



Key success factors for foreign firms entering the Chinese customer relationship management market  
by Jingyu Wang

A thesis submitted in partial fulfillment of the requirements for the degree of Master of Science In  
Industrial and Management Engineering  
Montana State University  
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**Abstract:**

Recently, discussion about Customer Relationship Management (CRM) has heated up. CRM is a term used to describe a space of technologies that enables companies to individualize customers' services with information technology platforms. Originating in Western countries, CRM has been developing rapidly in the East. Currently, China is becoming the fastest developing market that attracted by many foreign companies. The research questions are: Which industry is an appropriate target, and has strong development potential to maximize long-term profitability? Which region is the best geographic entry point, considering sensitivity to regional differences and political climate? How does a firm best incorporate the concept of guanxi into key business relations? This thesis introduces a more focused definition of CRM. Chinese CRM market is analyzed and two decision models for foreign CRM vendors choosing target industry and region are presented after analyzing several key dimensions. Guanxi is presented from its origination of Confucianism and detailed instructions on how to have good guanxi are provided.

To answer these questions, this thesis first introduces customer relationship management and its growing importance in today's globally competitive business environment. The Chinese CRM market is then analyzed in depth, including extensive investigation of four primary industry sectors likely to have large numbers of potential CRM customers and regional geographic considerations. Next, two decision models are presented to help foreign CRM vendors choose a target industry and regional entry point after analyzing several key dimensions. Finally, the Chinese concept of guanxi is presented from its origination from Confucianism to how it manifests itself today in Chinese business relations. Detailed instructions on how to develop good guanxi are provided. The thesis concludes with challenges and research directions for the future.

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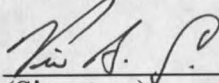
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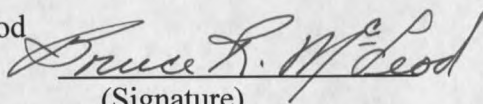
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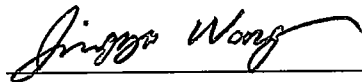
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Dedicated to the people I love:

Mom, Dad and Feiyu

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## ABSTRACT

Recently, discussion about Customer Relationship Management (CRM) has heated up. CRM is a term used to describe a space of technologies that enables companies to individualize customers' services with information technology platforms. Originating in Western countries, CRM has been developing rapidly in the East. Currently, China is becoming the fastest developing market that attracted by many foreign companies. The research questions are: Which industry is an appropriate target, and has strong development potential to maximize long-term profitability? Which region is the best geographic entry point, considering sensitivity to regional differences and political climate? How does a firm best incorporate the concept of *guanxi* into key business relations? This thesis introduces a more focused definition of CRM. Chinese CRM market is analyzed and two decision models for foreign CRM vendors choosing target industry and region are presented after analyzing several key dimensions. *Guanxi* is presented from its origination of Confucianism and detailed instructions on how to have good *guanxi* are provided.

To answer these questions, this thesis first introduces customer relationship management and its growing importance in today's globally competitive business environment. The Chinese CRM market is then analyzed in depth, including extensive investigation of four primary industry sectors likely to have large numbers of potential CRM customers and regional geographic considerations. Next, two decision models are presented to help foreign CRM vendors choose a target industry and regional entry point after analyzing several key dimensions. Finally, the Chinese concept of *guanxi* is presented from its origination from Confucianism to how it manifests itself today in Chinese business relations. Detailed instructions on how to develop good *guanxi* are provided. The thesis concludes with challenges and research directions for the future.

## CHAPTER 1

### INTRODUCTION

Recently, there has been considerable amount of research on Customer Relationship Management (CRM). CRM is a term used to describe a space of technologies that enables companies to individualize customers' services with information technology platforms. With the help of internet technology, database, and voice and video technology, CRM products now enable companies to reach new frontiers in meeting customer needs. Email management tools make rapid and efficient response to customer inquiries, and survey management tools help companies collect and analyze online marketing survey data. These and other rapidly advancing technologies are giving companies unprecedented abilities to meet the fast-paced and diverse demands of today's markets. As a result, businesses are incorporating CRM tools into their business practices at astounding rates as they attempt to reach increasingly large number of customers globally.

Originating in Western countries, CRM has been developing rapidly. According to the report from Young (2000), the worldwide CRM services market is expected to be over 148 billion US dollars by 2005, which remains well above that of the overall IT services market. As one of the most important countries in the world, the US has made tremendous advancement in CRM development and is currently the world leader. Other countries, especially in Asia (i.e., China, Japan, and Singapore) are also advancing at a surprising speed. Seeing the great potential of these Asia markets, Western countries have

started to invest in these enormously to increase profit. Among all of the above candidates, China is gaining more and more attention.

It is easy to see why China is getting so much attention from international companies. As a developing country, China kept an average GDP growth at close to 10 percent per year from 1978 to 1997 (People's Daily, 1998). The growth rate in 2002 was 8% (Liao Wang News Week, 2002), which is much higher than other developing countries (Worldwide Economy Forecasting, 2003). Furthermore, China's IT industry has total assets of 16.5 trillion US dollars in 2002, and export revenue of 32 billion US dollars, an increase of 42% over 2001. China is now the country with the highest IT investment in the world (Zhang, 2002). The most attractive feature of this market is that it still has much room to develop and grow.

Concerning CRM specifically, the total Chinese market in 2001 increased to 11 million US dollars and is estimated to be 43 million US dollars by 2004 (CCID and CIW, 2002). Although these numbers are not comparable with current market of Western countries, its rate of growth in some ways makes China more appealing than these already developed countries.

Along with the impressive prospects are some potentially thorny problems. China started its Open Door policy in 1982. However, even after 21 years of openness, there are still many barriers for foreign companies entering the Chinese market, such as culture, geography, and government control. The cultural differences between Chinese and Western people are reflected in very different ways of doing business. Different regions within China have differences in terms of education, economy, political climate, and even

personal values. And, although China has made progress in transforming to a market economy from a planned economy, it will take time to remove the government's strong hand in the Chinese market. In a word, there are many things foreign companies need to know to start a new business in China. Especially for high technological products as CRM, foreign companies have to answer some key questions, such as:

- 1) Which type of business arrangement will be most appropriate, joint venture, acquiring a local Chinese business, or establishing a foreign business (Xue, 2000)?
- 2) Deeming people as a critical factor in CRM implementation, what problems may be encountered in human resources management for the foreign firm hiring Chinese employees (Guan, 2002; Shuai, 2002, Li, 2002)?
- 3) How much customization of foreign companies' CRM products is needed? Is a simple translation of the English version into Chinese sufficient, or does the market demand a product that integrates Chinese culture with Western management practice (Zhang, 2002)?
- 4) How can a firm assess the rapidly changing expectations of Chinese people in order to help businesses satisfy these demands (Xing, 2002)?
- 5) Which industry is an appropriate target, and has strong development potential to maximize long-term profitability?
- 6) Which region is the best geographic entry point, considering sensitivity to regional differences and political climate (Ralston et al., 1996; James, 1989; He, 2003)?

7) How does a firm best incorporate the concept of *guanxi* into key business relations (Chu and Ju, 1993; Tung, 1982; Tung, 1998; Yeung and Tung, 1996)?

Several of these questions have been addressed by other scholars. For example, as different types of businesses have different advantages, Xue (2000) sets up a three-layered model to help determine which one is most appropriate for current Chinese market. He points out that acquiring a local Chinese business will help foreign companies build their reputation in very short time, which is crucial for current CRM market. However it will take more time to digest and bring each party's advantages in to play. A complete foreign business will not have the trouble of dealing with a Chinese partner, but may find it challenging to understand this totally different market alone. Xue concludes that joint venture may be the best option for foreign companies currently, as foreigners can make investment and let their Chinese partners to manage and operate the business.

Significant research is also ongoing on the human resources questions. Guan (2002) argues that it could be beneficial for companies to build one core team and one extended team in CRM implementation. He also recommended strengthening group cooperation, making investment in employees, and hiring professionals in a call center. Shuai (2002) analyzed people's effect from three different layers, such as decision-making layer, executive layer, and customer layer, to help companies choose right people and help them work effectively together. Li (2002) has investigated the effects of human resources policy in different stages of CRM implementation, such as the strategy making stage and execution stage.

On the product customization question, Zhang (2002), through a large survey, discovered that some foreign CRM vendors already have a Chinese version of their products. After investigating these products and vendors' background, he states that although some products have made integration of Chinese business culture with Western management practice, most of these products are only English products' Chinese version. Therefore, these products cannot be fully utilized in Chinese market and thus need great improvements.

Research on customers expectations has been attempted, but with usable results. As an example, after numerous efforts to collect and analyze customers' survey results, Xing (2002) found out that the only national wide identification method in China - identity card - does not have much information, especially on purchasing records. This missing purchasing history makes investigating the demands of the Chinese people difficult.

The remaining three questions, (questions five, six and seven), however, have received little attention. Normally, foreign companies will first choose the type of business they want to focus on. For CRM vendors, providing different solutions to different industries is crucial since no two industries will be the same. Now the question is, before entering into a totally new market like China, which industry has more market potential? To answer this question, a foreign company should investigate some candidate industries and evaluate their market potentials. Since not much work has been done on this issue, this thesis will analyze four prosperous industries along several important dimensions: level of IT investment, strong CRM demand from businesses, rate of growth, and level of government intervention.

After selecting the industry, foreign companies will need to choose a geographic location as an entry point. This is important because the first place chosen influences the direction of further development. Only after business develops well in one area can foreign companies seek to enlarge market share. As a large and complex society, China has different regional values (Goodman, 1992; Robertson, 1993). James (1989) described that China's billion-plus people speak a multitude of dialects, consisting of distinct ethnic groups and some local customs that have remained substantially intact over time. Ralston et al., (1996) points out that Western people should be especially careful to consider the differences due to regional diversity because it can contribute to the confounding nature of Chinese business tactics. However, there is no detailed report to analyze development potential of different cities and make appropriate recommendations. This thesis will introduce six major cities in China and compare them in some aspects, such as education, economy, politics, and personal values.

Finally, as a supplement to business practice, cultural differences should be given sufficient consideration since it explains many differences in business practice (Scott, 1997). In order to face the growing international competition, foreign firms need to become more competitive by improving the cross-cultural management aspects of their business (Kobrin 1988). Unfortunately, many foreign firms have not been successful in selecting, retaining, and developing effective managers for assignments requiring cross-cultural management skills (Adams & Kobayashi, 1969; Baker & Ivancevich, 1971; Black, 1988; Lanier, 1979; Misa & Fabricatore, 1979; Tung, 1981). In China, a unique culture practice for starting a new business and keeping it going is *guanxi* (it is originated

from Confucianism and refers to the type of connection between two individuals).

Although some scholars have discussed *guanxi*, not much work has been done to provide practical advice on how to keep good *guanxi* in business practice. This thesis will analyze *guanxi* from its origination of Confucianism and bring out detailed advice for foreign businesses to establish good *guanxi* in the Chinese market.

In sum, this thesis addresses the following central questions concerning successful entry of foreign firms in the Chinese CRM market:

- 1) Which industry is an appropriate target, and has strong development potential to maximize long-term profitability?
- 2) Which region is the best geographic entry point, considering sensitivity to regional differences and political climate (Ralston et al., 1996; James, 1989; He, 2003)?
- 3) How best to incorporate the concept of *guanxi* in key business relations (Chu and Ju, 1993; Tung, 1982; Tung, 1998; Yeung and Tung, 1996)?

### Thesis Overview

After reviewing several popular definitions of CRM, the next chapter introduces a more focused definition of CRM that will be used in this thesis. Following is a discussion of the evolution of CRM, and the importance of studying CRM. This chapter is trying to give the reader a good understanding of CRM.

The current Chinese economic situation will be reviewed in chapter 3 with good deal of data to illustrate the fast growth of the Chinese market. Then, the current CRM market

will be discussed along with a detailed report of CRM vendors in China. This chapter will give a general understanding of the Chinese CRM market.

Chapter 4 addresses the industry selection problem. The four industries mentioned in this chapter include telecommunication/internet/wireless, insurance, banking, and retailing. Four critical factors affecting market potential of these industries are addressed, specifically IT investment, strength of demand for CRM products and services, industry growth, and political climate.

Chapter 5 investigates the regional differences of China. Six major cities of China, Beijing, Shanghai, Guangzhou, Dalian, Chengdu, and Lanzhou, are introduced and compared with each other in terms of education, economy, political situation, and personal values.

Chapter 6 introduces a decision model to help firms choose industry and city in which to start businesses. This model applies Analytic Hierarchy Process (AHP) technique to prioritize different factors in different levels and generate a ranking.

Chapter 7 addresses a third important issue for foreign companies entering China, the concept of *guanxi*. This chapter discusses in detail what *guanxi* is from a native Chinese people's perspective. This chapter then explains how to develop good *guanxi*, and how to combine *guanxi* with formal contracts.

The conclusion of this thesis summarizes the above chapters and concludes that the Chinese market is full of potential. Other issues that could be researched in the future, such as Chinese people income levels, pricing of CRM products, and the difference between government owned companies and private companies, are also presented briefly.

Before delving in the main research questions, it will be beneficial to have a general understanding about CRM. The next chapter presents a full description of customer relationship management and its importance as an area of business research.

## CHAPTER 2

## CUSTOMER RELATIONSHIP MANAGEMENT

As the foundation of the whole thesis, this chapter will establish a general understanding of customer relationship management. After comparing several authors' definitions, a new definition that deems CRM as a new technology for individualizing and automating customers' demands will be introduced along with a general description of its components. Three steps in the evolution of CRM—contact management, relationship marketing, and database marketing—will be briefly reviewed. The chapter concludes with a discussion on why it is so important to about CRM.

Being a still fresh topic, different people have different understanding about CRM. Thompson (2001), the founder and president of Front Line Solutions, define CRM as follows:

“CRM is a business strategy to select and manage the most valuable customer relationships. CRM requires a customer-centric business philosophy and culture to support effective marketing, sales and service processes. CRM applications can enable effective customer relationship management, provided that an enterprise has the right leadership, strategy and culture. It is a business strategy to create and sustain long-term, profitable customer relationships.” (P1)

The author of bestseller and consultant, Richard A. Lee gives the following definition (Lee, 2000):

“CRM is a Customer-centric strategy, which drives new functional activity not only for sales, marketing and service, but often back-office functions such as accounting, production scheduling and shipping, and demands re-engineered work processes for everyone affected, and requires technology support to implement.” (P2)

Famous eNet authors, Wang Qing and Cai Zhenxin describe CRM as (Wang & Cai, 2001):

“... a business management and service that gives a central place to the customer but also offers a complete and improved package of solutions for doing business in areas where dealing with customers is a high priority, such as marketing, sales, services and support, which will increase the coordination capability between the departments in a business, expediting the related speed of customer service and support and improving the satisfaction and loyalty of the customer.” (P1)

From above definitions, several themes emerge concerning CRM.

- 1) CRM is described as a business strategy and culture. It is not just a decision made by middle level managers but an overall approach to doing business that affects companies' development in the long term. It is also described a business culture because it forms a set of norms, beliefs, and ways of doing business that put customers in the center and being different with traditional businesses.
- 2) CRM puts customer in the center. Unlike other management systems that are product-centric, CRM deems customers as the most important factor for business to survive. Doing this means everything in the business will use one, and only one criteria, which is, does this behavior meet customers' demand?
- 3) CRM seems to mainly focus on marketing, sales, and services, which all have close connection with customers. Marketing helps to know about customers' demands and let more customers know the company. Sales serves to promote products to customers and gain profit. Services help customers resolve problems and collect and analyze customers' feedback.

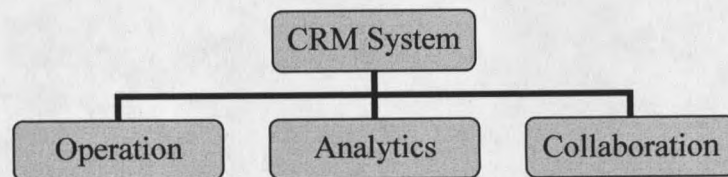
In contrast with the above definitions, this thesis takes a more focused view of CRM. It is defined as:

... a collection of technologies that gathers and analyzes customers' information to individualize services and automate processes to meet customers needs.

CRM uses information technology, such as data warehouse technology, to collect large amounts of information on customers — such as their backgrounds, their preferences, their purchasing habits, etc. Data mining technology traces and analyzes this information and categorizes it. Sales people can then use this information to target their customers more effectively and efficiently. CRM is implemented through high technology platforms, such as Internet, database, and telecommunication, which combine with software, hardware, environment and people.

CRM systems typically have three primary pieces: operational CRM, analytical CRM, and collaborative CRM.

Figure 1. Components of CRM System



Operational CRM includes the “customer facing” applications integrated among the front, back and mobile offices (e.g., front offices refer to sales force and marketing. Back offices refer to daily operation. Mobile offices refer to wireless operation). It enables the development of marketing campaigns, sales and services activities that may be targeted and focused. Through the use of business rules and functions, it streamlines the manner in which organizations transact with and fulfill their customers' needs. Main applications of

operational CRM are sales force automation (SFA), enterprise marketing automation, and customer service/support. SFA uses information technology to retrieve customers' information and helps deliver relative knowledge to sales representatives just-in-time to satisfy current, specific dictates of the sales situation. Enterprise marketing automation refers to get marketing reports from analytical CRM and bring out customers' demand. Customer service helps customer representatives get customers' information and historical service record.

Analytical CRM provides analysis of the data created on the operational side of the CRM equation to improve business performance and boost profitability. This portion of the CRM solution, which is based on data warehouse architecture, is imperative for providing the panoramic customer view to CRM success. Analytical CRM enables four tasks that aim to optimize the customer life cycle: customer identification (customer profiling and customer behavior modeling-determine customer value and letting the right customers in), cross selling (selling more to the existing customers), churn (expanding the life cycle), and "win back" (getting lost customers back). The analytical CRM process consists of the following steps: first, multiple sources of data are integrated into a custom data warehouse. Second, interactive reports uncover customer and business intelligence from data mining applications. Last, personalization tools and targeted lists enable action for higher customer value and increased return on investment.

Collaborative CRM is an enterprise architecture designed to meet the complex and dynamic environment of today's enterprises. It focuses on creating a real-time CRM infrastructure for enterprise sales, service, marketing, and product development to better

support customers. By understanding the heterogeneous environment of most enterprise application portfolios, collaborative CRM provides a framework that sales, service, marketing, and product development organizations can work together with a single view of the customer, but yet still maintain their unique way of doing business. Administration tools provide a distributed architecture for managing and facilitating collaborative business information and process. Collaboration platforms were developed to assure high performance on business process automation, robust application integration, internet-ready performance and scalability, easy and flexible configuration, and instance-based information sharing security. Data tools enable organizations to leverage their existing investments in their CRM infrastructure (Electric Light & Power, 1999).

### Evolution of CRM

Although CRM is not a new idea, the term was first coined in the early 1980s by academics at various business schools. One of the first on the scene was Dr. Jagdish Sheth, who was at Goizeta Business School of Emory University in Atlanta (Davies, 2001). CRM's evolution over the last two decades can be characterized by three major steps mixed with two different directions.

The first step was "contact management" in 1980s (Wang & Cai, 2001), which means collecting and sorting out information about connections between customers and companies. In 1990, Tom Siebel created relational database application to realize this strategy. This application was called Oracle Automated Sales Information System (OASIS). It provides sales department basic customers' information and records into

database. Used by telesales and telemarketing, OASIS was instrumental in providing broad market penetration for Oracle's relational database and was key to establishing Oracle as the dominant supplier (Fung, 2000).

The second step is the concept of relationship marketing in the mid of 1990's, which is generated from an influential book called *The One to One Future* (Rogers & Peppers, 1997). The authors, Martha Rogers and Don Peppers, challenged the way business leaders thought about marketing by putting customer in the center, not product any more. Rogers and Peppers stressed the importance of building one to one relationships with customers and these ideas have developed into a customer-centric marketing strategy.

The third step is applying customer lifetime value from database marketing in the late of 1990's. Relationship marketing is difficult and expensive to do well. Reichheld (1996) states that it is not necessary to build strong relationships with every customer since some are profitable and some are not. But the business needs a way to determine who the profitable customers are and who are not. In addition it would be useful to know which are profitable in the long term, or just in the short term. Answering these kinds of questions is complicated and requires an in depth understanding of the business dynamics in the marketplace. To address this in a systematic and logical manner, a mathematical approach called customer lifetime value (Fung, 2000) was developed. It provides the accounting mathematics to work out how to build profitable customer relationships and stay profitable.

