

The Overseas Chinese Marketing Strategy of Price Discounting: A Brunei Study.

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Introduction.

Victor Limlingan (1986) in his study of Overseas Chinese trading companies in South East Asia (SE Asia) demonstrated that their business success was based on a marketing strategy of moving surplus stock along to customers through low margin sales and credit extension. This strategy created high volume sales and greater turnover. It also made the Overseas Chinese trading companies more successful than their non-Chinese competitors. (Limlingan 1986:74-75) Yet, as Limlingan points out, the significance of credit extension as a marketing strategy was found in the expansion of market share and the building of business networks. "From the basis of a substantial market share the Overseas Chinese have sought to create and sustain their competitive advantage by pursuing economies of scope rather than economies of scale." (Limlingan 1986:92)

For the Overseas Chinese business, credit extension is used as a means of preferential pricing and is a common feature of the business management system. (Limlingan 1986; Luo 1995, 1997a & 1997b) In an effort to build business and social networks, *guanxi*, Overseas Chinese businesses will provide favours – or preferential treatment- for family and business associates. (Lasserre 1999; Wong 1997; Whitley 1994) The objective of preferential pricing, however, is not only to move more stock but to participate in the *guanxi* process of building relationship networks to broker influence - *guanxiwang*. Accordingly, preferential pricing for the Overseas Chinese business is understood as a means of relationship marketing. (Luo 1995 & 1997b; Walters 1995; Ambler 1995; Anderson and Narus 1990)

A neglected area of study in this subject of preferential treatment, however, is the use of price discounting as a means of relationship building or *guanxi*, among the Overseas Chinese business community in SE Asia. Accordingly, it is the objective of this study to ascertain whether the Overseas Chinese business remains a family centred operation which, in practicing *guanxi* as an exercise in relationship marketing, provide preferential treatment for family and business associates through pricing discounts.

The Purpose of the Study.

In selecting Brunei to sample the business activities of Overseas Chinese businesses in SE Asia, the purpose of the study is to test the degree and nature of preferential price discounting as a relationship marketing strategy.

The influence of *guanxi* upon Overseas Chinese business management has been widely reported. (Whitley 1994; Redding 1997; Backman 1995; Min 1995; Dwyer, et al. 1987; Foo 1995) Yet, Limlingan's study of SE Asian Overseas Chinese trading company operations and credit extension is considered here to have made an important contribution in revealing something of the actual marketing practices of Overseas Chinese business. Consequently, this study seeks to extend Limlingan's study by focusing on the practice of price discounting as a means of *guanxi* business and network building.

One of the benefits of this study is to show how *guanxi* for the Overseas Chinese in SE Asia has taken a particular commercial character and is to be experienced in the daily routine of business practice. Further, that preferential pricing is commonly used as a means of business growth by way of a relationship marketing strategy.

Literature Review

Robert Dwyer et al. (1987) argued that marketing theory mainly focused on the exchange event between buyer and seller to the neglect of their ongoing relationships involved in the buying process. They suggest that the lack of attention to buyer-seller exchange relationships was “a serious omission in the development of marketing knowledge”, and conclude that “We are hard pressed to find anything more central to marketing [than buyer-seller relationships]. (Dwyer et al. 1987: 11&25) Similarly, Regis McKenna (1991), believing that relationships are the key to marketing, suggested that better marketing’ means integrating the customer into the company to create and sustain a relationship between the company and the customer. In appreciating that relationship marketing means that the customer is central to the whole business exercise, McKenna suggests that there is a need to move from monologue to dialogue with the customer. (McKenna 1991:65-67)

The development of the concept of relationship marketing has arisen out of the growing perceived value of the customer as found in the marketing (Drucker 1952; Webster 1988:32) and market-orientated approaches to marketing theory. (Shapiro 1988, Slater & Narver 1994, Lambin 1996) Relationship marketing has become an important topic for marketing theory especially in relation to the cultural context in which it occurs. (Buttery & Wong 1999; Gronroos 1994; Grumerson 1994) It has also been foundational to the understanding of networks and network marketing. (Dwyer 1987; Anderson and Narus 1990; Buttery & Wong 1999; King 1991) Accordingly, both relationship marketing and network marketing have been useful frameworks in the examination of Chinese business relations.

