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Marketing in Transitional Economies

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Comments Welcome

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THE WILLIAM DAVIDSON INSTITUTE
AT THE UNIVERSITY OF MICHIGAN
SCHOOL OF BUSINESS ADMINISTRATION

Marketing in Transitional Economies

A Davidson Institute Conference

Monday, April 1, 1996

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Marketing in Transitional Economies

Retail and Distribution Issues

DON BREITER, Venture China Associates

I am not going to talk about retailing. I am going to go a little bit beyond that to the industrial side of which I am more familiar. And I'd like to just make a few comments almost in defense. These may seem to be obvious but China is a huge country and beyond Shanghai and Beijing there is a whole other world that is moving a lot slower than what is going on in the big cities. And I was at a conference a couple of months ago where somebody was talking about corn in China and having stood in a place where all they could see was corn in all different directions and I thought to myself my God, I've been to China 15 times in the last few years and all I've seen is little ears of corn around a rice paddy. So, there are so many different aspects of China. It is a huge country with all kinds of different geographic settings and culture settings.

China is changing tremendously, with information being outdated so quickly. And the information gap is closing but very slowly and I think that is why what the Institute is trying to do what we are trying to do is so important to those people, business and others that need to go practice in China is to try to get good, reliable information, quickly into the system. It will make a big difference.

Look at distribution. As I see it, the legacy, even though China has moved to a market economy, quickly really in the last 15 years, the legacy of the system that preceded it is still very much in place. The five-year plan that China is just going into, I think is the ninth five-year plan this year. Annual order meetings between companies and their suppliers, even though nothing would actually get sold and bought between these companies, now is based on three decisions and usually does not resemble what happened six months earlier in an annual order meeting. These structures still take place with plenty of drinking and entertainment as additional justification. Sales from state-owned enterprises to state-owned distribution, minimal customer contact. These are the kinds of traditions that came from the previous system. On the industrial side, in the past, very little concern for the aftermarket as we think about it, service and parts which here in the U.S., of course, are very profitable parts of industrial business. And what we think of service systems, how you reach out to customers and communicate with them. Provide a warranty and make them happy so they'll buy product again. All these things are very much underdeveloped in a sort of monopolistic system that is there under these state-owned enterprises. So this past presents significant challenges.

We talk about distribution. I guess there is the physical aspect as well as the organizational aspect. But physically, inadequate transportation infrastructure was probably the single biggest driver in the past, maybe even larger than the impact of state-owned enterprises. When you have poor infrastructure, it means that business tends to be local and you see that. Regional fragmentation, local fragmentation. And, of course, for most Western companies, moving into China, there are visions of wanting to operate all across the country. But there is virtually no business, except for very few industries, where business really does take place that way. And so you are faced with either trying to untangle transportation infrastructure that will let you reach across the country or dealing with a lot of little plans all over.

And then the tradition under the state-owned enterprise system, under the Communist leadership for many years was to shift from a marketing orientation, which as I indicated wasn't very strong within China, the creating aspect, to a production orientation that puts value only on making things. And did not invest in distribution in those systems. Coming out of that, even now, is reluctance of the government on one hand to finance the state-owned enterprises and their distribution. They still want to invest in new plants that have so much capacity. On the other hand, they see distribution, in that regard as unimportant, but, on the other hand, they regard distribution as important for its control aspects so they are reluctant to allow foreigners to invest in it. So, as a result, the transition away from that, those old systems, are not as quick as is really justified by the new part of the economy.

Now, just a couple of comments about transportation, which is also going to be changed very quickly. These are some statistics I came across which I think are very fascinating. The railways, which are the main way that goods are transported around China, are tremendously overloaded. Most of the basic system was put in over 100 years ago, by European engineers that came in at that time. Tremendous delays, goods stacked up. Think about how much inventory is implied by this that is sort of out there waiting to get from one place to another. A shipment between Shanghai and Beijing, which are only about 1,000 miles away from each other, taking a whole month. Where are all those goods sitting, waiting? Actually probably not on the trains. Most of them at train stations. And so every state-owned enterprise and joint venture of any significance has an organization whose main job is to go down and whatever they can do to get their goods onto the train before other peoples' goods and then follow to connect them at the other end. Imagine all that implies. And with very small expansion into rail. So, my expectation is that there is going to be a substantial transition away from rail to highway for distribution purposes and this is one area where the Chinese infrastructure planning does seem to be good. There is some question about whether or not they'll implement it, but there is an advantage in that highways; production of highways is something that the Chinese can do. They can do it quickly. I've been to Shanghai a couple of times over the last few years. One year no highways. The next year big figure eights and everything, all at once. And basically, they just need labor and concrete, which they can make, and so this system, when it goes in place, will tremendously change the way distribution can be done in China and this is going to be largely in place in the next five years, parts of it are already there. I think similar to what happened here in the U.S. in the '50s and '60s with the interstate coming in. The trucks now will take over from the rails, they will provide, I think under the pressure of foreign investors, they will move very quickly to just-in-time and certainly talking about days rather than weeks and months for transporting goods.

And I think this is going to create tremendous opportunities for different types of business.

Here are some of the responses to this situation, these problems that I have talked about. Companies are moving into direct marketing, direct distribution, controlling their distribution systems, I'll get into that more later. Shadow managing where companies are providing training in exchange for services to the state-owned wholesaling sector in China, cooperative distribution. These are Western companies getting together to pool their requirements so that they can afford systems throughout the country. I think the involvement of Western industry is a very significant part of the driving force for change.

Let's look at some of the options that companies have going into China. I kind of laid these out by how much investment is required and how much customer contact. You go into China and you just go through the existing state distribution companies that have been there 15 years, of course, that is the lowest investment and very little customer contact. And this is the way the state-owned enterprises manufacturing used to work. You sell it to them and they stop worrying about it. But, at the other end, you have what more and more Western companies are looking to, how can they create a distribution system that really will reach out to customers and allow them to differentiate themselves from their competitors. In the middle, is probably a good combination for a lot of companies, have been working a joint venture partner in their existing distribution system where you can have a certain amount of influence without creating a new system. But depending on what situation your company is in, how large it is, how big an area it's trying to cover, you have these different types of choices.

I was just going to mention a little bit about Coca-Cola because I think it is kind of an interesting testimony on what's going on in distribution. I'm not even sure what their market share is. I think the market share that they have in the U.S. is much closer. So what is significant here is that Coca-Cola has about 19% of the market share, estimated and Pepsi 7%. Very big difference, 3-1, and they entered much earlier than Pepsi. Pepsi entered later and does not have as many plants, but that does not really explain that big a difference in current market share, especially when both companies project that over time they expect to invest about the same amount, about a half a billion U.S. dollars in China. So, a significant difference though in what they have done and their strategy is their ability to become majority owners and, therefore, then control the sales and distribution strategies of their enterprise. With Coke starting very early in the mid-'80s, now having at least 60% majority ownership in all of the bottling franchises they have. And Pepsi realizing very lately that they needed to do that. But what Pepsi did was basically go in as a minority owner, with a different partner every place they went in China. And then they found that those minority partners did not share their interest in market development and did not have the cash to support them. Coke, on the other hand, got in control and now it is starting very aggressive distribution and in their latest bottling plants, as many as 50% of the employees in a bottling plant are in fact involved in marketing and distribution within 30 to 50 kilometers of that plant. At Pepsi sites, there is nobody in distribution, everybody is out there just bottling and working. So that's a key aspect in I think showing the desire of companies to take control of their distribution in order to be successful.

Industrial companies. This is a situation closer to that which Cummins Engine Company, the one I used to work for, was in many large industrial companies. They ended up having a lot of different joint ventures, different structures, some maybe 50-50, some they controlled, some minority, some may still be licensees. What do they do? Are they going to set up a separate distribution system for each of those ventures? Just setting up one distribution was a significant effort. So one direction I think is to try to create a more unified distribution, at least for those products that you make that are going to similar types of markets. And seek to use that for importing, exporting, serving a variety of and turn these joint ventures more into manufacturing joint ventures that feed into your unified marketing presence. There are a lot of advantages here around being able to create a unified corporate presence, unified corporate brand names. But it is also a challenge, it is difficult because each of these partners that you have may have their own objectives, they may have their own existing marketing distribution systems. My feeling is that as a foreign business goes in, they should be looking at how to establish a long-term national distribution system of their own as opposed to trying to include, well, they may seek to include their joint ventures and their joint venture partners in the system but if, like Pepsi, you get the resulting situation where you are letting all your different potential partners drive your case, you may find that you are not driving anywhere as a result.

Here's kind of a summary of these thoughts. I think there will be big changes in transportation and infrastructure over the next five years. They are already in place. This will allow opportunities to reinvent distribution and all of the things that we have seen happen in the U.S. over the last 50 years, using interstate highways and now in the last 10 years, around modern distribution management are going to be available in China and you will see Western companies, already this is happening out of Hong Kong, moving into offering modern logistic services to companies in China. The distribution will be driven for the most part by foreign investors, either as customers who are seeking the kind of services that they are used to -- they are not going to want to have all their working capital caught up in something on a railroad dock – but also as the provider of services. They are just starting to get into wholesaling, which has been restricted in the past to foreign investment, but it will start to be open to joint ventures. So, I think this distribution system, the disadvantages that are inherent there now really just create opportunities for Western companies to work with Chinese partners in their own, go in and make a difference in how their business is operated and I think in China, wherever the expertise, the international expertise in distribution comes in, it really puts the state-owned enterprises at a very significant disadvantageous. This can be a real opportunity for those companies who make that investment to do that as opposed to those who either just try to export into China or just deal with the existing state-owned distribution system.

MACIEJ GADEK, Foster Wheeler Energy Fakop

This section is about Retailing but you can see that selling of the boilers is something different from selling of other goods and that, of course, we must think about. We have on the Polish market two strong competitors. One of them is Rafako. They do not have any Western partner, however, they were privatized in a way that all people working have 50-60% of total amount of shares and 20% there is still in the government and the last 20% have been small investments for some companies. Ratako is a strong competitor because they have both good licenses for production of the boiler from Germany, from a company called Ishtaido.

Finishing briefly with presenting the company, I can say that we want to provide as much service as possible to the customers who buy our boilers. There are people who are responsible for service to people who have our equipment. So it is organized that way to, one or two people, they are responsible for calling back. They should know each demand of the client and its present needs, what does the client want to achieve. Our clients are mostly power plants, heat generating plants, but we produce a lot of boilers, for example, for the Polish chemical industry. So when we talk about the selling of our product you must remember that there is a special problem and that each for us to have an opportunity to sign a contract we have to take part in each meeting stage. Also, it is very important in the Polish market to offer to the client environment-protecting technology. The second point is financing, which is very important in the power industry. Each boiler, each heat exchanger must be replacing old one and new one costs a lot of money and the power company wants to have uniformity. So they do not want to talk to several suppliers, they want to talk to one. So our main task at the moment is trying to fulfill this requirement of the client. We must find a Western partner like, for example, Foster Wheeler at the moment, to give us more possibility to cover the financing. For example, Fakop at the moment produces the two biggest boilers in Europe or even in the world to one Polish power station in the southwest part of Poland. Practically speaking, without Western financing practically we couldn't have a chance to offer this boiler to power station. But it was done.

At the moment, this huge project that covers almost 80% or 75% of our business, so it looks like this. We are forced to keep clients as close as possible. It also helps that this boiler it is well known on the Polish market and because we have Foster Wheeler. We also have the possibility to sell our products on the Foster Wheeler market and also our Ahlstrom market. Because Ahlstrom Corporation was very well known on the 10-11 market and also in the Far East, Thailand, China and Asia. Foster Wheeler up to now was not so good in Europe; the original Foster Wheeler market was the U.S. and Canada, but not so the Far East and China and now we have much greater possibility to offer to our clients several facilities.

What I would like to say that, you know, to make a few remarks because I represent here Foster Wheeler, but personally I am from the Purchasing and Procuring Department, so my duty is to buy and measure equipment for our production. I would like to discuss how buying is organized in Poland. Practically all Polish steel mills organize the selling in this way: they have locally certified dealers and only through these dealers, we can buy the steel products from the steel mills. The profits of these dealers is settled down on a rather low level, there is 3% or 4%, so this practice can be very good. But at the moment, the most important 70% we buy from outside Poland and our best source for steel products is Germany. Germany was always very strong in steel products and we try to cooperate with them on the basis of an annual agreement that provides us better discounts from the base price for large quantities of steel products. If we reach, for example, 2,000 tons per year, our discount is on a certain level.

I would like to mention the matter of our cash flow. When we produce such a thing as boilers, cash flow is very important, so we try to negotiate with our supplier, as good payment terms as possible. Average payment terms in Poland are 14 days and nobody wants to extend to 30 days, maybe because they still remember that inflation in Poland last year was 23 or 24%. But for example, with German suppliers which we have signed agreements, these terms are very good. For example, we have 60 days payment net and it helps us in very significant ways with cash flow. Thank you.

Creating a Marketing Orientation in Transitional Economy Companies

ANDRZEJ BENTKOWSKI, Centertel

Thank you very much for this kind invitation.

By the end of this year, we will reach our main objective, which is the 100% coverage of the Eastern region. Centertel's growth rate has been very strong, with the number of subscribers climbing 286% from 1992-94, and 45% from 1994-95. Our plan calls for another 45% increase this year. I am going to discuss marketing department policy, not the marketing policy of the company, because there is a slight difference between the two. The period between 1992 and 1994 we classically concentrated on sales. The only policy was sales and discussion was very, very often among ourselves, senior management of the company, especially any Polish senior management. We are not losing our perspective, the fact that we are not a distribution company selling telephones, but a network operator and provider of communication services. Since the first moment there has been a slight problem in there as to form, but not yet any practical suggestion to solve the problem. The lack of coordination between sales and network communication led to many, many complaints about problems of the kind, "I couldn't use your telephone here and here and was told I could."

We developed our company network and specified that others could not sell any telephones other than those imported by us, which led to a huge conflict with the anti-monopoly code in Poland. Another point in our discussion, then, we had marketing studies but time has shown that maybe the approach was not very, very right.

In a sense, effort has been much more concentrated on the distribution of selling telephones than on needs assessments from the communication side, such as communication needs, new developments not on a global scale but regional and local. It was the situation until

1994 and in a sense we could consider that the beginning of 1995 was kind of break point in the functions of the company as far as its positions in the market are concerned. First was the congestion of the network. There were many, many other problems. Studying the reasons for these problems, we, among others, find out that the average conversation time in Poland is about 400 minutes when the average user in Europe is about 180 minutes per month. The second finding was that a very high proportion of our telephones are used as stable, not mobile telephones because of the shortage of lines. We knew the problem and the marketing department identified the problem as substitution, but we didn't take account of this substitution effect in the network rollout policy. So, practically, we had congestion problems.

Then we observed that the first problem with which we entered the market and have been identified was that this telephone could pay for itself only for a very small segment of the market. Between the establishment of the new private sector and the beginning of 1995, we didn't really identify the problem. We knew that something was wrong but we were unable to figure out what. Finally, we hired outside consultants, we worked with some media agencies and we found out that one of the very important things, very, very often neglected is that -- and this situation can be compared to that in other central European countries -- the social strata shaping the public's opinion is the poorest one. So if we use a high tech service that is available in all sizes and all stages, we have achieved gains with this part of the public opinion. Another point was the time with which we tried to enter the market is assessed from the point of view of values of the social strata that are in Poland. There was just this situation in 1995. How to answer this challenge? So our answer was to alter our approach starting with analyzing everything in terms of strategy and in terms of internal quality procedure, way of communication, etc., etc. All this led to taking into consideration the 1996 market situation with imminent competition from two operators that have been given GSM license. Not having this license yet brought up the demand for Centertel services due to the complexity of the network we are practically on hold with other countries. So in practical terms, we create new needs but also services as we could use this telephone in any place in Poland so maybe I could hook up my taxi.

Pressures for quality are strong because of these purchasing problems and also because of competition from telephones of different other producers. I'm sure that pressure will increase due to new groups of users – those opinion-shaping groups, employees of schools, health care, public administration, etc. One of the specific needs for our telephones is to assure emergency services in small cities.

Here are some interesting figures about Polish households this year. Out of 100 households, 39 have telephone lines and 25 more plan to have one installed during this year. Only one out of a hundred has a mobile phone, but 5 wish to have one, which is very important. Cable television already reaches 20% of households, color TV 88%, video equipment 53%. 13% already have PCs and 12% plan to buy this year.

Another question from the survey found that 50% of Polish households were unable to buy any luxury goods from a list of 16 goods during last five years, so practically speaking we are addressing only one-half of the populace. The spending was strongest in small cities between 20,000 and 500,000 population, where 30% had bought a luxury good, and lower in the metropolitan areas and the countryside, 10% in each. This level could be explained by the fact that in metropolitan areas people usually have more possibilities for obtaining access to new technologies and new goods also because of distribution problems we expect to solve before 1998.

Mostly the telephone is used for business outside the office. So out of all this, we designed the Customer Satisfaction Program. We started in 1995, with a Short Plan, which customarily reviewed department policies and is followed by a partnership program, which we will use in the identification of needs of the external customer and introducing the basis for telephones. In 1996 we will address quality issues in terms of changing the structure of the company and engaging an understanding with our suppliers. At this time, we are working on internal clients' needs and defining precisely the organization and the work of our customer service department.

Finally it seems to me that our transition into company has made us realize that we have to understand what task marketing means, that we don't have any manual, that we could rely on record patterns recorded from France or Hungary, that we have a chance of melding the American and French experience with our corporate experience to create something really special for this company and strategies. While a very important thing is there should not be a word that when entering the market with new heightened products such as mobile telephone, we are not only responding to needs but we are also creating a need, or creating new products and new social realities. And the very fine understanding of interaction between your policy and the overall change in the country is needed to not only the have the success but to assure the long-term success. That because of what we were in a sense obliged to change and respond and we are now proud that our telephone can work in so many out places that we just tell people, "we are wherever you are. We are always with you. We would like to accompany you. We would like to be your close friend." That's the meaning of the new slogan and the new marketing plan.

First, we could already have coverage. Second we would like to play on our coverage because of the competition. Third we are aware that we are creating both positive and negative relations in our society, so maybe a much more friendly approach to this society is needed in terms to not create problems to our poorer customer groups, since opinions come from those strata. This led us to special programs addressed to this sector of the market in terms of suggesting credits warranted by professional corporations and we hope that together with our various engagements in introducing ISO standards, we could have global quality in the Polish market and in a sense make much, much trouble to our competitors, who will first repeat our faults but second will have to match our standards. Thank you.

NGUYEN NGOC QUANG, Vietnam Airlines

Vietnam Airlines formed in 1989 and its history dates back to October 1984 when we took over Hanoi Airlines from France. At that time, we called it the civil aviation department and Vietnam International but we renamed it in July 1989 as Vietnam Airlines. Back then, we had the very first international service to Beijing. It was April 1956 and over the next two years we got a domestic flight to Man Fu. Then, thanks to the reunification of the country in 1975, the expanding economy and the stable political situation, we acquired more flight routes. But with the limited numbers of DC-3s, DC-6s, DC-4s and two Boeing 707s, by that time we were really in a very difficult condition.

Since 1989, Vietnam Airlines has been separate from the civil aviation department so we focused on doing just purely on the airline, rather than, as before both aeronautical matters and the airline as well. So, for the past few years, since 1986, our carrier has expanded tremendously. Our average annual rate growth is about 36%. We are 100% government-owned and until about two months and a half ago, we, before we reported to the Civil Aviation Authority of Vietnam, but now we call ourselves VAC, the Vietnam Airline Corporation. It was formed by the new policies of the Vietnamese government that give us more autonomy and give us many more powers to move so we don't have to bend to some many interruptions from the other ministries.

Right now, we are flying to 22 international destinations in 19 countries and we have now 44 interline agreements with many carriers, including United Airlines, American Airlines, Zantop, Continental, Northwest, commuter airlines in America and also in Europe and Southeast Asia as well.

So, a little bit of our corporate strategy. We set up a strategy from 1995 to the year 2000 to the year 2005 to rewrite the development of Vietnam Airlines into a modern airline, a strong business group that can rate high profits and high attractiveness in the international operation and boost the good reputation of Vietnam in contributing politically and to the socio-economic development of Vietnam and a tendency to the newly reformed Vietnam. So we will focus on this goal by developing Vietnam Airlines into a modern airline characterized by first having the most advanced technology, providing the technical features, low seat cost, providing modern facilities. We plan that by the year 2005, Vietnam Airlines should become an international airline and we aim for 30% to 40% market share of the international flights.

So I also would like to share with you some of the things that we are having now that we know one thing that we should have the global alliance. It helps us to enter into the markets. So what we have done is we have done several kinds of marketing alliances like with Cathay Pacific. What we have done is we moved out of the joint service with Cathay and we have been so successful. We started in 1992 when we had only 2 flights per day from Hanoi to Hong Kong. Now we have something like 6 to 8 flights per day. I mean, it's tremendous, it's incredible and it's also one of our major revenue routes. And also something that I also would like to share with you that we fly from Hanoi to Hong Kong. We seem to be so successful that what we do we have an arrangement with Cathay is we share 50-50 the matter of how much Vietnam is going to charge its passengers and the matters of how much Cathay does. So, we share the costs 50-50 and the benefits 50-50 as well. But we don't want to become the lazy partner even though we can sit down, sit back, relax and we can get 50 at the end of the day. But we've done so much that Cathay now honors the computer. And even Cathay has been wonderful giant, I would say in this area. After our recent meeting with Cathay, they announced they will withdraw from Hanoi, letting only Vietnam Airlines fly and we still will use our facilities to fly. And we also got a kind of the new, by joining flight cabins with Air France because we believe and we think that the French cuisine is good so we join with them flight cabins. It is supposed to be in service by July of this year. And also for the computerization, we are using the SETA. So we are using that one to facilitate our passengers. And we first have to ask our government to allow us to do that and then by real Olympic daring, we just go there and we get them to just review it and accept it. We have got it. We have been successful.

Marketing Challenges Faced by Transitional Economy Companies

LEON ZURAWICKI, Professor of Marketing Communications, University of Massachusetts – Boston

My topic today is marketing challenges in transition economies and, very briefly, I would like to share with you the basis for this presentation. I drew on my limited research but also educational, consulting and living experiences in a number of countries, mostly the Central and Eastern European countries and I am not that familiar with places like Islam and China and I should say China's economy is in transition and perhaps we should all be in transition. And I looked at some surveys done by the Well Bank, surveys of managers in Central and Eastern European countries, and I communicated with the colleagues at the Katz School of Business at the University of Pittsburgh who have developed some experience in the Czech Republic in Hungary and I also recently had the pleasure to attend some conferences to try to synthesize all of these experiences. In the last part, I would share with you some ideas about what's in it for us researchers and management trainers and to that fact I wrote some of the articles in the Journal of Teaching and International Business. The recent issue has been entirely devoted to management training in Central and Eastern Europe and since I am sitting on the Board of Editors, I had some discussions with my colleagues. While I was listening to the 3 previous discussions, it occurred to me that there is quite some overlap between the ideas expressed by other presenters and some concepts I have developed which can only prove that it is not so easy to come up with genuinely original ideas. In particular, I would like to address a word to Stan Paliwoda and I hope he will take it with his good sense of humor. Since you delivered my presentation, I can only show your transparencies. So I guess we get even.