Almost at the same time with above three steps' development, CRM developed into two different directions (Dowling, 2002). One was in the U.S. where it was mainly driven

by technology. In this country, marketers gave the initial direction and then information technology and statistical algorithms were developed to increase the efficiency and effectiveness of selling what a company makes. Thereafter these technologies' development stimulated the development of companies' business strategy, such as call centers, web sites, customer service and support teams, and loyalty programs, which are used to manage the relationships with customers.

This database-driven CRM has claimed significant improvements in identifying profitable and unprofitable customers, increasing the efficiency and effectiveness of target marketing, and increasing customer satisfaction. But there are also some problems: managers concentrated less on what customers really wanted and more on what the data patterns suggested they may want; gathering an extensive amount of information about customers raised concerns about privacy; relationships seldom developed beyond satisfaction into rapport because they started with the seller "targeting" the customers and then attempting to seduce the customers (Fournier et al., 1998).

In contrast, Scandinavia and Northern European countries focus more on strategy (Ford, 1990). This type of CRM is typically managed by marketing and sales. The emphasis is on understanding customer needs and then solving problems that create customer value. Although information technology is also important, this type of CRM is designed to support, rather than drive the customer relationship (Dowling, 2002). For example, after building call centers, marketing and sales departments will analyze customers' information and, based upon their experiences, bring out ideas on which direction is needed to go in order to make improvements. Then, these ideas are told to

technical departments and are realized. The types of relationships that develop here are often deep and meaningful- both for the companies and the people involved.

After above developments, CRM has evolved into a popular term, either in business strategy or in technology and gain more attention in the world. Thus, it is important for companies to have in depth understanding of CRM and find appropriate solutions for business customers.

### Importance of Studying CRM

The driving force behind the CRM trend is in the rapidly changing consumer market. During recent years, MRP, MRPII and ERP had already helped to manage manufacturing effectively. Now, customer's demand is becoming increasingly diversified and business competition continues to be on the rise. People won't buy the same production as 10 years before. The product that is very different from others and their preferences change often. It is widely accepted among the business community that the customer is of great importance. How does business retain existing customers and acquire new customers? If a customer is lost, how to win them back? How should businesses cross-sell other products to the same customer and up-sell more expensive products? Customers increasingly want more individual attention; even more responsiveness and more customization. Customers also want a company that treats them as an individual, not as someone who gets the same information every time with different sales representatives from different departments. They immediately want someone in the company dealing with them knows what is going on.

CRM provides a powerful set of tools to address these needs immediately and efficiently. CRM can help companies be more competitive in today's world. It has already become somewhat of an industry standard, just as ERP ten years ago. Lee (2000) points out that, by smoothing the current working process and thus improving efficiency, CRM will improve throughput across the organization. This is not only for sales, service, and marketing, but also for everyone in the company. If a company puts customers into the center, it will design and operate everything according to customers' needs, which may somewhat in return improve efficiency. CRM is so new that not every company is using it now. This means companies that use CRM now, or will use CRM in the very near future, will have greater competitive advantage.

Also it is important to understand that customers themselves actually demand CRM. They may not know what CRM is but they expect the things CRM provides: knowledge of customers that's shared by all in the company no matter how it is received; input from customers that is on the record to help a company do business their own way; attention to customers when they want it and how they want it, and access for customers to everything they need to know about their orders. Also, because customers now have more choices, they can easily change to other companies if they are not satisfied, which could mean big profit loss for a company.

After seeing the power of CRM in business, business elites began to put more effort in it. During a recent survey (Coltman et al., 2001) of 600 senior managers in six broad industry categories (financial services, government, IT and communications, retail and

utilities), most of them believed in the value of long-term relationships with customers, which is CRM, for future success.

CRM has already grown fast globally. The worldwide CRM services market is expected to be over 148 billion US dollars by 2005, demonstrating a five-year Compound Annual Growth Rate (CAGR) of 25.2%. This growth rate remains well above that of the overall IT services market, which shows a 2000-2005 CAGR of 12%. The growth rate for Asia Pacific in particular has a CAGR of 31.5% from 2.2 billion to 8.8 billion US dollars (Young, 2000).

Today, the CRM market with perhaps the largest potential and the one this thesis focuses on is China. Before addressing the specific research issues, it would be helpful to have a general understanding of current Chinese CRM market.

## CHAPTER 3

## CHINESE MARKET

Today's multi-national companies have realized the importance of gaining more global customers to increase profit, especially in this recession period. That is why a many companies that developed locally are moving into different developing countries. Of all these countries, the most important one, if not the largest, is the Peoples Republic of China. This chapter introduces the overall Chinese market in terms of GDP growth, international trade, and IT development. Then it describes current Chinese CRM development, especially in CRM brand structure, product functions, and target market. Also, a report on seventeen CRM providers currently active in China is introduced, detailing their main customers, modules, target markets, and product features. This chapter concludes with a discussion of future Chinese CRM market development trends.

Overall Market

China has come to play an important role in today's world, especially after 1978 when it began to operate under Open Door Policy (Deng, 1984). Its GDP, international trade, and IT investment have seen tremendous growth. China's Gross Domestic Product (GDP) has grown at close to 10 percent per year from 1978 to 1997 (People's Daily, 1998). Although the worldwide economy was in a recession, China still has 12.2 trillion US dollars GDP in 2002 and the growth rate was 8% (Liao Wang News Week, 2002), which is expected to be 7.5% in 2003 (Worldwide Economy Forecasting, 2003). In the

long run, experts expect GDP growth rate will be about 7.9% from 2001 to 2010 and 6.6% from 2010 to 2020 (Development Research Center of the State Council, 2003). This rate of growth far extends that of any developed countries.

In terms of its involvement in world trade, China was ranked number 7 in the world in 2000 (Thorpe, 2002). In 2002, FDI (Foreign Direct Investment) in China was over 50 billion US dollars and the number of new foreign investment companies was over 3000, which was the first time to exceed United States and become No. 1 in the world (Liao Wang News Week, 2002). Four hundred Fortune-500 companies have investment in China and there are 400 other multi-national companies that have R&D centers in China (Sino-US Trade Net, 2003). This wave of foreign investment demonstrates great opportunity in China.

Concerning advanced technology development, Chinese IT industry develops faster than most of other developed countries (Zhang, 2002): total assets are 16.5 trillion US dollars, which is 23 times that of 1997; cell phone users reached 200 million which was 20 times that of 1998; export revenue was 32 billion US dollars which increased 42% of 2002 and is No. 1 in the world. As an indicator of how active Chinese cell phone users are, they sent 80 billion short messages in 2002 through their mobile phones, which contributed one-fourth of the world. In internet development, the number of people using the internet was 59 million in 2002, which increased 29% over 2001 and was No. 2 in the world (US was No. 1). The number of computers used for Internet was 21 million, which

was increased 29.1% over 2001 (CNNIC, 2003). This high speed IT development shows great potential of Chinese market.

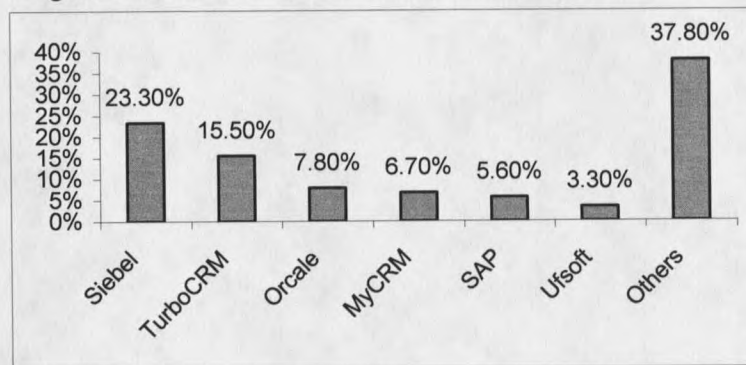
### CRM Development

Turning to the CRM market specifically, China has shown strong trend in enlarging. According to the volume survey of the Chinese CRM market made by CCID (China Computer Information Design) and CIW (China Information Web) (2002), the total CRM market in 2000 amounted to 7.2 million US dollars. In 2001 it increased to 11 million US dollars and is estimated to grow to 43 million US dollars by 2004.

At the same time, perhaps because of the unpredictability of the future, IT companies in the US have reduced their budgets and started large scale lay-offs. In order to survive and keep growing, many companies have put more effort on international markets, which will not be affected as much and may bring back profits. Since the US is facing a severe recession, most of the management software companies are in big trouble. For example, McCormick and Barrett (2003) claim that Manugistics, the manufacturing logistics expert, reported a third quarter loss of 26 million US dollars, its eighth straight quarterly loss. I2 Technologies, the supply-chain software pioneer, reported a preliminary fourth-quarter loss of 12.4 million US dollars, its eleventh straight quarterly loss. Ariba, the electronic procurement specialist, reported 55.9 million US dollars first-quarter loss, its fifteenth consecutive unprofitable quarter.

Seeing big opportunities in China, many US vendors have targeted China as their main market, along with vendors that have already entered into the Chinese market since 1989 (CTIForum-a, 2003). By the end of 2002, many US vendors have entered the Chinese market, such as Oracle, Siebel, SAP, Akup, AVAYA, NCR, Saleslogix, and Brio. According to the survey report of GreaterChinaCRM.org (2002), vendors from the US account for 29% of sales of all CRM vendors in China. Although US vendors are not large in numbers, they are giants on revenue. As shown in Figure 2, Siebel was the highest in the Chinese market according to a revenue report survey in 2001 (Annual Report of China Management Software Market, 2001-2002), which was 23.3%.

Figure 2. Brand Structure of China CRM Market in 2001

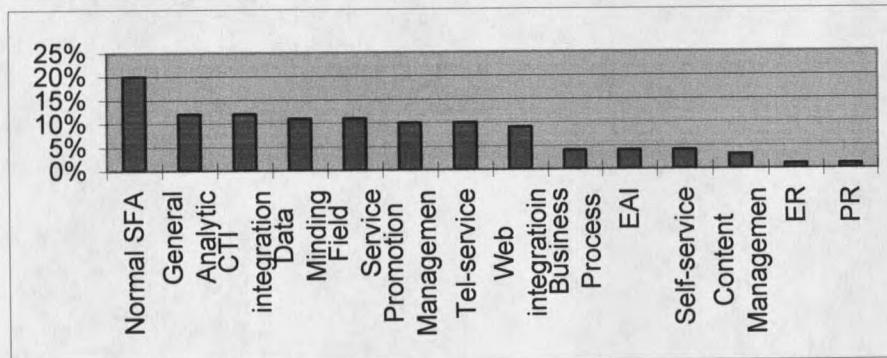


(Source: Annual Report of China Management Software Market, 2001-2002)

As far as production function is concerned, different vendors provide different functions. But, they all have some basic functions. According to the statistical research (GreaterChinaCRM Research Institute, 2002) shown in Figure 3, normal SFA and general analytical statistics are the most popular functions in current Chinese CRM products. The functions of tel-service and CTI integration, which mainly support auto-response and customer message management in call centers, are popular that 22% of the

vendors have these functions. One other function—web integration—which represents the connection of online and offline management, has had vendors' concern. 9% of the vendors provide this function.

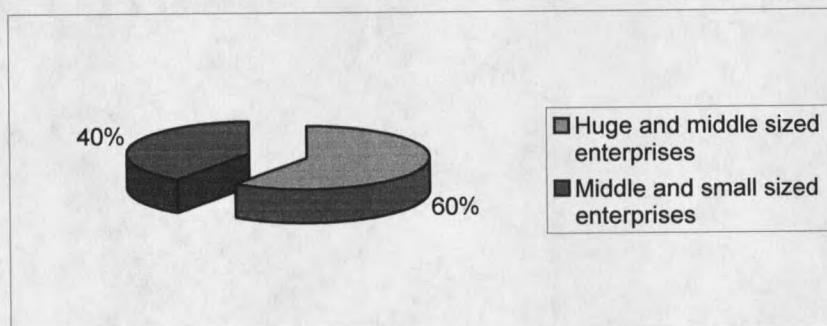
Figure 3. Product Functions of Chinese CRM vendors



(Source: GreaterChinaCRM Research Institute, 2002)

As to the definition of CRM targeted market (large-size enterprises: with CRM users of more than 150 and medium or small size enterprises with CRM users of less than 150), most of the vendors in China focus on huge and middle-sized enterprises.

Figure 4. Chinese CRM target market

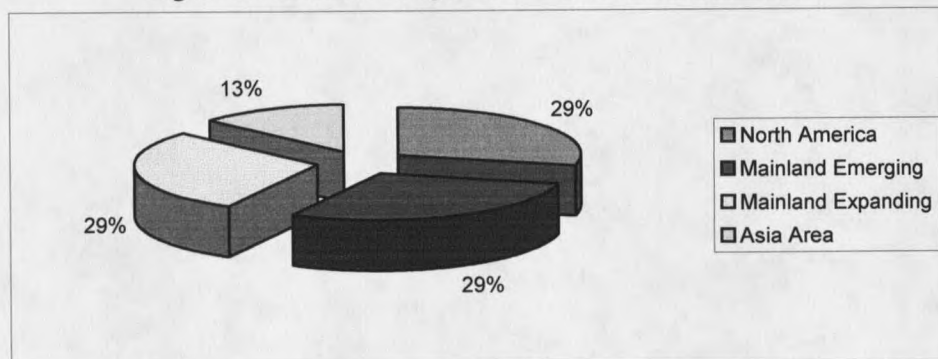


(Source: GreaterChinaCRM Research Institute, 2002)

### CRM Vendors

More than 50 CRM vendors are active in China. The definition of “active” means: the company is still operational with the current brand and there is no sign to show it will quit CRM markets in the coming three to five years. According to the above definition of “active” CRM vendors and the degree of famous, some vendors in the Chinese markets have been selected in this chapter. All the 50 vendors are divided into four categories in accordance with the differentiation of the development history and region. As seen from Figure 5, the CRM vendors from North America, mainland emerging, and mainland expanding are roughly equal in proportion. The CRM vendors from other parts of Asia account for 13%.

Figure 5. Different Categories of CRM vendors in China



(Source: GreaterChinaCRM Research Institute, 2002)

The first category is purely local CRM developers who are from mainland China and consider CRM as their main businesses. These CRM developers are ambitious and want to become the Siebel of China. However, lacking a solid foundation, their development capital is generally tighter and they are occupied with looking for the right investments

both internally and externally. Investors may not be familiar with the concepts and the market perspective of CRM. It is expected to take a rather long time for these CRM vendors to improve this situation (GreaterChinaCRM Research Institute, 2002).

The second category is the local manufacturers who have developed their businesses from ERP, call center or other enterprises management software. They are called the “Mainland CRM manufacturers of ERP expansion”. Within this category there will be three different situations. These are ERP or financial company expansions, call center and CTI business expansion, and other enterprise management software development, as well as system integration expansion manufacturers that have switched to the development of a CRM system. This category of manufacturers has already had their basic customers. These manufacturers also have strong capital backup, and they can invest more resources in systems development and marketing in the long term. However there also exists a business transformation problem that the idea is not clear enough, and there are always traces of ERP or CTI. Furthermore, the ERP and call centers in China have just started in the market. Their market is much more mature than that of CRM. Therefore these manufacturers tend to “look down on” the CRM business. Yet it is at least not like those in the first category who still have to fight for their survival.

The third category is the Asia area CRM manufacturers who have their base at Hong Kong, Taiwan, or Singapore, and target their products in the mainland market. Comparing with the mainland manufacturers, they have management experience from the East and the West along with more sufficient capital than these of the first two categories.

They are currently setting up offices in China and have a multifaceted marketing capability. However, they lack of close, friendly ties with the local customers in their marketing. Also their products have no superiority over price.

The fourth category is the North American CRM manufacturers, which refers to the American CRM manufacturers that have maintained an interest in the Chinese market. The manufacturers of this category possess expensive but efficient and strong product functions. Their targets are the huge enterprises. These CRM vendors have very successful experiences in their own countries and because Chinese people normally admire foreign companies, they could build trust easily. The problems they face are how to further understand the Chinese way of doing business and thus localize their products to accustom to the Chinese situation and how to deal with the Chinese government.

In the following paragraphs, detailed information about the selected CRM vendors are presented, who they are, where they are, what their major products are, what functions they provide and who their major customers are.

#### Category 1 - Emerging Chinese Vendors

##### Synlead

Targeted Market	Small-to-medium-sized enterprises
Modules	General SFA, basic statistics & reporting
Main Customer	Not known
Website	<a href="http://www.synlead.com">www.synlead.com</a>
Office	Beijing, Shanghai

Synlead has launched its medium and small-scale enterprise sales management system in 2001. It is suitable for enterprises with less than 200 users and its functions

includes the typical SFA functions, such as opportunity management, order management, contact management, pricing management, duty management, and competitor management. Synlead is planning to introduce its CRM service module in December 2002. This will add another important product to its full series CRM product line.

Synlead customer service structure runs on Microsoft platform. It provides a basic data interface to integrate with backend ERP or other systems.

Synlead has a comprehensive R&D plan. It is expected to complete the full operational CRM product by 2002 or 2003, to provide integrated sales, service and marketing management modules.

### TurboCRM

Targeted Market	Small-to-medium-sized enterprises
Modules	General SFA, marketing automation, CTI integration, customer service, basic statistics & reporting.
Main Customer	China Pingan Insurance Company Ltd, Hainan Deer Jet Company Ltd, China Central TV Consultancy Center, Beijing Luqiao Company Ltd, Clever Net Co. Ltd., Tsinghua Tongfang Disc Company Ltd.
Website	<a href="http://www.turbocrm.com">www.turbocrm.com</a>
Office	Beijing, Hongkong, USA

Established in 2000, TurboCRM is an emerging eBusiness software provider. The company launched TurboCRM 3.0 in June 2002. This system includes the online transaction platform TurboLINK, Supply Chain Management TurboSCM, Customer Relations Management TurboCRM, call center TurboCTI, and Decision Support System TurboDSS. TurboCRM 3.0 includes basic operational functions. The interactive and analysis functions can be realized via the call center and strategy support system.

The design platform of TurboCRM is based on Microsoft C++ and COM+. Using a multi-layer structure, it supports SQL and Oracle Database.

### MyCRM

Targeted Market	Small-to-medium-sized enterprises
Modules	General SFA, basic statistics and reporting.
Main Customer	Pacific Insurance Beijing Office, German Bitzer (China) Company, Shandong CP.FREDA.CO.LTD, Beijing Watchsmart Technologies Pty Ltd, Gaoweida, Times Group, Changchun Company, Shanghai Davanchi, Hopecom Optic Communications Co. Ltd., Shanghai YaRui, China Netcom Ningbo Company, Changjiang Shipping.
Website	<a href="http://www.mycrm.com.cn">www.mycrm.com.cn</a>
Office	Beijing, Shanghai

Beijing MyCRM Software Technology Company Ltd. was established in May 2000. It launched MyCRM 1.0 in November 2000, which was well received by the local SMEs. MyCRM for SFA 3.0 was launched in October 2001 with great enhancements.

Currently, the MyCRM 3.0 only provides SFA module. It has developed vertical SEA applications for industries like insurance, hotels, household electrical appliances, drug manufacturing, etc. There is still a need of more development in the service, marketing and other CRM business sectors. Its sales application includes customer & contacts management, calendar and events alert, sales opportunity, leads management and statistical analysis, order management, financial management (account receivable), sales statistical analysis and reporting.

MyCRM runs on Java platform. It is built on a multi-layered structure of packages and provides an open platform for the extension of products in future. It supports Microsoft SQL and is expected to support Oracle in the near future.

MyCRM targets SMEs under 300 employees. The positioning of MyCRM is more practical and it corps with most local enterprises whose size are small and with infant knowledge on CRM.

### EBaihe

Targeted Market	Small-to-medium-sized enterprises
Modules	General SFA, marketing automation, customer service, CTI integration, EAI
Main Customers	Anxiang Motor Sale Co Ltd, Fuzhou Yaxing Electronics company limited, Fuzhou Furen Co Ltd, Mindong Proficient Computer Co Ltd, Fujian Jiada Textiles Co Ltd.
Website	<a href="http://www.ebaihe.com">www.ebaihe.com</a>
Office	Fuzhou

Fuzhou EBaihe was established in Dec 2000. The latest version of its software is CareCRM 3.0. As a whole, the functionality of CareCRM is built upon four business requirements: operational, analytical, collaboration and EAI integration. Its operational function covers three core CRM sectors: marketing automation, sales automation and service automation. Its analytical functionality includes customers' value analysis, channel analysis, cooperation-competition analysis, human resources analysis, business process analysis, accounting analysis, etc. Its collaboration function has integrated the mobile desktop, call center and e-business multi-channel collaboration. CareCRM users can select one or multiple applications according to their needs. They can also select small, medium or large three different levels of product to suit their business scale, which is the real situation in China with various enterprise scales and different degree of business complexity.

