

## What is the key for boosting Chinese SME's exports performance ?



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The last few years have been quite challenging for Chinese small and medium enterprises (SME's), as they have been trying to compete on international markets. Not only that demand from western markets has not been really picking up, as was hoped for, but Chinese exporters' key competitive advantage, low cost, has started to erode, rapidly.

As a result of the economic crises, back in 2008, customers who were still in need, ready and able to buy, pressured their suppliers to deliver at ever lower prices. For many Chinese companies, however, especially small and medium ones, this did not coincide, at all, with industry changes they were already facing, and trying very hard to adapt to.

Common knowledge was that, for years, Chinese exporters have excelled, becoming world leaders even, in being able to deliver wide variety of goods at very competitive prices. Yet, this ability has been eroding even before the latest economic downturn. Chinese companies have been facing an on-going pressure to continuously improve on their quality, which meant cost increases, while at the same time, suffered from a dramatic increase in other input costs, especially labor. Between 2002 and 2012 the average annual wage in China has grown by about 4 times over, not to mention the continuous rise of the Yuan's exchange rate against the US Dollar, which made Chinese exporters' lives even more difficult.

During the same period, as part of market reforms, more foreign vendors set up their own factories in China, becoming as price competitive as some of the local Chinese vendors, who were competing now on the same markets - at home and abroad. In addition, new low cost production sites, in other Asian countries sprung up, posing yet another rising competitive force against Chinese vendors. So much so, that lately some (both foreign and Chinese) started minimizing their production facilities in China, putting up new ones elsewhere. So, for many Chinese exporting SME's, low cost strategy was not sustainable for much longer.

Traditionally, many Chinese SME exporters were supplying products based on their customer's requests, with only minor product modifications, very little differentiation, mostly under 'no name', or under customer's brand. In addition, many of the small manufacturers were not exporting directly, but through chains of trading companies and agents. The focus of these intermediaries was not on long term strategies - building brands or efficient marketing channels for their principals, (nor even for themselves) but rather on short term margins, securing orders, while switching, sometime rapidly, between products and suppliers, as suited the immediate opportunity at hand.

Many SME vendors took a rather passive approach to their export marketing activity, mainly responding to intermediaries' 'demands', depending on them to bring in orders. So, without innovative products, no known brands, nor direct international channels, with growing competition (from abroad, and from within), still fighting their 'low cost - low quality' image, many Chinese exporting SME's are facing unknown future.

It is no surprise then to see that China, as declared in its Five-Year plan, pushes its industries to become more innovative, moving up the added value ladder, away from its previous low cost manufacturing position, realizing that future growth must come from a new directions, and new business strategies.

However, becoming an innovative market leader is not easily achieved, and embracing new technologies is far from enough. What is really needed for Chinese exporting SMEs is a change in their business 'state of mind'. They must move away from their traditional passive 'back-seat' production position towards becoming proactive and creative international marketers.

For that to materialize, Chinese SME's must first become more intimate with their foreign markets - learning about new customer segments, needs and wants, reading carefully the competitive landscape, and the like. Based on market knowhow Chinese SME need to come up, not only with new product ideas, but with wholly new innovative international marketing strategies. Such strategies, hopefully, should provide the exporter with a newly developed competitive advantage, unlike the one they relied on before.

In order for Chinese exporting SMEs to develop any real competitive advantage, their strategies must leverage on their key strengths, which surely give hopes as to their ability to seize market opportunities. Having flat structure, being able to take decisions rapidly, flexibility and agility, learning, adapting and responding quickly, and so on, are some unique traits that Chinese SME's have used before and need to use again - now implement in international marketing & Sales. Integrating modern marketing methodologies with Chinese clever tactics can bring about whole new set of marketing strategies, leading to a unique market position.

Specifically, Chinese exporting SMEs need to address, as part of their new strategies, issues such as differentiation, branding, marketing channels and relationships building, especially if they want to fence off their, somewhat sticky, image of 'low cost - low quality'. Charging higher prices for customers is possible, contingent on better value delivered. Value innovation is what Chinese exporting exports must be looking into, and accelerated marketing could be a possible approach to implement it. Quick response to customers' requirements and competitors' moves, by rapid product development, customizations and support services is one possible strategy.

However, on the road to success, there are few hurdles exporting SMEs must overcome. A key weakness, that many SMEs suffer from, is a chronic lack of personnel with adequate international marketing and sales knowhow and experience. Many Chinese exporters (either vendors or intermediaries) relied mainly on hard working, young, and very bright, English speaking Chinese. These young, educated and extremely talented employees quickly became the 'commercial ambassadors' of the company. While handling most international interactions on behalf of the company, these ambassadors lacked relevant qualification or experience, needed to successfully compete, with much more experienced 'old wolves' from the west.

For example, recruiting quality distributors, building strong channel relationships is done quite differently, in many international markets than back home in China. While a critical factor for international success, very few Chinese acquired in-depth professional knowhow required for developing strong channels across borders.



If Chinese SMEs would like to be able to compete internationally, this of course must change. Knowledge is the key basic element of any competitive advantage, as have been always. For that, SMEs leaders should actively engage in developing their international marketing & sales team, providing them with the appropriate training in order to, quickly and decisively, upgrade their international knowhow, skills and experience. By doing so, many Chinese SME exporters will soon manage to regain, and increase, their market share across many frontiers.

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