Relationship building through the development of business networks is fundamental to Overseas Chinese business system. Indeed, Overseas Chinese business marketing assumes an environment of networks and relationships in which relational tools such as providing favours (*renqing*), building trust or assuming obligations, are used to provide or gain discounts, credit and low margins. The overriding importance of the relationship between the business and the customer means that their commerce is flexible and adaptable to changing opportunities and circumstances.

Networks, admittedly, are not exclusive to Chinese business management - the Japanese *wa* and the Koreans their notion of *inhwa* are illustrations of other inter-market and concentric networks. (Ewing, et al 1998; Kotler, et al 1996) Yet, *guanxi* personal and business networks remain essential to Overseas Chinese cooperative business strategies and practice. Michael Ewing suggests, “*Guanxi* is a major dynamic in Chinese society, and a key differentiator between Chinese companies and those of Japan and the West.” (Ewing 1998:3) Chinese business is an expression of their culture and social structure and, accordingly, fundamentally tied to social values and interrelationships. While there has been research into network building and relational marketing for Western markets, (Gumersson 1994) and some examination of Chinese markets (Buttery 1999; King 1991;

Luo 1997b) there is a genuine need to extend the examination of network marketing in SE Asia (Hakansson 1982) and particularly to consider Overseas Chinese marketing strategies.

Geert Hofstede's (1980) cross cultural study of management greatly contributed to the appreciation of the influence of culture on business management systems. Since that study, the influence of culture upon the Overseas Chinese business system has received much attention. (Whitley 1994; Redding 1997; Backman 1995 & 1999; Min 1995; Chinn 1990; Wee 1991) These 'southern sojourners' (the Nanyang hua-qiao) migrated into SE Asia in 'chains' as relatives and neighbours from towns and villages in China tended to follow one another to particular locations. (Backman 1995:17-18) Overseas Chinese, that is, Chinese living outside of China, by 1995, comprise more than 60 million people with assets of more than \$2tril. Michael Backman suggests that they are indeed the driving force behind the "commerce throughout much of South-East Asia, controlling for example, up to two thirds of the region's retail trade with less than ten per cent of the population." (Backman 1995: 153)

Central to Overseas Chinese social and commercial life, is the concept, or even social philosophy, of *guanxi* (or *kuan-chie*) - the network or 'connectedness' of the relationships with the Chinese community. Of primary importance to the Chinese way of life is the enhancement of the family unit and the bonds of trust and interrelationship which extend beyond the nuclear unit to relatives and friends. Accordingly, trust and loyalty among family members and friends are taken for granted and networks develop by way of "a complex web of mutually-binding obligations and dependencies". (Lasserre 1999:127) *Guanxi* involves both the building of relationships as well as the process of using and building the relationship networks (*guanxiwang*) to broker influence and preferential pricing.

In principle, *guanxi* is strongest with immediate family and friends, and weakest with strangers. *Guanxi* is a broad understanding of interrelationships within the Chinese community and does not distinguish business relationships from family or other social relationships. *Guanxi*, then, is expressed in the form of doing favours, providing opportunities, and giving discounts to those with whom relationships are strong. Loyalty to the family – which can extend to people who are not biologically related – is counter-balanced by distrust of strangers.

In China, *guanxi* has a broad application to family and social networks, but need to survive in 'unfriendly' and even discriminatory environments in SE Asia has led *guanxi* to take on a particularly strong commercial quality for the Overseas Chinese. Consequently, where *guanxi* is strong in family relations, it is also evident in Chinese business negotiation and management. While *guanxi* has changed over time and differed by geographical and social context, *guanxi* continues to be fundamental to the Overseas Chinese business system in SE Asia. (Limlingan 1986; Wong 1997; Foo 1995)

To the Overseas Chinese business, building relationships is the primary objective. Amber suggests that "the Chinese believe that one should build the relationship and, if successful, transactions will follow. Westerners build transactions and, if they are successful, a relationship will follow." (Amber 1994:69) *Guanxi* has become so fundamental to business management and marketing that Luo reports that a new term has been derived, *guanxihu*, to describe 'specially connected firms'. (Luo 1997; Amber

1994) But unlike the networks of companies and people of the West, where there is mutual give-and-take, in the *guanxihu* business system obligation and respect are based upon social and corporate positioning. Within a network there are 'stronger' and 'weaker' members. As the stronger members have an obligation to give, and continue to give, to the weaker members, so the weaker members demonstrate their respect and give honour to the stronger members of the network. (Pye 1986).