CareCRM runs on Microsoft platform C++, COM+ with multi-layer structure, and is adopting Microsoft.Net.

## Category 2 - Expanding Chinese Vendors

### Hollybridge

Targeted Market	Small-to-medium-sized enterprises
Modules	On the spot service, simple SFA, automatic promotion, CTI integration, customer service, business processing design, basic statistics & reporting.
Main Customers	Beijing Telecom 189 Customer Service Center, National Y2K Information Support Network System, China Unicom Head-quarters Customer Service Center, China Unicom Beijing/Zhejiang Branch Office, Beijing Telegram Customer Service Center, Hainan Mobile Customer Service Center, g5info Customer Service Center, Beijing 8848 eCommerce Ltd Customer Service Center.
Website	<a href="http://www.hollycrm.com">www.hollycrm.com</a>
Office	Beijing

Beijing Holly Bridge Systems Integration Company was established in November 1996. This company was one of the earliest vendors who do the CTI integration for call centers. Based on the comparative more advanced call center technology, its products' functions extend to sales automation, marketing automation, real-time service, call center applications and the HollyFlow work processing design. Its products could receive the information provided by the front end of the call center platform, and the entire database from the backend database. It is therefore possible to conduct basic statistics analysis.

HollyCRM runs on J2EE structure, making it easier to combine and add features.

Currently, HollyBridge is targeting at financing, telecommunications and electricity industries. Its major customers are still the traditional call centers.

### UFsoft

Targeted Market	Large enterprises.
Modules	General SFA, Marketing Automation, real-time service, customer service, basic statistics & reporting, data mining
Main Customers	Shanghai Ron's Enterprise
Website	<a href="http://www.ufsoft.com">www.ufsoft.com</a>
Office	Beijing, Nanjing, Shanghai, Jinan, Xiamen, Hangzhou, etc.

After more than ten years development, UFsoft became one of the largest enterprise management software developers in China. UFsoft currently has 2 fully owned overseas subsidiaries, 9 share holding subsidiaries, and 3 partnership subsidiaries and is also setting up another 15 offices. UFsoft has developed gradually from its original business as a financial software developer to a comprehensive ERP provider and is ranked No. 1 in domestic ERP software vendor.

Like other ERP vendors, UFsoft has invested heavily in CRM development. In September 2001, it introduced NC/CRM into the market, targeting at large, medium and small-scale enterprises, especially for those who need centralized management for their clients' resources and have many regional branches to require centralized administration. The main functions of NC/CRM include: marketing management, sales management, service support and management control for management usage. Its business intelligence application NC/BI can conduct intelligent analysis on the data generated by the interaction of ERP and CRM. The complete set of NC/BI is comprised of three parts: EIS (Enterprise Information System), DSS (Decision Support System) and EVA (Economic Value Assessment). UFsoft is one of the few manufacturers with a strong CRM analytical capability.

The special feature of NC/CRM is based on the new structure of Java technology browser/server, and is thus able to support multiple database operation systems (Oracle, DB2, SQI Server). Also, like the other ERP+CRM manufacturers, it attracts its ERP customers by the integration capability with the backend ERP system.

## PowerCRM

Targeted Market	Medium-to-large-sized enterprises.
Modules	Real-time service, general SFA, marketing automation, CTI integration, web integration, customer services, EAI, basic statistics & reporting, data mining.
Main Customers	Guatai Junan Securities Company Subordinate Marketing Department, Weiao Biology Technology, Bank of China Wenzhou Branch, Merchants Property Company, Commercial Bank Wenzhou Branch.
Website	<a href="http://www.powercrm.com.cn">www.powercrm.com.cn</a>
Office	Beijing

PowerCRM software has produced more than 70 types of computer software and applications with its own patent by its own R&D staff, which accounts over 70% of its employee. It is one of the independent software developers in China that has a solid background.

PowerCRM introduced its product into the market in July 2001. The basic functions include operation, analytic and collaboration. The latest version, Powercrm3.1, includes leading specialty sections such as email management (Email Center) and Web Click management center (Web Center). It also possesses an analysis function that is based on data warehousing and data mining technologies. Furthermore, PowerCRM is also one of the first vendors to provide vertical CRM application in China. Currently it has vertical CRM applications in finance, telecom, securities, manufacturing, retail and government.

PowerCRM adopts the Java programming language. Recently its product has passed the test with the application platform of Sun One and is the first CRM product that has passed the test with a pure Java application Platform.

According to its own assessment, PowerCRM's market turn over in 2002 will increase by at least 200%, with the main target being the southern Chinese market. Along

with the gradual maturity of its product and more reference examples, the company has invested a huge amount of money to build the "aircraft carrier" project of PowerCRM in order to start tough competition with the other local leading CRM vendors in high-end market.

### Kingdee

Targeted Market	Medium-to-large-sized enterprises.
Modules	Real-time service, general SFA, marketing automation, customer service, EAI, basic statistics & reporting, data mining.
Main Customers	Zhenjiang Sanwei Plastic & Electrical Appliances Co. Ltd, Shenzhen Tobacco Company, Shanghai Red Lantern Media Limited, Wuxi Zhongyuan Medical Instruments Ltd, Huagong Biochemical Company, South China Auto-control Engineering Co. Ltd.
Website	<a href="http://www.kingdee.com">www.kingdee.com</a> .
Office	Beijing, Shanghai

Kingdee Software (China) Company Ltd supplies management and eCommerce application solutions. It has 46 branch organizations dealing with marketing and service business. Kingdee introduced the application server- Apusic Application Server 2.0 that is based on J2EE and became the first software manufacturer with this kind of server in China.

The application modules of Kingdee CRM include eSales, eService and eMarketing. As far as intelligent analysis is concerned, Kingdee provides the Hyperion business intelligence system and it can conduct analysis processing in ERP and customer interactive data. It possesses the ability of multi-dimension Online Data Analysis Processing (OLAP). Besides, Kingdee also provides enterprise portal applications and helps to increase the number of applications on its product line that the other vendors do

not have. On the technology aspect, Kingdee uses the latest J2EE and it is wholly based on the web browser client application.

### Ultract

Targeted Market	Small-to-medium-sized enterprises.
Modules	General SFA, CTI integration, customer service, web integration, basic statistics & reporting.
Main Customers	Beijing Tianlun Vocation Co. Ltd, Homeway Commercial and Finance Co. Ltd, Shanghai JT-Qmron Software Co. Ltd, Shanghai Aspeed Co. Ltd.
Website	<a href="http://www.ultract.com">www.ultract.com</a>
Office	Beijing

Beijing Ultract Communication Technology Co. Ltd. is an independent software development company. It focuses on customer information interaction and customer relations management systems.

The more mature products of Ultract are in the call-center sector. Its eCRM Suite2.0 was introduced into the market in April 2002. The core is call center products and it extends to email packets and network communication in web center components. Its CRM operational applications include: sales system, customer service system, marketing modules and also data statistics analysis functions.

The eCRM 2.0 is based on the JAVA/J2EE technology framework.

### Category 3 - Asia Regional Vendors

#### Akup

Targeted Market	Large enterprises.
Modules	Real-time service, general SFA, marketing automation, CTI integration, web integration, customer service, EAI, basic statistics & reporting, data mining.
Main Customers	21ViaNet China mc, ChinaByte, 163.net, 263.net, Top Consumer Bank, Union Bank of Taiwan, Kimo Taiwan, 263.net, Shanghai MecoxLane Mailorder Company, Shanghai Goodbaby Group, Hangzhou Singlee Group, Zhongheng Property Group.
Website	<a href="http://www.akup.com">www.akup.com</a>
Office	Beijing, Guangzhou, Shanghai, Hongkong, Singapore, Taipei

After many years of development, Akup International has already developed a comprehensive CRM solutions package with an advanced customer interactive technology function. It provides an eCommerce package (eNterprise I) to the large and medium-scale enterprises. The main application models are the multi-channel interactive Contact Center (Unified Contact Center), a customer behavior analysis tool, an individualized customer setting, electronic mail management (Email Master) and integration tools for special integration development eACP (e-Business Advanced Communication Platform).

The design of AKuP CRM is mainly based on Microsoft technology. Its own CTI technology and the telecommunication platform that was developed for its back end application integration have a technological superiority.

AKuP International has an impressive performance record in the Greater China Region and the percentage of its marketing turnover is 30% in Taiwan, 40% in Mainland China, 30% in Singapore and Southeast Asia. (GreaterChinaCRM Research Institute, 2002).

## Sellwell

Targeted Market	Small-to-medium-sized enterprises.
Modules	Real-time service, general SPA, advanced SFA, marketing automation, CTI integration, customer services, EAI, basic statistics & reporting, data mining.
Main Customers	Beijing East Region Post Office System, Hui's pharmacy, Siemens Mobile Telecommunication, Beijing Direct Marketing Company.
Website	<a href="http://www.sellwell.com.cn">www.sellwell.com.cn</a>
Office	Beijing, Shanghai, Guangzhou

Sellwell Information Technology Company Ltd is invested by Singapore National Computer System Company Ltd in China. It has branches in Shanghai, Beijing, Guangzhou and Nanjing.

SellWell 2000 has functionalities in sales, services and marketing. Its three modules of eSales, eService, and eMarketing, provide not only the basic business functions but also quotation module, efficiency analysis, contract management, customer complains management, telephone sales, call center and channel management. On the aspect of business intelligence, SellWell provides SBIS intelligent analysis, which is based on the SQL2000 data mining function. This is also one of the best analytics tools in China.

SellWell 2000 is based on the package design technology of Microsoft C++, COM+. Currently it supports the Microsoft SQL2000 database management system as well as other management systems that support ODBC data coordination. SellWell currently supports both Chinese and English languages.

The basic functions of SellWell products are more comprehensive and mature, but functions in the interactive sections and systems integration need to be improved. Comparing with other CRM vendors, its distribution mechanism has been built up faster and more mature. Through its successful implementation with Beijing East Zone Post

Office, SellWell has a comparative advantage over its competitors in Post Offices throughout China.

### TP Computer Group

Targeted Market	Medium-to-large-sized enterprises.
Modules	General SFA, marketing automation, CTI integration, customer service, web integration, basic statistics & reporting.
Main Customers	Hutchison Global Crossing Limited, Prineline.dot.com, HSBC Hong Kong Co. Ltd, Hong Kong Housing Committee, Far EasTone Telecommunications Co. Ltd, Taiwan Yulong Motor Co. Ltd, China Motion Telecom International Co. Ltd, China Everbright Bank Co.Ltd, Macau CTM.
Website	<a href="http://www.asianettp.com">www.asianettp.com</a>
Office	Hongkong, Shanghai, Beijing, Chengdu, Taiwan, Korea, Malaysia

TP Computer Group Co. Ltd is the leading value-added retailer of CRM software development. It is based in Hong Kong and its R&D center is in Shanghai with offices in Chengdu and Taiwan.

TP Computer Group introduced its Michelle CRM solution in January 1999. Its latest version is Michelle V.3.0. Its triple-layered structure includes the modules of the Michelle multi-channel customer contact center, Michelle customer support, sales, marketing and eCommerce. Michelle uses Microsoft technology. Through extensive cooperation with AVAYA and Huawei, it provides a base for the full integration of call centers with the other CRM functionalities.

### Category 4 - North American Vendors

#### Siebel

Targeted Market	Large enterprises.
Modules	Real-time services, general SFA, advanced SFA, marketing automation, CTI integration, customer service, business process design, EAI, basic statistics & reporting, data mining, content management, PRM, ERM.
Main Customers	Shanghai General Electrics, Shanghai F. Hoffmann-La Roche pharmaceuticals Ltd, Legend Group, Matsushita Electric (China) Co. Ltd, Hong Kong And China Gas Company Limited, Shenzhen Xianglong, CNC (China) Netcom.
Website	<a href="http://www.siebel.com">www.siebel.com</a>
Office	Beijing, Shanghai

Siebel eBusiness series products have almost covered all the functional aspects of the three CRM business sectors of sales, service and marketing. Siebel 7 has extended partner relationship management (PRM), employee relationship management (ERM), as well as the CRM applications base on its original 6.0 Version. The recent introduction of Siebel Analytics 7 has met the shortfall in Business intelligence (BI) and has lead Siebel to the leading position in the business sector concerned with the operations, analytics and collaborations. Siebel currently provides vertical solutions to different industries.

The design of the Siebel eCommerce application is based on Microsoft technology of C++, COM+. Siebel 7 has improved its web engine to realize the intelligent network customer structure and thus its product line can go entirely electronic.

Siebel is aiming towards at the high end of the market and has less sales initiative for mid-products (Mid-market). At present, besides a small number of very large enterprises in China and the foreign invested enterprises that have already implemented the Siebel system in their foreign headquarters, it is far away from the Chinese enterprises.

## Oracle

Targeted Market	Large enterprises (mainly the existing users of Oracle).
Modules	Real-time service, general SFA, advanced SFA, marketing automation, CTI integration, customer service, business process design, EAI, basic statistics & reporting, data mining.
Main Customers	Shanghai Hitachi, Beijing Lucent, Bright Dairy Company, Qingdao Guaren Group, Tianjin Taida Economic Technology Development Zone, Start Computer Company Ltd, Pacific City International (Group) Ltd, Founder Electronics, Motorola, GE Medical.
Website	<a href="http://www.oracle.com">www.oracle.com</a>
Office	Beijing, Shanghai, Guangzhou, Chengdu

Up until the present, Oracle software has conquered most management software in four sectors: database management systems (RDBMS), ERP/SCM, CRM, and application servers. It is currently the only large software company that can independently provide competitive products in the four sectors in the IT software industry.

Oracle eBusiness Suite 11i is a front and back desk enterprise applications system. Like SAP, it does not think CRM should be separated from ERP, but should be treated as a part of the enterprise's eCommerce applications. The CRM function of 11i basically covers most CRM service sectors like sales, customer service, marketing and business intelligence. Among them, the product and price setting functions, the data search and analytics tools, as well as the on-the-spot service of Oracle, are very competitive. In other aspects, however, such as sales opportunity management function, improvement is still needed. Oracle's CRM product uses Java technology, and it has been "e" (it was about a half year earlier than Siebel).

It is now already eleven years since Oracle was introduced into the Chinese market in 1991. It provides ERP and CRM systems in simplified and traditional Chinese versions and it has an outstanding reputation in the Chinese software industry.

Furthermore, Oracle entered the Chinese market when China was still in the CRM cultivation stage a few years ago; therefore, its product recognition is much higher in the Chinese industry than other foreign vendors. For those who are already the customers of Oracle, especially the ERP users, Oracle has an absolute advantage. However, for the non-Oracle users market, it doesn't have any advantage at all. Within a limited period, it is difficult for people to change their impressions that Oracle is the leading provider in the ERP and database sectors. However it is just a "follower" in CRM market. Furthermore, ERP and CRM have already become two different concepts and are both widely accepted by the market. At a certain stage, Oracle has weakened the effect of "integration promotion" in the CRM sector by the ERP+CRM manufacturers.

### SAP

Targeted Market	Large enterprises.
Modules	Real-time service, general SFA, advanced SFA, marketing automation, CTI integration, customer service, web integration, basic statistics & reporting, data mining.
Main Customers	Not known.
Website	<a href="http://www.mysap.com">www.mysap.com</a>
Office	Beijing, Shanghai, Guangzhou

The CRM sector of mySAP CRM 3.0 has much improvement than before. This product can operate its ERP R/3 system independently and also have many other business functions such as remote sales, remote service, telesales, and call center management. The portal application is based on a role (portal for customers, partners and employees), which is the latest introduction. Currently, it covers all the major CRM functionalities. SAP is one of the three CRM vendors that could provide comprehensive operational, interactive, and analytical functions. The other two are Siebel and Oracle.

SAP CRM is designed to use a Java technology platform. Its application integration technology is also leading in the application of multi-channels integration technology and mobile technology.

### Brio

Targeted Market	Medium-to-large-sized enterprises.
Modules	Basic statistics & reporting, data mining, self-service.
Main Customers	Bank of China Guangdong Province Branch.
Website	<a href="http://www.brio.com">www.brio.com</a>
Office	Hongkong, Austrila, Japan, Singapore

Brio Software Inc. was established in 1989 and is an American company that provided professional business intelligent analysis tools. It has an office in Hong Kong.

Brio Performance Suite is the intelligence analysis solution for enterprises introduced by the company. It can provide customer behavior analysis, enterprise decisions analysis and supplier analysis for the users. The product has two modules: 1) Brio Intelligence, which provides the advance search and enquiry tools. It can assist the enterprise to conduct data mining for every data in the enterprise and to have the knowledge discovery of the specific behavior mode that emerged from the big volume of transactions data; 2) Brio Portal, which provides business intelligence portal application for the enterprise and provides personalized pages for different customers while providing an advance report engine for the analysis application.

Brio Enterprise business intelligence tools support different categories of databases. It also supports fat client and network customers and can be operated in many types of

operation systems: Windows 95/98, Windows NT, Mac OS, AIX, HP-UX and Digital Unix.

Brio has entered the Chinese market in the beginning of 2001 and introduced its Brio Enterprise Chinese version. Currently, the implementation of credit card CRM solutions in the Bank of China Guangdong Province branch is the BI product of Brio.

### Sales Logix

Targeted Market	Small-to-medium-sized enterprises.
Modules	General and advanced SFA, marketing automation, service support, EAI, basic statistics & reporting, data mining.
Main Customers	China Hewlett-Packard Company, Shenzhen Huawei Technology Co. Ltd, and 51job.
Website	<a href="http://www.saleslogix.com">www.saleslogix.com</a>
Office	Shanghai, Shenzhen

SalesLogix is the CRM product of Interact Commerce. Currently its most popular software is the contact management software ACT. SalesLogix was introduced in 1996 and it was a typical SFA product, targeting medium and small-scale enterprises.

The business functions of SalesLogix 5.2 include: sales, marketing and customer support. The functions on the operation and analysis applications are comprehensive and with a specific function in knowledge management. This also supports mobile users, providing the ability to synchronize data. The latest version provides the integration function along with Microsoft Outlook that users can change their usage. This satisfies the practical needs of many Outlook users. Its marketing automation possesses a strong analytical function. There is an outstanding advantage in ROI analysis. In order to extensively satisfy the email business needs of the large and medium-scale enterprises,

SalesLogix also provides email applications and helps users build their business websites and also provides integration with the other CRM products.

The company's product development is based on Microsoft technology and supports SQL and Oracle database operation systems. It can also integrate with current office software such as Word, Excel, Outlook, and its own product, Winfax. Its application supports PDA's and Citrix's thin client application.

SalesLogix is known to be the top CRM vendor of the medium and small overseas enterprises. It entered China in 2000 and set up offices in Shenzhen and Shanghai.

#### Development Trends of Chinese CRM Market

According to the volume survey of the Chinese CRM market made by China Computer Information Design (2002) and China Information Web (2002), the total CRM market in 2000 amounts to 7.2 million US dollars. In 2001 it increased to 11 million US dollars and is estimated that this amount will grow to 43 million US dollars by 2004. Although this estimate is really low compared to other parts of the world, the rapid economic development in China will provide sufficient motivation for the expansion of CRM markets, and could possibly exceed this estimate.

Also, according to the report done by GreaterChinaCRM Research Institution (2002), there will continue to be an increase in the number of CRM vendors, in which some leading ones are from some major cities. GreaterChinaCRM Research Institution (2002) predicts that this will likely reach a saturation point after five years. And then, there will

probably be fierce price competition among the middle and small size enterprises. As a result, this competition is expected to create a phenomenon in common with other Chinese products in which there is only a concern about price but not service. This price-only-concern may cause the concept of CRM to be impossible to be practiced in the CRM product.

At the same time, foreign CRM vendors, especially the North American vendors, probably will put great efforts to gain the Chinese market in the next three to five years. They could acquire local vendors, establish their own companies, or make venture investment to increase their outspreading speed.

For all of those vendors interested in the Chinese market, some have already succeeded (Oracle, SAP, and Siebel) and some just failed that their names cannot be known. Even for those that succeed, there is still a lot of pain involved with operating in China because they have to change a lot to be accustomed with the Chinese market - their products must be fit for Chinese enterprises and their operations must be fit for Chinese customs.

One more important for these vendors before entering the Chinese market is which industry is an appropriate target, and has strong development potential to maximize long-term profitability? Although China is booming very fast, different industries have different potentialities for development in the future. Investing in different industry may produce tremendous different return on investment years later. After thoroughly research,

four most prosperous industries have been selected in next chapter, which are telecommunications / Internet/ Wireless, insurance, banking and retailing.