Okay, this is this artist's rendition of what's going in transition economies. If you substitute sparks for stars, it might perhaps illustrate it is a pretty tumultuous process. Perhaps a good idea to start this presentation would be to provide a certain economy. I will use a triangle as well. Mainly, the situation and challenges facing marketing have a little bit to do with the type of organization they are working for. So, I don't think it is terribly original, but my talent is to look separately at three different categories: large state enterprises, entrepreneurial companies and ubiquitous multinational corporations. As you see, we have visible economy and somewhere here we have shadow economy which size might even rival the visible.

Let me very briefly share with you what could be the key characteristics of those three groups. As far as the large, state-owned enterprises are concerned and, again at the risk of oversimplifying things, I would like to submit those generalizations to you, strategy survival in most of the cases. They tend to rationalize their activities, downsize, cope with technology obsolescence, high costs and quite often waiting for a white knight, a foreign entity that might help them to survive.

On occasions, we have noticed a number of transition economies, ethically doubtful management buy-outs that nevertheless would lead to later successful operations. As far as entrepreneurial companies are concerned, the strategy is to very often start from scratch, develop profitable businesses, orientation is rather short-term, fast growth and radically fortunistic, meaning no specific commitment to particular areas or types of activities that suggest a lack of continuity, local and limited scale of operations, very individualistic management style,.very seldom business backgrounds, quite often managers themselves sometimes have pretty good engineering and technical background or no background at all. Limited financial resources and, for that reason, a tendency to move to activities that require little investments. As far as multinational corporations are concerned, except for some industries, we have seen proliferation, for example, of gas station chains in most of the countries, but that's rather the exception than the rule, they tend to be slow to move in. The strategy is to exploit transitional economies' markets in the context of international or global activities, invest only what you can afford to lose, maintain business relations with previous partners, large state enterprises, in many instances, and patient long-term outlook.

Let me just to refresh our memory. This could be, maybe a certain model, wishful thinking, but what should happen and what should result from transformation. It looks in some countries that this could have actually taken place to a greater extent than in some others. I don't want to dwell on it but it can help to introduce another point which, by the way, was already made. Let just read this citation. "Many of those engaged in independent business activities are not entrepreneurs but rather are representatives of the shadow economies and terminal businesses. Both of them never had anything to do with business. They are one of the main obstacles hindering the development of market relationships because they know that a real free market will frustrate their drive to create their market with a legal shadow economy openly cooperating with the country's bureaucracy. Now that citation comes from a German whose name is Oleg Vikanski and he is the head of Business Administration at Moscow State University. But even though that view might be exaggerated, it reflects a perception of some of the phenomena we are going to look at.

Let me then proceed and this is basically the list of complaints, excuses, which one often hears from managers in general but also marketing managers in transition economies. As I mentioned before, these points have already been quoted maybe I should add an uneven playing field. Many companies believe that the markets are not transparent and connections play an important role, that administration, local and national, interferes with business, so how can you fight an uphill battle. Here are also complaints about lack of institutional support, especially from entrepreneurial companies which feel that while the general trend might be towards free market, towards increased competition, basically nobody cares to assist those young companies to provide them with education, training and resources. I am talking local contacts. There are lacking some international initiatives that help to close the gap. That leads to a perception of a high risk getting into any activity and also high cost of entry. Well, we had a session on distribution. I don't necessarily want to spend too much time on that, but I agree with what was said.

Another interesting point is that there is not really much cooperation between businesses and that at least leads to two observations. One is, given perception of competition between individual companies, marked a lot of cockiness, we are better, we show them that we are better, they have to catch up with us and the perception of another business operation's entity as an enemy who needs to be eliminated otherwise, they will drive us out of the market. So, that also tends to limit, if we want to use the parlance of Francis Boucliama, limited confidence ratings, that is to say the number of partners with whom businesses would like to do business is somewhat limited. Some argue that this is also legacy of economies where it used to be advisable to keep a very low profile and not to share too much information with anybody.

Well then, my perception is not really a tradition of using consultants and, in many instances, consultants were hired for various institutions and companies did not necessarily do a good job which sort of contributed to the impression that well these are not necessarily generally well informed experts but rather a bunch of snake oil, so why use them especially if they charge outrageous rates. Well, one other point is although we do not really have modern technology, but the problem is many, many managers don't know what modern technology today exists and what could be something between solutions, leasing used equipment or trying to find the best value on the limited money they have.

Against that backdrop, we can look at some of the characteristics of management behavior and it is a little repetitious with a previous slide but these are some points I would like to highlight. Intuition, which is not a bad thing to use, is one of the guiding principles, coupled with connections. Access to insider knowledge, somebody's telling us. Here this is an opportunity, I will be the first to jump in and hopefully I will be able to make quick money.

Limited use of marketing tools perhaps would apply more to quality of the marketing efforts, rather than the quantity, which is not natural because we are facing a learning process. Initially there is or there has been quite some enthusiasm for resorting to advertising. Stan mentioned that out of the blue the billings at agencies mounted to half a billion dollars in a relatively limited market. That could be due to two factors. One is, at least initially, the cost of advertising was not that high. Now, that again was said today, this whole marketing evolution maybe rather than revolution has not only to do with the private companies but with the institutions as well and everybody is learning, including state-owned media who might initially just offer great bargains for companies which might explain, by the way, Proctor & Gamble. It didn't cost them anything to say air this particular commercial 27 times an hour, that we have seen something kind of a fashion here. Okay this is not expensive, everybody is doing it, in order to maintain parity, let's go for it. It's not sophisticated but that might also have something to do with it, general knowledge of the market consumers. Well, as I said, competition is very often cited as a source as problems, competition from foreign companies, multinationals and that creates also some political tensions as well. Now all this leads to stress, meaning that there is not really enough time to strategize, to set aside the problems of day-to-day operations and follow some kind of a viable plan.

Okay, now let's look at some of the challenges. One of the problems is to overcome public distrust, it is much easier to conduct marketing activities in a market, in an economy where consumers are aware of what a company wants to accomplish, why they are doing certain things. They are used to being exposed to certain techniques and certain instruments as opposed to a situation where all of a sudden things change and the consumers, who might have developed some negative attitudes towards some of the instruments, say advertising in the Communist system, were usually perceived as a way to push unsalable products because in the seller's economy there were rather shortages than excesses of supplies.

The next problem is, in my opinion, how to develop data as compared to what we face here, how to analyze it, interpret it. Numbers are available, the question is how meaningful they are and how detailed they are. There have been very few studies performed regarding, for example, segmentation of the market. It's like many others tend to believe, the market is very powerless. They are the haves, maybe 5, maybe 10 percent and the have-nots and not very much in between. That led some of the companies to focus on those who have the money and that applies both to consumers as well as industrial markets. Why bother, here we have a chance to sell for a high price and it might be easier than to develop markets offering a different mix of attributes. The problem is that if everybody thinks that way, then the market for those who have the money gets crowded and, at the same time, those who have the money become rather sophisticated. So, the question is, is it a good marketing philosophy to concentrate on just one segment and whether there are other segments? I will revert to that issue later. The problem is how to educate oneself quickly, without taking breaks from regular duties, without necessarily spending four years of college studying theory of management and marketing. Is there a possibility of finding a shortcut and the applicability of what can be taught and learned to the everyday practice.

The second question is educating the consumer. It just occurred to me one of the key points we do emphasize today is value. Enhancing the value to the customer and perhaps those who know this can correct me, but the word value, at least in Slavic languages, doesn't have that meaning. It means something totally different. Like value is very difficult to translate. What's understood by that. And yet, we very well understand that it could be that the emphasis on that particular aspect could be the key to success. Consumers have to be educated about a number of things. Why do prices differ? Why do they change? Why they are not uniform or the particular region. Why there are ups and downs, fluctuations. Well, sometimes the managers cannot answer this question, which compounds the problem. Developing an outcome strategy is very difficult task because the situation changes so quickly. Brenda told us this morning by the time you come up with some ideas, things might change either because new entrants appeared or the regulations changed or the cost of doing certain activities or something else. But very often the companies, as I said, with exception of multinational corporations, don't really have a vision. They don't know why we are doing what we are doing. Are we doing it because there is money to be made. And we know that for now but what after might be actually somewhat different.

Okay operating under inflation, different countries have experienced many levels of inflation. It's 1,000% in Russia, it's much less in the Czech Republic. We might even see this as a certain process and those who have strong nerves may say okay well the first three years, we'll have to go through the roller coaster but then things will sort of stabilize. But even then, one should definitely plan and, by the way, plan and planning is not a popular word in transitional economies because it was used in a different context and, very often, abused. So it is very difficult even in terms of offering some consulting advice. You have to plan because many managers frown when they hear that.

Okay, learning about international markets, it's the source of information about how things are done elsewhere but it is also perhaps a safety belt. If things go wrong, or some think they might because maybe we will face one day the flood of Chinese-made products, which will drive our business out of business, where do we go, what do we do? To be entrepreneurial, whatever it means. There are pretty smart entrepreneurs in all the transitional economies in terms of being able to tie loose ends. Sometimes on the verge of what would be acceptable from an ethical standpoint but the question is okay if the conditions change would these managers be able to operate equally successfully.

What can be suggested in terms of responses. Innovate. Very often the pattern, again an opportunistic one, would be to copy, copy certain ideas, copy certain business concepts. Well, it works in other contexts, it should work here. Let's start franchises of Laundromats. Why not.

There is a tremendous lack of services in various areas and because it actually, an operation like this can offer value to the customers. But the question is let's look for, take a look at what is going on in this economy and see what is specific about it and how one can best adjust to the situation. One of the examples I can quote, it's perhaps a sidebar, is that there is a tremendous, especially compared to the previous year it might sound like progress, there is tremendous, tremendously high crime rate in many transitional economies with the exception of Asia. That creates a totally new industry of securing services, that created need for locks in institutions that people tend to barricade themselves. I personally know a multimillionaire who started just making unbreakable door locks. Well, again, this is an example of adjustment, the trend might change that shows some kind of innovativeness I guess one could develop. There is a tremendous curiosity and need for Western and Western life products at reasonable price through which if we are talking about mass consumption and demand. So, responding to that in many instances proved to be a sure shot today and perhaps maybe in the future.

What I mean by frugal marketing is just with some sophistication in using marketing tools, analyze cost effectiveness, analyze who the target would be. Does it really make sense, like as has happened in the past, to communicate with the market through ads in the daily newspapers with very large circulations if our product is only geared to a specific type of a customer. Get a different mindset. See, trying to develop a relationship with the customer is not really a trendy thing yet because well who knows what is going to happen two to three years from now. How do we maintain those relationships? Do we trust each other. Putting emphasis on those elements. Going beyond advertising, emphasizing more personal selling might produce results. My personal opinion is that in terms, in the area of pricing, there is a lot of trial and error. Many companies start pricing high, as much a market can bear, and then the market can't bear it, then we go down, including sales, all kinds of techniques to simply move the merchandise. That is not really a good approach and actually creates a lot of bad blood, especially among lesser off consumers.

Okay, it is probably not too difficult to envisage that what's happening in other parts of the World, Western Europe, U.S., will one day materialize into traditional forms, that is to say, the products which originated from countries, would still get a cost advantage, will arrive and replace local products. So, looking for niches, trying to find what can be done locally which will not be subject to such a fierce competition. Good products, they are related to culture. Cultural goods might be another example. Services, which usually have more local flavor, could be the areas where niches could be developed. And, by the way, since you mentioned it, I have witnessed something very similar in Argentina, which is afraid of its big neighbor Brazil and is facing the same problem with Brazil having a tremendous cost advantage and in the framework of the common market be requiring some adjustments. They diversify sources of supply. Why. First of all, some companies experience problems while relying entirely on the large state enterprises which by themselves are experiencing problems. Another to assure a smooth flow in operation, it's not a bad idea to not put all the eggs in one basket. And we heard again this morning that by combining different inputs in terms of their comparative, a company might better structure the nature and quality of the product. Companies everywhere, when they first enter the market, are an unknown commodity. It makes perfect sense for the company to develop a reputation and image and that's in my opinion, somewhat neglected and I have noticed something very simple. When you look at the names of the companies, I am not a linguist, when you look at the names of the companies that merge, they have strange sounding connotations, universes, technotechs, it is very difficult for the business partner to identify. And also, they very often sound the same and again it is understandable why anonymity could be a rational approach in view of the legacy of the previous system and in view of the fact that if one is willing to avoid the additional burdens in terms of taxes or something else, it might be better to have five or ten different companies under different names. But, again, in the long run, it is not going to be very helpful.

Well, consistency is probably an obvious feature of any marketing plan. Develop exporting. Many companies do actually export and very often they export through the inter-medium of other companies, whether they use subcontractors or they are simply used by middlemen, which definitely creates an image. There is not really, if you ask anybody here or in Western Europe, what is the image of Made In whatever country. The image is not and if you say what is the image of Made In Russian, the image is strongly negative. But by developing exporting, but then it probably requires some promotional assistance by various lobbies in the Russia government what it actually develops in terms of trade and a presence in more demanding markets, which also helps the companies to develop some kind of competitive courage. Often use consultants, use them in a clever way, check their references, see what they can help you with because it is in a sense a short-cut instead of educating myself for a very long period of time if I have good luck, I might use somebody else's expertise.

Okay, well the last thing I would like to share is what's in it to ask educators and, well I can, I can, first I would say that meetings like the one we are attending today are very useful. I am not saying this to compliment The Institute and The University of Michigan but generally there is a need for a two-way flow of information. Very often, the problem we trainers and educators face is that the audience would, even with interest, listen to what we have to say about marketing in general and how well one should analytically prepare the decisions and what type of data should be taken into account, what type of conclusions can be drawn and then the reaction is that's very interesting but that's not going to work here. (A) Because the reactions are not always rational or (B) We don't really have that information so what do you want us to do. And if we have the information, it might be somewhat doubtful. I don't know how many of you are familiar with the (Allekin) Case, a Business School Case, at some point, and I spoke to the artist, he said the company has a 90% market share in this particular segment, but that figure comes out of the blue and it is very difficult to prove. Now what if this is not 90, but it is 50 or it's 20 or 30. Now, the discrepancy could be so big, it is very difficult to use some rational thinking and that again intuition is the best guidance. So, it's good to know that while the Western managers realize that one cannot simply use the same techniques and the same approaches and say well we did this, say in Indonesia, this should work in Bulgaria, or we used this in France and that might as well apply to another market. There is then a need and I guess the gap is being filled now for specific cases and simulations that deal with particular environment of transition economies. And I guess the more we produce and the more we analyze materials like that, the more it will help. At the same time, in my own practice, I looked at some of the materials that are available here and if selectively chosen, they might be of great help. I have been teaching, for example, a case, a cable company that is an old Harvard Business School case going back to the 70s, and it fits very, very neatly the problems and the situation in a number of transitional economies. Now, one other thing that is perhaps important to realize and perhaps to be incorporated, some of it, into training and educational programs is cultural differences but what I mean by that is not cultural differences between just the market consumer but between the managers. It is often alleged that managers in transitional economies tend to improvise, they are more capable of managing through some kind of crisis management, they have to be flexible, they do not necessarily go by the pure procedures, and I don't think that's actually the weakness. One understands work counts historically but also these are certain things which one could learn and be able to apply on behalf of say Western companies going in.

Now, as the last point, I would like say that I feel that there are some areas of marketing education that perhaps need to be emphasized a little bit more than in the past. The first would be, I mentioned that before, but let me reiterate one more time, entrepreneurship. Incidentally, I have been doing some work with Jackson College and that is basically their game. They are also the ones to emphasize that. And what is meant by that is just training if it is possible in creativity, risk assessment, start-up, prowess so that actually a person at a company willing to get into a particular activity could actually have a good feel of what it is all about. I would say in general, buyer behavior because it is not only consumers, also institutional buyers. What's on their mind and how can one actually get the message across. As an example here, okay this doesn't work, let's try something else. But while we are trying something else, we should base it on some kind of sensitivity to the issue, which can help us to conduct some studies.

Now another area, which is I guess partly forgotten if you want, is communications. I am on the faculty of the Department of Management and Communications, so it is a tribute to my department that managers don't know how to communicate very often. To me, communications is part of marketing. What I mean by that is internal communications, within the particular organization to get people on your side. Yes, this is what we are going to do, and explain the process, odds, costs and benefits. But also communications with distributors, with consumers. What's surprising, even the companies who are desperate for some venture capitalists to buy them out, don't know how to prepare a prospectus, how to show that they not only have huge liabilities but somehow modest assets. And another area that I would like to emphasize is environmental awareness in terms of how does that relate to marketing. How does a company comply but also build an image and appeal to the general market? It's part of like, what we would call, social or societal marketing. In view of the fact that the conditional environment in transitional economies is, on occasion, deplorable, that is probably an even more important issue than here. And then finally, for those of us who are not totally cynical, I would add ethical concerns. I wish to thank you for your attention.

KATHLEEN CHARLTON, Cargill Vietnam Ltd.

Okay before I talk specifically about marketing, I thought I'd give you a little background on Vietnam as I am not sure how many of you have been there, but I am sure you are all aware of the rapid transformation that has been taking place in Vietnam over the last decade.

In the mid-'80s, the government saw what was happening or about to happen in Eastern Europe and the Soviet Union and started to put policies into effect that would move the country from a very sort of rigid, state-run system towards a more market-oriented economy. In 1987, the country implemented its law on foreign investment which sort of gave the green light to foreign companies who had basically been out of Vietnam since the end of the war in 1975 to start coming back in. Of course, it took American companies until 1994 to catch up. But anyway that was in 1987 and since then, I would say there are several thousand foreign companies with representative offices and probably close to 1,000 foreign companies with some sort of operation other than just a representative office going on in Vietnam. Most of the big multinationals like Mitsubishi, IBM, Proctor and Gamble, British Petroleum and Die Wool Korea have fairly large presences in Vietnam, and have for the last two years, and since the enactment of the Foreign Investment Law in 1987, up until now, about 18 billion dollars in capital has been committed. That's doesn't mean invested yet, but it means committed. And you can see on the streets and in the shops of Hanoi and Ho Chi Minh, all the well-known brand names, Coke, Pepsi, Nescafe, Wrigley, Sony, etc., on sale. There has also been a significant growth in the domestic private sector. In 1991, the government put into effect laws that would permit private Vietnamese companies to come into being and the number of companies went from almost zero in 1991 up to 26,000 at the end of last year. At the same time, the number of state-owned and of privates dropped off rapidly. But the numbers are a little bit deceptive because I would say that the state-owned enterprises still dominant the GDP and most of the key sectors in Vietnam like the airline industry, telephones, gas and petroleum are all dominated by one or a few state-owned companies and a lot of these smaller enterprises do things like make-up PET bottles for Coca-Cola or tires for bicycles or things like that. There is a fairly, over the last two to three years a lot of the big advertising companies have come into Vietnam, Saatchi & Saatchi, J. Walter Thompson, McCann Erickson, just sort of followed their international clients and help them with marketing and advertising. On the Vietnamese side, I always say that for a lot of Vietnamese companies, marketing equals billboards. They think if they put up a billboard with the name of their product on it, that's marketing. And it is not true for all companies, Quang's company Vietnam Airlines is competing in the fastest growing airline region in the world and they actually have hired an international firm to help them bolster their image in the international market. But for the most part, companies are not doing a whole lot of marketing. I think the reason for that, Leon touched upon just about every reason I was going to give, but I agree with him in that, I think in Vietnam in the South before 1975, there was definitely a corporate culture. But most of those companies were nationalized in 1975 and made into state companies and even though things are progressing a little fastest in the south because a lot of people remember what it was like to live and work in a market economy, there is still not that corporate culture that money should be allotted for advertising, that a company should have a long-term marketing strategy, it is sort of hit and run. As the foreign companies flooded the market, the Vietnamese companies sort of jump on the bandwagon and start advertising like the foreigners do. But there doesn't seem to be much strategy or identity building. There is also just a lack of money. A lot of the state companies need to do extensive upgrading of their facilities. So putting money into television ads and newspaper ads and things like that, you know, seem like something that has to come later for a lot of companies. And they also don't see the direct results of putting their money in. There is also still in Vietnam this attitude, we were talking about, Made In Russia, I think Vietnamese people themselves think that Vietnamese goods are no good and foreign is good. And so, I think if these Vietnamese companies, in the consumer product sector, want to compete with foreign companies, they are going to have to bolster their own name and maybe then plan a national identity and national pride.

I also think as far as national pride goes, Vietnamese companies have not taken advantage of a growing number of national celebrities. Pepsi has sort of touted Michael Jackson in the past but Vietnam has a growing number of movie stars, models and athletes but none of the companies seem to be using them to sort of advance their products. In fact, some of the foreign companies are using the Vietnamese celebrities to advance their products. I also think another thing in talking about marketing in Vietnam, both for foreign and Vietnamese companies, is right now the actual market, or the population for people who can buy luxury goods in Vietnam and international brand consumer products is still very small. Everybody is always talking about Vietnam as the next Asian tiger, as the second largest country in Southeast Asia with 74 million people now, but still most of the buyers are living in Ho Chi Minh City and Hanoi and that's probably only what about 7 to 8 million people. The rest of the people on the countryside, I agree, there's people who quantify haves and have-nots, but in Vietnam, there are huge numbers of have-nots and when the World Bank talks about average annual income of $250 a year -- if you get pretty far into the countryside, that doesn't seem too far off. In Ho Chi Minh City, I think people have several thousand dollars a year to put towards their houses and their motorcycles.

