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COLUMBIA BUSINESS SCHOOL

Marketing and China

Presentation at 90th birthday celebration of Professor Stefan H. Robock

July 13, 2005

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On July 13, 2005, the Chazen Institute of International Business hosted the 90th birthday celebration for Professor Stefan H. Robock, who taught at Columbia Business School from 1967 to 1984 and has served as Professor Emeritus of International Business ever since. Professor Robock played a key role in initiating studies in the field of international business at Columbia Business School. To honor him for a lifetime of achievements and to launch a scholarship fund in his name, several of the school's luminaries and alumni, as well as his family members, gathered at the Feldberg Lounge in Warren Hall.

Professor Don Sexton, a former colleague and close friend of Professor Robock, was the event's keynote speaker. Professors Sexton and Robock shared a close association with China during their long teaching careers. They visited China together several times to teach at the Beijing Management Institute and have been astute observers of China's fascinating journey from a closed economy to a progressively open one over the last two decades. Given their long association with China, it was fitting that China would be the topic of Professor Sexton's address. The following is a summary of his lecture:

China's gross domestic product (GDP) has been growing at an average growth rate (AGR) of around 9% for the last 20 years. During the same period, Chinese merchandise exports have shown an AGR of 34%. This growth has been fuelled in no small measure by a 1600% increase in U.S. imports of Chinese goods over the last 15 years. The result of this boom in Chinese exports is not only apparent in the increased Chinese consumption of world resources, but also in improved standards of living for people in China.

Rising standards of living in China have created a huge untapped market for goods and services produced outside the country. For example, China accounts for 20% of the world population but consumes only 6.1% of the computers produced in the world; 12.1% of microwave ovens; and 3.9% of soda. There seems to be a tremendous potential for foreign firms to sell in the Chinese market.

Companies like Nike, Starbucks, and KFC have already made deep inroads in China and continue to grow rapidly. Among a survey of 1200 students in Beijing and Shanghai, Nike was the top recognized brand. Nike achieved this status through a dedicated effort to increase its brand awareness—developing sports teams, helping schools build gymnasiums, giving equipment to teams, and sponsoring professional basketball teams.

At present, Nike is opening stores in China at a rate of 1.5 per day. In the same tone, KFC has over 1000 restaurants in China, and by 2008 there may be more Starbucks in China than in the U.S. In the luxury goods market, Morgan Stanley estimates that there are 100 million potential customers in China. Boston Consulting Group and Goldman Sachs estimate that China can easily account for 5% - 12% of the world luxury goods market over the next few years.

As the market matures and competition in the Chinese market intensifies, the Chinese market is entering a period of "competitive turbulence." This is the stage where profits tend to stall after a period of sustained growth; competitive pressures result in price wars leading to shakeout in the industry. Some firms survive; others consolidate and disappear. It also leads to increased segmentation in the market where players emerge, catering to the needs of different segments, or the same players offering products targeted towards each segment of the market. Amid this period of growth and competitive turbulence there are some concerns about labor costs, income distribution, working conditions and overheating of the economy. These are factors that can impact the competitiveness of the Chinese firms in the global marketplace.

Another important issue facing Chinese firms is "How to build up their brand image?" The growth of the Chinese manufacturing prowess has created some Chinese powerhouses like Haier, TCL, and Lenovo. But among the top 100 most valuable brands in the world, there are no Chinese brands at present. For a consumer goods company, brand can represent 50% - 80% of its market value; for other companies it may represent 20% - 30% of the company's value. It is critical at this stage for Chinese firms to start building up their brand image. Companies like Haier and Lenovo have tremendous potential, provided they can project the right image for their brand.

In summary, Professor Sexton mentioned that China's growth has been fascinating to watch, and its future potential is breathtaking. The period of "competitive turbulence" will result in price wars and consolidation within industries. It is imperative for Chinese companies to start focusing on building their brand image. Going forward, brand image will be one of the key factors that will let Chinese firms compete globally on their own.