## CHAPTER 4

## DIFFERENT INDUSTRY

After having basic acknowledgement of Chinese CRM market, this chapter addresses the first research question, that is, how should a CRM provider choose which industry as an appropriate target, and with strong development potential to maximize long-term profitability? To answer this question, four important dimensions that affect CRM development are discussed in detail: IT investment, demand for, industry, and political climate. While many industries are developing rapidly in China, in order to adopt and implement CRM, the appropriate industry for foreign CRM vendors should have large IT investment, strong demand for CRM, significant growth rate for industry development, and minimal government intervention. After much research, four industries with strong market potential for CRM vendors came to the surface: Telecommunication/Internet, Insurance, Banking, and Retailing. These industries also have strong capital back up and huge market base.

This chapter first introduces each industry in terms of the major players and their current status is. The above four dimensions are then analyzed for each industry. A decision model for choosing appropriate industry will be introduced in Chapter 6.

## Telecommunication/Internet

### Telecommunication

China now has four major telecommunication companies, China Telecom, China Unicom, China Netcom, and China Mobile, and all of them belong to the Chinese government.

China telecommunications industry developed very fast. According to Zhang (2003), the total asset of IT industry in 2002 was 164 billion US dollars, which was 23 times of 1997; the total asset of mobile telecommunication was 24 billion US dollars in 2001 which was 20 times of 1998; the number of local phone users was 420 million, which was 5 times of what it was in 1997. For worldwide, China has No. 1 in net volume (local net and mobile net) and network users; the number of Internet users is No. 2; the scale of electronic information industry is No. 3. And, telecommunications has already increased twice the amount over China's entire economic increases (State Development and Research Center-b, 2003). All of these data are well above other developed countries, including US and Japan.

During recent years, Chinese telecommunication industries kept continuing huge investment in IT development. According to a report from the State Development and Research Center-a (2003), investments in telecommunications reached its peak in 2002, which was 20.5 billion US dollars. All the telecommunications companies increased their investment to enlarge their own market shares: 1) China Mobile uses GPRS and MMS color message as a powerful tool to optimize and strengthen their network services. The

GPRS network has covered all the provinces and direct cities and actualized international roaming with Hong Kong, Taiwan, Singapore and United States; 2) China Unicom started CDMA II project to transfer CDMAIS-95A I network to CDMA 1X. This service will open at the first of 2003 in all major cities, including capital cities of each province. This will provide China Unicom in a super powerful position in the CDMA field. 3) China Telecom started ADSL national-wide campaign with its retailers in September 2002, which covered 20 provinces (State Development and Research Center-c, 2003). The reason for their huge investment is the huge internal demand from Chinese people. China has had 210 million cell phone users. These cell phone users sent 7 billion short messages in just 7 days of Chinese traditional Spring Festival in 2002 (Li & He, 2003) and reached the peak of 200 million in total (Liao, 2003). At the same time, China Telecom and China Unicom had roughly a total profit of 60 million US dollars just in that week (Li, 2003). These actions show strong development potential for telecommunications industry.

Being an industry dominated by Chinese government control, telecommunications did not have any competition until joining the WTO. Along with joining into the WTO, the telecommunication industry felt more pressure than other industries because they had been protected so long. And this protection hurt their customers and themselves already. Although already having 800-service phone number and so called "Call Center", so many customers are not satisfied with their service. According to the government report, cell phone users' appeal on telecommunication services is No.1 among all other appeals (Zhu, 2002). In order to protect themselves, these companies found CRM can help them enlarge

their market and gain as many as possible customers before foreign companies come into the scene. According to a recent survey, 96% of the telecommunications companies will adopt CRM in the coming three to five years (State Development and Research Center-a, 2003).

Concurrently, the Chinese government itself wants to improve information technology too. The Chinese government rates telecommunication as the most important industry. Part of the reason for this is the huge profit and the influence of some senior government officials who involved in this industry. As seen from the report of the 16<sup>th</sup> China Communist Party Conference (2002), the information technology plays a key role in helping China to become a modernized country. This is a sign of China's increasing investment in information technology and because telecommunication is the base of information technology, we can come to the reasonable conclusion that the Chinese government will continue investing in telecommunications. This investment brings up many more opportunities than ever before.

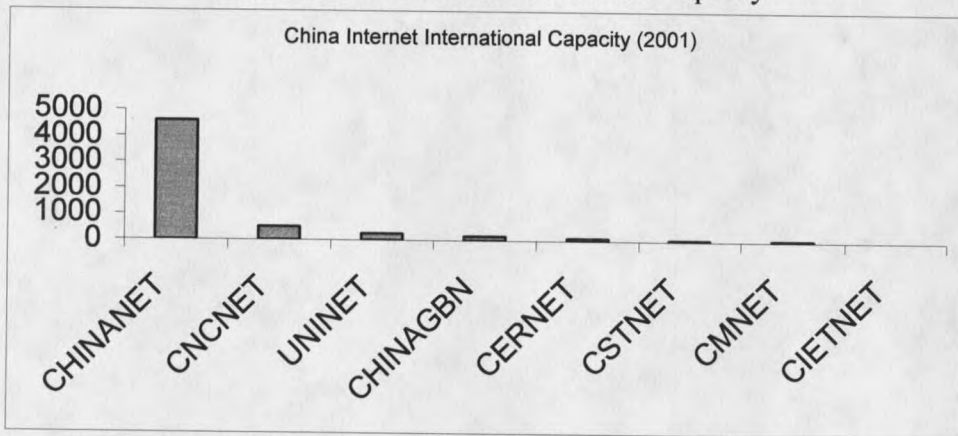
#### Internet/Wireless

When discussing Telecommunications, we cannot avoid talking about the Internet/Wireless market because it stimulates Telecommunication demand.

There are ten national networks now in China, which can be seen in Figure 6: China Telecom's ChinaNet, the Science and Technology Network (CSNet), the China Education and Research Network (CERNet), China Golden Bridge Network (ChinaGBN), China Unicom Network (UNINet), China Netcom Network (CNCNet),

China Mobile Network (CMNet), China Economy Trade Network (CIETNet), China Great Wall Network (CGWNet), and China Satellite Group Network (CSNet). In 2001, the whole capacity was 5724 Mega-Bytes, in which ChinaNet was the dominant player who has 4580 Mega-Bytes (China Internet Information Center, 2001).

Figure 6. China Internet International Capacity



(Source: China Internet Information Center, 2001)

According to a new report from CNNIC, the current Internet international capacity is 9380 Mega-Bytes. As can be seen from Table 1, China Telecom still is in the dominating position. The distribution of these capacities is shown as follows:

Table 1. China Internet International Capacity Distribution

	China Telecom	China Unicom	China Netcom	China Mobile	CERNET	CIETNet
US	3145	355	1442	200	245	2
Japan	710	206	90	-	10	-
South Korea	620	200	180	-	-	-
Australia	8	-	-	-	-	-
Singapore	45	-	45	-	-	-
UK	-	-	-	-	2	-
Hong Kong	356	240	622	-	2	-
Taiwan	204	90	90	-	-	-
Macao	12	2	-	-	-	-

(Source: China Internet Information Center, 2003)

In terms of Internet portals, there are three major players: SOHU.com, SINA.com, and NTES.com. Other Internet portals are China.com, 21cn.com, FM365.com, TOM.com. Some Internet service providers are: ISP – 263.net, 169.net, SOHU.com, SINA.com; Travel – Elong.com; Shopping – Joyo.com, Eguo.com; Bid – Eachnet.com; JobHunting – 51job.com, ChinaHR.com, Zhaopin.com.

Although the worldwide Internet is experiencing a recession, Chinese ICPs are bracing huge profits in China. During the fourth quarter of 2002, SINA.com announced US GAAP profitability of \$1.5 million (US\$0.03 per diluted share) and the gross margin was 65% (SINA.com, 2003). Concurrently, SOHU.com announced US GAAP profitability of US\$1.9 million (US\$ 0.06 per share) and the gross margin was 61% (SOHU.com, 2003). NTES.com achieves net profit of US\$5.2 million (NETEASE.com, 2003). They were the leading stocks in NASDAQ. According to NASDAQ.com, the closing prices on April 6, 2003 of these three companies' were: SOHU.com - \$12.29; SINA.com - \$9.12; NTES - \$16.98 (NASDAQ.com, 2003).

The reason for these ICPs' booming is that these companies developed new practices to survive. These new ways include corporate business and consumer business. Corporate businesses mostly focus on advertising, online shopping malls, and develop long term cooperation with offline businesses. Consumer businesses include SMS, online games, online dating, online shopping, and online stock exchanging. For SOHU.com, most of its income came from advertising and non-advertising, in which the non-advertising part is 52% of total. 59% of the non-advertising income came from SMS and online shopping.

Among them, SMS is the most profitable one. According to China Mobile, the total amount of SMS in 2002 was 90 billion, and 15.9 billion in 2001 (SINAIT, 2003).

According to a report, SMS account for 40% of 163.com income and SOHU.com got 8 times increase of SMS since 2001 (Liao, 2003). The other report points out that SMS in China will earn 121 million US dollars income every month (BeijingBusiness.com.cn, 2003). This huge profit urges all the Internet companies to rush into this market to gain more customers because there are 4 million new cell phone users every month.

Because of the huge scale of customers and their diverse demands, some Internet companies start to use CRM. SOHU.com uses UFsoft CRM in September 2002 to optimize the coordination among customer service, information design, and finance department (Amteam.org-a, 2002). SINA.com uses Akup CRM UCC3.08 multimedia call center in October 2002 (Amteam.org-b, 2002). This CRM product provides auto-reply and manual-reply systems, screening system, and report generation system. Because their leading roles of China Internet market, this has proved that China Internet Industry has become to focus on gaining and retaining their increasing customers. This effect is very significant in that it will become an industry standard for other competitors, such as NetEase.com.

### Insurance

Since the Open Door Period began, Chinese insurance markets have steadily increased 35% every year (Feng, 2003). After joining the WTO, Chinese people have become rich and thus diversified demands on their life. When foreign companies enter

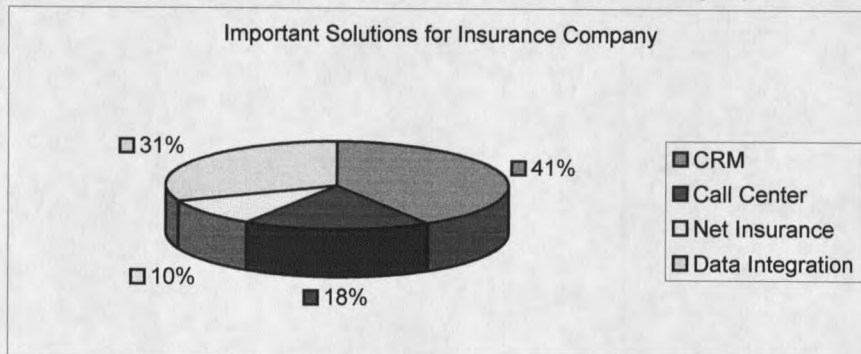
into China, this demand can be stimulated and thus competition could be hard. Presently, there are 21 insurance companies that have already operated or received permission to operate in China. Worldwide famous insurance companies have more than 200 representative offices in this oriental country. This totally breaks up the situation that the Chinese government-owned insurance company solely controls the whole market.

In the insurance industry, the biggest advantage is to provide high quality and personalized service. This makes it so important to focus on information technology. Only after having enough information on customers can insurance company provide detailed and useful package for them. This will reinforce the company to stand out from all the competitors. According to Feng (2003), the Chinese insurance companies will make investments in IT in 2003 of 159 million US dollars, which increased 7.1% from 2002. CCWresearch (2003) estimates that this investment will grow as a speed of 10% every year. This huge IT investment makes foreign vendors foresee big profit. Oracle, Siebel and IBM have acquired or received operation permission from Chinese government and have been in their businesses for almost two years in providing CRM solutions for insurance companies. Local companies such as PowerCRM, TurboCRM and MyCRM, are also speeding up on customer retention.

Chinese insurance companies themselves fully understand the importance of CRM in their survival and success. Most of above IT investment will channel into CRM because Chinese local companies want to run fast in order to survive in the competence with foreign competitors. According to CCWresearch (2003), which can be seen in Figure 7,

41% of Chinese local companies think the most important solution is CRM. The other less popular solutions are: call center, 18%, net insurance, 10%, data integration, 31%. A recent survey (Amteam.org, 2002) shows great gap between will and reality that only 17% of Chinese insurance companies are currently using CRM: Ping An Insurance Company of China (Beijing) uses TurboCRM; China Peace Insurance Co. (Chongqing, Dalian, Hangzhou) uses Oracle CRM; China Pacific Insurance Co. (Dalian) use Oracle CRM; China Pacific Insurance Co. (Taiyuan) uses CRM from Alpine (Shenyang); The Peoples Insurance Company of China (Guangzhou) uses CRM from China Softel Corporation. China Pacific Insurance (group) Co., Ltd., China Life Insurance Company and The Peoples Insurance Company of China have already implemented call center system in most of the cities in China, while Huatai Insurance Company of China and SinoSafe Insurance did not have call center systems yet. The potential for CRM vendors can be shown in the following data: 57% of the insurance company will use CRM in one year (Amteam.org, 2002), which include The Peoples Insurance Company of China, China Life Insurance Company and Taikang Insurance Company.

Figure 7. Important Solutions for Insurance Company



(Source: CCWResearch, 2002)

Not like telecommunications, insurance industry does not have so much government control. Research at the background of current Chinese local insurance companies show that these companies do not have complicated interconnection with Chinese government. There is no highly government officials involved in this industry so far. This makes it easier for fair competition.

### Banking

China has five major national banks: Industrial and Commercial Bank of China, China Construction Bank, Bank of China, Agriculture Bank of China, and Bank of Communications.

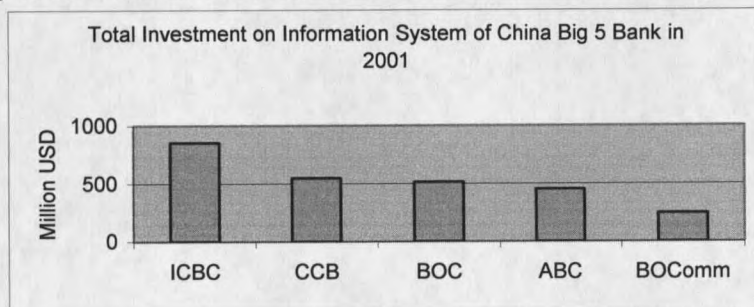
The banking industry is huge because Chinese people have the potentiality to save their money and invest it. As a example, according to Lu (2003), Beijing residents average income were 1,520 US dollars in 2002. But, as we all know there are many things under-the-table in China and all these things would not be shown in the wage slip. These things include government officials and senior executives in businesses getting free home, free cars, free food, medical care, etc. Thus, it is reasonable to estimate the actual yearly income for Beijing residents is 3,000 US dollars, Shanghai is 4,000 US dollars and Shenzhen is 5,000 US dollars (Beijing Haidian State Government, 2003). Other data can support this estimate. For example, the total assets of each Chinese family have increased significantly. Each Beijing citizen has total assets of 57,000 US dollars in 2002, and it is already normal for them to spend more than 12,000 US dollars on personal

cars, houses or international traveling (Beijing Statistical Bureau, 2003), which cannot be imagined ten years ago.

Comparing with the huge market, the customer services of Chinese banking industry are not very welcome. Most Chinese people are not used to the idea of “service” yet and they see a bank as being more like a boss rather than a service to customers. This situation could be easily seen from today’s construction of Chinese banks. In China, customers will have to stand during the transaction and the staff of the bank sits there conveniently. This reflects the rule of “manager convenience” (this is really true for every service industry of China). The window for transactions is very small, and that makes customers think any transaction is hard and difficult but actually it makes the bank feel safe. Although lately there have been some changes made (customers have a seat to sit in during transactions, each window has one clock to monitor the transaction time, and each position has one-meter yellow lines to protect privacy), customers still cannot feel like actually they are the real boss. The Chinese people have always deemed the bank as similar to the Post Office, Public Transportation, which are the most unsatisfying industries in China. The automated services in Chinese banking industry have trouble too. Most of the banks in China have ATMs and some have 7/24 services. However, lacking of concern for the customers, the experience of these automated services is disappointing and full of hassle: ATM is not easy to use and swallows bank cards for unknown reason, customer representatives do not have enough patience, it is difficult to do transactions through telephones, and etc. All these show that Chinese banking industry needs to do more on improving their customer services.

Several years before joining WTO, Chinese bank industry strategy was “scale policy”, which focuses more on the total numbers of customers. Now, the bank industry has been divided by several government owned commercial banks and other medium banks. Thus, in order to support themselves and survive, all the banks changed the “scale policy” to “customer policy”. This change needs to analyze the customers’ quality, individualize customer service and keep the more profitable customers. Also, since foreign banks can have operations in China after China joined WTO, the competition among banks will become severe. As soon as foreign banks rush into Chinese market, Chinese people would come to find they actually have other choices. Because most of the Chinese people are not satisfied with current customer service level from the above banks, it is highly possible that they would transfer to foreign banks, given that foreign banks always keep high level of customer satisfaction and, have absolute capital advantages. In order to protect themselves and gain more customers, all the major banks in China realized the importance of information technology and started pushing huge investments in 2001. As can be seen from Figure 8, these five banks’ total investments were 2.6 billion US dollars in 2001 (CCIDConsulting, 2001).

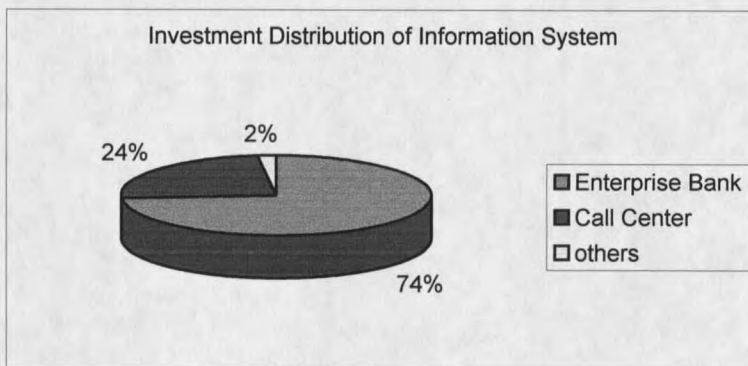
Figure 8. Total Investment on Information System of China Big 5 Bank



(Source: CCIDConsulting, 2001)

Among the 2.6 billion US dollars, 74% of them went into Enterprise Bank and 24% went into Call Center. As shown in Figure 9, these two add up to 98%. This shows that all these banks want to improve their customer service level and have the potentiality in investment on CRM in the future.

Figure 9. Investment Distribution of Information System



(Source: CCIDConsulting, 2001)

Banking has strong government support. The reason being is banking is the easiest industry to control money and it is related to national security. Thus Chinese government won't let other people to manage this industry. Recently, the second conference of "CRM in Banking" in China has hosted by China Council for the Promotion of International Trade (CCPIT) and the China Chamber of International Commerce (CCOIC) (CTIForum-b, 2002). This brought a lot of government officials, bankers, and CRM vendors. Although there is no detailed data from this conference, considering government background of all these banks, this could be seen as a strong signal that Chinese government will put more effort to protect and develop banking industry. This

government intervention makes Chinese banking industry extremely complex and do not have enough transparency.

One more thing in banking that different with telecommunications and insurance is that SAP started entering this industry. Cooperated with IBM, SAP hosted a conference of "Modern Commercial Bank Operation and Management Information" in Beijing (Sina.com, 2003). This was the biggest conference of banking in China so far because almost all the banks showed up: China People's Bank, four government owned commercial banks and ten other commercial banks. Having already obtained CRM solutions for Shanghai Pudong Bank and Jinzhou Commercial Bank, SAP wants to show strong signals to have good relationship with these Chinese banks and great confidentiality to gain more on this big cake.

### Retailing

Different with banking industry, the retailing industry in China is controlled by markets and has the most severe competition. The openness of the retailing industry began in 1992 when China opened six cities and five special regions as trial places: Beijing, Shanghai, Tianjin, Guangzhou, Dalian, Qingdao, Shenzhen, Xiamen, Shantou, Zhuhai, and Hainan. At that time only one or two foreign companies can get permissions to have retailing business. In 2000, the Chinese government issued new policies to allow all capital cities and major cities to increase one or two foreign companies. In 2002, foreign investments can be larger than 51%, which was impossible before.