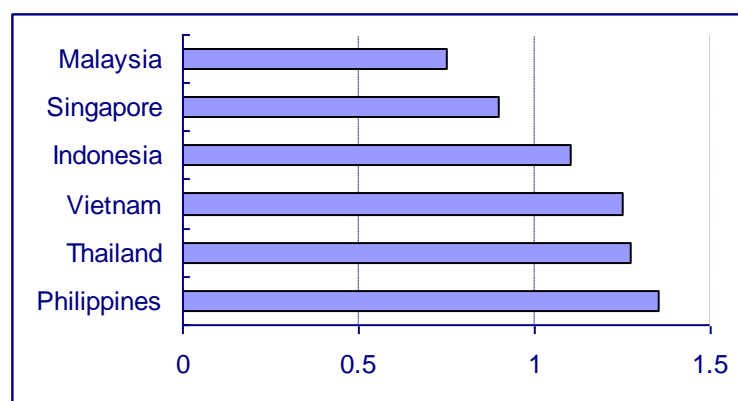
Ambrose King in discussing this issue of the differentiated order of Chinese society, points out that in the Confucian system, 'man' is understood as a relational being. People have their place, and their role to play within society. This means that "role relations are properly differentiated according to the nature of relations between particular individuals. Social order and stability rest upon differentiation rather than homogeneity." (King 1996:323) *Guanxi*, accordingly, expresses the dynamic of human interactions of people within a differentiated society. Trust, obligation, and preferential treatment are all features of this dynamic relational system. In business, *guanxi* is not just about closing a deal or building a relationship. It is about building life-long relationships and business associations across an integrated web of social roles and responsibilities. "If necessary, *guanxi* may involve the constant giving without obtaining a favour in return or visa versa, provided there is enough trust in the relationship to know that when a reasonable favour is asked it is given". (Buttery and Leung 1998:383) Again, business arises out of the nature and strength of the relationship and *guanxi* and *guanxihu* are as much an expression of cultural values and as it is of a business marketing strategy.

For the Overseas Chinese business, doing favours and giving discounts on products and services is not an exchange-focused strategy simply to bring more sales. Preferential treatment by way of price discounts and favours is an expression of a broader strategy to build relations, meet obligations, and secure new and long-term business and is fundamental to their way of life and way of doing business. Accordingly, there is a 'different' and more complex agenda in giving preferential treatment than seen commonly in Western business transactions.

From the point of view of Western analysis, Nagle (1994) suggests that in the past 20 years there has been great interest in the theoretical development of pricing strategies. However, there is no one dominant pricing strategy or model in place in the West. Marn and Rosiello (1992) in examining the price management of business transactions in the US, suggest that discounting is a common feature of business. Discounts are given to buyers for paying their bills within 30 days, for volume purchases, freight and advertising costs. Marn and Rosiello suggest that transaction discounts are commonly between 20 and 30%. Marn & Rosiello 1992:87) These discounts, however, are representative of business-to-business transactions, and, unlike the Overseas Chinese, focus on securing and closing the transaction. Discounting of products for sale to the end user, for the West, tend to be much more seasonal and dependent upon the marketing strategy employed by the business concerned. Nagle and Holden (1995) have identified 6 pricing strategies- each with its own discounting format: Cost-plus pricing; competition based pricing; negotiated pricing; life-cycle pricing; segmented pricing; and customer-value based pricing. While customer-value based pricing is perhaps the closest model to the Overseas Chinese *guanxi* system, price structuring and discounting is not a straightforward issue in SE Asia.