I thought I would give you an example of one company, one state company in Vietnam and how they have tried to use marketing to their advantage and that's the National Dairy Company of Vietnam, called Vena Milk and a lot of companies in Vietnam are Vena, Vena Coal, Vena Milk, everything is Vena. But anyway Vena Milk is a company that I worked with for about two years because when I was working with this investment firm before Cargill, we were trying to put together a joint venture with them and the license is still pending. But anyway, Vena Milk came into being in 1975. In the south, Nestle, a Dutch dairy processing company, Freeland Freco Delmo, which is fairly well known in Asia and then another American firm, which is now out of existence, had milk processing plants in the south. There was no activity in the North and at the end of the war in 1975, those three plants were nationalized and Vena Milk came into being. And for about 15 years, all Vena Milk did was churn cans of sweetened, condensed milk out of its plants and distribute it. But in 1991, Nestle and companies like Kraft started to come back into Vietnam to affect the market and I think Vena Milk got a little nervous and all of these companies were offering Vena Milk, you know, capital joint ventures and they thought that was a quick way to get back into the market and they knew Vena Milk needed capital to upgrade facilities. But I think Vena Milk's executives took a daring move and they decided to hold the foreigners off and they knew they had a window of opportunity because the market was not really big enough for anybody to jump in and set up a big facility and start processing milk, and yogurt and ice cream. So Vena Milk had this window and they decided to do it on their own and they sent a lot of their managers and engineers overseas to see how other dairy companies were packaging, how they were advertising, they also bought, they upgraded their factories and they bought state-of-the-art equipment. They have a lot of tetra equipment and some of the best you can buy for the dairy industry. They also in 1994, they expanded their product line, they went from just doing sweetened, condensed milk and baby food to doing yogurt, ice cream, cheese, biscuits. They now have 50 different products and in order to sort of build the name Vena Milk and make people proud of a home, a domestic product and also to let people know that all these different foods existed that never did before 1993, Vena Milk launched an expensive advertising campaign and it was almost like an international brand. They had ads in all the major newspapers, they had commercials on television of chubby Vietnamese children drinking milk out of Vena Milk cartons and they also had lots of big, fat Holstein Cows being milked but 99% of the products are made with imported skim milk powder but they left that out of the ads. But anyway they really did a professional and sort of international standard job as far as advertising and all of a sudden everybody was talking about Vena Milk, and eating Vena products and also the Vietnamese, unlike a lot of their Asian neighbors, do like dairy and I think that is because of the French legacy. So there was sort, they were already inclined to that, they didn't have to create new habits. But anyway another thing that Vena Milk did quickly before the foreigners would come in, they recommended that even though the market was in Ho

Chi Minh City, there were also people in Hanoi who liked their products, could afford their products but they had no plant in Hanoi. So if a foreign company came in to build a plant, what could they do, go right into Hanoi, hit the Hanoi market and take it over. So Vena Milk quickly got a license through the government and they started constructing their plant in 1994 and in the beginning of 1995 it was up and operating and people in Hanoi, who had never been able to buy Vena Milk Ice Cream and Vena Milk Yogurt because there was no long-distance refrigerated transport, all of a sudden were out eating chocolate ice cream. They really went gang busters, there was actually a run on chocolate ice cream in Hanoi in 1995. Vena Milk never imagined that people would eat it as much ice cream and yogurt as they were.

But there are also a couple of things that I think Vena Milk has done wrong and Leon actually touched on some of those things. They didn't, in the north I think they are going to run into problems because, there is a very limited supply of fresh milk in the north and Vena Milk needs fresh milk for its long life milk, UHT milk, and it also is making an ice cream with fresh milk as well. But there is a very small number of dairy houses in the north and there is now an American company that is going to be doing a cheese drink in the north and they are basically doing it on the farm where all the cows are. So Vena Milk, maybe within this year, is going to lose its supply of fresh milk in the north and they can substitute milk powder but it really doesn't taste as good. So the people in Hanoi will be used to drinking milk and eating ice cream that is made with fresh milk and Vena Milk is going to have to change over to powdered milk and I think that is going to hurt them.

They have also not done a lot to counter trends and what I mean by that is when Vena Milk launched its products, they were all extremely popular but in the case of yogurt, for about 4 years, shops had made their own yogurt and it's actually quite good and for about a year everybody was eating Vena Milk yogurt because they liked eating yogurt out of fancy little plastic containers and popping a label off but now I think people are sort of shifting back toward their old habits and buying yogurt which is a little cheaper in the shop and, I think, tastes better. Vena Milk has taken no steps to sort of promote its yogurt or maybe give coupons to people to buy yogurt or anything like that so it's marketing, it's advertising is still fairly basic. Also in Vietnam dairy product consumption drops off very drastically in the winter time. They liked milk and yogurt and ice cream in the summer and I have also not noticed Vena Milk sort of launching an advertising campaign to change consumer habits and try to get people to maybe make hot chocolate or something so in the winter time, they actually have a lot of product that goes into the warehouses and doesn't sell as well as it does in the summer.

And then the other thing I think that Vena Milk has not done is in Hanoi everybody wanted to sell Vena Milk because they knew Vietnamese people liked it and they could make money so when the factory opened in 1995, all of the shops were applying for licenses to be Vena Milk agents and Vena Milk sort of lost control and within two months' time, there were more than 150 shops selling Vena Milk products, I mean you could literally turn around and see a Vena Milk sign on every street in Hanoi. But one thing, at this point, Vena Milk can't control 150 shops and so they've actually suffered because sometimes shops won't refrigerate the yogurt or they won't sell the milk before the cutoff date and so there have been complaints -- it's even made it into the paper, and Vena Milk has been criticized -- that Vena Milk sours and things like that. And I think that Vena Milk sort of let things happen without controlling it. I think they didn't expect things to go as well as they did. But all this being said, I think Vena Milk is one of state-owned enterprises in Vietnam, it has revenue of about 95 million dollars, which is better than big companies except Vietnam Airlines. But they've been operating in a vacuum and this year, this Dutch company, SSD, is actually opening a factory in Ho Chi Minh City and SSD is one of the most well known dairy processors in Asia. They make Dutch Lady and Longevity brand milk and they control the market in Thailand. They have very good market share in Belize, Australia and even China, I think, and so Vena Milk, all of a sudden, I think the honeymoon is over and we are going to have to see how they do in a real competitive market economy. But anyway, I thought I would share that with you because it will give you a better idea of what one real company is doing.

CHARLES PROCTOR, adjunct faculty, Whirlpool Performance Center

What I want to share with you today is more or less a scenario of what we went through to establish retail and distribution in entering an emerging economy market. On some things, I will spend more time than I will on others. When entering a new market for the first time, you take an assessment judgment call. You look at what the possibilities, the goals that you would see, you can look at volumes, price levels, what kind of product mix, look at the legal framework within the country, consumer analysis, trade analysis, competitive analysis, government regulations, channel requirements, custom requirements and brand strategy.

But the key of this fall in that general statement is taking a look at specifics. In the area of market environment and business environment, candidly, we went to a major consulting company in Chicago that had done extensive work throughout Asia, virtually every single country was covered in their channels of distribution studies and it was aimed at our business. Now my comments are pretty much narrowly focused in the business that I am familiar with, major appliances. As I told you earlier, my entire experience and background have been in that market area. Be that as it may, I believe that many of the things that we'll be talking about this afternoon can be spread to other types of businesses. So in the area of market environment and business environment, we went to outside consultants.

The next two items: the trade, the cost to serve which also extended out to value-added services. We used both consulting companies and we used our own teams. We sent teams out to each of the countries that we were entering to focus on the trade with interviews to get a feel of the trade and to find out their needs, also to analyze what our estimations were as a cost to serve should the decision be made to go direct to the market where we had government approval or should we go through independent distributors from a cost standpoint.

Organization and productivity. These are major concerns when you go into a market area. Today the focus is so strong on the Asian market; everybody is looking toward management. It becomes almost like an auction block out there and even after you have them, you have to come up with some early sophisticated retainer ideas in order to your good Oriental managers because they'll slide away at the end of the year. So there is a tremendous demand for quality management out there. So we have to look at this organization structure.

Productivity is interesting in Asia. In America you set up a business and the Board of Directors are looking for profit in 15 minutes. This will not suffice in Asia. It takes time to build that business and to generate what your profit plans will bring you. Competition is a very interesting subject in Asia. In our business, competition comes from manufacturers in India, Japan, Korea and also Australia. There is no one company that dominates the business in Asia. It's very fragmented as far as our business is related. Mitsubishi is probably the largest of any of the Japan manufacturers. We also had to have a feel of where their strengths and where their weaknesses were. We found that the Japanese, at least in the major appliance business, were great manufacturers, were very sharp pricing merchants but they can't merchandise. And this is where our strengths come into being.

So from there we took a look at just what would be the critical challenges in each market that we looked at. Number one to try to determine market share where we look and the size of the market and this is a tough thing to obtain, critical data in Asia, because the facts just aren't there and so much of it is based on estimates.

Consumer research and testing. This is different from another area we will be mentioning later, consumer segmentation. Customer research is looking at the behavior patterns of that consumer. What influences major buying decisions. What is needed to make major appliance buying decisions and how do we test the consumers in various markets. The sales and sales management teams are very critical to success in any venture in a foreign market, particularly one in an emerging economy. We mentioned, I believe, we mentioned cultural understanding, cultural understanding is a two-way street, we had to understand the culture in the economy in which we were dealing. But on the other side, it is very important that employee in Asia understand the culture of the company with whom he is working because that is going to be his livelihood. That is going to be his future, hopefully. So it is a two-way street, understanding culture. Quality of management, and we mentioned that earlier, is so critical. Logistics is very obvious from some of the discussions that were held this morning that logistics is a critical challenge in many of the countries throughout Asia, India, China, very critical, very critical. Of all the countries in Asia, Malaysia probably has the best logistics system because they have the best highways. Thailand you get out of Bangkok and it's all gridlock there anyway but going up to the north country, you are right back into that two to three week delay in getting product delivered.

What's the distribution, what's the channel management look like? How is that going to affect? How many dealers are there out there in the major appliance business? We found in most countries that most of the business two years ago was being done by small, independent retailers, the store's size was an average of 500 square feet. It was owned by a man and a wife and they lived in the back or they lived upstairs and crunched into a 500 square foot space was their display. They carried no inventory, they sold the goods, they expect to be delivered and they are willing to wait because of delivery time. So, who are the keepers in that business. Where are you going to target your accounts? Advertising and promotion is a unique experience in Asia. You go into India and billboard advertising like you have never seen in your life is in India. And so many of the gentlemen here today from India know exactly what I am talking about. Television is a key media throughout Asia, a key media. Newspapers are very important but to a lesser degree. You go into India and if you are going to advertise in the newspaper, you have to figure that you are going to run in 10 different languages in order the cover the broad spectrum of the market. What appeals in promotion. It is entirely different what appeals in promotion in Asia than it does in the North America appliance operation.

Consumer segmentation and targeting. Mr. Bentkowski earlier today did a nice job making a presentation in Poland what the consumer is looking at as a next time purchase. We do it, not as broadly as they did it, but we do it on what is their next major appliance. We know from going on into the countries that the first thing the customer is going to buy is a TV set, the second thing they are going to buy is a refrigerator and then the next thing is a washing machine, maybe an air-conditioner, maybe a microwave oven. Appliances are a major buy, a major portion of their income. So it's nice to know what their plans are and then how we target those particular consumers.

Pricing, credit, financing. Virtually everything is done on cash. We heard this morning that in Poland, credit is about 14 days. Germany is giving 60 days financing, I believe. But there are types of financing over there, slowly there is retail financing beginning. It was unheard of three or four years ago. Virtually every appliance sale is done in cash. The consumer saves up the money, they go in and buy with cash. And the dealer himself, the maximum length of terms that he is looking at is maybe 15 days. Today it's being extended, more and more of the suppliers going into those markets are starting to get extended credit and extended wholesale financing. There are no credit bureaus. You have no way of establishing credit lines or a knowledge of that individual's paying. So it is tricky.

Other issues that we looked at, what knowledge is critical to success, your success in the market. What knowledge is critical to success? How do you plan for the needs of your market and how do you raise awareness of your operation, your brand? What inhibits possible success out there. What will be performance measures and what skills are needed. As an example, taking a look at the factors of trade, basic requirements and consumer behavior pattern, just to give you a quick example here, we did a survey in Guangzhou and the trade in Guangzhou is four basic purchasing criteria. Availability, upon demand products. The good after sale service network because they don't perform service, advertising, promotion support and financing. Pretty basic needs. What influences the Guangzhou consumer to reach a buying decision, what are the behavior patterns. Critical to buying a brand, the store reputation, responsive to a house call and the quality of product that they sell. Number two what's important to decision making. The competent and quality service, convenience of store location. People don't have automobiles. They go by bike. They walk. They take a taxi. So they shop within the area in which they live. Price, selection, reputation of the brand, predictability and what kind of advertising. Do they see it on TV. What's needed in the final buying decision. In-store demonstration. Most manufacturers in China, in Thailand, in Malaysia have their own people working on the retail floor and they do demos and they do the selling of the product. Delivery availability, warranty, installation, customer call service and how knowledgeable is that sales person. So these are some of the factors that we have found.

There is another thing that I mentioned that I want to review is two years ago when we entered the Asian market, we felt like time rolled back 40 years, compared to the way we used to do business in the U.S. and that is through independent dealers. This is the way it was in Asia but today Asia is moving quite rapidly, in a much faster pace of change than we ever witnessed in the U.S. Warehouse Clubs are coming into the markets. Mass merchants are coming into the markets and these markets are changing rapidly. Aside from Wal-Mart, we know there are two other major companies that are looking at Asia. One is global, that is Quartz, out of the United Kingdom. They're in Europe, they're in the Cayman Islands, they're in Mexico, Malaysia and Thailand and they are opening in China. So, it is a changing market. If you look at a line like this and here I am going to put 1930 and a break here, probably 1947. During this period of time, the U.S., the major appliance business was done with small, independent dealers and department stores. Now between 1947 and the 60s, we saw a change in here of shrinking independent dealers, the emergence of discount houses and department stores going out of business. In the 1960s and the 1970s, we saw the emergence of buying groups in the U.S. Where smart, independent dealers realizing that the bell was tolling on them as a group, started to form buying groups and today they are very, very strong in the U.S. They are also beginning to appear in Asia and then from the 1970s up until current, we have seen regional mass merchants appear in the U.S. We saw national mass merchants in the U.S. appear. I am talking of companies like Circuit City and Best Buy.

Well, now you take Asia and you talk in the late 80s, up until 1994, in this period of time you had the same time of operation that you saw here in this area. You have small, independent dealers and you have department stores. Now what's happened here to now, the emergence of warehouse clubs, the emergence of mass merchants, the emergence of global retailers coming in the marketplace and still the department store, they will hang on because department stores are sharp enough to understand what had happened to department stores in America during this period of time from 1947 to the 60s, they are not going to let it happen to them. So they will hang on. But that's how fast, in 15 years, this thing has changed in Asia and it will continue to change rapidly.

Thank you very much.

JIM TAYLOR, Professor of Marketing, University of Michigan Business School

Since you were talking about Asia and I spend most of my time in Asia, I thought maybe I would make a few comments on some observations that I came away with about Asia. And I'd like to put them in these kinds of three themes and I am going to be very aggressive, just hit a few bullet points on each of these.

It seems to me obviously, we are all talking about how the world is changing and it seems to me that the important message I come away with, is what will the world look like in 2000 in

Asia, where is it going and I see some significant rules of the game changing in that part of the world, as many of the speakers have talked about. I think the interesting question is how do you move in this new environment and what are the strategic issues as you move ahead and what might be some of the key success factors of playing in this Asian environment.

Well, let me just highlight what I see as some of the bullet points on shifting rules of the game. First of all, it seems to me there has been a real discontinuity in the economic development in Asia. First of all, globalization has moved much faster than liberalization. This has been a big hindrance for the development of local competitors. I believe that is going to change. There have been first-mover advantages for global players and I think it is going to be harder and harder as a lot of smart local players come on the scene as we start moving ahead.

Next is shifting market attractiveness. Everyone is going after the cream of the market, the top of the market, we always talk about that. It seems to me that the big challenge is this rising middle income market, or lower income market and that's where the business opportunities are going to emerge and what do you have to do to be in that particular market. The shifting of value creation activities. My observation is that we have produced too many bright engineers around the world and what's happening is that they can match technology overnight. And value creation is being shifted closer and closer to the customer and understanding how to do distribution, how to adapt to the market, how to advertise, how to do these kinds of things are starting to come more and more into the equation of how do you create money, as opposed to saying, I know how to make a microprocessor. Too many bright people know how to do that and they are competing aggressively on that. So a shift here from an OEM engineering and manufacturing, kind of the Taiwan, kind of a miracle to looking on closer down here to the complexities of understanding this customer, this market.

Last couple of points is the shifting balance of Asian trade, the trade within the tigers is aggressively increasing relative to the inter-trade so I think you are starting to see the market opportunities to trade within, again I think local players are going to be more and more aggressive, taking advantage of this. And shifting diversity. As these markets develop, my observation is we start within markets to see much more diversity. But then we start to see much more commonality across these markets. So Vietnam might look much more similar to what Taiwan looks like in another ten years, yet within Vietnam you are going to see a lot more heterogeneous of what people want. So it is kind of a contradiction, more and more segmentation within the market, but more and more commonality across markets, basically there are more similar segments as you go across the markets.

Well, that leads to the question of what are some of the strategic challenges and this is one I always bump up against when I am teaching in Asia. Is this a question of focus. It's tough to think that way in Asia. It seems to be though the winners are going to be those who focus their businesses and yet are able to get volume to get economies and scales of what you are doing. If you are in a big country, like China, maybe that's not hard to do and stay within China, but if you are in a smaller country, you have to move outside that country to get volume, but you have to focus. And then this question of how do you adapt to these kind of segment needs in this diversity that Chuck put up here, looking at what people want. Service, as Chuck was talking about. How in the world do you do that issue?

So my last little list is looking at multinationals so we can think of Whirlpool here as one, as a player. But how do you protect your higher income market dominance. I think this is going to be a challenge for multinationals looking ahead. We have not experienced that you can be at the high end of these markets in the U.S. and protect them easily. BMW, Mercedes, on down the line, Cadillac, everyone is thinking, how do you come down in these markets. So, the issue here is if you are living off the top of the market now, can you afford to do that without being in the middle of the market later on strategically, I think is the question. The adaptation of downstream market needs. We haven't had to pay attention to that. How do you segment markets? How do you pay attention to these kinds of things? If that's where the money is being made, how do you pay attention to that. A challenge it seems to me and marketing processes, how do you standardize them as a multinational. You have to have some linkages in these international markets and it seems to me standardized marketing processes is something to be transferred by a multinational. I don't see many of those standardizations in marketing processes. Maybe marketing standardization is not, but you better find out where the linkage is otherwise the local has just as much advantage as you have.

However, let's look at the locals and turn it over to Andy. Of course, these operations are dominated by family businesses. That's where the capital is. Capital markets here. And you have a family business mentality in running these operations, as opposed to professional management. The advantage of multinationals, coming in with professional managers. These families are sending their young people, you see them out in the halls, walking around, getting MBAs. It isn't going to be long before they are starting to take on the same orientation or there is going to be a lot of people in multinationals that get smart, quick and go starting running business competing with Whirlpool or do other things. So this I see is changing rapidly, looking ahead. This is a tough one, the Asian mentality of having lots of eggs, but don't put your eggs in one basket. Have lots of baskets. That's your typical Asian organization. It is scary for them to focus. A lot of historical reasons, government reasons. You've got to do that if you are going to focus and get volume to win. An advantage of a multinational is oftentimes having its eggs in one basket. And this engineering orientation, adding to it a marketing orientation but a natural difference here in ways of thinking, and a challenge for local companies.

ANDY LAWLOR, Lecturer in Corporate Strategy, University of Michigan Business School

Jim spends the majority of his time teaching in Asia. The courses that I teach and the work that I have takes me primarily to Europe, particularly to Eastern Europe and Central

Europe. I have had students in nine countries in Eastern and Central Europe in the last three years, looking at the transitional economies' current level so we are looking at how multinationals at a Western firm enter the markets and how indigenous companies both joint venture and partner for distribution and technology transfer. I only have one slide so I'll try to keep it simple.

What I tried to put here is some of the frustrations we saw when multinationals and Western firms tried to work in these economies and how it is literally what seems to be paranoid, almost so paranoid, you don't want to put your toe in the water which has this tremendous growth opportunity. And when you are looking at a Western economy, you are looking at a mature economy where multinationals work, protecting your turf might be the primary motive. Winning 1% market share gain might be the primary motive. Here you have an explosion of potential GDP growth and a triangle where you win battles at any number of levels as you move up the sides of an upside down triangle. And there's is tremendous frustration about how to touch that marketplace and I see some of the, across multiple industries. We work with telecommunications firms, consumer product firms, durable goods firms, service firms and the expatriate factor and the indigenous management factor and some of the frustrations, I have tried to list. There is a wide application of Western norms. I can only spend 3% on advertising and I want to grow 30% a year. My boss says I can only spend 3%. No long-term preview whatsoever, short-term drivers, same with the U.S. stock market, same with the Western economies of Western Europe and really it goes to all the different norms. Percents for advertising, I can't count, I can't hire people even though they are only making $300 a month. You can only have so many people doing so much job. And there is a real problem there.

Also allocating budgets on a yearly basis. These companies are growing at rapid clips per quarter, they have never heard of rolling quarter allocations. At the end of the year, they are going to have more, and more, and more but they need to apply that on a quarterly basis. The simple allocation on a rolling quarter basis of marketing budget and head count of the ability to manage your inventory would be very important, without taking any additional risk. You are going to give them that budget at the end of the year according to your Western norms.

The whole concept of trade channel segmentation and consumer segmentation. Very set in Western definitions, the descriptors and types. I've seen Western companies come in and try to tell Hungarians that this is what a chauvinist is and this is what a foreman function is. And they look and they say well I'm chauvinistic and I want to buy from Gary and you're telling me no one buys British, in Britain, they buy multinational. Well, why should I want to buy anything but my own country and they're flipping those numbers around. Whirlpool has those same issues with Siemens and Electrolux. What to apply in the trade and market segmentations. I think Whirlpool, last time I checked, had 18 in some segments, defined in trade channels. In Hungary a few years ago, you go into the Ukraine right now, there is only four or five but exactly what Chuck put up there for Asia will happen in two to three years. It will skip multiple steps. You can't assume the Western assumptions of time dependencies and also that they'll go through an evolution.

Consumer descriptors, the ability to really pick that top 10 list of what people will buy. The ability to judge GDP per person as it goes up the sides of the triangle. What do you do with the managers? Do you give them a whole bunch of Western processes and blindly ask them to apply them or do you have the ability to show them a tool kit to give them flexibility. The ability to give them flexibility is the key.

We have seen companies jump in and do sell, sell, sell. No organization structure, no balance, it's a cellular organization. Norms for accounts receivable, norms for credit, norms for inventory management are sort of left behind. It's the wild, wild East. Go get me market share. Breeds bad habits. There has to be a balance in the way that management principles are applied and you can't catch up later. I've seen this selling frenetic go far to the left, you don't even balance the checkbook, you don't take inventory, you don't have the ability to manage your inventory and it needs to be put in balance. It is amazing how that can be left behind in the search for the market share.