The consumer market is huge and keeps growing fast. As an example, Shanru Chen, director of Guangdong Province Economic and Trade Committee, estimated the total amount of the society consumer retailing market in Guangdong Province would be 89 billion US dollars in 2003 (Southern City Daily, 2001). Considering Beijing, Shanghai, and some other developed cities in China have almost the same scale of consumer market, Chinese market is really huge. And, China's retailing industry will keep an 8% increase speed and it is one of the most active speedy consuming markets (AC Nelson-b, 2002). Compared to 2001 the total revenue of Chinese top 30 retailing companies increased 43% to 21.7 billion US dollars, and the number of total stores increased 53% to 8988. In the year 2002, as the most famous one in the top 30 retailing companies, Shanghai Hualian's revenue was 2.6 billion US dollars and had 1541 stores in China. Other famous retailing companies are Lianhua Supermarket, Dalian Mall Group, Beijing Guomei Electronics, Beijing Hualian, Shanghai First 100, Carefree (China), Shanghai Yuyuan, Sanlian Commercial, Wal-Mart (China) and Jiangsu Sugu Supermarket (Liu, 2002).

According to the WTO agreement, China will open retailing markets in 3 years. Chinese people showed strong concerns about this market even before joining the WTO. According to an investigation (China Annual Enterprise Survey, 2001), the retailing industry was the one got most concerns, even more than telecommunication. 24.5% of the retailing companies thought Chinese retailing markets would be worse, which was the first concern comparing with other 31 industries. Also, 93.8% of them thought retailing market would have really hard competence after WTO. One thing that shows how

serious Chinese local companies realize to fight for survive, even in the short term, is coalition and cooperation. For example, Wangfujing combined with DongAn group to found the Beijing Wangfujing DongAn Group; Beijing XiDan, Beijing Chaoshifa and Shanghai Hualian founded Beijing XiDanHualian Supermarket Ltd (Doit Co., 2000).

At the same time of coalition, almost all Chinese major players acknowledged that information technology is the key to face the challenge from foreign retailing companies (Yang, 2001) and 94% of the Chinese retailing companies deem CRM as the first choice to know customers' demand and improve customer services. The total IT investment in retailing industry was 1200 million US dollars in 2002 and is expected to keep the same amount in 2003. Some Chinese pioneers have even tried online-shopping in this industry. Guomei plans to open 20 online stores in the next two years. The other famous consumer electronics providers are SuNing Electronics and Sanlian Electronics. Although credit cards are not popular, using checking accounts, customers can still do online shopping. Because there is no tax on Internet shopping, customers will prefer this way of doing business. Guomei's online store at Jinan received monthly sales of 2 million RMB and Sanlian received 100 million RMB sales only at Jinan for 2002 (CCTV, 2003). Comparing with almost zero in 2001, these demonstrate strong potential for online stores development.

Meanwhile, foreign competitors did not sit still. Many foreign competitors have already entered into China and more and more will be there in the coming 2 years. Wal-Mart entered major cities of China in 1996 and now has 26 stores, which grow to 44 at

the end of 2003. Having expecting procurement 15 billion US dollars in 2003, Wal-Mart is one of the only two foreign retailing companies that have the permission to build a procurement center. The other one, which has the No. 1 store amount in China, is Carrefour.

From France, Carrefour entered into China in 1995 and now has 36 stores. Its 5 procurement centers are located in Beijing, Shenzhen, Guangzhou, Dalian and Qingdao. At the end of 2002, its procurement was 1.6 billion US dollars, which is 127% of 2001. This number will be 3 billion at the end of 2003. The company claimed it will open 10 new stores per year and each year's investment will be 100 million to 150 million US dollars. Also, it is the first company to show strong signals of adding new stores in the western part of China. In 2002, it opened 8 news stores in China. Four of them are in western China, 2 in Chengdu and 2 in Kunming. The next city will be Xi'an (China ChainStore & Franchise Association-a, 2003; China ChainStore & Franchise Association-b, 2003; Li, 2001).

From Germany, Metro, is not as popular as Wal-Mart and Carrefour. Entering China in 1992, Metro was the first retailing company to get permission from the Chinese government. Now it has more than 16 stores, most of them are in southern China. Metro just transferred its focus to northern China in 2002 after success in southern China. It will open 17 stores in the coming 3 years. Most of them will be in Beijing and Tianjin (Tu, 2002). Metro's Chinese product of the worldwide procurement system is 65% of all Asia area (Shenyang Commercial Network, 2002).

Another foreign retailer, Price Smart, entered China in 1997. Now it has more than 30 stores. The new store is in Tianjin, which is the biggest shopping mall in northern China (Li, 2003). This number will be 70 at the end of 2003 with annual sales of 1.2 billion US dollars (Li & Zhao, 2002).

The name list is not finished yet. Half of the world's top 20 retailing companies have stores in Shanghai (Homeway.com.cn, 2003) and 10 more companies have stores in Beijing, such as SOGO, Auchan, leroymerlin, 7-11, OBI and B&Q (China Chainstore & Franchise Association-c, 2003).

Comparing with these foreign companies, local retailing companies have got Chinese government support: simplifies checking procedure; provides the same tax system in whole china; reduces the frequency of reexamining chain company; increase investment in retailing industry (Su, 2003). However, comparing with telecommunications and banking, these supports are not from finance but more on policies. In this case, the government intervention in retailing industry is not very high.

## CHAPTER 5

## REGIONAL DIFFERENCE

After selecting the industry, foreign companies will choose which location they should set as an entry point. This is important because the first place chosen influences the direction of further development. Only after business develops well in one area can foreign companies seek to enlarge market share. After general review of China's regional difference, this chapter presents six major cities in China and compares them in four aspects: education, economy, politic, and personal values.

A first impression among US people about China is that China is a really huge market. It has 1.3 billion people and it is so big that full of opportunity. Yet, James (1989) pointed out that China's billion-plus people speak a multitude of dialects, consist of distinct ethnic groups and some local customs have remained substantially intact over time. Ralston et al., (1996) state that Western people should be really careful on the differences due to regional diversity because it can contribute to the confounding nature of Chinese business tactics.

The problems that Western businesses and their expatriates have had understanding the Chinese ways of doing business have already been documented (Domsch & Lichtenberger, 1991; Tung, 1986; Weiss & Bloom, 1990): The reason for this problem is that China has 56 nations. Each nation has different languages and unique customs. China has 9.6 million square kilometers making it the third largest country in the world. Some

people live near the sea; some people live in the desert; some people live in the mountain area; some live in the plateau place. These totally different geographic factors give people different characteristics. Considering China has at least 5000 years old culture, this long-evolution has generated different living customs, values, goals, and, most importantly, doing business.

Normally speaking, the most developed cities will be appropriate for foreign businesses to enter since these cities have the following advantages: people in these cities have good education and it is easy to find the employee foreign companies want, especially senior management level; the economy in these cities have developed for much long time than other cities and could support foreign companies demand; these cities normally would have more financial support from Chinese government; the personal values in these cities are similar to Western countries and people there are easy to accept advanced management experience.

### Six Cities

Six cities chosen here represent different regions of China. As can be seen in Figure 10, these cities are: North (Beijing), East (Shanghai), Central-South (Guangzhou), Northeast (Dalian), Southwest (Chengdu), and Northwest (Lanzhou). The reason to choose these six cities is that they are the most developed cities or having big development potential in the future. Beijing is the economic and political center of China. Shanghai and Guangzhou are the most developed cities and are called the business centers of China. Dalian is near Bo Hai and is the most developed city in the Northern

part of China. Chengdu is a city that may continue to develop so fast that the Chinese government will put more effort into development over the next 10 years. Lanzhou is located in west part of China and is the main city of China's West Development Plan.

Figure 10. Map of Six Major China Cities



(Source: National Fundamental Geographic Information System, 2000)

### Education

As a new topic that converging several high technologies, CRM's development needs strong backup from industry elites. These elites at least have bachelor degree from famous universities and gain rich experience from at least 5 years working in management system companies. The higher education level a city has, the easier it is to hire employee with good education background, especially senior management level. Comparing with overall education background, long heritage of higher education and the number of universities are two key evaluation criteria.

Generally speaking, Chinese business managers do not have very good education. According to a survey done by Ralston et al. (1996), less than five percent of China's general populations have a secondary level education or higher, which is very low compared to other developed countries. However, the numbers from national wide business managers vary greatly from the above: 72% of them have completed 10 to 12 years of schooling and 16% have 4-year college degrees or better. This shows that Chinese business managers are somewhat well educated compared to the rest of their contemporaries.

To be specific in above six cities, Shanghai and Beijing have the longest heritage of higher education and the highest current emphasis on education of the six cities. Guangzhou and Chengdu's higher education systems were developed somewhat later, with Dalian and Lanzhou being the last to develop their education systems (State Statistical Bureau, 1985a, 1985b, 1992). Although Lanzhou is a place that seems to have

been forgotten because of its western location and slow development throughout history, it has a surprisingly high percentage of university students, primarily due to its being established by President Mao Zedong during the 1960s as an atomic energy center (Ralston et al., 1996).

Another important factor should get sufficient concern is the number of universities in each city. Although it is highly related to each city's population, the result, which is the thing we are interested in, is that people living in the city with more universities can have more education and thus keep up with other modern countries. According to the Ministry of Education, the numbers of universities in each city are shown in Table 2 as follows:

Table 2. Universities in Six Cities of China

City	Number of Universities
Beijing	62
Shanghai	50
Guangzhou	39
Chengdu	19
Dalian	18
Lanzhou	18

(Source: National University Name List, 2003)

As can be seen from Table 2, Beijing and Shanghai are outstanding on the quantity of universities, while Guangzhou follows their heels and Chengdu, Dalian, and Lanzhou do not perform so well. Besides quantity of universities, one more thing behind this list is that Beijing is not only the city with the most of universities in China, but the city that has the most powerful and famous universities in China, such as Tsinghua University,

Beijing University, and Renmin (People) University. These prestige universities make Beijing outstanding from other cities.

Thus, with education, Beijing and Shanghai are in the first level, Guangzhou in the second, and the rest of cities in the third level.

### Economic Situation

Economic situation evaluates the industrialized level of each city. This is crucial for CRM development since CRM is normally a million-dollar product that only with strong financial support can a company afford. How many multinational businesses in each city is another criterion to show each cities economic development situation. Also, import/export data can show how active the city is in doing international trade.

These six cities have developed for much long time than other. However, there is big difference among these cities. Due to their unique locations, the three coastal cities were industrialized before 1949, while the inland cities were not. Furthermore, these three cities plus Beijing are among the first of the "fourteen open cities", which means they have had a longer time to do business with foreign countries and thus had gained more experience. According to the report of the State Statistical Bureau (1985, 1992), Shanghai and Guangzhou are both high on industrial output and output per capita, while Chengdu and Lanzhou are low. Dalian and Beijing fall in between these extremes. Thus, on these important comparisons, Beijing is somewhat more like Shanghai and Guangzhou, and conversely, Dalian being somewhat more likes Chengdu and Lanzhou.

As a result of development appeal, many multinational businesses rushed into Beijing and Shanghai. Beijing developed several special districts for foreign high technology companies, such as CBD in Chaoyang District, Zhongguancun in Haidian District, and CFD in Xuanwu District. According to Huang & Wang (2003), just in Zhongguancun, there are 4000 high technology companies and 170, 000 employees in 2002. For Shanghai, most of the US semiconductor companies have already transferred their companies to Shanghai (News Daily, 2003) as high cost within Silicon Valley. In 2002, there were more than 10 multi-national companies moving their regional headquarters to Shanghai, and the total number of multinational companies exceeds eighty (Wu, 2003). Among these companies we can easily find lots of famous names: Intel, Microsoft, TOSHIBA and NEC (SOHUIT, 2003). Seeing the advantage on import and export, many foreign companies have their branches in Guangzhou too. Comparing with Beijing, Shanghai and Guangzhou, the rest three cities are still doing their best to attract foreign investment and have long way to go.

Concerning Import-Export in 2002, Shanghai had 72.64 billion US dollars, which ranked the second among all provinces of China (Xinhua News Agency, 2003). Beijing rated the fourth. We should point out that although Guangdong Province has 221.1 billion US dollars, which is the highest in China, it mostly focuses on outsourcing and cheap-working-integration, not much on high technology development. Being located near Bo Hai, Dalian has better score than Dalian and Lanzhou. The lowest import and export revenue in these six cities is from Lanzhou. Being in the far-west inner land, Lanzhou seems do not have much attraction for foreigners.

Thus, for economy situation, Beijing and Shanghai are the most appropriate cities. For most aspects, they actually are very close, but have expertise in different business realms. According to one detailed report done by He (2003), Shanghai will be the first in industrialization and civilization but Beijing will be the first in education and information technology.

### Political Factors

Political is the one factor which most of foreign companies neglect but in reality is extremely important since politics play a key role in China. Having politics from the city means this city will be wanted to highly developed and can thus have more financial support from government. The other thing is Chinese government supervise ideology development. Once found something dangerous or just something they do not like, they can ban its development. The most obvious example is about the famous Internet search engine-Google.com. Because of having links to some sensitive things, Google has been blocked for one month that anyone in China could not access its website. From this aspect, politics is double-blades sword, i.e., it can help foreign business if they have good relationship with Chinese government but could kill them once this relationship breaks.

Among all the six cities, Beijing and Shanghai are the most important ones because they are the two four-direct-cities in China (Direct cities are like Washington D.C. in the US. These cities have the same administration power with other provinces or states. The other two direct cities are Tianjin and Chongqing) and consequently get more support from central government. The Mayor of Beijing is Qi Liu, who is the brightest political

star in China and will enter into the central government in the coming March. Another important person, who was used to be Communist Party Leader of Beijing, Qinglin Jia, has already entered into central government and become one of the “nine-members-committee”. Current central government has many senior officials from Shanghai. Among these government officials, we could find three ex-mayors and communist party leaders, who are Rongji Zhu, Bangguo Wu, and Ju Huang. The most obvious phenomenon is that current Prime Minister Rongji Zhu, attend the ceremony of magnetic train opening in Shanghai recently. The magnetic train was the first one in China and cost 1.39 billion US dollars. Although this technology is determined to be unfeasible in so many countries, Zhu wants to buy it from Germany anyway and no one can disagree with this (Boxun, 2003).

As for Guangzhou, it is a really special place because not many of Guangdong government officials will be promoted to central government. Except this year that Changchun Li, who was the ex-communist party leader of Guangdong, was promoted into the “nine-members-committee”. This would bring more boon for Guangzhou. Affected by Hong Kong, government officials in Guangdong will always want to be independent from central government since the first mayor-Ping Ye, the key member of the foundation of P.R.C. For this, Guangzhou, the capital city of Guangdong, will have much more freedom than the other two and will more act like a foreign country.

The rest three cities have different situation. Although it is not a direct-city, Dalian could not be neglected. The ex-mayor of Dalian, Xilai Bo is now the leader of the whole

Liaoning province. His father is one of the few senior Communist Party members that still alive today. During Xilai Bo's administration, he showed strong support for central government and thus got huge benefits for economy development for Dalian. Chengdu and Lanzhou do not have much affect on politics since traditionally, no central government officials are from these two cities.

### Personal Values

As mentioned above, there are still other factors that affect business investments in China. According to a survey done by Ralston et al. (1996), Chinese managers can demonstrate a greater sense of individualism yet retain a strong belief in Confucian values. And, while individualistic Western thinking may influence Chinese adherence to Confucian values, changes to these values, as history has shown, will occur slowly (Yang, 1988). The detailed result is shown below on Table 3.

Table 3. Regional Difference of Six Cities of China

Dimension	Mean	Sd	Region Groupings			
Individualism	-0.137	0.82	Group3			
	0.268	0.79	Group2	*		
	0.487	0.71	Group1	*	*	
				Group3	Group2	Group1
Openness to change	-0.279	0.01	Group3			
	0.186	0.91	Group2	*		
	0.391	0.87	Group1	*	*	
				Group3	Group2	Group1
Self-enhancement	-0.494	0.94	Group3			
	-0.187	0.86	Group2	*		
	-0.234	0.92	Group1	*		
				Group3	Group2	Group1

(Source: Ralston et al., 1996)

\* Indicates that the comparisons are significant at the  $p < 0.05$  level, controlling for experiment-wise error rate.

Group 1 = Guangzhou and Shanghai

Group 2 = Beijing and Dalian

Group 3 = Chengdu and Lanzhou

The Schwartz Value Survey (SVS) was used as the instrument for analysis (Schwartz, 1992). Each of the three continua has been constructed to range from a value of +1 (Individualism) to a value of -1 (Collectivism). The score of each continuum is derived by subtracting the collectivism measure score from the individualism measure score and is expressed in terms of the individualism measure (i.e., individualism, openness-to-change, self-enhancement). Thus, a negative score for individualism would indicate that the response was on the collectivism half of the continuum. The results of Table 3 show that all three groups were significantly different from one another in individualism and collectivism, with Guangzhou/Shanghai showing the greatest tendency for individualism and Chengdu/Lanzhou showing the least.

In Openness-to-Change, the three groups are significantly different from one another, with the Guangzhou/Shanghai grouping having the highest score on Openness-to-Change. In two recent studies, cosmopolitan Chinese managers (Shanghai) were compared to American managers (Ralston et al., 1993). The findings from the study clearly show that while these cosmopolitan Chinese managers are not as open to change as American managers, they have moved significantly in the direction of openness over the past several years. Forty years ago, Shanghai was called the "Hong Kong of China" but now is rapidly becoming the "New York of China" and is no doubt to be the financial and trade center of China. Likewise, Guangzhou, a short train ride north of Hong Kong, is strongly influenced by the territory's money and ideas. Thus, it seems reasonable to believe that Guangzhou and Shanghai, the hubs of business in China, would be the ones

most desiring change in a system that, in the past, has severely constrained business (Ralston et al., 1996).

In Self-Enhancement, which focuses on one's orientation toward himself versus others, Beijing and Dalian clustered with Guangzhou and Shanghai as the group significantly higher than Chengdu and Lanzhou.

The implications of the above criteria are that Beijing, Shanghai and Guangzhou seem to be the most desirable cities for foreign investors because the managers in these cities are acting more like western people.

## CHAPTER 6

## DECISION MODELS

After presenting the score of the key decision factors for choosing the best target industry and geographic region, this chapter introduces two decision models to help foreign companies make the best choices on these key decisions. These models use the Analytic Hierarchy Process (AHP) as a framework to quantify and prioritize different factors affecting the decision. At the end of the chapter, discussion about the results and business practice will be provided.

Introduction of AHP

AHP is a multicriteria decision making technique, which is particularly useful for evaluating complex multiattribute alternatives involving subjective or intangible criteria. It is mainly used for the situation in which ideas, feelings, and emotions are quantified to provide a numeric scale for prioritizing decision alternatives (Armacost et. al., 1994).

The essential steps in the application of the AHP involve decomposing a general decision problem in a hierarchical fashion into sub-problems that can be easily comprehended and evaluated, determining the priorities of the elements at each level of the decision hierarchy, and synthesizing the priorities to determine the overall priorities of the decision alternatives. The general structure of AHP may include several hierarchies of criteria.

Normally, a decision problem has various levels representing the objective. After construction of this hierarchy, relative importance of the elements at each level has to be assessed. The determination of the relative importance, or relative weights, is the crux of AHP.

Assuming that there are  $n$  criteria at a given level of the hierarchy, the procedure establishes an  $n \times n$  pair-wise comparison matrix. This matrix reflects the decision maker's judgment of the relative importance of the different criteria. A pair-wise comparison is made such that the criterion in row  $i$  ( $i = 1, 2, \dots, n$ ) is ranked relative to each of the criteria represented by the  $n$  columns. Letting  $a_{ij}$  define the element  $(i, j)$  of the comparison matrix, AHP proposes the use of a discrete scale from 1 to 9 as relative weight in which  $a_{ij} = 1$  signifies that  $i$  and  $j$  are equally important,  $a_{ij} = 5$  reflects the opinion that  $i$  is strongly more important than  $j$ , and  $a_{ij} = 9$  indicates that  $i$  is extremely more important than  $j$ . Other intermediate values between 1 and 9 are interpreted correspondingly. This nine-point scale developed by Saaty (1980) and widely used in many applications. For consistency,  $a_{ij} = k$  should automatically imply that  $a_{ji} = \frac{1}{k}$ . Also, all the diagonal elements of the comparison matrix must equal 1 because they rank a criterion relative to itself.

The new relative weights can be determined from the comparison matrix by dividing the elements of each column by the sum of the elements of the same column. These new relative weights make a new matrix, which is called a normalized matrix. All the new

relative weights in this new matrix represent the relative importance of each factor and should satisfy the consistency policy. In this matrix, the sum of each column is equal to 1.

