



CHINA

face value

by Anthony Stock

Growing up in England, one is constantly advised to 'let nature take its course', to 'bide your time', or to 'take things at face value'.

These interesting, yet slightly vague exhortations, are perfect preparation for the task of doing business in China.

Westerners frequently crave instant-gratification, acceptance, decisions, even instant karma.

Those who are impatient in China will inevitably founder on the rocks of misunderstanding. Organisations seeking to understand the vagaries of doing business in China, will do well to choose an advocate who is patient, one who can read the signs and is prepared to gracefully accept 'no' for an answer.

It would be a mistake to conclude that the chief executive officer or sales executive, who returns empty handed from their first foray into China, has failed. If that member of staff is tried and trusted, the results of the initial sales mission should probably be classified as exploratory.

China is a 5,000-year old civilisation, a vast country that has a population in excess of 1.3 billion people. The Chinese do not measure time in the same way that busy executives based in the West do.

Relationships must be developed, that have clear boundaries and benefits, and are favourable to both parties.

Many Australian buyers of tile have rushed to China to buy tile. Imports from Italy have declined by 50 per cent in the space of five years. In stark contrast, imports from China have risen tenfold.

Undoubtedly, some good and lasting relationships are being developed. However, some Australian buyers are driven by the single imperative of price. Tales of the availability of polished porcelain tiles at US\$4 per square metre have literally attracted swarms of buyers, many of whom are prepared to place orders for vast numbers of containers.

Some buyers assume that a 50 or 100 container order will have the manufacturer or his agent grovelling at their feet.

In a country that produces more than 2,200 million square metres of tile annually, where domestic consumption is still the key industry driver and second or third quality tiles that would be deemed unacceptable in the West, are specified for vast

commercial projects, a 50 container order is nothing to write home about.

Leading Chinese manufacturers are busily updating their production processes and a number of companies are very adept at manufacturing third and fourth generation porcelain products. A considerable number of these producers are seeking to do business with clients, who value the improvements made in terms of quality and aesthetics, at considerably more than \$3 or \$4 per square metre.

The costs associated with penetrating new markets in Europe and the United States, of upgrading equipment, maintaining research and development, and keeping pace with their Italian and Spanish counterparts, the arbiters of ceramic style and fashion will ultimately determine that the price of high quality Chinese ceramic tiles will rise. Good prices for good products will still be available, but not at US\$4 per square metre.

As a result of buying cheap Chinese polished porcelain tiles, some buyers in Australia have been confronted with problems associated with sealing, maintenance and general issues of quality that were largely unheard of when material was primarily sourced from Europe.

This may result in broad misperceptions by architects, builders and consumers about the general reliability of contemporary ceramic tile. Ironically, this difficult issue has appeared at a time when product quality in Europe was never better, when research and development into ways to differentiate European product from Asian product, Chinese in particular, are steadily increasing.

The Way Forward

As Chinese manufacturers succeed in exporting greater volumes to Europe and the United States, the same issues faced in Australia may become apparent.

If the Chinese are going to gain lasting success in foreign markets, they will have to recognise that importers who find themselves faced with problems associated with quality may revert back to tried and trusted suppliers.

Ron Green, the chairman of Tile Power, a buying group that services thirty member stores based in New South Wales and

Victoria in Australia, stated in Tile Today Oceania issue no. 48 - August 2005: "In my opinion Italian quality is second to none, they are currently producing fabulous products, which our members are selling in increasing quantities. I have decided not to import any more Chinese polished porcelain. In my opinion there are simply too many problems associated with sealing, lipping tiles and other factors, which are not good for our industry."

Clearly, other Australian importers have been more fortunate than Tile Power. Ron Green is not ruling out future purchases from Chinese manufacturers, but like others in the industry, he is concerned with the reputation of his company and the broad public perception of ceramic tiles.

Rejection of difficult to clean, seal or maintain, inferior polished porcelain tiles and concerted efforts to raise the bar by Chinese manufacturers in terms of export quality products, will eventually result in a solution to this problem.

Already many Chinese and European manufacturers are emphasising the inherent benefits of glazed polished porcelain tiles that like their predecessor, monocottura, do not require sealing. Other manufacturers are pre-sealing polished porcelain at the factory.

Ultimately, there will be a rationalisation of the industry on a global scale. Some industry observers predict that standard products will be produced for Italian and Spanish manufacturers by Chinese companies, that may enter into joint ventures with their European competitors. Alternatively, larger European entities may open production plants in China. The supply of energy, which is totally imported in Italy and the demands of the Kyoto Protocol may radically reshape the traditional landscape in Castellon (Spain), Sassuolo (Italy) and Foshan (China).

Face-to-Face

At this point in time the Europeans and the Chinese share some natural misgivings about each others objectives. In the West fears related to copyright issues and flagrant breaches of standard business practices prompt constant cries of foul play.

In the East, Chinese manufacturers accuse their western counterparts of restricting their access to major trade and industry events.

There is evidently some truth in both arguments. Again, it comes back to what is considered ethical or normal in home markets is frequently not accepted elsewhere.

Many industries across the globe are hurting as a result of China's aggressive forays into foreign markets. In the United States, steel mills are closing and manufacturers of textiles have had to make special arrangements with Chinese suppliers who are swamping their market with low priced fabrics and weaves.

Fears for the future have already prompted calls in congress for trade embargos on Chinese products or revaluations of the Chinese currency.

China is evidently undergoing a fantastic rate of change and in many areas dramatic progress is being made in relation to the wellbeing and prosperity of its people.

However, foreign fears need to be considered carefully by the powers that be in China. Rejection of Chinese goods or trade practices could ultimately undermine the prospects of continued economic growth that is expected to position China as the

world's number one economy within thirty years.

The problems facing members of the tile industry are those that are faced by many other industries that feel they are being threatened by China's growth.

Both parties have to appreciate the others dilemma.

Apparently, the Chinese and the Malays in particular, have a hard time saying 'no'. This probably relates to the soft nature of the Malay culture. The prospect of losing face (which could be determined as reputation or credibility) or not giving face to their other party is a frightening dilemma for many Chinese businessmen.

Another prevalent saying during my childhood in England was 'you have to know when to take no for an answer'.


In some cases 'yes' in China can really mean 'no'. Interpreting the signs and indirect signals that mean the answer is a polite no, will leave the door open to future approaches.

When doing business in China the maxim is 'hasten slowly'. From a western perspective, there is a broad expectation that the Chinese companies should respect international law and business practices in relation to product development and quality.

Eventually, both parties will have to come face-to-face.

There are many ways to solve potential problems. In an article entitled 'Chasing China' by Glenn Cullen which appeared in the American Express, Business Express magazine published in December 2005, Graeme Hoare a director of tapestry importer Northern Leisure Sales, actually advised small traders to offer the seller in China "a higher than asked for" price. This train of thought revolves around the fact that high volume at small margins is often the key to purchasing in China. By offering a little more upfront when quantities are smaller, a deal can often be clinched.

Mr Hoare warns that the trick is to avoid falling into the same trap. "The advice I'd give to anyone importing and selling from China on the Australian market is that you can't afford to work on super-slim margins because things can go wrong. You've got to give yourself a bit of fat."

From a tile industry perspective, retailers are engaged in selling materials that must confirm to certain standards and are expected to stand the test of time. Quality always comes at a price; those who buy wisely will succeed. 



This huge 1800 x 1200 mm porcelain tile is an example of the radical advances made in terms of technology by Chinese manufacturers. Advances in relation to long term acceptance in some markets still have a way to go.