We've seen in about 5 different industries the Band-Aid approach of putting a small computer system, catching up later and breeding unbelievably bad communication habits and then expecting these new companies to do forecasting which they have no information on inventory control at the factory, they have no lead time information, they have nothing they can hang their hat on to do forecasting.

One of the greatest investments you can make in entering the market is to make it a standardized IT system, downsizing power but don't downsize it in communication links and access to information. It is so frustrating when the multinational expects indigenous managers to list selling approaches without access to information and to really getting the lead time and the factor information of the products shipped in.

Consumer financing. There are companies that have done it amazingly well. Siemens has attacked the Russian market in 82 different nodes with financing for infrastructure, investments. They've done it carefully, AT&T has not. They have a long two month bureaucracy to get the smallest deal approved, let alone financed. Siemens is eating AT&T's lines today where they have literally opened up some trade channels for financing and taking some risk. Make your risk according to Siemens, something AT&T wouldn't touch. You are seeing the same thing with Whirlpool, Abbey, being able to take some flexible measures, sometimes with recourse, sometimes by offering to buy back the paper from an established Hungarian and Czech bank. But also looking at the gross margin of that explosion of those extra sales they will receive against the few bad debts that they will have and doing a balancing act against risk reward. You will have bad debts, that shouldn't mean that you avoid creative financing completely. And, trade financing in terms of foreplanning in some industries. We will try to put together something that we worked closely with, I will show it to you quickly. We have had two generations of students working on this, but we've tried to create an environment to look at the enterprise's level and at the industry level across a series of dimensions, both internally and externally to the firm. Political and economic environment, consumers, competitors, trade channels. Look's a lot like what Chuck put out. We have tried to rank countries across five stages of development. It could be 7, it could be 3, over a period of student work, we picked 5. Where do the emerging economies fit across the descriptors and across these dimensions? How can you manage in the next stage? What are your competitors doing? How street smart can you be? How can you make strategic decisions on the next period, next quarter, next year and be able to win the game in an emerging economy, a transitional economy? This is the external framework. Internally, how do you manage the firm in these economies. How do you study the industry? In this particular model, 7 different management systems down the left, same stages of development, series of flexible descriptors, being able to say where your enterprise is in Hungary, in Czech, in Russia, in the Ukraine and to be able to really play according to the processes that need to be brought to bear, living within the external framework. And being able to hopefully manage to the next period and beat the competitors and also understand the environment and what management procedures do you put in play for indigenous managers to be able to do all these things in a careful way. Under all these boxes are sub layers and sub processes. You can't give indigenous managers 16 inches of process charts to manage two in the first stage. You have to train, you have to teach, you have to mentor but, more important, you have to keep most of the ex-pats out. You have to grow your internal management team as there is a lack of internal managers. You have to live with them, you have to give them some flexibility and you must listen and give them the tools. You cannot go in and just dictatorially and tell them the American way or the German way or the Japanese way. You have to be able to grow that management team at the enterprise level and you have to be able to grow the enterprise, not just win yourself the game.

Integrative Panel and Closing Discussion

ZDENEK PERNICA, LET

Thank you and to all of you who have survived this seminar, I thank you. What is the difference between what you have been hearing all day and what I am going to talk about now?

We are in a different position. We are not seeking to penetrate the emerging marketing in transitional economies, but the reverse. We are a company that under the new environment wishes to go outside our country to sell our products, airplanes. Customers buy our products because they want to make money. Our product cycles also run over a very long term. Development of a new product takes about 5 to 10 years then the introduction to production, 3 to 5 years. The period of production runs from 10 to 20 years during which we need to recoup our investment from the prior period. An aircraft typically has a service life of 10 to 20 years depending on how and how frequently it is used, so all the time we have to be ready to service the aircraft. As you see from the start of production to the end of production support, the period is almost 40 years. So these will be the company's long-term issues.

Customer financing is between 5 and 15 years because we need to spread all the expenses of building the aircraft in longer terms. Even to negotiate contracts can take up to 5 years. So, this is a little bit different issue from the retail business. It's capital intensive, with each unit costing around 10 million dollars, plus there are very strict international quality standards for the aircraft and for the aftermarket support I was talking about.

What is important is the reputation, which is created over a very long period. And, of course, it demands very stable and very highly qualified staff and management because it is high tech. What you see is not just a marginal problem, not exclusive to us by any means, because in a similar situation are all the exporters, all the breweries, all the refineries, all the oil, all the sugar, power stations. All these branches of the Czech industry have had to deal with these issues in the last few years, starting from the beginning of privatization. So, from this point of view, this is a crucial matter for our country. Perhaps it is not so much for the businesses of some other countries.

What has the internal experience been like? What happened during the last few years? Our "Velvet" revolution was in progress by the end of 1989. This caused a breakup of the old mechanism of international sales including governmental orders and state financing. Our sales slipped from 1988 to 1990 and then rapidly decreased, dropping from over 80 aircraft in 1990 to 10 in 1991. This decline lasted for the next four years and only in last year did we succeed in turning that around, selling more than two dozen aircraft.

One problem, we have faced is a lack of experience in management. I think this is a situation where the lack of experience led to an inability to resolve a situation that experienced managers would be able to handle. This is a rather difficult situation, and is one of the reasons we consulted with the Davidson Institute to help us to understand how to behave.

While we were suffering the huge drop in sales, we of course did not want to close the company or the factories. That led to an enormous increase in inventory, liabilities to banks and trade creditors and financial losses. We were losing access to credit, suppliers, employees, but most important we were losing customers, resulting in a further decrease in sales. Any further decrease only pushes you into a "magic circle" you can't escape.

So, how could we solve this problem? As I mentioned our sales increased last year, so we're on the way to solving it. To understand how it happened, let's look at how the sales and resales occurred in the planned economy. We believe some planning is essential even now, since there are critical issues with the other former Communist countries that have to be resolved, such as environmental agreements. During the central planning period, the selling process worked as follows. There would be a political decision on the part of a country's government to purchase our aircraft. When there is a centrally planned economy, this is the main stage of acquiring a customer. Internally there was a budgetary insurance fund that financed this country's manufacturers. And the state monopoly foreign trade company would handle the administration of the sale. All we had to do was manufacture the plane and deliver it.

Now, of course, there is not a political decision, not a government edict to buy our planes. There is no budget insurance and the state-owned companies have disappeared, merged or become privatized because of the national political change. Now, all of a sudden, our company has to handle all these things that government agencies handled for us before.

What is the solution? We believe there are many solutions. Bankruptcy is the easiest of solutions. In Czech industry, there are many companies that have suffered bankruptcy. This has affected our economy severely. Sale of the company is almost impossible. A joint venture is difficult because of the debts. Now perhaps the partner in the joint venture is ready to resolve the old debt, but not the government. The government is not involved in this process at all. So the best solution is restructuring – restructuring the financing of old debts, creating new markets and operational restructuring. This is what we have done. Of course this is a necessary part. What does it mean for us to penetrate new markets? We must keep in mind what the company has lost. I am convinced that everything that was lost must be created once again. In financing, that means financing the customer for 5 to 15 years so it can buy the product. It means financing the company so we can manufacture. We haven't succeeded entirely in the financing area, in financing through foreign banks, and financing is critical to progress. We also have to create new market skills. Many companies are not able to adapt to the market condition. We have to create it ourselves. What we need to create is new marketing. Global marketing means keeping a focus on other countries, including Asia and Africa. The other aspects of restructuring we have been largely successful at.

KEN LODGE, China Hewlett Packard

I am going to talk about a specific event and that's the gray market. Not all things in China are black and white, there is a gray market. Now I have heard gray market mentioned several times, I am talking about something a little bit different. Basically it had to do with our decision to do manufacturing in China. Why are we moving to China to do manufacturing? In 1987, I was working in Hong Kong and we made the decision for market access reasons, for local currency reasons, because it was local currency then and basically for just market presence and government pressure, we decided to do manufacturing in China. Now, we thought we would be clever and do what we call, transfer, and they wanted transfer of technology, so we wanted to transfer what we call screw driver technology. Another word for that is SKD, semi-knock down kit. Basically it is selling E chips to China. What's involved in doing that is that, and the product that we chose was a general purpose product that could be found on any engineer's lap bench and it was an oscilloscope, if you are familiar with electronic equipment. These are manufactured, and we have a large site that manufactures these in Colorado Springs, we manufacture the oscilloscope in Colorado Springs, we assembled it, we tested it, and then we disassembled. We shipped it in parts, we shipped it to China. China received it, they put duty, taxes on the parts that were imported, so there are some more costs. They got to China. We had some engineers who then would reassemble it, that's where the screw driver comes in. We would then test it, retest, and then we would repackage it and ship it to the customer. So these five or six extra steps of assembly, test, disassembly, duty, assembly, test and package, these extra steps naturally raised the cost of the oscilloscope at the local price. This normally would not be a problem because we have local currency pricing in all the countries that we service anyway so we normally can take care of this. However, our friends and neighbors in Hong Kong, the trading companies could purchase these products directly from Colorado Springs or from the Hong Kong market and in doing so, they would encounter the same cost minus those five or six extra steps of assembly, test and reassembly. They then would have, I don't want to use the word smugly, but they have creative ways of getting these products from Hong Kong into China, without duty or certainly with a lower duty than we were paying. So what we ended up finding now is that we were competing with ourselves in China. So we would go to the customer or we would offer a 560 oscilloscope at a certain price and the customer would then also ask us can they get a discount, so that's kind of a common practice. As it turns out, we were discounting and we found out what we were discounting against was the oscilloscope sold and made by HP in Colorado Springs through the trading company. Our SKD, which was our first attempt at manufacturing in China was pretty much a failure. It's all in stock, we don't do it any more and we still have the problem of transferring technology into China and selling in the local market, showing that we are committed to the Chinese market. So, therein, is the reason that we decided to manufacture in China. Now I am on my way over there eventually, I'll be there in June and the purpose is to set up manufacturing in China. We have a division, we have 25 engineers right now and we will have a marketing department and the idea is to design products for the China market. We will have, at that point have, worldwide pricing control over these products so things like gray markets, products coming in at a reduced price aren't going to, we're not going to be competing with that. So, I think it is important and particularly in the transitional economies where you have this kind of activity going on, it is important that you have pricing control in China. If it's outside China, then I believe you are going to be encountering the gray market, that is particularly true in the higher end products. The products I am talking about are $25,000 to $50,000 each and there is enough margin there that people can bring them in and then you find yourself competing so I wanted to explain what I felt was the gray market from a manufacturer's point of view so maybe we could come up with another term for it.

SUNIL GUPTA, Assistant Professor of Marketing, University of Michigan Business School

What I will talk about is based on work that Rajeev has done in the past and Jim Taylor and Andy Lawlor have done and so it describes what we'd like to do in the future with WDI and also some of the issues in distribution that companies should be aware of and so we researchers can find out more about it.

To set it up, there are certain basic things that you want out of a distribution system. It doesn't matter where you are: transitional economy, developed economy, anywhere at all. Customers want the right size at the right time at the right place, the right type of services and guarantees. These things can change from place to place, but basically some collection of these things is what the customers want. The company wants presence in the market place, knowledge of the marketplace and development of this market place in their favor. To be able to do all of this stuff, you end up with, all old stuff, we end up a distribution channel, there is a manufacturer, there are some intermediaries, then more intermediaries then the retailer to the final customer and typically what happens in a distribution channel of this sort and this is one place where, especially if these differences start appearing between an emerging economy and already developed economies is the manager or the management at each level is looking at stuff within this box. They are looking at my situation, what's going on over here, making decisions on the basis of that situation alone. The wholesaler is doing that on the basis of what is going on at the wholesale level, manufacturers make decisions on the basis of what's going at that level. You observe a lot of this when you have this kind of distribution channel. This is what happens, lots of problems, the kind of problems that appear to be tied only to the distribution channel. You try to get some kind of efficiency through ownership, and control through ownership, but you often end up with inefficiency, but you are going to sell the stuff anyway. Confidence in that whatever we make, we should enter it in the marketplace and bureaucratic bungling which are clearly seen in many situations. They don't have to be in companies in a transitional economy. This is happening right here; when you have vertical integration, these are common problems. We rely on intermediaries on the other hand and there are a number of intermediaries, and as the number of steps between the manufacturer and the final customer increases, you get in problems in opportunism, there are all kinds of fights going on between manufacturers and retailers and even now, I mean, you say who the enemy is, very often the manufacturer's enemy is the retailer and the retailer's enemy is the manufacturer. They are both supposed to be working, trying to sell more of this stuff to the final customer. So there is conflict that comes in. Because of the practices, because of the incentive structure what very often happens is very efficient stocking and buying policies so there will be huge bumps in buying and there will be massive bumps in buying. Some estimates of the textile industry in the U.S. are that with everything in place, it is a hundred billion dollar industry, 25 million dollars lost in mark-downs and excessive inventories because of bad coordination and bad policies. On the whole, inefficient merchandising. Too much trade promotion, lots of companies can't get out of the trade promotion trap. Those are the things that go wrong.

Is there a way out? Is there an answer? How do you get out of these problems, or is this just something you have to live with? An answer does seem to be emerging, as something of an idea, some sense of where we ought to be and, just for a moment before we say what the answer is, look at some of the boxes out of Andy Lawlor and Jim Taylor's slides that Andy just showed a short while ago. The three boxes that relate to the distribution, the three roles that relate to the distribution channel are trade policies and promotions, management information systems and logistics. As you go across, what you see is that if you want to get to competing in these advanced strategic systems, what you see is greater sharing of information, more coordination, more planning, joint planning, is where all this stuff seems to be headed. So the manufacturer, the wholesaler and the retailer will actually share information. The wholesaler and retailer will jointly plan, actually before that starts, different departments within each of them will, within the manufacturer's company, within the retailer's company will actually sit down and jointly think about what needs to be done. So one answer that seems to be emerging, is even if you have channels -- and shorter channels are better than longer channels, although owning the entire channel is not the answer -- for these channels to find ways to share information, getting the information back and forth faster, of jointly planning, coming up with common approaches as to how to develop the marketplace. Those seem to be the sort of ideals that you want to go towards.

So, that the system that we were looking at before, what you want to do is come up with forecast schedules and plans which are shared across the different channel levels, do some joint planning, partnering and delegations efforts. Again, these are all things that won't happen right away but eventually, it seems that as you do these things more and more, it keeps on driving the costs down, improving the efficiency and actually helps improve market share. There is lots of evidence that this stuff is actually happening. So, the distribution goal applies anywhere, transitional economies or not. Getting information all the way from the customer to the manufacturer, just getting distribution information coming backwards. A bit of coordination of planning all the way from the manufacturer down to the final customer and where the big difference comes in how you accomplish this in transitional economies and in emerging economies.

There are lots of things that cause trouble that would keep a company, especially in those kinds of economies from getting to that ideal. The kinds of things that will come up as impediments are things related to the information infrastructure, computers, networks, the availability of a third party that collects data and statistics on what is going on in the marketplace. Here, as someone mentioned earlier, I can go to Iowa and they can give me a company that sells information on scanner data and I can go to them, and all of a sudden now I know how much it is sold for in different parts of the country. When we were in Poland last year, one of the problems was this company was selling to wholesalers and had no clue what happened to the stuff after and then Nielsen came along and decided to do some of these measurements, except it was a very spotty measurement and the territories that Nielsen used were completely different from the territories used by this company for its sales force and for assessing how well the sales person was doing. There was no way to judge if the sales person, if the sales person said I have 80% coverage and Nielsen said it was 40%, you couldn't really say one was right and the other was wrong because the territories were totally different. The stores covered were totally different and the ability to manage this distribution channel obviously was very dependent upon again things that are taken for granted over here when this kind of information is out there and is not always available. Inner-organizational expectations, what is a manufacturer expected to do, what kind of planning, etc. and what can a manufacturer dictate or suggest strongly to a retailer or what is a retailer supposed to do? What about all the traditions? One of the issues that we had to deal with was this company already had an established distribution system from the old days and there were all kinds of traditions that were built into that distribution system and now came these newcomers who did not have an established system, with a different way of selling over here. But this company whose problems we were focusing on was trying to figure out what would happen if they suddenly went to this new system. They had a lot of very upset people, and their market share right now depended upon keeping a lot of these people happy. And so making that transition, there were certain expectations that were there between manufacturers and retailers and wholesalers and retailers which show how it had to be accounted for.

Managerial experience in corporate practices. The ideal is sharing information. Many of these cases, especially in the companies we were looking at, this one company and some others that we looked at, there is no tradition, in fact, part of the problem was, we were sitting in one place, somebody called up from the customer's office, one of the retailers saying I want this particular product, send me more of this stuff. This is the same department that says we don't make this stuff. He said, no you do, it is sitting over here on my shelf, there is one left and I want many more of these. To what extent was the information not being shared? Something was made and shipped out and the salesman wasn't even aware this stuff was actually being made by this company. Information is hoarded and holding onto that information is very important rather than sharing that information. And even when it is shared with one person who is doing a forecast, the forecaster may be using totally different units, totally different time periods -- and another department is doing its own forecasts. Somebody talked about common forms, that would be a great start. Forget about computers and the rest of it, we want to make weekly forecasts or bi-weekly forecasts and we are going to use these forms and these can travel within different departments. That would be a huge improvement in some of these places.

Physical infrastructure has already been talked about. About how long it can take. And now the channel characteristics themselves. You might have all kinds of great ideas about how you want to distribute this stuff, but channel members might not have the capability, might not have the inkling, might not have the motivation, might not have the skills to do all the different things that you want to do. So, what we have done is we have taken each of those things that are broken. There are a bunch of things that need to be done to improve the information infrastructure. Go through this thing and try to figure out, we don't have computers, we don't have perfect telephone lines then we can't prove the information system, that doesn't help a whole lot so what we have to do is, those things that we cannot control, there must be some other things that we can control. How can we use the things that we do control to improve the system-wide efficiency and to improve marketing effectiveness. There are lots of things over here, for example, this report source that is certainly in the control of the manager. Using computers, making them available, training people to use these computers, to some extent that is controllable although the networks might not be quite that controllable. There are things here that could be done to move the process forward towards more sharing, towards more joint planning and towards cooperation. So, if you go through that what we would like to do is identify cases in different countries, in different stages, how they relied on those characteristics that I have just listed, which ones of these are at the corporate control at different stages of development and how they are likely the impact the effectiveness and efficiency. So how do you then, after you have done this thing, how do you eventually get that ideal, desired state. Well, you do it little by little in every act of your life, in this case in every act of a corporate life. The important thing here is you don't try to do all or nothing, buy a bunch of computers and that the way or whatever but what you've got to do it, for example, bargaining with key distributors. You can't bargain with everyone, distributors, retailers, have the skills, find the five who do, find the five who are likely to sit down with you and actually work and share information with you. It is true in the case of this company, there were many who would refuse to give them the names of the retailers, but there were some who were willing to do so. Develop business with those people who start believing in some of these things. Developing and training for forecasting accuracy and even if this is not perfectly accurate, start inculcating within management, within the company, among the retailers, provide me with your best estimates and try to come up with a system so that we can use their judgment.

This was something that we read about as an example of a company in this place. This is another situation where one intermediary would not provide the names of people down the channel so the company did not know who the retailers were. They wanted to know who the retailers were so they could do a better job of merchandising. What they came up with was a great idea. It was this newsletter that said to the wholesalers, this is how retailers can sell more, let us mail these newsletters to the retailers. So to be able to mail the newsletter, the company needed a mailing list and at this point, the company started getting names of retailers. Some of these wholesalers were very happy because actually, but there was a way found, some way you have to get that connection and there will be ways. The objective is no more about what is happening downstream, by whatever methods you have to employ.

Designing incentives, emphasize information systems and joint planning. This is one of the key things that this company needed a lot of there was too much I don't give this to you, I do it my way and you do it your way and then we argue about numbers.

This last one. Designing for special requests, etc. The ideal is providing excellent service to customers. One part of excellent service is customization. One of the things we saw at this company, which was wrong, was anyone and this is common across many companies, anyone can come up with a receipt at the distribution center and say I need five more of those. And there are certain rules you are supposed to follow and how you are, but it doesn't matter, just come and give me five more of that, ten more of this. It will totally disrupt the entire ordering, shipping, inventory management process. It was almost like everything was being done by exception. Oh this is a special case, let's do it. And the more things you did by exception, what started happening, the more there was a need for exception and in essence they were doing customization as everyone was getting it exactly the way that they wanted it. The cost of this was very high. The way you get to customization is by having a system that allows for customization but everything happening in a costly way toward customization. There was a need to go through a process towards customization. That was the idea and it starts with a certain set of rules which are likely to be followed by your own people. So the research we like to look at is what is the impact of these types of things and how do companies rely on those various characteristics. How they can make the transition from where they are to where they need to be given the constraints of the system.

<u>RAJEEV BATRA, William Davidson Institute Research Director and Associate Professor of Marketing, University of Michigan Business School</u>

It is my job to attempt some kind of closure on this deal and that will be hard, I won't even try. It has been useful for me and I hope it has been useful for you to hear the variety of perspectives from the academic side and from managers all from Western and local companies talking about what they think the issues are in the marketing side in their economies and when the day is done and we sit down and transcribe the 20 tapes we'll have from the day, we'll sit back and listen to them and see what we can learn and absorb in terms of shaping the Institute's teaching and research agenda.

What we learned from today's sessions will help us add to our own integration of the issues, in not more than 5 or 7 minutes, I promise because I know you are all dying to get out of here, is the sense the Institute own learnings based on the projects that our students have done for us and what I want to share with you are just the highlights of some of the things we have learned from these projects.

Some of the key trends that we have detected are ones that many of you have commented on. I guess the first one is the transition from what you might consider a seller's market to a buyer's market. The old psychology which most of these companies operated was demanded exceeded supply, whatever you made, got sold, it was sloppy in marketing. Now they have a different situation, lots of competitors have come in even though markets are growing 30-40% a year, there is oversupply, overcapacity and you can't simply, in many cases, there are exceptions, rely on market growth to take you up, you have to move it now to market share and defensive strategies. While there is the nature of the new competition coming in, there are lots of examples but basically you have the MNC/JV sector. These companies have the skill, the technology, but not the low price and not the distribution. The domestic companies tend to be smaller, backward, high cost, too integrated and we always see the entry of the South Korean kinds of multinational or global companies which basically have skill and low cost which is a challenge, I guess, to U.S.-based and European-based multinationals. Third we see this changes what the consumer is beginning to expect, they are beginning to expect higher quality and more features from the products they buy. They are willing to pay more. The average price is ratcheting up in pretty much every product category. And yet still the bulk of the market is at the low end and that is where most of these companies would need to be competing.