### The Decision Models

Two decision models will analyze each factor of each industry and region with AHP methodology. For each industry, these factors are IT investments, demand for CRM, industry growth, and political climate. For each region, these factors are education, economy, political situation and psychology. All these factors can have relative importance according to the collected data.

In order to develop the decision models, a weighted industry/city score will be needed. The value of this weighted industry/city score reflects the overall rank for different candidates with every factor. All relative weights will be put into the equation of weighted industry/city score to get the value of relative importance of each choice. In this thesis, each objective function shows the total market potential of each industry and region. After getting the relative importance, a priority list will be made to recommend which choice is the most appropriate one.

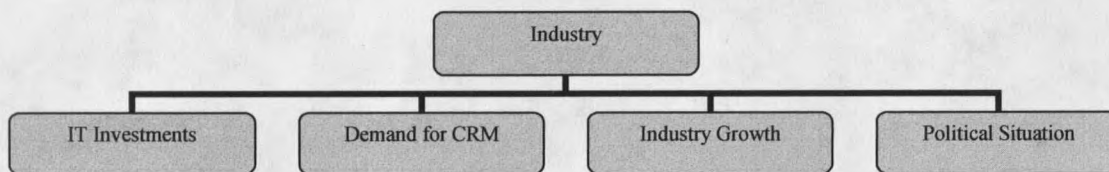
In most cases, industry is the first criterion for a business to evaluate because companies have to choose what they want to do first and then where to do it. In choosing which industry it should enter, companies will compare different industries with market potential. After choosing industry, a business can consider region factor. The following

paragraphs present two decision models for industry selection and region selection respectively.

### Industry Selection Model

As discussed in Chapter 4, companies should consider at least four key factors in decision which industry to target: IT investment, demand for CRM, industry growth and political situation as depicted in Figure 11. IT investments measure how much money each industry put into in 2002. Demands for CRM investigate how many companies will adopt CRM in three to five years. Industry growth measures how fast this industry increases. Political situation evaluates independence from government involvement in this industry.

Figure 11. Evaluation Hierarchy of Industry Selection Model



The initial model subjectively weighs the above factors equally, which is 0.25 for each. It depends on CRM vendors to choose which factors are critical for them. For example, a foreign CRM vendor with high technology background may think IT investment is superior to other four factors. As other CRM vendors with strong government background may think Political situation is the most important thing. As mentioned above, different companies may weigh the criteria differently, which will lead

to different results. Companies can change weights and redo the calculations and the results may be different.

Table 4. Relative Weights for Industry Decision Model

Industries	Actual Value				Relative Weights			
	IT investment *	Demand for CRM **	Industry growth ***	Political Situation ****	IT investment	Demand for CRM	Industr y growth	Political Situation
Telecom	20500	96%	8%	-	0.878	0.277	0.138	0.433
Insurance	135	59%	35%	-	0.006	0.170	0.603	0.048
Banking	2600	98%	7%	-	0.111	0.283	0.121	0.433
Retailing	1200	94%	8%	-	0.005	0.270	0.063	0.087

\*: In million US dollars of 2002

\*\* : % of companies want to implement CRM in 2002

\*\*\*: Industry rate of growth for 2002

\*\*\*\*: Independence from government control; relative weights determined by AHP

To determine the weighting factors of each industry for the IT investment factor, net IT investment in each sector in millions of dollars was obtained from Chapter 4. The relative weights can be determined by dividing IT investments of each industry by the total IT investment for all four sectors.

In demand for CRM, the data represent how many Chinese companies in each industry will adopt CRM in three or five years from Chapter 4. The relative weights can be obtained by dividing CRM demand of each industry by the total demand for CRM.

For Industry growth, the data from Chapter 4 represent how fast each industry grows in 2002. The relative weights can be obtained by dividing industry growth of each industry by the sum of four industries growth.

Political factor evaluates the independence from government control. Normally, the more independence is in business operation, the better is for equal competition. In order to get relative weights of political factor, AHP model is used. As shown in Table 5, the

numbers represent the level of government intervention. As reported in Chapter 4, for example, telecommunications have extremely low independence comparing with insurance industry and thus the relative weight is 1. Banking has the same extent of independence with telecommunications and thus gets 1 too. The normalized weights can be shown below in Table 6.

Table 5. Relative Weights of Political Factors of Different Industries

	Telecommunication	Insurance	Banking	Retailing
Telecommunication	1	1/9	1	1/5
Insurance	9	1	9	3
Banking	1	1/9	1	1/5
Retailing	5	1/3	5	1

Table 6. Normalized Relative Weights of Political Situation

Telecommunication	Insurance	Banking	Retailing
0.063	0.563	0.063	0.313

After having all above weight values, a decision making model was made (see equation 6.1 below). The objective of this model is to evaluate and compare the overall importance of each industry. The overall importance is the sum of these four factors, IT investment, demand for CRM, industry growth, and political situation. Each factor has a coefficient, which is 0.25 since they are equal with each other and sum to 1 in the initial model. The most appropriate industry will be the one with the highest score.

$$\text{Weighted Industry Score: } Y_i = 0.25x_1 + 0.25x_2 + 0.25x_3 + 0.25x_4 \quad (\text{Equation 6.1})$$

Where

- $Y$  - Market potential for different industry
- $i = 1$  represents Telecommunication
- $i = 2$  represents Insurance
- $i = 3$  represents Banking
- $i = 4$  represents Retailing

- $x_1$  - IT investment
- $x_2$  - Demand for CRM
- $x_3$  - Industry increase
- $x_4$  - Political situation

Inputting the relative weights from Table 4 into Equation 6.1, we obtain the results summarized in Table 7. Hence, if the four factors are equally weighted, the best choice for entering current Chinese CRM market appears to be the telecommunications industry. The reason is that telecommunication industry is extremely high in IT investment. Also, it has strong CRM demand. Despite the negative effect of government control, it is still the first choice for foreign CRM companies.

Table 7. Relative Weights for Different Industries

	$x_1$	$x_2$	$x_3$	$x_4$	Result	Priority
$Y_1$	0.878	0.277	0.138	0.063	0.339	1
$Y_2$	0.006	0.107	0.603	0.563	0.320	2
$Y_3$	0.111	0.283	0.121	0.063	0.145	4
$Y_4$	0.005	0.270	0.138	0.313	0.182	3

Insurance is a close second choice. It's standing out is because of it's highly industry growth and less government control.

The results assume each factor has the same weight. If a company changes these weights, which will be represented by  $a_1$ ,  $a_2$ ,  $a_3$ , and  $a_4$ , the results may be different. This can be easily tested by using several different groups of coefficients. This simple test will use 6 groups' data. The first group is the reference, in which each factor's relative weight is equal to 0.25. Group two to group five will give an extreme high value-

-0.99--for each factor. Group six randomly chooses four numbers. The six groups of coefficients are shown below.

Table 8. Different Coefficients for Industry Factors

Group	a1	a2	a3	a4
1	0.250	0.250	0.250	0.250
2	0.990	0.003	0.003	0.003
3	0.003	0.990	0.003	0.003
4	0.003	0.003	0.990	0.003
5	0.003	0.003	0.003	0.990
Random	0.200	0.100	0.400	0.300

After inputting each group of data into Equation 6.1, the results can be shown Table 9:

Table 9. Results with Different Relative Weight for Different Industries

Industry	1	2	3	4	5	Random
Telecom	0.432	0.872	0.279	0.141	0.433	0.388
Insurance	0.191	0.008	0.108	0.597	0.050	0.268
Banking	0.237	0.112	0.282	0.122	0.430	0.229
Retailing	0.125	0.006	0.268	0.138	0.087	0.109

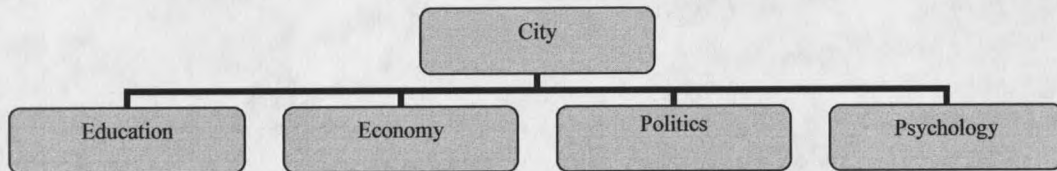
As seen from Table 9, the results will be different if companies change their preference. For example, for group 3-industry growth, insurance becomes the clear winner. In group 2-investment in IT, telecommunications dominates. Therefore, depending on which factors they choose, companies will have different results.

### Region Selection Model

After choosing industry, companies can choose which city is an appropriate entry point. As discussed in Chapter 5, some of the critical factors to consider are education, economy, politics, and personal values as depicted in Figure 12. Education refers to

people's educated level. Economy measures the capacity of economy development. Politics evaluates government involvement. The psychology factor investigates different issues such as the degree of individualism, openness to change, and self-enhancement.

Figure 12. Evaluation Hierarchy of Region Selection Model



As before, the initial model weighs the above factors equally, which is 0.25 for each. Individual CRM providers may choose different weightings. It depends on which factors are critical for them. For example, a foreign CRM vendor with high technology background may think education is superior to other four factors, whereas other CRM vendors may think economy is the most important. Companies can change weights and redo the calculations and the results may be different. The results are shown below in Table 10.

Table 10. Relative Weights for Region Decision Model

Cities	Actual Value				Relative Weights			
	Education *	Economy **	Politics ***	Personal Values ****	Education	Economy	Politics	Personal Values
Beijing	62	525.1	-	3.267	0.301	0.245	0.527	0.181
Shanghai	50	726.41	-	3.644	0.243	0.340	0.176	0.202
Guangzhou	39	737.02	-	3.644	0.189	0.345	0.105	0.202
Chengdu	19	11.14	-	2.090	0.092	0.005	0.059	0.116
Dalian	18	130.00	-	3.267	0.087	0.061	0.075	0.181
Lanzhou	18	8.80	-	2.090	0.087	0.004	0.059	0.116

\*: Number of universities in each city.

\*\* : Import/Export revenue for each city in 2002, million US dollars.

\*\*\* : Level of government involvement; relative weights determined by AHP

\*\*\*\* : Level of individualism, openness, and self-enhancement from Talston, et al. (1996)

For education, as reported in Chapter 5, the relative weights are obtained by dividing the number of universities in each city by the total number of universities of six cities.

For economy, as reported in Chapter 5, the number in each city is the import/export value in year 2002. The relative weights are obtained by dividing each city's import/export value by the total import/export value of six cities.

For politics, as reported in Chapter 5, Beijing is the most important one. Shanghai is also important but has business sense more. Guangzhou is more like a pure business center. The rest of cities do not have any comparability with above three cities. The normalized weights can be obtained from AHP methodology as shown below in Table 11.

Table 11. Relative Weights of Politics

City	Beijing	Shanghai	Guangzhou	Chengdu	Dalian	Lanzhou
Beijing	1	3	5	9	7	9
Shanghai	1/3	1	3	6	5	6
Guangzhou	1/5	1/3	1	5	3	5
Chengdu	1/9	1/6	1/5	1	1/3	1
Dalian	1/7	1/5	1/3	3	1	3
Lanzhou	1/9	1/6	1/5	1	1/3	1

The number above shows the relative importance on politics. For example, Beijing is more important than Shanghai and thus cell (1,2) has 3. Beijing is strongly important than Guangzhou and thus cell (1,3) has 5. For the rest of three cities-Chengdu, Dalian, and Lanzhou, Dalian is more important than the other two (please refer to Chapter 5). As the relative weights cannot be shown in Table 10, all cells in that column are not available. The normalized weights are shown in Table 12:

Table 12. Normalized Weights of Politics

Beijing	Shanghai	Guangzhou	Chengdu	Dalian	Lanzhou
0.527	0.176	0.105	0.059	0.075	0.059

Again, it depends on business to choose whether they like the political factor or not. Normally, the more political weight the city has, the easier it is to have development in this city since it can have more advantages of government financial and policy support. This support is crucial for CRM development since it is a fresh idea that needs promotion.

All data for personal values, as reported in Chapter 5, are from Ralston et al., (1996), in which Shanghai and Guangzhou belong to first group, Beijing and Dalian belong to the second and Chengdu and Lanzhou the third. Each group has different values in individualism, openness-to-change, and self-enhancement. Adding each value for each group can get this group's performance. The higher the score is, the personal value in that group is more like Western countries. Since each mean in Table 3 has the range of (-1, +1), each score is added 3 to represent the individualism level in positive numbers. For example, individualism for group 1 is -0.137, openness-to-change is -0.279, self-enhancement is -0.494. The total is -0.910. Added 3 makes it 2.09. The rest of data can be seen in Table 10. The normalized weights can be obtained by dividing each city's data by the total. For example, adding each city's personal value get 18.002. Dividing the personal value of Beijing, which is 3.267, by 18.002 get 0.181.

After having all above weight values, a decision making model can be obtained. The objective of this model is to evaluate and compare the overall importance of each city.

The overall importance is the sum of these four factors, education, economy, politics, and psychology. Each factor has one coefficient, which is 0.25 for this initial model.

$$\text{Weighted City Score: } Y_i = 0.25x_1 + 0.25x_2 + 0.25x_3 + 0.25x_4 \quad (\text{Equation 6.2})$$

Where

$Y_i$  - Market potential for each city

$i=1$  represents Beijing

$i=2$  represents Shanghai

$i=3$  represents Guangzhou

$i=4$  represents Chengdu

$i=5$  represents Dalian

$i=6$  represents Lanzhou

$x_1$  - Education

$x_2$  - Economy

$x_3$  - Politics

$x_4$  - Personal Values

Inputting the relative weights from Table 10 into Equation 6.2, we obtain the results summarized in Table 13. It comes out that these cities can be divided into two different levels. In the first level, Beijing is the best choice, Shanghai the second and Guangzhou the third. The second level cannot compete with the former at this time. The reason for this is these three cities have extremely advantages in education, economy, politics and psychology. In the second level, Dalian has the highest score and Chengdu and Lanzhou are almost the same.

Table 13. Relative Weights for Different Cities

	$x_1$	$x_2$	$x_3$	$x_4$	Results	Priority
Beijing	0.301	0.246	0.527	0.181	0.314	1
Shanghai	0.243	0.340	0.176	0.202	0.240	2
Guangzhou	0.189	0.345	0.105	0.202	0.210	3
Chengdu	0.092	0.005	0.059	0.116	0.068	5
Dalian	0.087	0.061	0.075	0.181	0.101	4
Lanzhou	0.087	0.004	0.059	0.116	0.067	6

Seeing above results, it is reasonable to build a new model that just has Beijing, Shanghai, and Guangzhou. Similar with above model, the relative weights of the new model can be shown below in Table 14.

Table 14. Relative Weights for the New Region Decision Model

Cities	Actual Value				Relative Weights			
	Education *	Economy **	Politics ***	Personal Values ****	Education	Economy	Politics	Personal Values
Beijing	62	525.1	-	3.267	0.411	0.264	0.652	0.310
Shanghai	50	726.41	-	3.644	0.331	0.336	0.217	0.345
Guangzhou	39	737.02	-	3.644	0.258	0.371	0.130	0.345

The politics weights are obtained with AHP methodology, which is shown below:

Table 15. Relative Weights for Politics

	Beijing	Shanghai	Guangzhou
Beijing	1	3	5
Shanghai	1/3	1	3
Guangzhou	1/5	1/3	1

The normalized weights are in Table 16.

Table 16. Normalized Weights for Politics

Beijing	Shanghai	Guangzhou
0.652	0.217	0.130

After inputting the value in Table 14 into Equation 6.2, the following results can be obtained:

Table 17. Relative Weights and Results for the Three Cities

	$x_1$	$x_2$	$x_3$	$x_4$	Results	Priority
Beijing	0.411	0.264	0.652	0.310	0.332	1
Shanghai	0.331	0.365	0.217	0.345	0.228	2
Guangzhou	0.258	0.371	0.130	0.345	0.190	3

Above results are based upon one assumption: each factor has the same weight, which is 0.25. If company changes these weights, which will be represented by  $a_1$ ,  $a_2$ ,  $a_3$ , and  $a_4$ , the results may be different. This can be easily tested by using several different groups of coefficients. This simple test will use 6 groups' data. The first group is the reference, in which each factor's relative weight is equal to 0.25. Group two to group five will give an extreme high value-0.99- for each factor. Group six randomly chooses four numbers. The six groups of coefficients are shown below in Table 18:

Table 18 Relative Weights for Region Factors

Group	$a_1$	$a_2$	$a_3$	$a_4$
1	0.250	0.250	0.250	0.250
2	0.990	0.003	0.003	0.003
3	0.003	0.990	0.003	0.003
4	0.003	0.003	0.990	0.003
5	0.003	0.003	0.003	0.990
Random	0.200	0.100	0.400	0.300

After inputting each group of data into Equation 6.2, the following results are obtained.

Table 19. Results with Different Relative Weight for Different Cities

City	1	2	3	4	5	Random
Beijing	0.314	0.301	0.247	0.524	0.182	0.350
Shanghai	0.240	0.243	0.338	0.177	0.202	0.214
Guangzhou	0.210	0.189	0.343	0.106	0.202	0.175
Chengdu	0.068	0.092	0.006	0.059	0.115	0.077
Dalian	0.101	0.087	0.061	0.075	0.180	0.108
Lanzhou	0.067	0.087	0.005	0.059	0.115	0.076

As seen from above, if company changes this relative weight, the results will be different. Still, whatever the weights change, the first level has extreme advantages. An interesting thing from above table is Beijing wins most of the time except in group 3,

which weighs economy heavily, and group 5, which weighs psychology heavily. For these two groups, Shanghai and Guangzhou win.

## Discussion

### Industries

Appropriate industries normally have strong financial backup, big base of customers, strong government background, etc. They all have strong demanding of CRM. Part of the reason is they are the leading industry in China and in order to compete with foreign companies, they have to improve their customers' service level. And, they are the industries that are capable to buy the million-dollar CRM product.

Telecommunications have so huge IT investment comparing with other three industries. This is because telecommunications are somewhat new fields. Other three industries have had long development and do not need to invest on hard ware. The second reason is telecommunications highly relied on IT development. It cannot escape investing in this area. Based upon these two reasons, it is not hard to understand why telecommunications are the most appropriate choice for current Chinese market.

Other industries, although do not have so huge IT investment and strong government background, it does not mean they have lost the market. As telecommunications have recession in worldwide business, companies started thinking the overheated investing in this industry several years ago. This makes companies transfer their focus to other areas.

In China, there is already strong signal in retailing industry that it will develop fast in the coming three to five years (cite). Insurance industry will keep high speed of growth too.

### Cities

As discussed before, the six cities can be divided into two levels. Beijing, Shanghai and Guangzhou are in the first level. These cities have very strong advantages in each factor: they have good education background, strong economy support, powerful effect in politics, and most like Western people's personal values. In the first level, Beijing wins most of the time. The reason is that Beijing has so much advantage in education and politics. Unless companies weigh these two factors extremely low, Beijing absolutely has the highest score. Meanwhile, Shanghai and Guangzhou are high in economy. These two cities are all near Bo Hai and have so many advantages in import and export.

Comparing with the first level, as shown in the results table the second level does not have a chance to compete now. However, this does not mean they lost the chance. As the first level cities developed for long time, they are tight on cost on business operating cost, pertain each customer, hiring employee, and so on. Meanwhile, the second level cities have lower cost on above criteria and can attract more foreign businesses, especially new and small businesses.

Beijing, Shanghai and Guangzhou have a lot of businesses in telecommunication, insurance, banking and retailing. Being in such cities will give CRM vendors more opportunity to learn and practice. Also because there will be a lot of companies in these cities, it is easy for these vendors to know their customers, locate their market and

develop new CRM technology. And, groups of CRM vendors in the same city will help cultivate the CRM market. By now, most CRM vendors, local or foreign, are in above three cities. They can compete with each other and study from each other. At this time of breeding stage, studying and cooperation are more than competition since there is enough space for each of them to develop.

People will respect vendors from big cities, especially in the high technology industry of CRM. Being in a big city itself has already shown the vendors' capacities on survive.

#### Business Practice

As for a foreign business, it is beneficial to first select an appropriate industry. In the industry selection model, companies can determine the coefficients of each factor based upon their own preferences. A weighted industry score then can be obtained with inputting the data in each factor. In the future, these data may be not accurate. Companies can get the updated information and still use the same model to make decision. The final scores of each industry represent their relative importance. Companies can choose the one with the highest score.

After selecting target industry, an appropriate entry can be chosen. Still, companies first have to determine the coefficients of each factor base on their preferences. The weighted city score will help companies choose which city should be the most appropriate one.

