a. Maintain high ethical standards, and build a reputation for honest business practices. b. Forego opportunities that require succumbing to corrupt business practices, such as paying bribes or smuggling.

China's Non-Structural Building Materials Market: Leveraging Competitive Advantages to Overcome Entry Barriers is available from CINTRAFOR as Working Paper 85.