So that's the backdrop, I am going to skip through a lot of supporting evidence. Let me just dive into what some of the implications of that seem to be. First for the multinational corporations and then for the transitional economy companies operating in these countries.

Let us simply use the old marketing 4Ps approach.

The product. The key product imperative for multinational corporation is you really can't go in there with something that is far too advanced for these markets. Lots of examples that we have experience with are the basic ideas. Adapt your product to fit local needs, value engineer out of the product, the features that are not necessary to bring the cost down and there are lots of examples. Linked to that, the issue of price. Unless your product is a high status kind of products which many of these company brands are, try to keep the price low, tremendous price elasticities, try to value engineer for different segments. We have seen Whirlpool for example try to have a second brand in the lower market. Invest in installment and in financing. A number of companies have pointed that out. Try to create small packages, smaller products that you can market in low price points. We have been very successful with that and bring in warranties and branding has ways to add value without fighting the price kind of war.

The channels on the other side, Sunil addressed that at length so I won't spend much time on that. The issue for many multinationals here is how to find ways to distribute the product is low cost ways. We have examples, such as Proctor & Gamble, which is investigating the advance distribution method of distributing products and much lower overhead cost than the typical high overhead distribution system. You need flexible and liberal credit terms, you need ways to motivate the channel as many ways as possible, you need to find ways to train your dealers for better customer service. This is something that Don mentioned that we have run into this as well, which is when you have multiple joint ventures in these markets, it is foolish to have separate systems and separate distribution channels. You need to explore ways of bringing them all together for efficiencies of various kinds and that's something we've discovered with Whirlpool and with AT&T.

So, these are the imperatives that we see for multinationals. For the local companies, the TEC, the transitional economy based companies one of the issues that many of you have pointed out is one that we have picked up as well which is one of the niches that you can go into. Leon used that phrase I think. To find the global brands. How can you out localize the global brands that come into your market. You have to invest in quality improvements, you have to find ways to increase skills, you can't just spend the money to build brands, you need to prune product lines, you can't have 2,000 SKUs. You need to target which markets, which consumer segments you can go after and, in many cases, you have to invest in building up some types of scratch distribution systems and, again, we have lots of data on that.

Clearly a big job that many of these companies face is improving the basic marketing competencies of their managers. These are some of the areas we have identified as we looked through out students' reports. Improve managers to do basic analysis and segmentation. Basic strategic marketing skills, forecasting, accurate costing, without which you can't have proper pricing. Build up the concept and the skills, the tactics, the techniques for measurement systems for customer satisfaction. Change the organization instruction systems to have the sales-people talk to the marketing people, talk to the production people, we have talked about that, that is a very common recurring theme. These people don't talk to each other, how do we make them do that. Skills such as dealer-based marketing and basic skills in communication.

Now what does that leave for us at the Davidson Institute? We have identified certain teaching requirements that we are investing in and designing our programs around. On top of the list is basic strategic marketing analysis, the idea that you find your strength, find a segment that matches and bring them together. Sales forecasting is something that these companies need to know more of and part of that maybe, there are many reasons why that doesn't happen. Well, this year, for the first time, we have added some sections on forecasting in the executive program upcoming in July as a result of this analysis. Basic training in communication, branding advertising, product development and value engineering. If you can't innovate, you can't compete with these global companies. Customer satisfaction, channel issues, costing and pricing and I think based on what somebody said today, we need to spend more time possibly collecting market research data because the infrastructure is not that good. I think we spent too much time on interpreting the numbers and not on the collection of the numbers, which is really the issue in many of these economies. A thought struck me. We perhaps spend more time training managers in contexts where you don't have much information. The entire U.S. business, for instance, the information is there, the question is, how do we use it best? Well, these people don't have the information. How do you make decisions in the absence of information? A totally different challenge.

On the research side, I want to through it open and get your comments but some of the things that we have done already, we save the tables that Andy and Jim put up regarding how markets are evolving and that's something we have worked on already. I want to work on how global brands can fight the open brands and vice a versa. We clearly have an issue in channel management, selecting, training, motivating, evaluating, compensating dealers and commission proceeds. Leon talked of frugal marketing. I think that is something that we need to spend more time on because companies in these countries need it.

Retailing in Transitional Economies

The Case of People's Republic of China

Brenda Sternquist, Professor
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We forget that communism in the People's Republic of China is new. China has a vibrant commercial past. Since the days of Marco Polo, China was sought as a trading partner. Endowed with tremendous riches in natural resources and artistic expression it was and is a country with tremendous market appeal.

Around the middle of the Ming Dynasty (1368-1644) China's economy-consisting of agriculture and the handicraft industry- operated under capitalism. Silk and cotton industries were prosperous in southeastern China. Thousands of textile and cotton workshops emerged, focusing on low cost labor, the beginning of a class system emerged. The succeeding Qing Dynasty (1644-1911) rather than encouraging the capitalistic enterprises as had the Ming dynasty, instead placed limits on the size of the factories and imposed high taxes on the merchants. The Qing dynasty made a closed-door policy for foreign trade, discouraging merchants from seeking foreign markets. This desire for isolation was reflective of the historical desire for self-sufficiency. The only port the Qing dynasty kept open was Guangzhou where tea, silk, medicine and porcelain traded for woolens, cotton textiles and spices (Xu, 1990).

Prosperity was not limited to foreigners, a ruling merchant class of Chinese also emerged. In the late nineteenth and early twentieth centuries, most foreign goods gained acceptance through constant advertising in the modern media. About 200 foreign-owned newspapers and magazines were published in China throughout the nineteenth century. The Chinese publishing giant Commercial Press launched sixteen magazines between 1903 and 1937. Radio broadcasting in China dates to 1922. In 1927, the Sun Sun Company, a Shanghai department store, established a station that broadcast market news, current events, and Chinese music. By 1936, Shanghai had thirty-six Chinese-run stations. Massive department stores with names such as Sincere, Wing On and Shui Hing sprouted up on Nanjing Road, the major shopping boulevard. These luxury buildings were parallel to Macy's and Gimbels in the United States and Harrods in London (Xu, 1990).

The division between the moneyed entrepreneurs and the working class broadened. Starvation, prostitution and opium addiction were prevalent. The Bund, the beautiful boulevard in Shanghai that surrounds the harbor, was strewn each morning with corpses. China was troubled with civil strife from 1921, leading to Civil war. During the first civil war the two major political groups, the Nationalists and the Communists agreed on a policy of strikes and boycotts that ultimately led to the dispossession of the propertied class and foreigners. During World War 11 the two parties put aside their differences and cooperated but the end of the war brought increased hostilities. The Nationalists found themselves overpowered and left the mainland entirely. They left to form their own government; the Republic of China-we know it as Taiwan. The Communists were victors, and on October 1, 1949, 300,000 citizens gathered on the Tiananmen Square, Beijing, to attend the ceremony that marked the formal beginning of the new nation, the People's Republic of China. The government set a deadline of January 1956 for the transformation of private businesses to "whole people enterprises". The State expropriated industries. The luxurious department stores such as Sincere, Wing on and Shui Hing were taken over by the communist government and their names, changed to less descriptive terms, such as Number One Department Store and Number Two Department Store. The door to China closed (Xu, 1990).

From 1966 until 1976 people in positions of authority -government officials, teachers, managers were persecuted. Eerie sameness, adopted by many as a survival tactic, settled in: everyone dressed alike; thought alike and shunned anything intellectual. Later in 1976, the overthrow of the counter revolutionary group signaled the beginning of a new historical period in China. The Cultural Revolution was over and socialist modernization was the new focus. The policy line became "emancipating the mind, using the brain, seeking truth from facts, and unity to look forward". This is the paradigm for modern China.

Except for a brief retrenchment following the 1989 Tiananmen Square incident, China has continued to modernize at a very rapid rate. Foreign investment in China has increased steadily throughout the late 1980's and early 1990's with a projection of pledged investment in China of over five times the level for 1992 as compared to 1988.

The Retail Revolution

Sales in China during the first six months of 1993 were 96.3 billion, up 24 percent during the same period of 1992. China's retail market will triple by the year 2000 (Ho and Leigh 1994).

Retail sales in China were controlled by the Ministry of Commerce, now known as the Ministry of Domestic Trad e until the 1980's. The system known as the fenpei system means distribution operated strictly as a case of allocation. The State Planning Commission decided general production goals for factories in china. The factories would then be allocated raw materials and told to produce the necessary products. After production, they were shipped to the Ministry of Commerce Central Distribution Centers. Three major distribution centers in Tianjin, Shanghai and Guangzhou served many second and third tier distribution centers at the local level. Wholesalers and retailers were owned by the government and served within this allocation function not as market players but as a storage facility for the merchandise.

Retail Formats

Retail stores in China are 1) State owned 2) Cooperatives or 3) Free market retailers.

Government Owned Stores

State owned stores and cooperatives were the only type of retailers allowed in China until the late 1980's. The Chinese government like other centrally planned economies, viewed distribution as a nonproductive business activity. Rather than putting money into selling merchandise the people should put efforts into producing the products. The distribution system in PRC is inefficient and added costs to products because of poor central planning and inventory control. Cooperatives are very similar to state owned stores except the business is owned by a group. Both state owned stores and cooperatives purchase merchandise from government producers, therefore they have similar merchandise offerings and similar prices. We assume that prices will vary according to store location or store prestige, but state stores' prices are nearly identical, despite the location or store decoration. Price differences are more a market aberration rather than a competitive tool.

State Stores

Customer Service

The large state owned department stores have merchandise displayed behind counters. If a consumer wants to see a product they must request that product from the sales person. Crowded department stores make it difficult to receive attention from the sales clerk. Sales clerks are not compensated according to sales volume so they have little motivation to efficiently serve customers. One Chinese consumer told me, "You enter a Chinese store and immediately beg for someone to sell you merchandise, sales clerk do not seem to want to be bothered, they waste time, your time and my time because they have nothing better to do". A list of statements the government has made taboo is presented is listed below. Inventory stockpiles on the selling floor, so if your size is not behind the counter it is not available. Most state owned department stores do not have dressing rooms so customers are not able to try on merchandise other than outer wear like coats and gloves. In addition, merchandise is generally not returnable, therefore significant product risk is involved. Chinese consumers I talked with said that they are not inclined to return merchandise even if there is a defect in the product, they view the problem as being their own, that they did not make a wise selection. However, the nonreturns policy is flexible. Chinese consumers I talked with said that if the sales person knows you or if you are a frequent customer and you purchase a defective or unsuitable product they may allow you to return the item.

Department stores are beginning to offer their own store credit cards and some stores offer delivery and alterations, but customer service is not a high priority for these state owned department stores. China like Taiwan may require the market entree of Japanese department stores to significantly alter the perception of what constitutes customer service.

Product

There is a striking contrast between the way the USSR and the way China has approached developing a market econ omy. In the USSR the political system was changed first, the removal of the communist party and following the movement way from the political system came a transformation in the economic system. The result has been tremendous hardship, including consumer shortages and tremendous inflation. In contrast, PRC has altered the economic system first, moving toward a free market before leaving the political security of a communist/socialist system. Unlike the USSR, PRC has had an abundant supply of merchandise and comparatively low inflation.

Compared to the U.S. or Western Europe, the products produced in domestic factories are low quality and unimaginative style. But when the products of joint ventures are added to this product line, many high priced/high quality products and low priced/low quality are available. Stated owned department stores have been limited to buying products from domestic manufacturers or from governmentally controlled import/export agencies. These import/export agencies are primarily in the business of exporting Chinese products but on their overseas rendezvous they may receive a request by a state store to purchase merchandise for them. For instance, if Number One Department Store decided that they needed some personal computers to sell, they would request that the Light Industries Division of the Import/Export Commission buy some computers for them the next time they were on a selling trip to the U.S. Often these export experts have little product knowledge and resort to purchasing what ever seems like a good buy, rather than the products that consumers would really like to buy. This is particularly true if the state store does not specify brand names and product specifications. After the economic reforms, department stores were allowed to buy directly from domestic manufacturers, however they still cannot purchase imported merchandise directly. A few selected retailers in the major cities are being given permission to import merchandise directly.

Securing Merchandise for the State Store

Department stores in the United States and most developed countries have individuals whose primary responsibility is to procure merchandise for the retail store to sell. These individuals, called retail buyers, are experts in the product area. Retail buyers, in countries such as the U.S. scour the market to find merchandise that is unique and will bring high profit margins to the store. The retail buyer is considered a profit center for U.S. companies. In Chinese department stores there are no individuals whose sole responsibility is to procure merchandise.

In a Chinese department store, merchandise is arranged around hundreds of display counters. At each counter there are a counter manager and six to a dozen sales clerks. The counter manager has the responsibility for selecting merchandise for sale at his counter. In larger stores, manufacturer's representatives come to the retail store, each product group would have a mini showroom where the counter manager would examine the samples of merchandise and place orders. In other department stores the counter manager would travel to the manufacturer's facility to select merchandise. In all of the stores I have interviewed the counter manager's primary responsibility was to sell merchandise and coordinate the activities of the sales clerks, securing merchandise was a secondary responsibility. It is even more accurate to say that the large stores do not select merchandise, they select vendors. The responsibility for determining what merchandise to display in a space falls on the manufacturer. These retailers, like many Japanese retailers, are reduced to manufacturer's showrooms.

The counter manager is not compensated on the profitability of the department. This system offers little incentive to take procurement risk. Long term relationships develop between the manufacturers' representatives and the counter manager. Special favors may exchanged between the two. Without specific evaluations of product profitability the accountability is quite low.

The consignment system is quite prevalent in Japan and Taiwan, and is also used in PRC. The purpose for using the system in PRC is very different than in Japan. In Japan the system is used so manufacturers can protect the image of their brand. Merchandise is not marked down, lessening the prestige of the product. The consignment system means that you can return unsold merchandise to the manufacturer. In PRC, retailers have not moved the next stage to become assembliers of lines of merchandise. Manufacturers determine what merchandise should be a department store because they know their merchandise the best.

Because the major department stores are all obtaining their merchandise from the same suppliers there is a general feeling of sameness in product offering. Large retailers in all product areas also serve as wholesalers for products to smaller retailers, further contributing to the problem of similar merchandise.

Beijing Department store does business with 2000 industrial factories. They serve both as a retailer and as a wholesaler to smaller companies. This merchandise comes from all over China but primarily from the Beijing area.

Domestically merchandise is very reasonably priced but merchandise imported or from joint venture manufacturers is expensive. Merchandise importing is done by the government import/export agency and not by the individual store.

Pricing

Products sold in state stores used to be subject to strict price controls, as the economic reform continues these price controls have largely been eliminated. Price controls are determined on a municipal basis. Beijing and Shanghai could have different pricing systems based on their local economies and product abundance. This caused some problems when I first started doing research in PRC. I would do interviews in Shanghai, find out about the regulated gross margin requirements and then go to Beijing where I was told something completely different.

Originally there were 146 products that are under government prices. They set prices for 4 types of merchandise 1) agriculture products such as ore, cotton and salt 2) Thirteen types of light industry products 3) Industrial products, steel and iron 4) Services such as rent, taxi, car, public transportation and telephones. In addition there are 69 products that had a regulated gross margin, the rate is stipulated by the government. Now, except for times of product scarcity there are no regulated prices or regulated gross margin.

Free Market Stores

Originally free market stores were all mobile units that relocated in various parts of the city. The government licenses these free market stores and collects taxes on their transactions. To prevent under reporting, government "snitches" are found patrolling the area. These people observe sales transactions and use these observations to estimate the actual sales for the shop. The mobile free market shops are very small. Many are constructed from polypropolene wrap draped over metal pipes. Each evening, merchandise is packed back into cardboard boxes and taken home. A typical shop would sell only men's shirts, five or six colors, all the same style. The goal of the mobile shop owners is to save enough money to rent a space in an actual building.

There are also free market shops in permanent buildings. An entire area will be designated as a free market street so consumers are not confused by state stores and free market stores side by side. Free market merchandise is considered higher quality, more stylish but higher priced that merchandise in state stores. Chinese students said that there is only a limited type of product they would buy at a free market store. They would only buy products like food, clothing or accessories, items that they could evaluate quality right on the spot. In contrast they would not buy electronic appliances from a free market retailer because if there was something wrong with the product the free market retailer would not stand behind the product. Also, in the case of mobile shops they might never be able to locate the same shop again.

Recently state department stores have been renting space within their store to free market retailers, this has consumers in an uproar because consumers do not like the fact that they might buy merchandise, thinking that it was backed up by the state store but in actually it was free market merchandise.

Free market stores buy most of their merchandise from special economic zones where joint venture manufacturers produce products for export. Free market retailers I talked with in Shanghai bought their merchandise from Shenzen, an area close to Hong Kong. They would travel to that area by train and bring back as much as they could carry. All purchases were made in cash and there were no special allowances or trade credit.

Foreign Retailers in China

Until recently, foreign retail joint ventures have not been allowed. The first large scale retail joint venture is between Number One Department Store and Yoahan Department Store. The store will be located in Pudan, an economic development area near Shanghai. Yoahan is a Japanese family owned company that recently changed its domicile to Hong Kong. Wada the chairman of the company believes that the twenty first century belongs to Asia. Yoahan's corporate headquarters has been moved from Japan to Hong Kong. In

1997, when Hong Kong reverts to Chinese rule, the international headquarters will be China.

Shanghai Number One Department store is the largest store in PRC with sales of 781 million RMB compared with its closest competitor Beijing Xidan with sales of 577 million RMB. The Number One Department Store-Yoahan joint venture in Pudan called the Next Age Department Store, will have 20 percent more selling space than the Macy's at Herald Square in New York City. Herald's Square Macy's has 1.3 million square feet and claims to be the world's largest department store.

The Yoahan joint venture will receive special approval to import up to 30 percent of their merchandise. Remember most other department stores cannot import directly and instead must go through government import/export offices. Each major city in China can recommend two large foreign-funded retail ventures for State Council approval. These state-approved ventures will be allowed to import 30 percent of their merchandise. State-approved Foreign Investment Enterprises (FIE) in the retail sector may take the form of equity joint ventures or cooperative joint ventures. The foreign partner may be the majority owner, but wholly foreign-owned retail ventures are not allowed (Ho and Leigh 1994).

A second type of joint venture is a Locally approved joint venture. These are approved by localities such as Beijing, Shanghai, Guangzhou. These businesses do not have approval to import on their own. Legally they must go through a Chinese partner or trading company. The State Council has ordered the State Administration of Industry and Commerce to withhold business licenses to such joint ventures and to deny their imports entry into the country. Local officials have been battling with the State Council. They want to be able to attract retail foreign joint ventures.

The other major Chinese department stores are eager for joint ventures of their own. The Nikkei Weekly, a Japanese Economic Journal carried a headline "Retailers Still Wary of China," the journal reported that the Chinese government had invited Japan's major retailers to enter joint ventures with their state department stores. Japanese retailers were reported to be leery because of China's weak distribution network and overburdened transportation infrastructure not to speak of the fact that the average annual income in

China is just $500. This income figure is misleading though because Chinese consumers receive government subsidized housing and other services. Several Japanese retailers have announced plans to enter the PRC market. Daiei, Japan's largest retail conglomerate will be jointly opening a shopping center in Beijing. Southland Corporation of the U.S. but owned by Japan's second largest retailer, Ito-Yokado LTD is also planning to set up Seven-Eleven convenience stores in Shenzhen.

An important trade issue currently being debated is PRC's Most Favored Nation Status or MFN. Most Favored Nation status is the designation we give to our best trading partners. It is largely used as a political tool. The United States is threatening to remove the MFN status for China. If MFN is not renewed, Hong Kong will suffer a great deal. Over two-thirds of Hong Kong's exports are re-exports from PRC. In 1986 original exports from Hong Kong were greater than re-exports. Re-exports have increased by more than four times during this period.

The government announced that it would approved two foreign joint venture department stores in Beijing, Tianjin, Shanghai, Guangxhou, Dalian, Qingdao and the five SEZs where foreign companies previously unable to do business. A list of the 100 largest retail stores with sales, square footage and profitability follows. The largest of these retailers are the most likely candidates for FIE partners.