One more thing should be pointed out here is that these two models do not provide decisions but rather recommendations. The models can only prove that if the data in each factor is accurate, the results are recommendable.

## CHAPTER 7

## GUANXI

After selecting the appropriate industry and city, foreign companies still need an illumination on how to start their new businesses in China. This involves fully understanding of cultural difference between China and most of the Western countries. From the aspect of business management, managerial performance could be the most important difference. According to the experiment done by Neelankavil et al. (2000), comparing with India and the Philippines, from self-confidence, educational achievement, past experience and leadership ability, there are significant difference that are critical for understanding management performance between the China and most Western countries.

Kobrin (1998) analyzes this difference and states that Western firms need to become more competitive by improving the cross-cultural management aspects of their business in order to face the growing international competition. However, many of them, especially American firms, have not been successful in selecting, retaining, and developing effective managers for assignments requiring cross-cultural management skills (Adams & Kobayashi 1969; Baker & Ivancevich 1971; Black 1988; Lanier 1979; Misa & Fabricatore 1979; Tung 1981). According to the experiment done by Black and Porter (1991), American managers in China exhibited similar managerial behaviors to their counterparts in the U.S, which was not always appropriate. Actually, during most of the time, these behaviors are not appropriate for China.

Tung (1982) pointed out that although Western people think the degree of familiarity with Chinese culture will be the most important thing, most of them did not notice their actual ways of doing business are fairly far from Chinese culture. This is because they do not fully understand the specific Chinese way of building relationship, which is called *guanxi*. The result could be serious that once Western businesses keep doing business with inappropriate behaviors, the gap between these two countries will keep growing apart until someday either side could not reach the other.

The following chapter gives elaborated expatiation on *guanxi* from its origination of Confucianism. Some specific instructions on how to gain good *guanxi* are given as application tools. The end of this chapter discusses the connection and difference between *guanxi* and the more formal relationship, contract.

### What is Guanxi

*Guanxi* (pronounced as gwan-shi) comes directly from the Chinese culture and it means the type of connection between two individuals. As Yeung and Tung (1996) mentioned, *guanxi* refers to interpersonal relationships. In Chinese society, it can be extended to the connection between two companies, two organizations, and even two countries.

*Guanxi* originated from Confucianism, the basic and fundamental moral system in China since the Han dynasty (206 BC – 220 AD). The main idea of Confucianism is that the world is made of two extreme components. These two components fight with each

other dynamically and thus everything in the world is some kind of balance.

Confucianism focuses on the relationship between people. It is defined by five virtues- Humanity (Ren), Righteousness (Yi), Propriety (Li), Wisdom (Zhi) and Trustworthiness (Xin)- and five hierarchical relationships-between father and son, ruler and ruled, husband and wife, elder brother and younger brother, and friend and friend (Xing, 1995). The basic idea of Confucianism is to keep gentle and balanced relationships. This is the same thing from another Chinese idea: Yin and Yang. This may be interpreted as positive/negative, white/black, moon/sun, and female/male, which also stress the importance of balance.

Based upon Confucianism, the Chinese people believe the truth of life is in the enjoyment of a simple life, especially family life, and in harmonious social relationships (Lin, 1935), which is *guanxi*. Directed by this thought, the Chinese people will not fight hard for life because they think that the most important thing of a human being's life is to enjoy what it is now because everyone will die in the future and it will make no difference between the beggar and the millionaire. This can be easily seen in the common themes in modern Chinese music and literature as "Whether or not you succeed, you can not avoid dying"; "Title, House, Vehicle, Money, all the things you are chasing for will be gone after you die"; "Everything in the world is nothing". Therefore, Chinese people focus more on the things currently around them and try to keep it natural or make it go in a better direction without disturbing the current balance of *guanxi*.

*Guanxi* is important in China. This can be shown by the following example. Tang (1998) argues that the law in China is so vague that different people have different interpretations. This is not the issue. The problem is not the law itself, but the people who made and interpreted the law. Chinese resident Xingchang Lai, built Yuanhua Co. and has, since 1996, smuggled billions of dollars worth of goods into China, ranging from crude oil to vegetable oil, rubber, cars, cigarettes, electrical goods, etc (Far Eastern Economic Review, 2000). The other person, one of the nine-committee members now in controlling China, was suspected providing support of smuggling and receiving bribes when he was the Mayor of Fujian. At that time, his wife was a senior executive of Yuanhua Co. Although all the information can prove him guilty and people assume he will at least leave China's political stage next year, only because he had good relationships with a key person, he didn't leave but controversially got promoted. The seemingly criminal, Changxing Lai is now living in Canada and the Canadian government is under strong pressure from the Chinese government to give him back. The reason for this is he could not gain support from higher-level Chinese government officials. At the same time, other lower level officials in Xianmen Custom are put into prison and some are killed (Fujian Smuggle Net, 2003; Xiamen Yuanhua Scandal, 2003).

Another example of *guanxi*'s importance is that people in China will tolerate pain until they just about die if they do not fight. Looking at the history of China, it can be easily seen it was a time that people could not live with the current government when they decided to fight and changed their government. Most of the time the Chinese people will keep their current *guanxi* until the balance be disrupted. The following data shows

how important Chinese people personally look at *guanxi*. A survey done by Chu and Ju (1993) shows that over 92% of the respondents claimed *guanxi* is important in their lives. More than 84% of the respondents indicated that getting to know each other is the first step in building trust between strangers and 72% of the respondents prefer personal connections over normal bureaucratic channels to enhance personal interests and solve problems. In another survey on business people, Tang (1998) points out that managers from mainland China, Hong Kong, and Singapore all agree that *guanxi* plays a key role in doing business in their home markets. Managers from Singapore and Hong Kong feel it is more important for them to have *guanxi* in the business context in China than do Chinese managers. This seems to suggest that *guanxi* is even more important for outsiders to do business in China.

Based upon above analysis, it is not difficult to understand that if Western vendors want to be successful in the Chinese market, they have to resolve *guanxi* and develop good relationships with Chinese partners and Chinese governments. Actually, most Western businessmen fully understand the importance of *guanxi*. Yeung and Tung (1996) examined the relationship between *guanxi* and long-term success for 19 foreign companies with business operations in China. Executives at these companies were asked to rank the importance of a list of factors to their companies' long-term business success in China. Such factors include:

- 1) the right business location
- 2) the right entry strategy

- 3) Competitive prices
- 4) Complementary goals
- 5) Familiarity with the Chinese negotiation style
- 6) Flexibility in business operations
- 7) *Guanxi* with Chinese business associates
- 8) Long-term commitment to the China market
- 9) Management control
- 10) Product differentiation and quality
- 11) The understanding of China's policies.

Of this list, *guanxi* was the only item that was consistently chosen as a key success factor, although these executives surveyed also pointed out that *guanxi* alone would not guarantee success.

#### How to Have Good Guanxi

An important step to establish good *guanxi* is showing sincere respect for the other party. People in China will not accept the Western vendors until they showed their sincere respect. To do business, the Western people need to show partners respect. Yet in China, it has been put other meanings such as "think it as if you are in my position". Some good examples of showing respect are:

- 1) Give partners respect before other people, such as complimentary for them, especially before their subordinates.
- 2) Never blame people when problems occur, instead help them.

- 3) Give people presents on important holidays such as Spring Festival, and New Years Eve.
- 4) Often invite people to have dinner and other entertainment if need.
- 5) Prepare for some loss during the first cooperation.

Specifically, CRM vendors deal with Customer Relations Management, which means they should be more careful with their customers---Chinese people, from business partners to government officials---in the CHINESE way.

Based upon the author's personal experience in China, there are several normal ways to start business with Chinese government officials.

- 1) It is better to find a person (let's call him an Agent) from China to be a bridge between the US and China. This person must have really good relationships with the Chinese government, especially the Ministry of Foreign Trade and Economic Cooperation. Also, the higher the government officials he knows, the better situation is for the company to go further in business. Thus, after choosing a location, this agent should have strong relationships with the local government or at least relative industry head. This person does not need to be a CRM expert since his job only requires him to connect both sides.
- 2) In order to do government paperwork, a company likely needs to go through informal ways to make the first contact with government officials. The name list should include the Tax Department, Customs, News Media, and the Public Relations Company. The people contacted may not be the head of department since this is the only the first contact. The agent will then help bring both sides

together at some parties, introducing the company to his friends. It is important to not be in a hurry and give enough time to Chinese people to let this relationship grow.

- 3) Before doing business, a company should probably know the head of each department. Although ordinary staff will do daily work, it is really helpful to meet the head in case there is some problem in the future. The other thing is that it is easier if people know the boss since it will avoid much of bureaucracy.

As far as dealing with business partners, Western companies should notice that:

- 1) It is necessary to keep in mind that a long-range perspective with partners is the most important thing. As a type of relationship, *guanxi* cannot be built in a short period. Therefore it is easier to understand mutual benefits and avoid short-range behavior. Yang (1988) pointed out that the Chinese are very cautious and even suspicious of others. Thus, they are frequently unwilling to engage in business with foreigners without protracted getting-to-know-you negotiations.
- 2) It is important for Western businesses to be thoroughly familiar with China's national policies, especially for High-Tech and Information Technology. Also they need a willingness to work with Chinese partners. US companies can do this by learning from other companies that have already entered into the Chinese market and have similar backgrounds (Tung, 1982). This can help a lot.

- 3) Let partners know that a good relationship has already been built with local governments. Since government control is still unavoidable, this will make partners seriously do business.
- 4) Show Chinese partners some successful CRM stories in foreign countries and other countries. The more famous customers are in the West, the easier it is to gain Chinese partners' trust.
- 5) Before start CRM, let Chinese partners know that, depending on customers' background and specific situation, the implement process may be really long.
- 6) During the implementation of CRM, Western companies should keep meeting with Chinese partners and resolve problems in the early stages. This will make them feel they are not forgotten. The most important thing to remember is to give Chinese partners gift on important holidays, such as New Year's Eve, Spring Festival, and National Day. Also, invite Chinese partners to travel together to some famous places on Golden Weeks in May and October.

### Contract

Along with *guanxi*, there is another way of doing business, which is also popular and necessary in the Chinese market—contract. If *guanxi* is the friendly approach, contract must be the defensive approach. Just because the vagueness of Chinese law and complex relationships, sometimes it is necessary for foreign vendors to use contract to protect themselves and help regulate and correct some wrong doings in China.

Because Chinese people focus more on *guanxi*, the people factor is really important. Sometimes, it is not good because people do not act according to the contract. If this behavior does not hurt both sides much, it is probably O.K. and foreign vendors need only to let their Chinese partners know they should do according to the contract. Yet, sometimes the thing Chinese partners did causes really severe problems and each side has to sit together and face it with legal documents, contract. After pointing out who is responsible, most of the time the Chinese partners won't cooperate with each other in the future because the Chinese won't do business with the foreign people any more if they have felt frustrated even though it may be their own fault.

Another for using contract is that China has already joined WTO in 2001. One important effect of this is to reduce government control but give hands back to the market. To do this, all the business operations have to be controlled by formal and detailed law, which means foreigners can use law to protect themselves and do not need to worry about the people factor. This will force the huge Chinese market go into right orbit and perform like other WTO members, of which a lot of Western countries are involved.

In general, it is a good idea to combine *guanxi* with contract. Yu (2002) argues that when multinational companies enter into the Chinese market, they should use rigid contracts to codify terms and minimize uncertainties. This is really helpful especially when it is the first time for Western companies to enter into a different and strange market. It is important to remember that contract is only for early stages. After Western

companies have entered into this market, they can put more effort on *guanxi* in order to survive and grow better. As mentioned above, Chinese people will focus on long-term cooperation. After having good *guanxi*, Chinese people will do anything to keep the business, such as make price lower, reduce transaction time, do marketing campaign free, and get government help. Without *guanxi*, foreign businesses cannot go further. A very good example is the comparison with Google.com and SOHU.com. Although Google does have good search engine, it did not do good in *guanxi* with its partner and competitor, Baidu.com and Chinese government. In 2002, after long time secret investigation, Baidu.com wrote a detail report to Chinese Information Department. In this report, Baidu.com demonstrated Google's several behaviors that obtrude Chinese law. Immediately, Chinese people cannot visit Google for several months. Only after Google apologized with written report did it can be accessible again. At the other hand, SOHU.com, which is one of the Internet portals in China, had the same situation earlier in 2001. SOHU invented real time news discussion, which allowed Internet users speak out their mind after viewing news. This is not allowed in China but just because SOHU.com has good *guanxi* with China Information Department, SOHU did not have any damage but committed cooperation in future.

Most of the time, a foreign company should use *guanxi* and contract together. According to a survey of 92 manufacturing subsidiaries and joint ventures in China, the most successful ones use both *guanxi* and contract (Luo, 2002). Again, it is encouraged by Confucianism not to use only one way but to use two totally different ways in balance to solve problems.

## CHAPTER 8

## CONCLUSION

Customer Relationship Management (CRM) is still a new and hot topic and needs continuing research. The continuous and strong demand of CRM will stimulate and speed its development for companies that want to succeed in today's world. Although there maybe different types of software or hardware, the core idea which puts customers at the center of the business will not change as long as customers exist. As specific about China, Western vendors need to be more careful than ever since China is not familiar to most of them. The good thing is there are many fields to be explored, and the bad is there is also challenge.

After a thorough review, this thesis chooses three key questions to be answered. Which industry is an appropriate target, and has strong development potential to maximize long-term profitability? Which region is the best geographic entry point, considering sensitivity to regional differences and political climate? How does a firm best incorporate the concept of *guanxi* into key business relations?

Before entering Chinese market, foreign companies must choose a target industry. Even though many firms will likely default to industries where they have had prior experience, it may be worthwhile to consider the market potential of various industry sectors in the decision process. Four of the most prosperous industries-- telecommunications, insurance, banking, and retailing-- were selected and analyzed along

four dimensions related to CRM implementation: the scale of IT investment, strength of demand for CRM, rate of growth for industry development, and level of government intervention. Through AHP methodology, a decision model was presented in Chapter 6 to allow individual companies to select weightings for each the dimensions identified. Each company can choose weights based upon their own preference and have individualized target industry

Another issue is to choose an appropriate geographic region in China as an entry point. Six candidate regions, represented by the dominate city in each region, have been chosen (Ralston et al., 1996; James, 1989; He, 2003). Detailed analysis has been given from four aspects related to CRM implementation, education, economy, political climate, and personal values. Again, AHP methodology was used to develop a regional selection model. Although the basic assumption is still depends upon business preference, the model indicates that Chengdu, Dalian, and Lanzhou do not have much advantage at this moment and thus the most appropriate cities are limited to Beijing, Shanghai, and Guangzhou.

Although these three cities show a strong tendency to change to Western countries standards, it does not mean they will easily abandon either the existing system of authority or the paternalistic underpinnings of political leadership. In most cases, they are likely to develop a hybrid value set by slowly integrating Western ideas into their Confucian-based value system. Thus, it appears that the Chinese will likely adapt to the current business environment with only minor modifications to their very deeply

entrenched Confucian roots. This phenomenon relates to the unique Chinese cultural practice of *guanxi*. *Guanxi* originated from Confucianism and emphasizes keeping good relationships between any two entities. As it still dominates the ideology of Chinese people and has so much importance on starting new business, Western countries must take due care to develop good *guanxi* with Chinese businesses and Chinese government.

### Challenges

Along with opportunities, the Chinese market still has challenges for foreign firms. The above three questions being answered does not guarantee foreign companies will succeed in China. For either target industry or region, the idea of customer services is not strongly cultivated and may take a long time. The other aspect is that Chinese people are not used to use credit card. This also makes difficult to track and analyze customers purchasing habit and trend. Finally strong government control affects foreign companies' fair competition.

The most important challenge is that most Chinese people do not really have an idea of customer service. In Chinese history, freedom and equity are only shown in the dictionary. Most of the time in history, Chinese people were controlled by a king or an oligarchy that had supreme power and authority. Under these conditions, talking of "customer service" was not realistic because there is no such "customer service" mind in most Chinese people. Talking customer services is meaningless for them. "No customer and no service but servant" has been the attitude. Although things have changed really fast and this idea has been cultivated especially in major cities, it still has a long way to

go. Some big companies (either local Chinese companies or foreign company branches) normally have operated for a long time and gained rich customer service experience. For foreign CRM vendors, it is beneficial to start their business with these big customers that have good reputation and have clear understanding of customer services.

A second challenge is credit history. Like customer service, credit is a totally new term for most Chinese people. Ten years before, Chinese people did not know what credit is. Even until now after many Chinese banks have made arduous efforts in issuing credit cards to Chinese people, most of them are never used. Chinese people still prefer using cash that it is still a popular payment method (Xing, 2002). Except for some higher level hotels that have business with foreign customers, most places in China—Railway station, food stores, supermarkets, hospital, post office--do not accept credit cards. Although customers' preferences could be collected through huge scale of survey, this makes it difficult to store all the information data and the most important of all, analyze these data and related them to one specific customer and bring the results to the companies. If the companies know this, they will not want to purchase any CRM product since they do not have so much data.

However, this thing is being changed. All the banks in China are negotiating with other merchants in different fields to persuade them accept credit card. And, their campaigns have gained adequate correspondence in some major cities, such as Beijing, Shanghai, and Guangzhou. According to Xing (2002), one fifth the people in above cities have more than one credit card and use them regularly. For foreign CRM vendors, to sell

CRM products in above cities could be a good idea. These cities have good background on business development and can be used as the trial before huge investments on CRM.

Thirdly, in today's China, everything still has the shadow of government control. Government officials may have strong biases for different companies and different industries. That is the reason why all international companies have their own government relationship departments. Although a lot of change is happening through the central government recently (Li, 2002), the progress has very close relationships with political reforming and could take a fairly long time. For foreign CRM vendors, it would be extremely helpful to do enough investigation before making the decision to invest in China. In their daily operation, they need to make clear what their bottom line is and hold it. Most of them will prepare for several years working before having net profit. Once they had bad feeling with government or their business partners and had to break up their bottom line, they should leave this market soon.

#### Further Research

In addition to above challenges, further research could be done in several aspects. The income level for Chinese people may help foreign CRM companies evaluate how much they can save to use call center replacing real customer representatives for their business customers. How to mark the price for CRM products is critical for foreign CRM vendors since they do not want to make it so high to have more customers and at the same time, they want profit. Another issue is about the type of business—government owned companies and private companies. As these two kinds of business have different ideas of

operation, research on this topic could help foreign CRM vendors prepare different solutions.

There is tons of investigations and research about Chinese people annual income (Chu, 1993; Feng, 2003; He, 2003) to let foreigners have some sort of idea about the current development level in China. However, it is a well-known fact that, in China, people do not live only on monthly salaries, but supplement with what is known as “grey income” that is typically not reported to the tax department. And, the fact that more and more government officials have been getting caught in the recent years (Fujian Smuggle Net, 2003; People’s Daily, 1998) shows strong signal that they have such money to spend. This not a good thing reveals another special aspect: Chinese people are richer than ever. Therefore it is so difficult to believe the surface data from tax department. Even the official data (Beijing Haidian District Government, 2003) estimates the actual average annual income is \$3,000 in Beijing, \$4,000 in Shanghai and \$5,000 in Shenzhen. If a CRM vendor sell call center solution to its business customer to replace about 40 customer representatives, this will save \$120, 000 for this company in Beijing, and \$160,000 in Shanghai, and \$200, 000 in Shenzhen. If further research can be done in the actual annual income in above cities, it would be helpful for CRM vendors make their decision.

Another area of possible research is price competition. Foreign CRM products normally are expensive than local Chinese CRM products. China is still a developing country. Most companies in China do not have strong financial back up. This means price

is really important to them. What are their purchasing behavior in choosing quality and price? If prices are set high, which is what foreign vendors doing now, what will Chinese companies do? As some companies cannot distinguish the products of Oracle and Mycrm (Wang, 2001), they may think not worthwhile to spend more money in the product being the same with the cheaper one. One thing related with price competition is the development of VCD and DVD in China. It is common knowledge that Chinese people had extremely cheap pirate VCDs and now DVDs. What is the reason behind this? Is this because Chinese people do not respect copyrights? Or are they so poor that cannot afford it? Or they think manufacturers squeezed people so much to get profit that it is not worthy to buy? All these questions could be answered in further search that reveal Chinese people's behavior and help CRM vendors mark their prices reasonably.

A third possible area of future research might be in the type of business. In China, government-owned companies, which are the creatures of the Planning Economy fifty years ago, are the ones occupying most resources but do not provide more profit. Managers at these companies are not well educated but are promoted through *guanxi* channels. Employees have such low salaries and no one that is well educated will go into such company because of not much profit and even there are some profits they are stolen by senior executives. This leads to a lower level of employees' attitude and thus makes a loop. On the other hand, private companies show more effective and efficient ways of doing business. Normally, the owners are eager to have more profits and thus do everything they can to save money and gain more customers. This situation makes it ever easier for CRM implementation.