China's 110 Leading State Owned Retail Stores
Ranked by 1991 Gross Sales

RANK	STORE NAME	GROSS SALES RMB (1000)	COST & EXPENSES RMB (1000)	NET INCOME RMB (1000)	ANNUAL AVERAGE EMPLOYEES (Persons)	ANNUAL AVERAGE CURRENT FUNDS RMB (1000)	BUSINESS AREAS Sq. M.	ORIGINAL FIXED ASSETS RMB (1000)	PROFIT	SALES PER EMPLOYEE	SALESL PER SQ. METER
1	Shanghai No. 1 Dept. Store	95993.78	3780.65	8688.38	3200	8994.28	21540.00	3067.07	9050.9823	2715.1188	403.3603
2	Shanghai Hualian Commercial Bldg.	70084.79	2308.79	6926.99	2415	5738.90	13500.00	1365.96	9883.7280	2868.3188	513.1104
3	Beijing Xidan Market	68849.89	2881.31	6044.64	2789	5737.62	13000.00	3765.40	8779.4476	2167.3144	464.9723
4	Beijing Dept. Store	65132.62	2832.84	6554.74	3194	5512.77	18000.00	4870.17	10063.6824	2052.2041	364.1522
5	Zhongxing-Shenyang Commercial Bldg.	57842.00	3559.00	4018.00	3652	6953.00	24000.00	1829.00	6946.5095	1100.2191	167.4167
6	Tianjin Hualian Commercial Bldg.	51678.45	2053.00	3795.11	1803	3631.00	14000.00	5061.00	7343.6994	2104.8863	271.0793
7	Nanjing Xinjiekou Dept. Store	48382.00	1767.10	3941.43	2265	4902.38	12000.00	1470.00	8146.4801	1740.1457	328.4525
8	Wuhan market	47119.62	2072.66	3525.64	2618	5843.50	16557.00	4048.29	7482.3184	1346.6921	212.9395
9	Harbin No. 1 Dept. Store	45845.00	2656.00	4745.00	3015	4101.00	20000.00	5336.00	10350.0927	1573.7977	237.2500
10	Dalian Market	44951.02	2861.20	2979.41	3101	5038.50	36000.00	6173.29	6628.1255	960.7901	82.7614
11	Beijing Longfu Store	42149.03	2616.13	3285.17	2586	5066.00	22472.00	5555.56	7794.1770	1270.3674	146.1895
12	Guangzhou Nanfang Store	41605.00	4412.00	1617.94	4267	8030.00	19400.00	3259.00	3888.8114	379.1751	83.3990
13	Harbin Qiulin Co.	40899.00	1906.30	4467.00	1986	4014.70	19200.00	2429.80	10922.0274	2249.2447	232.6563
14	Nanjing People's Market	36412.81	1599.11	2501.59	2463	3721.52	12000.00	1552.52	6870.0823	1015.6679	208.4658
15	Tianjin Quanyechang	35121.49	1595.33	2764.48	2120	3052.49	10639.00	2542.68	7871.1923	1304.0000	259.8440
16	Tianjin Dept. Store	34773.96	1781.11	2316.39	2150	3187.38	12674.00	2232.46	6661.2776	1077.3907	182.7671
17	Beijing Dong'an Market	32725.06	1077.54	3386.66	1435	2469.04	6000.00	147.01	10348.8275	2360.0418	564.4433
18	Shenyan Joint Operation Co.	31376.58	1772.91	2305.19	1962	5473.99	16500.00	4171.90	7346.8491	1174.9185	139.7085
19	Wuhan Zhongnan Commercial Bldg.	31100.87	1423.85	2140.64	1923	2863.28	19000.00	2821.39	6882.8943	1113.1773	112.6653
20	Hangzhou Jiefang Road Dept. Store	30263.23	1064.40	2749.58	1310	2456.07	11000.00	1877.53	9085.5470	2098.9160	249.9618
21	Beijing Friendship Commercial Group	29200.00	2585.00	6075.00	1756	11372.00	13605.00	5282.00	20804.7945	3459.5672	446.5270
22	Chongqing Dept. Store	27009.89	1583.54	2211.82	1330	2637.22	11556.00	1210.94	8188.9264	1663.0226	191.4001
23	Znongxing-Dalian Commercial Tower	26562.20	2284.40	1456.20	1869	3305.20	28700.00	38.60	5482.2266	779.1332	50.7387
24	Changchun Dept. Store	25004.69	1344.60	2215.10	1650	2969.20	20000.00	3587.00	8858.7381	1342.4848	110.7550
25	Zhengzhou Commercial Tower	25003.00	1874.00	1277.00	2147	5829.00	17885.00	2762.00	5107.3871	594.7834	71.4006
26	Hangzhou Dept. Store	24512.32	1162.27	1905.44	1157	2383.49	13000.00	4717.24	7773.3972	1646.8799	146.5723
27	Cjangsha Zhongshan Commercial Tower	24356.70	1521.45	1650.82	1804	4345.51	16500.00	4091.10	6777.6833	915.0887	100.0497
28	Wuxi Commercial Tower	24235.50	1043.70	1910.86	1474	2513.98	21585.60	4363.22	7884.5495	1296.3772	88.5248
29	Guangzhou Xindaxin Co.	23892.50	2057.20	1745.70	1900	3820.40	7244.00	3027.00	7306.4769	918.7895	240.9856
30	Beijing Chang'an Market	23700.00	1647.00	1549.00	1625	1610.60	8800.00	8742.50	6535.8650	953.2308	176.0227
31	Chengdu People's Dept. Store	23536.85	1761.72	1730.06	2914	4377.58	21200.00	400.51	7350.4313	593.7062	81.6066
32	Taiyuan Tianlong Commerce Trade Corp.	23515.37	1517.63	1668.43	1602	3231.95	30000.00	4457.66	7095.0617	1041.4669	55.6143
33	Nanjing Market	22523.10	1267.40	1441.29	1628	2089.00	11000.00	3260.00	6399.1635	885.3133	131.0264
34	Guagzhou Dept. Store	22026.71	2661.13	1066.36	2105	2245.00	15000.00	6602.00	4841.2132	506.5843	71.0907
35	Dalian Dept. Store	21022.00	1169.00	1578.70	1481	1806.40	13000.00	1443.70	7509.7517	1065.9689	121.4385

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36	Kunming Dept. Store	20980.05	1399.44	1458.74	1567	3512.58	10159.00	1346.16	6952.9863	930.9126	143.5909
37	Xi'an Minsheng Dept. Store	20608.49	1282.02	1002.07	1576	3438.69	12823.50	459.95	4862.4135	635.8312	78.1433
38	Shijiazhuang People's Market	20577.00	1388.40	1593.40	1423	1786.00	10300.00	1865.50	7743.5972	1119.7470	154.6990
39	Tangshan Dept. Store	20234.27	1325.43	1510.05	1732	1745.00	2000.00	2856.70	7462.8341	871.8533	755.0250
40	Jinan People's Market	20218.00	1257.60	1481.90	1795	2396.00	13000.00	2135.00	7329.6073	825.5710	113.9923
41	Wuhan Zhongxin Dept. Store	20211.49	1093.19	1162.75	1372	2581.32	8000.00	904.00	5752.9158	847.4854	145.3438
42	Wuhan Hanyang Dept. Market	20090.00	1216.00	1033.00	1348	2443.00	10439.00	2217.00	5141.8616	766.3205	98.9558
43	Tianjin Market	20042.99	1212.13	1179.36	1181	2842.60	14270.00	296.75	5884.1520	998.6113	82.6461
44	Taiyuan Wuyi Dept. Store	19003.55	1187.14	1515.66	1382	1646.93	10200.00	2208.45	7975.6677	1096.7149	148.5941
45	Xuzhou Dept. Store	18694.68	1298.17	1108.11	1398	2093.96	12500.00	2525.94	5927.4082	792.6395	88.6488
46	Wuhan Liuduqiao Dept. Co.	18453.70	911.00	986.50	1032	2151.00	4200.00	321.00	5345.8114	955.9109	234.8810
47	Mudanjiang Commercial Tower	18254.00	1384.00	1237.00	1652	3568.00	25200.00	1327.00	6776.5969	748.7893	49.0873
48	Urumqi Friendship Market	18003.07	1331.60	1446.28	1259	2573.67	15000.00	2260.04	8033.5187	1148.7530	96.4187
49	Chengdu Dept. Store	17656.00	1305.00	1178.00	1293	2917.00	11000.00	2812.00	6671.9529	911.0596	107.0909
50	Fuzhou Dongjiekou Dept. Store	17301.51	1196.97	1281.33	1083	1509.61	8368.00	438.54	7405.8854	1183.1302	153.1226
51	Zhengzhou Hualian Commercial Bldg.	17229.34	1376.41	1069.94	1502	2896.83	13278.90	370.73	6209.9883	712.3435	80.5744
52	Inner Mongolia Minzu Market	17019.50	1527.05	1160.02	1762	2637.50	19570.00	4558.70	6815.8289	658.3541	59.2754
53	Guangzhou Dongshan Dept. Store	17005.24	1031.32	1579.66	933	1617.62	4200.00	722.28	9289.2544	1693.0975	376.1095
54	Xuzhou Lantian Commercial Bldg.	16330.87	1213.66	629.98	1758	2344.75	18000.00	2046.48	3857.6022	358.3504	34.9989
55	Jiamusi Dept. Store	16274.60	1121.80	1646.10	1396	2049.00	15967.00	1512.70	10114.5343	1179.1547	103.0939
56	Guiyang Dept. Store	16198.66	1126.54	934.92	1319	3240.37	20000.00	1034.60	5771.5885	708.8097	46.7460
57	Wuhan Huanghe Tower	16064.21	820.46	882.21	1211	2446.19	7308.00	2502.47	5491.7733	728.4971	120.7184
58	Xi'an Tancheng Dept. Tower	16059.78	1094.58	958.07	1325	2165.64	10970.00	1379.58	5965.6483	723.0717	87.3355
59	Daqing Dept. Store	16043.40	1280.70	1193.20	938	1861.70	8600.00	1143.00	7437.3263	1272.0682	138.7442
60	Wuhan Friendship Co.	15893.00	1225.00	390.00	1598	6200.00	16250.00	320.00	2453.9105	244.0551	24.0000
61	Yantai Dept. Store	15848.18	665.11	1418.36	889	1012.90	10000.00	291.70	8949.6712	1595.4556	141.8360
62	Ningbo Hualian Commercial Bldg.	15768.60	405.56	549.68	670	1645.58	10000.00	80.55	3485.9150	820.4179	54.9680
63	Dalian Qiulin Co.	15397.00	905.00	974.00	998	1462.00	5700.00	678.00	6325.9076	975.9519	170.8772
64	Suzhou People's Market	15312.42	624.64	1035.80	783	1354.34	6162.00	745.25	6764.4435	1322.8608	168.0948
65	Qiqihar Dept. Store	15307.10	1169.40	1112.90	1276	2242.00	14700.00	3768.60	7270.4823	872.1787	75.7075
66	Fushun Dept. Store	15222.80	940.40	1197.60	1112	1752.10	11250.00	944.30	7867.1466	1076.9784	106.4533
67	Nanning Dept. Store	15149.54	849.78	1174.34	1065	2237.49	15145.10	1591.81	7751.6545	1102.6667	77.5393
68	Zjhengzhou Zijingshan Dept. Store	14919.63	1115.05	928.20	1361	2743.00	10500.00	1609.00	6221.3339	681.9985	88.4000
69	Guangzhou Huaxia Co.	14873.63	1028.70	907.38	1474	2434.84	6000.00	1188.22	6100.5955	615.5902	151.2300
70	Changchun Changbaishan Dept. Market	14553.00	1077.00	1070.00	1481	2303.00	11700.00	1829.00	7352.4359	722.4848	91.4530

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71	Shanghai No. 9 Dept. Store	14351.26	517.47	1050.39	568	1040.20	4900.00	115.90	7319.1483	1849.2782	214.3653
72	Changsha Dontang Dept. Store	14238.02	771.56	914.39	737	2525.57	9500.00	595.69	6422.1711	1240.6920	96.2516
73	Changzhou Dept. Store	14107.93	512.30	1165.68	690	1026.99	5500.00	567.25	8262.5871	1689.3913	211.9418
74	Xiamen Hualian Commercial Bldg.	14095.00	1130.00	430.00	636	4081.00	8354.00	2042.00	3050.7272	676.1006	51.4723
75	Urumqi Hongshan Market	14089.00	1172.00	688.00	1119	5923.00	8200.00	806.00	4883.2422	614.8347	83.9024
76	Jinan Dept. Store	13933.00	1034.00	867.00	1191	1091.00	11745.00	3105.00	6222.6369	727.9597	73.8186
77	Mudanjiang Dept. Store	13918.00	937.30	1250.70	1089	1579.70	12000.00	1693.60	8986.2049	1148.4848	104.2250
78	Jinan Daguanyuan Market	13809.00	1060.00	839.00	1997	2188.00	22000.00	2631.00	6075.7477	420.1302	38.1364
79	Changzhou Dept. Co.	13526.68	649.68	912.22	752	1588.80	5824.30	969.15	6743.8573	1213.0585	156.6231
80	Zhengzhou Dept. Store	13478.35	855.33	818.77	710	1822.15	7300.00	852.13	6074.7050	1153.1972	112.1603
81	Baoding Market	13314.76	732.82	1111.41	770	1336.41	6600.00	899.40	8347.2027	1443.3896	168.3955
82	Nantong Hualian Commercial Bldg.	13068.01	799.46	683.80	847	3075.10	13946.30	2388.06	5232.6253	807.3200	49.0309
83	Shenyang Heping Market	13011.00	908.70	594.60	883	2517.60	5800.00	443.00	4569.9792	673.3862	102.5172
84	Yantai Hualian Commercial Bldg.	12705.00	778.00	755.00	1055	1452.00	8640.00	2253.00	5942.5423	715.6398	87.3843
85	Fushun Market	12400.00	767.90	885.60	782	861.30	8600.00	1209.00	7141.9355	1132.4808	102.9767
86	Benxi Commercial Tower	12300.00	973.00	935.00	1317	912.00	15000.00	1588.00	7601.6260	709.9468	62.3333
87	Anshan No. 1 Dept. Store	12073.70	635.00	803.10	890	1394.40	7100.00	764.10	6651.6478	902.3596	113.1127
88	Anshan Dept. Store	12003.00	904.30	629.1	1400	1788.00	15000.00	158.00	5241.1897	449.3571	41.9400
89	Nanjing Taiping Market	11554.55	824.08	504.89	928	1350.87	13280.00	152.16	4369.6206	544.0625	38.0188
90	Xinjiang Dept. Tower	11289.00	865.28	768.89	1117	2402.45	13000.00	2041.38	6810.9664	688.3527	59.1454
91	Guiyang Overseas Chinese Friendship C(	11196.28	739.00	626.55	600	2889.09	15600.00	1025.00	5596.0551	1044.2500	40.1635
92	Wuhan Qingshan Dept. Market	11069.21	726.12	608.03	889	1763.73	6884.40	765.92	5492.9846	683.9483	88.3200
93	Changsha Shaoshan Road Dept. Store	11044.13	734.38	576.57	656	1492.40	6700.00	778.10	5220.6014	878.9177	86.0552
94	Tianjin Friendship Co.	11015.66	759.44	284.39	799	3278.82	7060.00	1528.00	2581.6883	355.9324	40.2819
95	Changsha Xiayuan Dept. Store	10970.77	630.03	196.6	715	2601.00	4004.00	666.94	1792.0347	274.9650	49.1009
96	Guilin Dept. Store	10773.28	846.28	849.85	892	1035.08	7400.00	2278.85	7888.4982	952.7466	114.8446
97	Liuzhou Industrial Products Trade Cen!	10635.61	873.61	390.22	968	3704.57	11050.00	1629.28	3668.9950	403.1198	35.3140
98	Suzhou Industrial Products Market	10587.38	486.76	717.64	600	835.95	4800.00	13.85	6778.2586	1196.0667	149.5083
99	Nanchang Dept. Store	10416.11	548.76	876.45	691	1200.23	5600.00	611.10	8414.3697	1268.3792	156.5089
100	Kunming Wuhua Tower	10229.27	558.86	749.9	592	2236.63	2600.00	1536.78	7330.9239	1266.7230	288.4231
101	Xuzhou Gupeng Business Tower	10228.09	752.31	490.28	986	1212.57	6600.00	1386.76	4793.4658	497.2414	74.2848
102	Jinzhou Dept. Store	10200.35	611.28	599.43	720	1183.10	10491.00	493.78	5876.5631	832.5417	57.1375
103	Tangshan Dept. Store	10188.63	736.16	567.81	895	967.71	7600.00	1208.22	5572.9769	634.4246	74.7118
104	Qingdao No. 1 Dept. Store	10159.00	311.00	720	468	755.00	3050.00	168.00	7087.3117	1538.4615	236.0656
105	Changsha Friendship Overseas Chinese (	10144.38	588.70	460.03	696	1945.20	1023.50	1003.70	4534.8262	660.9626	449.4675

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RANK	STORE NAME	GROSS SALES RMB (1000)	COST & EXPENSES RMB (1000)	NET INCOME RMB (1000)	ANNUAL AVERAGE EMPLOYEES (Persons)	ANNUAL AVERAGE CURRENT FUNDS RMB (1000)	BUSINESS AREAS Sq. M.	ORIGINAL FIXED ASSETS RMB (1000)	PROFIT	SALES PER EMPLOYEE	SALESL PER SQ. METER
106	Nanchung Market	10133.23	485.71	827.05	617	958.00	6988.00	416.23	8161.7609	1340.4376	118.3529
107	Shanghai No. 3 Dept. Store	10106.69	460.34	474.64	569	1277.98	8540.00	412.12	4696.2952	834.1652	55.5785
108	Yantai Commodity Supply For Foreigner	10086.80	473.50	489	460	1772.80	4772.00	622.80	4847.9201	1063.0435	102.4728
109	Baotou Dept. Store	10059.10	692.00	730.8	950	1291.36	10050.00	1077.00	7265.0635	769.2632	72.7164
110	Shanghai Kaikai Dept. Store	10002.00	399.00	1236	217	2573.00	1474.00	91.00	12357.5285	5695.8525	838.5346

Source: *"1992 China Leading Companies" Hualin International, Inc., U.S.A.*

They are still determining the laws regulating foreign retail joint ventures. However they give these stores the right to set their own prices and to hire and fire employees as they need. The initial laws regulating foreign investment enterprises(FIEs) in PRC retail trade were not allowed to conduct wholesaling functions. However, in April 1994 they announced that Shanghai would allow this. Also chain stores were excluded from the FIE but they have also removed this (Davies 1994). Foreign firms may also apply to run their own retail shops, without a joint venture partner. However, they will not be allowed to import merchandise on their own. They would have to go through a state-owned import and export agency or through importers in the SEZs. This is an unlikely situation though because merchandise would be more expensive than those brought in by retailers with import-export rights (Davies 1994).

Municipal governments have also gotten into the FIE approval frenzy. Shanghai Municipal Government have approved more than 300 overseas-invested retail projects. The central government has to approve major shopping centers or projects, but the Municipal Government has the power to grant approval for small department stores in the economic development zones such as Paxi and Pudan.

PRC Consumer Behavior

Virtually every Chinese person less than 25 is a single child. Accustomed to having their family indulge them. China's one child policy has been highly successful in controlling population. Women can have more than one child. However, they pay a high fine and social ostracization from work colleagues. Most second pregnancies result in abortion and eventual serialization.

Shopping has become an important social occasion in the major cities in PRC. Major streets such as Nanjing road in Shanghai resemble Hong Kong's Golden Mile at night. Families and dating couples stroll the streets window shopping and responding to street vendors. Shanghai No. 1 department stores manager Mr. Wu Zheng Lin says, "People already own washing machines, they are putting their money into buying clothes" (Goll, 1995).

Good packaging materials are not currently available in China. Therefore, commodities are easily damaged. Often the damage rate exceeds 10% (Lo, Yau and Li, 1986). Clerks are commonly seen in food stores attaching labels to canned goods as they set them on the shelves. Chinese consumers complained about opening a can that says applesauce only to find green beans instead (Interviews 1992, 1995). As a precondition for successful distribution of self-service consumer products, the state of the packaging industry needs to be improved.

Credit is just beginning to be offered by major retailers, but the credit is offered on a formal, not an informal basis. Stores are issuing their own credit cards. Joint Venture stores typically accept credit cards like MasterCard and VISA, but state-owned stores deal in cash only. The push to accept credit cards came not because retailers saw it as an opportunity to sell a greater volume of merchandise, but because they viewed the credit cards as a way to capture hard currency.

Consumers have pent-up demand for consumer products, particularly imported products. This sudden release of purchasing power is not something you would find in a typical developing country. It is the result of the government relaxing import restrictions. A seller's market exists for imported products, not because of supply but because of government restrictions.

In most developing countries there are few large scale retailers, however in PRC there are many large department stores. These department stores are now owned by the state, or are in the process of privatizing ownership, but most originated as foreign retailers confiscated during communist Liberation. In most developing countries there is a dominance of family-owned businesses, this is not so in a planned economy, where the state owns all companies. Likewise, the pricing situation is different. In planned economies, price is set by the state, with little variation in pricing. This is a contrast to the flexible pricing system used in developing countries.

The packaging industry is an important market complementary to self-service. In the PRC the packaging industry is undeveloped. Merchandise is protected from consumers through physical barriers such as counters or salespersons. Joint venture stores are leading in packaging innovation. Throughout China, much product loss occurs because sufficient packaging is not available.

Table 2: Central and Eastern European Country Rankings

	Business opportunities	Political risk	Credit rating	Status of local economy	Stability	Business infra-structure	Total
Czech Rep.	2	1	1	3	1	2	10
Poland	1	2	2	3	2	2	12
Hungary	3	2	2	3	2	2	14
Slovenia	4	2	2	3	2	2	15
Estonia	4	2	3	3	2	2	16
Latvia	4	2	3	3	2	3	17
Lithuania	4	2	3	3	2	4	18
Bulgaria	3	3	4	3	3	3	19
Kazakhstan	2	3	3	4	3	4	19
Romania	2	3	3	3	3	4	19
Russia	1	4	4	3	5	3	20
Slovakia	4	3	3	4	3	3	20
Belarus	3	3	4	4	3	4	21
Uzbekistan	3	4	3	4	3	4	21
Ukraine	2	4	5	4	4	3	22
Croatia	4	4	4	4	3	4	23
Albania	4	4	4	4	4	4	24
Moldavia	4	4	4	4	4	4	24
Armenia	4	5	4	4	4	5	26
Azerbaijan	3	5	4	5	5	4	26
Turkmenistan	5	4	5	4	4	4	27
Georgia	5	4	5	4	4	5	28
Former Yugoslavia*	5	5	5	5	5	5	30
Macedonia*	5	5	5	5	5	5	30

events, we train them to the next level, to anticipate events. Marketing, after all, is not just about satisfying demand but anticipating it.

which to grow plus both a customer orientation and a competitor focus, neither of which could develop under communism. Narver and Slater (1995a) state that a market orientation complemented by an entrepreneurial drive, provides the cultural foundation for organizational learning. Yet they must be complemented by an appropriate culture to produce a learning organization. Narver and Slater (1995b) state that a business is market oriented when its culture is systematically and entirely committed to the continuous creation of superior customer value.

Although there are many countries making the transition to a market orientated economy from Central and Eastern Europe (Poland, Hungary, Czech Republic, Slovenia), from Asia (e.g. China, Vietnam and North Korea) and from Africa (e.g. Angola and Ghana), each country is unique in its cultural identity, socioeconomic position and method of transition. Walt Rostow classified countries according to their stage of economic development along a spectrum from traditional society to a stage of high mass consumption (Rostow, 1960 and 1971) identifying five stages, each being a function of the cost of labor, technical capability of the buyers, scale of operations, interest rates and level of product sophistication. Each level represents a different economy with different marketing and production systems, compounded by the particular country's economic growth, and as economies grow and mature they move into higher stages. Within this framework, Poland, Hungary and Czech Republic would be at the "takeoff stage" whilst Romania and Bulgaria are at stage two:" the preconditions for take off" and Albania would still be at stage one: "the traditional society". This classification provides some insights though into the possible relationships between economic development, products which the country is likely to need and the sophistication of the industrial infrastructure. Rostow sees the modernization of economies being led by change in distribution systems. While useful to some degree, it is, however, a crude tool in that while marketers perceive important viable segments within an economy, the economist seeks to explain the totality, the global picture of the economy as a whole. As such, Rostow's classification has limited value to marketers who want to discover the potential market for their individual product rather than general market conditions.

The Polish, Czech, Hungarian and Slovenian economies have shown themselves well able to make quantum leaps and leapfrog the stages of development which our own Western economies have undergone. Here, we focus on Poland, the fastest growing economy in Europe, which has witnessed economic recovery through the pursuit of consistent fiscal and monetary policies which have been maintained by a succession of post communist governments, in full compliance with IMF directives. However, there is a sharp political trade-off as well as an economic one in deciding to continue along the path of economic growth rather than that of comprehensive social transfers. See Dobosiewicz (1992), Boisot (1994) and Paliwoda (1995) for a discussion of respective Eastern and Western expectations, reasons for investing and governance systems. Note the view of the ***Wall Street Journal Europe*** (November, 1996) that Poland, while being praised for economic achievement, is actually suboptimizing at this level and could achieve 10% with the correct political will as much reform is still to take place. Poland is still climbing from a very low base, an economic situation worse than Greece, and so requires many years of high economic growth to achieve some form of parity with neighboring Western countries. Compared to other Western nations, official Polish exports are only around one thirtieth of potential and Poland has access to 500 million West Europeans and 150 million Russians but there is a great deal of cross border trade going on which is unchecked which means it is also unreported.

Very few brands are known from this region although possible exceptions include Optimus computers, Pollena Ewa cosmetics, Wedel chocolate also some soap and detergent powders which have been able to resist Western competition (although these are brands known only internally). See also Good and Huddleston (1995) There is a general lack of reliable product quality (Becker and Baker, 1995). The region as a whole is long way off the ISO 9000 quality certification standards taking root in the West. Poland is alone in demanding these quality standards and it is making life difficult for its Visegrad partners as the quality standards are subject to change.

The ability to interpret market data when available is limited. A visit to a glass bottle works outside Warsaw which traditionally supplied the city and outlying areas showed that they continued to pace themselves against other glass bottle manufacturers although in the eighteen

*Until cessation of hostilities, no comment on the status for investment in Yugoslavia and Macedonia.
Source: "Emerging Markets Profiles" Ernst and Young, April 1995 in Business Europa, November/December 1995, p 27.

In tandem with the changes taking place at the market level there are two other key factors which need to be present. The first is the move toward democracy: some authors have argued that democracy is an essential part of the process. Slater and Bennis(1990) have argued democracy is inevitable throughout the world, in business as well as in government, not for abstract or ideological reasons but because democracy is "the only system that can successful cope with the changing demands of contemporary civilization". Political change therefore is a necessary prerequisite for economic change.

The second factor is the entitlement to ownership. In order for a centrally planned economy to be effective, it must control both the input and output side of the economic process, therefore the ownership of resources was restricted. In a market driven economy, ownership of resources is decentralized to the business community and to households. This is intended to promote timely and satisfactory responses to the demands of consumers. This economic change has now been effected in Poland.

In brief, a transition to a market orientated economy requires decentralization of the demand and supply decisions from central government to the individuals within the society. What has taken place has been both a political and an economic transformation, particularly in Poland and the Czech Republic, which adopted a shock therapy approach to reform, deciding that, since vitally important, the sooner these changes were implemented, the better. With this transformation continuing, development in the marketing environment will lead to convergence between countries in the industrialized West and in the East (Springer 1995). The systemic differences between the two economic regions typical in the past, do still in part exist today, but will gradually disappear. The higher the degree of compatibility in the marketing environment between Eastern Europe and the industrialized countries, the more attractive the new markets in the East will become. To make that happen, however, a great deal of infrastructural development and management training has to take place so that instead of bringing managers up to the point of just being able to reach the old management paradigm, which was to react to

Table 3

THE GREY SPECTRUM		
Registered	*Unregistered*	*Illegal*
"HIDDEN" ACTIVITIES INCLUDED IN OFFICIAL GDP		
• Construction of new houses • Growing/selling own produce • Production controlled by criminal groups	• Construction of new houses • Wages for work on small farms	• Theft of construction materials • Unpaid use of collective goods/services on private farms
GOODS AND SERVICES MISSING FROM OFFICIAL GDP		
• Unreported wages, entrepreneurial income • Final consumption reported as intermediate consumption, or as inputs for private firms (car, TV etc) • Barter	• Production of unregistered firms • Room, house letting • Paid housework, baby-sitting, secretarial work etc • Unrecorded deals between state firms	• Production of alcohol, drugs etc • Prostitution, illegal abortion • Unpaid use of phone, mail etc at workplace • Unpaid use of TV, electricity, water, transport etc
VALUE DIFFERENCES ON GOODS AND SERVICES		
• Tips • Extra payments for obtaining goods in short supply	• Trade margin on goods sold on street/in houses • Intellectual property infringements	• Smuggling • Trading stolen goods • Black market currency trading/private lending
INVISIBLE INCOMES		
• Purchase of state assets at very low prices • Extraordinary capital gains in privatization		• Theft of cars, durables • Tax evasion • Insurance fraud • Bribery, embezzlement, racketeering, gambling

Source: J. Árvay, B. Dallago, IIASA in Business Central Europe, vol 2 no 8, February 1994, p9.

The gray market, which eludes statistical reporting, deals with unreported economic activity. It has been stated that the average family will have four economies going simultaneously. These might include official and second jobs, home production of food or goods, do it yourself (DIY), barter activities, pension and welfare benefits and more. To cite Professor Richard Rose of Strathclyde University:

> There just isn't much cash around even for those trying to earn it on the side, so its natural to substitute things like labor for cash. Money is scarce compared to people's time. (*Business Central Europe*, 1994).

Table 2: Quantum Leaps and Opportunity Creation

Banking	With only 91 bank branches per 1 million inhabitants, Polish banks could both increase their penetration (20%) and at the same time significantly increase their productivity and profitability by introducing ATM's. Privatization has not affected the banks. A political decision was taken to merge three regional banks in Lodz, Szeczecin and Lublin under the Pekao Group. This may now create a size to thwart foreign entrants but it does not constitute the internal efficiencies that are required to compete. No networks have shared in line network capability. In the capital city of Warsaw there are only four ATM's, five Bankcard and two American Express machines that are connected to the international banking network.
Credit Cards	There are some twenty six banks with less than 200,000 international and domestic credit cards in circulation, but the number of ATM's at present is extremely low, with an installed base of 240 nationwide in 1996. However, if we take Spain, often a point of comparison for Poland, Spain has 24,000 ATM's. Poland remains still a cash based society. Credit cards in Poland are being used by the banks like debit cards in that customers are required to put up a deposit and spend up to the level of that deposit.
Retailing	New purpose built superstores are being constructed out of town where land is available at low prices and there is good highway access. The German Dohle Group have constructed, for example, a 40,000m² shopping center in Poznan and a 10,000 m² HIT supermarket in Warsaw. the French, Belgians, British and Dutch are also investing. The market is presently greatly fragmented and their only competition is small independent businesses, as outdoor markets are still strong. Stores with less than 20 staff account for 80% of sales. The biggest 50 retailers account for only 20% of the market.. As concentration increases, up to three quarters of Poland's 900,000 shops could disappear. When Pepsico found that there were no food courts in Poland, since there were none of the shopping malls they were used to in the USA, it developed large scale integrated restaurants incorporating Pizza Hut, Taco Bell and Kentucky Fried Chicken under one roof. Pepsico are now considering introducing this concept to North America although it was devised especially for Poland.
Telecommunications	In 1992, there were around 4 million telephones and in 1995, 5 million. In 1992, there were 9.33 lines per 100 inhabitants, in 1995, 13 lines per 100. In terms of urban/rural split there was a penetration of 13.16 in towns and 3.11 in villages in 1992 but by 1995 this had increased to 18.2 in towns and 46 in villages. However, in 1992 there were still 3500 towns and communities not connected at all. There was a waiting list of thirteen years. For every five people with a telephone there were three on a waiting list. This situation has now been significantly improved. Poland by making a quantum leap has saved on development. Cellular telephones avoid the need for expensive landlines and Poland needs an extra 10 million exchange lines at a cost of around $20 billion to keep pace with current and projected demand. The Polish Telecomm Company TPSA enjoys a complete stranglehold monopoly over all aspects of communication. With digital GSM cellular now competing with the established analogue cellular, the price of analogue which is widely available, is coming down, Elsewhere, new public telephone card call boxes are now fairly common around Warsaw.
Merchandising	There is a demand now for professional shopfitters. In the Warsaw subways there are now mini-malls of small boutiques no more than perhaps three years old. The signage, shelving, display stands and general presentation indicates a professionalism that did not exist six years before. However, this still requires investment but Coca Cola seized upon the opportunity to offer Coke fridges to shops, realizing that the small scale of shop operations, rendered them unable to invest in such merchandise themselves.
Highways	A major $3 billion highway construction program is now in place with top priority going to completing cross country highways. Western companies in construction and quarrying realizing this potential have been buying up Polish companies offering aggregate material.
Air transportation	International connections are now possible through Krakow, Gdansk and Poznan as well as Warsaw. Previously, it was only Warsaw. In 1995 LOT Airlines became the first and only Central European airline to have completely replaced its fleet. Soviet aircraft were sold and the only aircraft now operated are new Boeing 737's, 767's and ATR 72's.
Advertising	Pre 1989 there was only one state agency for advertising - AGPOL, which handled everything. By 1996, because of the influx of Western multinational corporations, a new advertising industry had been created with a total advertising spend of $800 million.

Table 5

Who are the poor?									
Cause of poverty		Socioeconomic group		Size of locality		Type of household		Age	
Unemployment	35	Workers	38	Big city	8	Couple	3	Children[a]	34
						+1 child	5		
Low working income	60	Farmers	17	Medium-size city	5	+2 children	17	Working-age adults	61
Old age[c]	5	Worker-farmers (mixed)	12	Town[b]	27	+3 children	14	Elderly[c]	5
						≥4 children	15		
				Village	60				
		Pensioners	17			Single parents	4		
		Self-employed	3						
		Social-income recipients	13			Others	43		
Total	100		100		100		100		100

a. Under 15 years of age.
b. Less than 100,000 inhabitants.
c. 65 years of age and over.

Source: Understanding Poverty in Poland, A World Bank Country Study, Washington DC, 1995, pXVI months before, Coca-Cola had opened a bottling plant using plastic PET bottles and aluminum cans. Products traditionally packaged in glass e.g. beer were now available (like Coke) in alternative forms. This glass bottle works did not take note of this substitution which was taking place. This bottle works was seeking a buyer and had already reduced its workforce from over 500 in 1989 to 120 in 1994 but there was estimated to be employment for only 78, and plant and equipment was old besides. Heating was a major cost factor if it had to paid for, as there were holes in the sides of the kilns, bottle reject rates were three times those in Western plants, and breakages were very high in the yard outside. Covered storage facilities, further from the production site, were sitting empty. However, bottles were being placed outside on cardboard pallets and shrink wrapped. The sight outside was of shrink wrapped cardboard pallets sliding into each other as there was no protection from the rain and so the bottles smashed in large numbers.

3. Why are there these differences?

Firstly, the banking system is underdeveloped. Secondly, the underground economy is very important. According to one 1992 survey (Mroczkowski, 1995), 77.4% of entrepreneurs primarily depend on their own funds to finance the business and 20.3% primarily depend on family and friends for financing. An innovation has been the introduction of factoring on a non-recourse basis by the Powszechny Bank Gospodarczy (PBK) based in Lodz. Both the PCC (Polish Entrepreneurs Report, 1992) and the IFC/World Bank Survey, 1993, noted that close to 60% of entrepreneurs expected growth in their companies compared to approximately 30% who expected negative short term results. The largest group of entrepreneurs (40%) expected their companies to grow slowly. This is saying in effect that there is strong motivation and optimism but a lack of financial backing (see Mroczkowski, 1995).

1995 Polish statistics put the number of people currently working in the underground economy at least two million, with 43% not paying taxes and another 57% holding second jobs with untaxed earnings.(***Transition***, November 1995).

according to the Polish Statistical Office (GUS), 75% of small businesses in Poland consist of the owner and his family. However, this now constitutes 20% of Polish employment, creating 3.5 million new jobs between 1991 and 1993 and provided real wage increases of 3.5 to 4% in 1994 when public sector wages were stagnating. Faulty nostalgic memories of communism and of a 'job for life' are now creating political tensions throughout the region. Kuras and Hayder(1995) referred to this phenomenon as a Polish Bermuda Triangle whereby the incoming foreign investor, the local management (now fearing for their own jobs) and the local workforce (now equating privatization with unemployment); produce a stalemate. Attitudes are firmly held on the issue of foreign investment and disposal of state assets, although in many cases the term "asset" is a misnomer and is an opportunity for the state to discard enterprises which are financially hemorrhaging.. Holland and Owens (1995) made the point that government should focus on removing aspects of the tax system which impede Foreign Direct Investment rather than try to develop tax incentives to attract it.

There is a great need for the government to undertake some guaranteed financing schemes for the small and medium sized firms in the private sector. This is difficult at present. Interest rates are high, entrepreneurs have to rely on personal finances, and loans from family and friends.

C. Limited Market Information

This has changed markedly between 1990 and 1996. There still remains a few problems, however. More consumer research and market research reports are being undertaken than at any time. The research is certainly being undertaken but what we may call into question is the rigor and accuracy of many of these reports (Paliwoda, 1995). Generally speaking, a demand for market research has created a supply but suppliers are an unknown quantity and so it is very much a case of Caveat Emptor - let the buyer beware! A further question which also arises is the ability to interpret the available data and the ability and the willingness to then take action on it.

Credit assessment is still very difficult. Databases which exist are nearly useless and the demands for supplier credit are very strong given the costs of bank finance. Companies such as Coca-Cola and Pepsi are finding themselves having to offer credit to a very large number of

Table 4: Summary of Business Practices in Poland

- "All activities that are not prohibited are permitted".
- Technological investment constrained.
- Lack of training in marketing, sales, accounting, purchasing even secretarial!
- Foreign competition improves products
- Pragmatism overrules corporate codes of ethics!
- Advertising has taken root as a foreign implant.
- Consumer action now being pursued by Anti-Monopoly Office.
- Branding important. Some local brands still holding up against Western competition.

B. Polish Government Policy

On the macro level, there are now five countries - Poland, Hungary, Czech Republic, Slovakia and Slovenia - which have formed the Visegrad Free Trade Area or CEFTA (Central European Free Trade Area) as a precursor to joining the European Union. It is planned that by 1997, 95% of all trade within the CEFTA group will be duty free, with some duties remaining till 2002 on textiles, steel products and electrical equipment. Direct Foreign Investment levels have increased particularly since 1994 and again since Poland joined the OECD.

The objective of European Union membership makes impending legislative changes more predictable to Western investors. Note that Poland and Turkey are the only European countries on the list of ten Big Emerging Markets (BEM's) identified by the US Department of Commerce which described Poland as "the fastest growing significant economy in Europe" as well as the "driver in leading the Central and Eastern European region toward market reform". Poland has overtaken Hungary in terms of inward investment which reached $10 bn for Poland by the third quarter of 1996 and is still increasing, going into sectors such as telecommunications, tobacco, food processing and agriculture. New investors include Daewoo which has consolidated its auto production for all of Europe in Poland.

Echoing the ***Wall Street Journal Europe*** criticism of Poland suboptimizing as an economy, the Polish Government certainly claims to be committed to privatization but the speed of legislative reforms necessary to create the enabling legislation has left the sincerity of their claims in doubt. Those enterprises which were the most commercially viable have been sold. Many have also

However, ***Transition***(1996), reported that Poland's Main Statistical Office (GUS) had issued two very different estimates of the extent of poverty in 1995. According to the Institute of Labor and Social Affairs, each household needed 359.3 zlotys ($135) per person per month to meet basic needs. Using that standard, GUS has estimated that 49% of households lived in poverty in 1995, compared with 34% in 1990. According to GUS's second method, however - the one employed in the EU - only 12.8% of households live below the poverty line. This method sets the poverty line at a per capita household income equal to 50% of the average monthly expenditures of a single person household, a calculation which for 1995 results in a figure of 207 zlotys per person. According to the second method, poverty incidence has remained stable since 1993..

It is important also to note that certain practices which existed in Communist times are not acceptable today. The Polish Anti-Monopoly Court upheld the Anti-Monopoly Office's December 1994 ruling against Fiat Auto Poland for accepting interest free prepayments from 3000 customers. In the past, with the state as a partner, customers had to prepay their car years before taking delivery of it. Even worse, if the price increased in the period (often years) before you received your car, you were obliged to pay these price increases also. To see anti-trust measures in action reflects a marked change in the business environment. The present Anti-Monopoly Office which is separate from the Court has the power to order the liquidation or division of any state-owned enterprise, cooperative or private company which presents a dominant position on a market and permanently restricts competition.

4. How do these differences impact:

A. Local managers

Poland has an educated and skilled workforce that is cheap relative to prevailing Western European wage rates. There is inertia or at the very least a cultural difference in the perception of time that is endemic to all economies of this region It is common to find that a certain thing is not done on time but the reasons why may be complex. There is a certain inertia, perhaps maybe due to hopelessly ambitious dates being set initially, or else a whole host of possibilities including a frequently situation whereby unable to lose face, the manager simply refuses to address the task in hand. Traditions remain strong and hierarchies are still important as are networks. Incoming foreign firms are bringing along their own managers, sometimes expatriates who moved away many years ago as refugees. Local managers presently lack the skills and the ability to grasp the challenges confronting them. In the past, management was never recognized as a profession and so managers were simply recruited from the party faithful. As the role of management was never acknowledged and as entrepreneurs were traditionally equated with black market profiteering, there are many in society who find it difficult to respond to the message that management and entrepreneurs are good for the economy. There have never been incentive schemes, training was non-existent and no special status was accorded managers. "Teraz Polska" has perhaps been one of the most significant marketing initiatives undertaken by a former communist country (Paliwoda, 1995). It is an annual competition to award for one year a distinctive emblem to outstanding people and firms as a symbol of high quality.

Note how Colgate-Palmolive found that employees who worked in Communist countries were not lazy so much as uninspired (Caudron, 1995). They instituted their own business culture, encouraging employees to share their ideas about how to run the business and rewarded them for their suggestions. To help them generate ideas, the company provided information to the workforce about the business, invested in skills training, set goals for employees and gave them ongoing feedback on how they were meeting those goals. Within three years, Colgate-Palmolive experienced a very favorable result from their endeavors in being able to achieve a higher than anticipated level of workforce productivity.

To take another example, Nestle (Koza, Kasriel, 1993) found that a planned acquisition of the Polish enterprise Goplana (after failing in bids for the Amino condiments factory and Wedel chocolate factory) required careful handling of the unions. Third time was lucky for Nestle in Poland but this time they issued leaflets at factory gates to capture the workforce vote. Nestle won in the end but the process was totally new to them. Note that since these early failures, Nestle has succeeded in acquiring the leading Polish food concentrates producer Winiary.

B. Western managers operating in Poland

The first wave of Western consultants who came over after 1990 came to be known popularly as "Marriott Consultants" because they were ignorant of local conditions, wanted only to sell prepackaged solutions, seldom left their expensive hotel accommodation and earned a bad reputation for consultants generally. The internationally subsidized provision of implausible strategies to the willing and gullible ended quite soon after it began. It also set a higher standard for all those who were to follow. The snake oil merchants, the carpetbaggers, with all their extravagant claims, home government subsidies and miraculous management techniques, are now thankfully gone. Helping local people to find their own solutions has since been the order of the day.

The cultural challenge is one of communication between what Hall (1960, 1976) termed high and low context cultures whereby who you are and what your place in society is determines what you receive. High context cultures exhibit less paperwork than low context cultures such as that of Canada or the US where numbers carry more weight than the positions of the individuals involved. Differing concepts of time and space as defined by Hall will severely impact decision making and any business dealings.

However, culture bound and working as a minority in a society, the life of an expatriate can be very difficult. Communications and concepts of time and space may be different so expectation levels differ as a consequence. Using expatriates can also be very expensive for the organization and popular estimates reach as high as quarter of a million dollars per year once all aspects of the compensation package are worked out.

Expectations invariably differ markedly as a result of a self reference criterion amongst expatriates. This extends to treatment of colleagues, as well as relations with customers and suppliers. Culture also affects interpersonal dealings and whether they will happen or not, and influences whether managers are prepared to be informal or authoritarian or whether prepared to decentralize and empower employees.

Culture influences expatriates as to whether they use the colonial approach or the team approach in which Western executives play the role of educator and temporary leader. In many of these countries with the exception of cities such as Prague or Budapest, the number of expatriates has traditionally been small but is increasing greatly. Demand in turn creates a supply. Over time, equilibrium may be reached but the short term result is that many are chasing few resources. Accommodation, office space, office equipment, schooling are new demands on the system which the system is unable to fully provide.

C. Research Opportunities in Poland

In the period to 1989 there was censorship within all Polish universities and theses and dissertations were sanitized for any controversial or unfavorable content. With the fall of Communism there are now many reports available on all various sectors of the economy and honesty has returned to statistical reporting. The universities are linking with universities in the West and there is more in the way of exchanges of students and faculty than was ever possible for generations before. This has been actively supported by initiatives such as the European Union's Tempus and Phare projects, and with USAID, Canadian CIDA and many other Western national projects which are being coordinated under OECD guidelines. Only with increasing personal mobility and freedom to travel comes the cross-fertilization of ideas. Despite these new freedoms, many Polish and Eastern Bloc academics have, however, turned to the private sector and have become consultants. The disparity of earning power between what the universities offer and what the private sector offers, has created a situation where the most able professors now have private consultancy practices and many have either left the universities or else are maintaining some kind of "moonlighting" relationship which makes it in turn very difficult for the universities to respond to change because their faculty are unable to heed the call.

D. Designing educational programs for local and expatriate managers

Entrepreneurs need training and education in order to better succeed. Generations have been lost to Communism and Communism is not a completely spent force either. Many managers and would-be entrepreneurs face a situation where they have no real knowledge of the workings of the free market other than what they have witnessed themselves over the past six or seven years and so are unable to anticipate the nature of further change. Similarly, their parents are ignorant of other possibilities even existing, being born into Communism. Only those who are now grandparents will be of an age to remember free market economies. The significance of this is great. It means that subjects need to be taught for which there will be no underpinning. Examples abound. Communication is a great black hole and must be distanced from propaganda. Human Resource Management, Accounting, particularly Cost Accounting, is a new subject which will, in turn, impact upon pricing which will, in turn, affect Purchasing and Marketing. Marketing requires a new paradigm. However, in a land of engineers, engineering being the most popular degree program in Poland, market research is now taking precedence over the production planner and there are shortages in all functional areas of management.

There are different levels at which change can be introduced through the curriculum and subsequently enacted. At undergraduate level this may take a minimum of six or seven years, at graduate level perhaps three but at executive level the effect may be more immediately witnessed. New methods or techniques can be quickly introduced into a company or organization if strongly endorsed by senior management. This, of course assumes that the course participants already have a fluency in English and participants are able to cope with the necessary boundary spanning that takes place as the student has to interpret the home and host country cultures. Some programs including the UK Knowhow Fund for Poland and the Canadian Polish Project have sought to specifically target practising managers. An understanding of the needs of managers and of their environmental situation is important in order to proceed.