This thesis does a thoroughly research on the Chinese CRM market. After analyzing several candidate industries and regions from some key factors that affect CRM vendors' decision, it comes up with two decision models to help foreign CRM vendors choose target industry and region. Unique Chinese culture—guanxi—is discussed from its origination of Confucianism and some practical instructions on how to have good guanxi are provided.

As a big market, China has strong potential to speed its development in the near future. This brings out many opportunities for foreign companies, especially for companies doing CRM, this fresh management technology. Overcoming some challenges through further research, foreign CRM vendors can successfully have adequate development in this oriental country.

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APPENDICES

APPENDIX A

CHINA MAJOR TELECOMMUNICATIONS COMPANIES

### China Telecom

China Telecom Corporation is a state-owned enterprise formed according to the state telecom structural reform plan. It was officially established on May 2002. The former China Telecom was split up into two parts: south and north. The corporation has 21 businesses at the provincial level, holding 70% of the national trunk line transmission network assets owned by former China Telecom. It is allowed to build and operate local telephone network in ten Northern provinces. The new China Telecom will be subordinated to the central government. China Telecom is an authorized investor by the State Council and a pilot state holding company. It enjoys its own listing at the Ministry of Finance.

China Telecom has a total of 19 billion US dollars registered capital. Currently, it operates domestic and international fixed line networks and infrastructure including WLL, telecom network-based voice, data, video, multimedia and information services, engages in international telecom service settlement and expands into overseas market; offers ICT related services like system integration, technology development, technological service, consultancy, advertising, publishing, equipment manufacturing, sales, import and export as well as design and installation services; and operates other services based on market demand, approved or allowed by the government. China Telecom will retain the goodwill and intangible assets of "China Telecom".

China Telecom has 21 provincial businesses. The Corporation's relationship with 21 provincial subsidiaries is based on ownership, network and services. The establishment of China Telecom Corporation marks the beginning of a new era of development in China's telecom sector.

### China Unicom

China Unicom was founded at July 19, 1994. Its foundation was a sign of competence policy from Chinese central government. It has 300 subsidiaries and branches in all 30 provinces of China. At June 21, 2000, China Unicom issues stocks in New York and at June 22, in Hong Kong.

China Unicom's main businesses are in Mobile Phone Services, Wireless Communication, Long Distance Phone Services, Local Phone Services, Data Communication and Telecommunication Add Value Services.

### China Netcom

China Netcom Corporation Limited ("CNC" or the "Company") is a facilities-based broadband telecommunications operator in China. The Company provides a full spectrum of services and solutions to meet the broadband telecommunications needs of businesses and individuals. Its core business includes providing Internet broadband access and integrated telecom services to residential and corporate customers, and building the infrastructure for China's New Economy.

In August 1999, China Netcom was founded by four entities affiliated with the Chinese government: (1) the Chinese Academy of Sciences (“CAS”); (2) the State Administration of Radio, Film and Television (“SARFT”); (3) the Ministry of Railways (“MOR”); and (4) the Shanghai Municipal Government. The company closed its first round of private equity placement in February 2001, raising US\$325 million from a group of high-profile international investors, including News Corp., Digital Ventures, and Goldman Sachs Private Equity.

Its main services include domestic and international brand renting, public Internet providence, IP long distance phone service and virtual private net (VPN). It provides a new platform to connect and support VPN, VoIP, 3<sup>rd</sup> mobile telecommunication network, and Cable Modem.

In 2000, CNC has finished the first phase construction of a nationwide fiber optic backbone network, CNCNet and metropolitan access network, which pioneered the deployment of advanced IP over DWDM transmission technology in the world. The company recently extended its last mile broadband access network to cover residential users using Fiber LAN technology.

### China Mobile

As a state-backbone enterprise newly built according to the arrangement and requirement of the national telecom restructuring, China Mobile Communications Corporation (China Mobile) was founded on April 20, 2000, under the communications

industry management of the Ministry of Information Industry. Specially designated in the state finance and plan, China Mobile has had its long-term and annual development plans incorporated into that of the central government.

China Mobile has set up exclusively self-funded subsidiaries in 18 provinces (autonomous regions and municipalities) and fully owns China Mobile Group (Hong Kong) Co., Ltd. China Mobile (Hong Kong) Co., Ltd, which has established exclusively self-funded subsidiaries in 13 provinces (autonomous regions and municipalities) in China, and has been listed in Hong Kong and New York, acts as held company of China Mobile Group (Hong Kong) Co., Ltd.

China Mobile has been in operation for 13 years since 1987 when mobile telephony was first introduced in the Chinese mainland. In a sense, the history of mobile communications development in China bears witness to the entire course of development of China Mobile and its predecessor the mobile communications service under China Telecom. Thanks to the construction and expansion in the past 13 years, China Mobile has put in place an integrated communications network offering large coverage, diversified services, and high communications quality. Mainly supplying mobile telephony, data, IP telephony and multimedia services, it has obtained the right to operate internet as an international interconnection unit and provide fax, data, "Quanqitong" IP telephony, information-on-demand, handset banking, Global Access WAP and a host of other value-added services in addition to the basic voice service. Its

"Quanqitong" and "Shenzhouxing" have become famous service brands and "139, 138, 137, 136 and 135" are well-known network numbers among households.

APPENDIX B

CHINA MAJOR INTERNET PORTALS

SOHU.com

Founded in June 1998 by Dr. Chaoyang Zhang, who graduated from MIT, SOHU.com got investment from Intel, Dow Jones, IDG and Legend. At July 12, 2000, SOHU.com entered into NASDAQ.

SOHU.COM is China's premier online brand for e-mail, SMS messaging, news, search, browsing and shopping. As China's most comprehensive web site, SOHU offers its users the broadest possible choices regarding information, commerce and community, and, equally important, how they access these products and services. Through its pioneering roll-out of wireless products since 2000, SOHU has become a frontrunner in making the Internet ubiquitously available, whether in the office, at home or on the road.

With over 50 million registered users at the end of September 2002, SOHU has the largest online user base in China. It is a household name among the 300 million people living in urban centers.

SINA.COM

SINA.COM (NASDAQ: SINA) is the leading online media and value-added infotainment service ("VAS") provider for China and for global Chinese communities. With a branded network of 15 localized web sites targeting Greater China and overseas Chinese, SINA operates three major business lines including SINA.com (online media and entertainment service), SINA Online (consumer fee-based online and wireless VAS) and SINA.net (Small and medium-sized enterprises VAS), providing an array of services

including online portals, premium email, wireless short messaging, virtual ISP, search, classified information, online games, e-commerce, e-learning and enterprise e-solutions.

With 60 million registered users worldwide and over 10 million active paid users for a variety of our fee-based services, SINA is the most recognized Internet brand name in China and among global Chinese.

### NTEASE.COM

NetEase.com, Inc. is a leading China-based Internet technology company that has pioneered the development of applications, services and other technologies for the Internet in China.

NetEase Web sites offer Chinese Internet users Chinese language-based online content, community and electronic commerce services. NetEase's average daily page views exceeded 349 million for the month of February, 2003. As of February, 2003, NetEase Web sites had more than 107 million registered members, 55476 simultaneous chat room participants.

NetEase Web sites provide a community setting where users can access to free Web-based e-mail, online auctions, online chat rooms, personalized Web sites, instant messaging, Web hosting, and e-commerce services. Its online interactive community services offer 1,800 community forums.

APPENDIX C

CHINA MAJOR INSURANCE COMPANIES

### Ping An Insurance Company of China

Founded in March 21, 1988, Ping An's headquarter is located in Shenzhen. It is the first company with foreign investment. In 2001, its income was 5.67 billion US DOLLARS, 40% higher than the whole industry, which was No. 1 in the Asia area. In order to serve his 18 million customers, Ping An brought up 3A service system, which is Anytime, Anywhere and Anyway. In September 2001, it became the first insurance company that has AAA credit level.

### China Pacific Insurance (group) Co.

Founded in January 1991. Its headquarter is in Shanghai and its branches located through all over China. It has branch in United States and representative office in London and Hong Kong. In 2000, it was 45<sup>th</sup> in the 200 biggest world wide insurance companies.

### The Peoples Insurance Company of China

Founded in 1949, The Peoples Insurance Company of China is the largest insurance company in China. It has 940 million US DOLLARS register capital and got 5.9 billion US DOLLARS income in 2000, which was 80% of the whole Chinese market. Having 4000 branches, it covers all 31 provinces of China.

### Taikang Insurance Company

Founded at August 22, 1996, its stockholders include China International Travel Agency and China Foreign Trade Transportation. In November 2000, it has foreign investment from Switzerland and Japan. At the end of 2001, its total assets are 65 million US DOLLARS. It has 23 branches in China.

### China Life Insurance Company

Founded in January 1999, its headquarter is in Beijing. It kept 32.75% increase from 1996 to 2001 and reached 9.9 billion US DOLLARS in 2001, which was 57% of the market share. In 2002, it was No. 12 in 500 China Enterprises, which was No. 1 in insurance industry.

### Huatai Insurance Company of China

Founded at August 29, 1996, its headquarter is in Beijing. Of all the stockholders of 16 million US DOLLARS register capital, 14 from 50 China Enterprises and 20 from 100 China Enterprises. In 2001, its income was 77 million US DOLLARS. In 2002, Huatai Insurance got investment from ACE Group.

### Xinhua Insurance Company

Founded in Aug. 1996, Xinhua Insurance company has register capital 1.2 billion RMB and has lots of famous investors, such as Oriental Group, HuaYuan Group and Shanghai Baogang Group. It has 29 branches in each province and 53 sub-branches. In

2002, it has 1.25 billion RMB profits, which got 2.95% of market share and was No. 4 on that year.

#### SinoSafe Insurance

Founded at Oct. 18, 1996, SinoSafe Insurance's headquarter is in Shenzhen. It focuses more on the southern part of China and has Guangzhou branch, Changsha branch, Fuzhou branch and Nanning branch.

#### Tianan Insurance Company

Founded at Oct. 22, 1994, it is the first company invested by enterprise, which was not possible before 1990s. It's headquarter is in Shanghai, register capital is 501.5 million RMB. In 2001, its income was 403 million RMB and the profit was 30 million RMB. It covered the major cities in China, such as Shanghai, Nanjing, Hangzhou and Beijing.

#### American Insurance Group

Belong to American International Group, American Insurance Group was founded in 1919 at Shanghai. Now it has branches in Beijing (2002), Shanghai (1992), Guangzhou (1995), Shenzhen (1999) and Suzhou (2002).

Royal & SunAlliance Group

It is one of the oldest insurance companies in China and the first insurance company from Europe. It has branches in Shanghai, Hong Kong and Taiwan and representative offices in Beijing and Dalian.

Winterthur Swiss Insurance Group

It has its branch in Shanghai and four representative offices in Beijing, Tianjin, Guangzhou and Ningbo. Its main customers are foreign investment company in China.

APPENDIX D

CHINA MAJOR BANKS

### Industrial and Commercial Bank of China

ICBC is the largest commercial bank in China. The total assets exceed 4 trillion RMB. In 2000, ICBC was awarded "Bank of the Year 2000 of China" and "the Best Domestic Bank in China" respectively by The Banker and Euromoney. In The Banker's 2001 latest ranking for global banks in terms of tier-one capital, ICBC was ranked 7th among the top 1000 banks. It has also entered the Fortune's Global 500 consecutively since its first participation in 1999, ranked 160th, 208th and 213th respectively.

As the end of June 2001, ICBC's various deposits outstanding amounted to 3461.6 billion RMB and various loans outstanding was 2529.9 billion RMB. The foreign exchange assets totaled 32 billion US Dollar with foreign exchange deposit outstanding of 24 billion US Dollar and loan outstanding of 7.5 billion US Dollar.

ICBC has 6 overseas branches and 3 representative offices. It has established correspondent banking relationship with 655 bank's headquarters in over 80 countries and regions. ICBC has become the second largest foreign exchange business bank in China.

ICBC undertakes over half of all the settlement business in China's banking industry. The fund transferred between accounts can be settled within 24 hours. ICBC has built a three-layer frame-relay infrastructure and a satellite-backup system to ensure safety and reliability of the information express transmission. By the end of June 2001, ICBC had issued 73.98 million peony cards. It is the largest bankcard issuer in China. Call centers for telephone banking have been built and launched to provide services in 36 provinces

and cities and the internet banking is provided in 286 large- and medium-sized cities with 330 thousand accounts. .

ICBC has approximately 30,000 branches and offices. They are organized by five levels: the head office, tier-one provincial branch and branch directly under the head office, tier-two city branch, sub-branch, business outlets, including banking office and savings office.

Internationally, ICBC has six full operational branches respectively in Singapore, Hong Kong, Seoul, Tokyo, Frankfurt and Luxembourg, one subsidiary in Almaty and three representative offices in London, New York and Sydney.

ICBC also owns ICBC (Asia) Ltd., ICEA Capital Ltd., the Industrial and Commercial International Capital Ltd., the Qingdao International Bank, the China Merchantile Bank, Ximan International Bank and the Shanghai and Paris International Bank.

The main business scope for RMB Business include Deposits, Short-term, medium- and long-term loans, Payment and settlement service, Bills discounting, Agent issuing, sales and cashing of government bonds, Government bonds trading, Inter-bank lending and borrowing, L/C-related service and guarantee, Agent collection and payment and agent sales of insurance, and Safe-box service.

The main business scope for Foreign Currency Business include Foreign exchange deposits, Foreign exchange loans, Foreign exchange remittance, Exchange of foreign currencies, International settlement, Acceptance and discounting of bills of foreign

exchanges, Foreign exchange borrowing, Foreign exchange guarantee, Purchase and sales of foreign exchanges, Sales and agent sales of foreign currency securities (excluding stocks), Foreign exchange trading for its own and for customers' accounts, Issuance of foreign exchange bank cards, Agent issuance and payment of international credit cards, Investigation, consulting and certification of credit status.

The main electronic system constructions include a large-scaled electronic system for concentrated data processing, three leveled format relay network and satellite backup network, comprehensive operation system applied to improve traditional operations, innovative forms of financing services such as the telephone banking center, Internet banking and mobile phone banking, automated management of capital business has been, office automation and operation quality of the ICBC's entire banking system.

### China Construction Bank

China Construction Bank was established on October 1, 1954. It is a state - owned commercial bank with business focusing on medium - and long - term lending.

Headquartered in Beijing, CCB conducts operations across China as well as in major international financial centers. The July 2001 issue of the Banker magazine ranked China Construction Bank No. 29 among world top 1000 banks.

Overseas expansion remains another focus of CCB's reform. Up to now, CCB has established branches in Hong Kong, Frankfurt, Singapore, and four representative offices in other major international financial centers. The number of correspondent banks

worldwide has increased to 600, extending CCB's reach into nearly 80 nations across the five continents. CCB has become a major player in international capital.

At the beginning of 1990's, CCB finished the transformation from a stand-alone technology environment to a sophisticated network that covered bank-wide operations. This network is composed of Electronic Fund Clearing System, Long (Dragon) Card Transaction Network, Intranet System, Accounting General Ledger Transmission System, e-mail system, and a link with SWIFT system. In addition, a number of regional transactional networks, all of which are connected with the overall network, have been established in 210 large - and medium - sized cities.

In recent years, CCB has consolidated its traditional competitive advantage in financing infrastructure and basic industries, such as highway, railway, telecommunication, power network, and urban construction. Large and profitable enterprises remain its key clients. Now CCB has signed up nearly 500 large - and medium - sized enterprises to provide comprehensive financial services, and joined efforts with over 10 super large companies to set up nationwide sales settlement networks.

### Bank of China

Established in 1912, Bank of China is the oldest bank in China. Since 1992 the bank has been awarded "The Best Bank in China" for nine times by Euromoney magazine, the

latest being in 2002. Moreover, Bank of China has been included in the Fortune Global 500 for 13 consecutive years.

Bank of China is the first and the only Chinese bank that has presence in all major continents. At present the bank offers financial services through its global network of over 560 overseas offices in 25 countries and regions. In Hong Kong and Macao, Bank of China is one of the local note-issuing banks.

In 2002, Bank of China had pre-provisioning profit of 52.7 billion RMB, an increase of 27.1% over the previous year. The real operating profit stood at 47.2 billion RMB if the investment income derived from the listing of Bank of China (Hong Kong) Limited is excluded. By the end of 2002, Bank of China's total assets had exceeded 3 trillion RMB.

Traditional commercial banking constitutes the majority of Bank of China's business, which is composed of corporate banking, retail banking and banking with financial institutions.

To consolidate its competitive edge in the market, Bank of China has, from early 2000, taken a series of reform initiatives around the concept of building good corporate governance. In 2001, Bank of China successfully restructured its operations in Hong Kong by merging 10 of its member banks into Bank of China (Hong Kong) Limited, a locally registered bank.

In July 2002, Bank of China (Hong Kong) Limited was successfully listed on the Hong Kong Stock Exchange.

### Agriculture Bank of China

Agriculture Bank of China was one of the largest state-own banks in China. By the end of 2000, it has 32 tier-one provincial branches, 5 branches directly under the head office, 301 tier-two city branches, and 3280 sub-branches. Internationally, it had branches in Singapore and Hong Kong and had represent offices in London, Tokyo and New York. It has built relationship with 328 international banks in 49 countries.

By the end of 2000, Agriculture Bank of China had total assets of 20 trillion RMB.

### Bank of Communications

Bank of Communications (BOCOM) was established in 1908. It was one of the four largest banks and the earliest banknote issuers in China. In 1987, Bocom, the first joint-stock commercial bank in China, started its operation officially.

In respond to the real market demand, Bocom introduced brand-corporate relationship since its re-establishment , taking the lead in drawing in the competition mechanism into the Chinese banking sector. The Bank adopted advanced foreign management and best practice of commercial banks by setting up and improving its assets and liabilities management system, credit control system and financial index analyzing system.

Of 2001, the total registered capital of the Bank amounted to 17 billion RMB and the total asset reached 669.1 billion RMB. The Bank was rated "the best bank in China" by "Euromoney" and "Global Finance" magazines respectively in 1998 and 1999.

At present, the Bank has branches and sub-branches in 86 big and medium-sized cities in China with a total of about 2,700 out-lets spreading out in the country. It also set up branches in major international financial centers like Hong Kong, New York, Tokyo and Singapore and also set up two representative offices in London and Frankfurt. So far, it has established correspondent relationships with 1,352 Head Offices and Branches of 466 banks in 76 countries and regions. The Bank also issued bonds in international capital markets several times and had been long conducting the on-lending loans for foreign governments and world financial organizations.

#### China Merchants Bank

Founded in April 1987, China Merchants Bank (CMB) was the first commercial bank in China. It is also the first China bank entering into Hong Kong.

It has 30 sub-branches in all provinces of China and built relationship with 900 banks of more than 60 countries. Recently, it has got permission from USA to have represent office in New York.

The most famous feature for CMB is All-in-One Card. From 1995 till now, the total number of it is over 20 million. In 1999, it had one new product, which is called All-Internet. Using advanced Internet technology, it was deemed as the first E-bank of China and till today, it is still the first choice for online shopping.

APPENDIX E

CHINA MAJOR RETAILING COMPANIES

### Shanghai Hualian

As one of the earliest retailing company, Shanghai Hualian Mall Co. was founded in 1918. In February 1993, it issued stock in Shanghai Stock Exchange Market.

By the end of 2001, it had sales of 12.48 billion RMB, which was the second in China.

### Beijing Guomei Electronics

Founded in 1987, Beijing Guomei Electronics focused on consumer electronics. Now it has more than 90 chain stores in Beijing, Tianjin, Shanghai, Chengdu, Zhengzhou, Xian, Shenyang, Jinan, Qingdao, Guangzhou, Shenzhen, Wuhan, Hangzhou and other provinces. In 2001, it sales was 10 billion RMB, which was No. 6 in China.

Guomei Electronics plan to issue stock in Hong Kong in 2003 and enter into international market in 2004.

### Beijing Xidan Mall

Beijing Xidan Mall was founded in 1930 and issued stock in Shanghai Stock Exchange Market in 1996. It kept No. 1 place of sales in Beijing retailing companies from 1986 to 1993.

It has several famous stores in China, Dong'an Mall, Chang'an Mall, Shang'an Mall and DaoXiangChun Food Co. In which, Dong'an Mall was founded in 1903 and DaoXiangChun Food Co. was founded in 1916.

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