Selection and training of executives has been poor. Since they are managers, their time is at a premium and although they may desire to have the computer and information tools available to their counterparts in Western countries, they fully recognize their own individual limitations in terms of time, family responsibilities and even personal willingness to undergo training. Traditional MBA programs of which there are now many variants, are pouring into Poland at an alarming rate. Generally, these are targeted at undergraduate students and require a long period of study and uncertain terminal qualification. The Canadian Project in Poland seeks to redress that balance by targeting practising managers for the MBA program. This has required the creation of an intensive weekend program so as to enable practising managers to complete their courses in the shortest feasible time period while still maintaining the academic integrity of the program and the value of the learning experience for the participants. It is important for an MBA program to succeed that the students understand and internalize the basic concepts of management rather than simply dump jargon onto their term papers.

Creating a program that is relevant to the local needs of an educated workforce is difficult and requires interaction and constant communication. How far to take this is a difficult question. Take the issue of customer service, long respected in the West and demanded as a right by North American consumers. Even now, when the consumer shortages are long since gone, some local managers of multinational subsidiaries still believe that delivery is what is essential and that anything beyond, such as service in terms of maintenance, repair or troubleshooting advice is not part of the service package. As competition increases, consequences will befall the ignorant but the challenge is to try and save the indigenous companies from making mistakes.

Long term success will come from adapting an MBA program to suit local requirements not from the wholesale transferal of a Western model. The needs of the customer in the market concerned must be addressed. In the Canadian MBA Project at the Warsaw School of Economics, customization took the form of adapting courses to local requirements and formulating one new course which was required to meet local needs and adapting two others, although in practice practically all of the twenty courses will require some degree of adaptation since some of the courses are new and have had no place in Polish education hitherto. Motivation to join the program amongst Polish applicants was due to the fact that this was an AACSB accredited degree taught by experienced Canadian faculty.

Success creates mutual benefit for both partners. The transferor gains as much as the transferee. Faculty who have been exposed to these programs become instantly challenged and, in the process, become internationalized. The transferee, on the other hand, gains from what will be a self-sustaining program that has been left behind at the project end. Nevertheless, it may take at least to the end of the decade before management education in the region becomes generally relevant and streamlined (Gross, Hartley, Beracs, Gaspar, 1995).

6. Conclusions

Infrastructural change has taken place quite significantly. In certain areas, such as telecommunications, there have been quantum leaps. The general public in the course of six years have moved from broken public pay phones which required difficult-to-obtain tokens, to AT&T satellite telephones, to widespread cellulars. In distribution, the greatest change has been in retailing where the traditional size of the outlets has been very small and the inevitable shake out amongst them has appeared. The need for additional service in hours of opening or for any other value adding activity appreciated by the buying public, is creating believers in marketing theory amongst an inexperienced business community who are being buffeted by some of the largest multinational corporations, setting new standards in terms of product and service, and modes of operation.

Ordinary people are learning to live with what they have. The early dreams of being Westernized assumed instant gratification. That cruel dream has evaporated and a new economic reality has emerged where there is plentiful supply and absolutely everything is available but at a price. Economic readjustment has been exacerbated by a Western recession which has reinforced the conviction that these economies have to find a solution within themselves. Competition is often itself a spur to creativity, innovation and change, but they need first to learn what they do not know and then hone the skills which they do possess.

Polish companies are learning to deal with this business environment. The need for marketing has long been recognized and spoken about but not always practiced. It is only starting now to be acknowledged. A marketing orientation cannot be instantaneously implemented or grafted and the Poles cannot do it themselves. The choices that emerge then are to restrict market access which goes against all of their philosophy, join with these foreign companies and learn from them about competition or else cede their national market to foreign entrants. In areas such as retailing, foreign entrants now account for around 20% of the total market share, according to the Association of Private Retail Trade and Services (ZPHU). While Poland still has the largest number of stores per capita - 10 per 1,000 residents, these are mainly small family businesses of less than 50 m^2. There are few supermarkets outside the main cities. Western chain stores are now introducing their own distinctive channels of distribution to Poland. In this present period of transition, the Polish consumer will be able to enjoy increased product choice, lower prices, more and better, larger and brighter retail outlets but as the average store size continues to drive upwards and the attendant service package also increases, the cost of remaining in business will prove too high for many traditional family businesses. This is a direct effect of competition and not just transitional.

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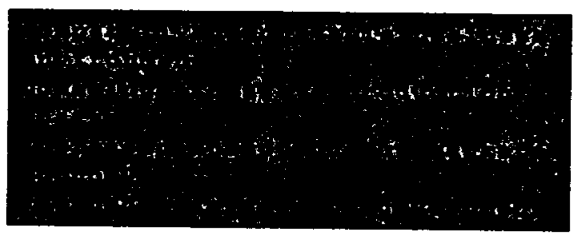
Marketing Challenges in Transition Economies

Transition process from planned Communist economy of Central and Eastern Europe--the region we focus on in this paper--to a market system is a complex one since the countries in question lack the institutions, skills and expertise to allow effective business operations (Ferguson 1992). Ultimately this process can be presented as follows:

Transformation Process Implies:

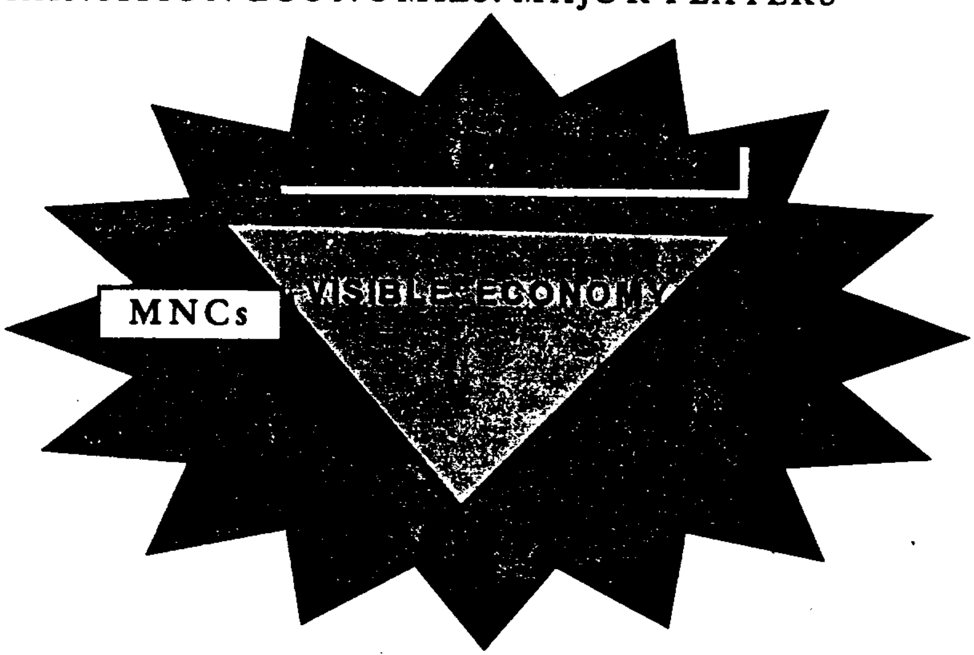
- Trade liberalization
- Capital market development
- Privatization
- Legal reform
- Price reform
- Foreign exchange reform
- Fiscal and monetary discipline



As of the end of 90-ties, the necessary business infrastructure is gradually emerging in TE. However, it would be naive to assume that the desirable changes will take place overnight.

At the same time, the deficiencies in infrastructure have a varying impact on companies as a function of their size, ownership and mode of operation. It seems, therefore, useful to apply the "triad model" (Zurawicki, Becker 1994) in a further discussion. According to that approach , one can distinguish three different types of companies which all play an important role in the transition economies:

TRANSITION ECONOMIES: MAJOR PLAYERS



1. Large state-owned enterprises
2. Small entrepreneurial businesses
3. Foreign owned and managed large businesses

At the risk of stereotyping, a typical company in each group can be characterized as following:

LSE. Its strategy is to survive, rationalize activities, downsize, use effectively the resources still available and seek out foreign buyers or partnerships. Major concern is how to manage peacefully labor relations and unlearn the monopolistic practices.

SEB. Strategy is to grow fast, seize all possible opportunities and take risks. These operations are local in character and derive their strength from familiarity with the local customers and demand. Their activities in a sense pave the way for the entry of foreign multinationals while demonstrating to the latter the market potential and the scope of profitability in TE.

FOB. Strategy is to exploit the markets of transition economies in a broad context of global opportunities but invest only what these companies can afford to lose. Reasons for entry may be based on worldwide exposure rather than expectations of potential returns. Their outlook is long-term .

While the general nature of marketing challenges facing all the three types of operations and their managers may be the same, the acuteness of the problems varies as a function of the basic philosophy and mode of operation of each group.

ENVIRONMENTAL CONSTRAINTS

It is appropriate to quote first the key environmental constraints perceived by the managers in TE (Private Sector Manufacturing...1992).

1. The first and foremost constraint is the unstable political environment resulting in changing of resolution regarding issues of privatization, private business, foreign investment, taxation.
2. Volatile economic environment--following initial drop in production, the recovery has not been a steady process: as a result of sharp business cycles many bankruptcies have been taking place.
3. Unavailability of basic market information to help develop strategy and plans.
4. Limited financing possibilities.
5. Consequently, high cost of entry into business activities.
6. Uneven playing field with some of "nomenklatura" companies and managers receiving preferential treatment from the licensing and contract awarding authorities. Environment prone to briberies and unethical business conduct.
7. Lack of institutional support for development of business climate.
8. Perceived high risk of running business activites.
9. Lack of real business experience.
10. Poor communication and cooperation among businesses themselves.
11. No tradition to use consultants.
12. Inadequate distribution systems.
13. Outdated technology.

MARKETERS' ORIENTATION

What is interesting and not so surprising is that, especially in the context of LSE and SEB, the marketing managers display short term orientation and opportunisic attitudes. This is marked among other facets in frequent shifts of activities. Further, managers and their businesses tend to remain self-reliant partly because of the general lack of trust within business community and partly because of misperceptions about competition. Knowledge and use of marketing tools is limited and applicability constrained by inadequate communications and distribution infrastructure. Personal contacts and intuition play an important role in the decision making. Business failure rate is high. Dubious ethical standards are the norm and continuous stress accompanies managers' activities.

MARKETING CHALLENGES

In view of the preceding remarks, basic marketing challenges seem to be obvious and can be stated as follows:

1. Need to overcome public distrust regarding the integrity and efficiency of businesspeople and managers in transition economies.[i] There is a strong public

apprehension vis a vis instant millionaires and the publicity surrounding many scams only re-inforces that view.

2. Need to develop data. The marketers in TE do frequently wander in the darkness and even if they have the skills to interpret the information available to them, the real problem is to generate "hard" data--survey results, credible estimates, reliable sales figures for a particular market/product category--as opposed to "soft" data based on a feel of market evolution.
3. Need to educate oneself in basic business management--the majority of entrepreneurs and managers (even of larger companies) are the first generation businesspeople.
4. Need to educate the consumer. This very profound task should aim at elucidating the consumers as to their rights, business practices in the free market, quality expectations regarding products and services, and ease the whole society's transition from economy of scarcity to economy of abundance of offerings. Educated consumers will also provide a feedback in that a knowledgeable and demanding buyer motivates the selling companies to get on their toes.
5. Need to adopt a viable long term strategy for one's business. While under uncertainty it might be difficult to abandon opportunistic behavior and develop a vision for the fledgling business operations, the companies need to create objectives to determine the demand for resources and manage planned growth.
6. Among other economic phenomena marring the transition economies at least in the early stage, inflation plays an important role. Particular skills are needed with respect to ordering, invoicing, pricing, valuation of assets etc. It is mostly a learning

by doing process for most of managers in TE and, unlike in other areas, it is unfeasible to turn to the West for instruction and training. [ii]

7. Need to consider alternatives for domestic markets. Increased competition and business upheavals in local markets suggest to look for outlets in international markets. This represents an important challenge and requires new knowledge and expertise from marketers from TE.
8. Need to be entrepreneurial. Many companies are in their incubating stage and that requires that the owners/managers skillfully utilize their assets, seize the emerging opportunities without straining the resources and grow harmoniously.

MANAGERIAL RESPONSES

Partly from normative standpoint but also based on **actual** behavior the following managerial responses do address the above quoted issues:

1. Be innovative, open to new concepts, accept a risk.
2. React quickly to the market need for Western and Western-like product.
3. Apply **frugal** marketing, don't commit resources without assessing the expected outcome of one's activities, avoid "manie de grandeur."
4. Keep prices moderate--the affluent segment in TE is limited in scope. Don't allow prices to fluctuate excessively.
5. Consider market niches--especially for smaller companies looking for improved margins.

6. Diversify sources of supply to enhance the selection in terms of quality and quantity and build a wider base of providers. Purchasing is also a part of marketing.
7. Shun anonymity, build image, develop an active brand policy. Stay close to your customer base.
8. Maintain consistency with respect product/service quality, nature of operations, marketing style.
9. Develop exporting and implement marketing adaptations it requires.
10. Use consultants to save time and resources.

IMPLICATIONS FOR PRACTITIONERS AND EDUCATORS

There exists a need to re-concile different styles displayed by the TE managers and their Western counterparts whenever an interaction between the two takes place (mergers and acquisitions, joint venture, training new managers for subsidiaries of multinational corporations, even regular sales contract negotiations) . Managers from TE tend to be less structured and leaning to improvise in their decision making . The Western counterparts operating in the TE rely exceedingly on their education and experience in a different environment.

A tremendous information gap exists in TE yet there is not much willingness to pay for market research and information gathering. Emphasizing the value of information as a basis for development of rational marketing strategies and programs can help to improve the situation.

A number of puzzling phenomena, for example, the performance of stock exchanges in TE need to be clarified in order to persuade the investors and company managers alike of the logical pattern of business developments.

A belief that TE and the managers from TE operate differently from their Western counterparts undermines confidence in usefulness of Western management education. The first step then is to give marketers in TE the feel of the market and demonstrate how one can manage under market conditions. The trouble is that wild reality renders it difficult to relate theory to practice in TE. Practitioners and educators should be encouraged to develop and use cases and simulations adapted to the reality of TE economies to bridge the education gap. This is a two-way process:

1. To acquaint the managers from TE with advanced techniques of marketing while bridging the psychological distance vis a vis developed Western economies,
2. To highlight to Western managers the specificity of marketing issues in TE. Cultural aspects figure prominently in this context.

Access to World Wide Web makes it technologically and economically feasible to provide long distance learning opportunities to two above-mentioned groups as well as can assure dissemination of marketing and educational materials.

AREAS IN NEED OF PARTICULAR ATTENTION BY THE EDUCATORS

According to this author the following are the key marketing training area which have been neglected so far in TE:

1. Entrepreneurship (creativity in business, risk assessment, start-up prowess).
2. Consumer and Organizational Buyer Behavior.
3. Communications (internal, with customers, middlemen, venture capitalists).
4. Environmental Awareness.
5. Ethical Concerns.

In sum, the success of transition effort in the economies of Eastern and Central Europe hinges upon the malleability of resources and minds. Marketing evolution is a part of this process and if well performed will give TE a boost into the future growth.

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ENDNOTES

[i] Consider for example this quotation: " ...many of those engaged in independent business activity are not entrepreneurs but rather are representatives of the shadow economy and criminal business. The bulk of them have never had anything to do with business....they are one of the main obstacles hindering development of market relations because they know that a real free market will frustrate their drive to create their market which is really a legal shadow economy openly cooperating with the country's bureaucracy.", Vikhanski, Oleg (Head of School of Business Administration, Moscow State University), "Viewpoint:Message from Moscow", Journal of Teaching in International Business Vol. 7., No2. ,1995

[ii] Some multinationals active in TE can, however, rely on their experiences in other parts of the world like, for example, Latin America.

Appendix 1

Company Backgrounds of Miscellaneous Firms in Transitional Economies

Centertel is a joint venture between TP S.A. (51% ownership), a state-owned Polish telecommunications company, Ameritech (24.5%), and France Telecom (24.5%). Centertel is the first mobile phone operator in Poland. Since its inception in 1991, Centertel has made great inroads to provide communications service throughout the country. Currently with 80% coverage (excluding remote areas), the company hopes to achieve 100% coverage by the end of 1996 and expects to have over 100,000 subscribers by the end of July. The Customer Service Department is critical in creating and maintaining the company's image within the competitive environment. As a result of the increase in competition in the Polish telecommunications industry, the company views a high standard of customer care as a strategic priority.

China Hewlett-Packard is responsible for overall sales and support for Hewlett Packard products in China. Hewlett-Packard Company (HP), the third largest computer manufacturer in the United States, first opened operations in China in 1985. Since then it has invested more than $100 million in the country. It has joint-manufacturing sites in Shenzhen, Beijing, Qingdao, and Shanghai. China Hewlett-Packard was formed in 1985 as a joint venture with China Electronics Import and Export Corp., China Great Wall Computer Group, and Beijing Computer Industry Company. HP established another joint venture in 1991 in Qingdao for medical-equipment manufacturing (HP Medical Product

Co., Ltd.), and another in Beijing for sales and marketing systems integration (Puritan Integration Co., Ltd.).

Foster Wheeler Energy Fakop was formed in 1995 when Foster Wheeler Energy International, Inc. purchased Ahlstrom Fakop Ltd., the oldest boiler manufacturer in Poland, from the Ahlstrom Corporation. Foster Wheeler Energy Fakop manufactures large industrial boiler components and heat exchangers in Katowice, Poland, and is working to establish itself as the low cost supplier of large industrial boilers in the Central European market.

LET a.s., the largest aircraft manufacturer in the Czech Republic, is headquartered in Kunovice. In the Fall of 1995, LET a.s. became the first company in the Czech Republic to have its debt restructured. This was made possible by a change in restructuring policies at Komerční Bank, a privatized Czech bank, and has given the company a new opportunity to revive its lagging sales and profitability. They recently won an order for twenty-one L410's (a small aircraft) for delivery in July 1996 and discussions are underway with an American computer-aided design company regarding a possible joint venture to develop CAD/CAM products.

Whirlpool Corporation is the world's leading manufacturer and marketer of major home appliances. With over 45,000 employees, manufacturing facilities in 12 countries and products for sale in approximately 140 nations, the corporation is aggressively pursuing the goal of becoming the dominant force in the global major home appliance industry. In accordance with this strategy, Whirlpool Europe BV (WEBV), one of the four major divisions of the Whirlpool Corporation, is quickly moving into Central and

Eastern Europe. One of the National Organizations (NSOs) is headquartered in Budapest, and is spearheading the development of two new NSOs in Romania and Bulgaria. In Slovakia, Whirlpool Tatramat, a manufacturer of both washing machines and water heaters, was incorporated as a joint venture company in May 1992. WEBV purchased a minority interest in Tatramat a.s. from the government during the first round of coupon privatization. In early 1995, Whirlpool Corporation joined forces with Beijing Whirlpool Snowflake Electric Appliance Company, Ltd., a refrigerator manufacturer; SMC Microwave Products Company in Shunde, a microwave manufacturer; and Shanghai Narcissus, a washer and compressor manufacturer.

Vietnam Airlines is the flagship carrier of Vietnam. It is headquartered in Hanoi and operates sales offices in three domestic regions and in thirty other countries. The airline flies to seventeen international destinations, mostly in Asia and Europe, and international flights are the main source of the company's profits.

Appendix 2

Information on People Involved in the Conference

Marketing in Transitional Economies

April 1, 1996

Rajeev Batra is Research Director of the William Davidson Institute and Associate Professor of Marketing at the University of Michigan Business School. He has a Ph.D. from Stanford University and focuses on consumers' attitudes, repetition effects, and global branding in his research.

Andrzej Bentkowski is a Project Manager with Centertel, working in the General Director's Department on network roll-out, quality, and strategic planning. He was educated at Warsaw University. He participated in the Davidson Institute's Senior Management Seminar in 1996.

Don Breiter is the founder of Venture China Associates, a consulting firm focused on supporting Western companies as they build their businesses in China. He served formerly as Director – Asia Business Development for Cummins Engine Company.

Kathleen Charlton works part-time as the Davidson Institute's country manager in Vietnam. She has worked in Vietnam for several years, with positions at Cargill and Ashta International.

Rabi Chatterjee is Associate Professor of Business Administration at the University of Pittsburgh, as well as a Faculty Affiliate with the Davidson Institute. He has a Ph.D. from the Wharton School at the University of Pennsylvania, and his current research centers on the application of mathematical models of customer response to new products.

Maciej Gądek is Purchasing Manager with Foster Wheeler Energy Fakop in Poland. He has an M.A. from the Academy of Mining and Metallurgy in Krakow. He participated in the Davidson Institute's Senior Management Seminar in 1996.

Sunil Gupta is an Assistant Professor of Marketing at the University of Michigan Business School and a Faculty Affiliate of the William Davidson Institute. He has a Ph.D. from the University of California, and his research interests include the use of the World Wide Web for marketing.

Andrew Lawlor is Lecturer of Corporate Strategy at the University of Michigan Business School, as well as Faculty Associate of the William Davidson Institute. He has advised Davidson Institute teams working on product distribution issues in Central Europe.

Ken Lodge, as General Manager of China Hewlett-Packard, began a start-up manufacturing operation in Beijing for test and measurement in China. He participated in the Davidson Institute's Senior Management Seminar in 1996.

Nguyen Ngoc Quang is Director of Corporate Affairs for Vietnam Airlines.

Stan Paliwoda is Professor of Marketing at the University of Calgary in Alberta, Canada. His research interests include buying behavior and the buyer-seller relationship. He has a Ph.D. from Cranfield University in England.

Zdeněk Pernica is Chairman and General Director of Let a.s., Kunovice, in the Czech Republic. He has an engineering degree from YA AZ in Brno. He participated in the Davidson Institute's Senior Management Seminar in 1996.

Chuck Proctor is an adjunct faculty member at the Whirlpool Performance Centre in Brandywine Creek, Michigan.

Brenda Sternquist is a Professor of Merchandising Management at Michigan State University. She has a Ph.D. from the University of Tennessee, and her research interests include international retailing and consumer distribution systems.

Jim Taylor is Professor of Marketing at the University of Michigan Business School and a Faculty Affiliate of the William Davidson Institute. He has a Ph.D. from the University of Minnesota, and his research interests include needs-based market segmentation and value-based market planning.

Vern Terpstra is Professor Emeritus of International Business at the University of Michigan Business School.

Leon Zurawicki is Associate Professor of Marketing and Communication at the University of Massachusetts at Boston. He has a Ph.D. from Warsaw University and his research interests include countertrade between developing countries and multinational corporations and international business negotiations.