In the SE Asian context, the discounting on the price of products is an important marketing variable. Regardless of whether it is clothing, shoes, household goods or cars, people in SE Asia will pay a high price for goods they perceive to have cultural significance and status. But, herein lies the dilemma for the SE Asian consumer, the average income of consumers in many market segments is quite low and, while demand is quite high, there is a large degree of price sensitivity as consumers want high-cost items at low prices. Price itself, however, is often perceived as an indicator of quality, and therefore status. Schutte says “the price-quality equation serves as a risk-reduction mechanism for the uninformed.” (Schutte 1998:165) Across SE Asia, the price-quality indicator is common and helps people stay in line with their culture’s expectations. Generally, it is believed that high price means high quality.

Price-Quality Indicator



Source: Probert & Lasserre

As discussed, particularly Overseas Chinese businesses, are likely to use a low margin sales marketing strategy to compete against high priced foreign goods. But marketing products in price-sensitive environments require more than lower prices, it requires increasing the ‘perceived’ value of products. This can be achieved through giving discounts to customers.

Studies by Luo (1997) and Limlingan (1986) discuss the importance of credit extension as a form of preferential terms of payment. While Limlingan points out that providing credit has benefits for both buyer and seller, Luo’s research found that 95% of his survey respondents believed that credit extension was an intricate part of *guanxi* business relations. (Luo 1997a: 54) While both studies appreciate the value of preferential treatment to the *guanxi* and *guanxihu* marketing system, they neglect to consider the value of price discounting as a *guanxi* business variable. In response to this need to understand Overseas Chinese use of preferential pricing, this study seeks to test whether preferential discounting is a *guanxi*-associated business variable.

Methodology

With the cooperation of the Brunei Chinese Chamber of Commerce, the Chamber’s membership list was made available for this survey. From a list of 354 businesses, a

sample of 150 was systematically selected by using a random sample number of 2. This involved drawing every n^{th} element in the population starting with a random chosen element between 1 and n^1 . All these businesses were located in either Bandar Seri Begawan or Koala Belit; Brunei's two main business-residential centres.

Over a 4 week period, the managers of the 150 firms were contacted by phone to arrange an interview to answer a questionnaire. Of the 150 firms contacted, 123 completed usable questionnaires. A response rate on 82%.

Of the 123 firms used in the survey, 45% of the business managers were Hokien, 20% were Hakka, 14% Haihan, and 11% were Foochow. The majority of the respondents (55%) were under 40 years of age, with 75% of all respondents having completed high school and 29% having completed a university diploma or degree. While 59% of respondents had worked with their business for less than 10 years, 14% claimed to have professional management experience.

With regard to the nature of their business, 39% were in retail, while 37% were in services, 12% in wholesale, 6% in manufacturing, and 6% in construction. The majority of businesses (75%) had been established for less than 15 years, and some 73% of all businesses employed less than 20 people. Of all businesses, some 76% indicated that they had at least one other family member working in the business with as many as 25% of businesses employing between 6 and 15 family members.

The rationale in asking a question about ethnic background was to establish the breadth and origin of the immigration pattern to Brunei. Backman (1995) has suggested that the 'southern sojourners - nanyang hua-qiao – moving across SE Asia had come from various parts of Southern China and this is found to be true for Brunei. While originating mostly from poor urban and rural settings in China, within two or three generations, the Overseas Chinese are shown here to have attained relatively high educational standards. Similarly, the question concerning the number of family members employed in the business was to establish that family involvement in the business remains an important feature of Overseas Chinese businesses – as suggested in the literature. Clearly, it is.

Instrument Used for Data Collection.

The primary data used to construct this survey commenced with a series of personal interviews with Chinese business managers to determine the nature of their preferential treatment of relatives and business associates. This initial investigation was used to determine whether *guanxiwang* was something widely practiced among Chinese business in Brunei. The information collected from this first step was then combined with secondary data obtained from a literature review and provided the basis for the development of a structured questionnaire used for this study.

The questionnaire contained seventeen questions. Thirteen questions used a non-comparative scale and four used an itemised rating scale ranging from "not pursued", a scale of (1), to "pursued to a great extent", a scale of (5), for measuring respondent's reactions to each matter.

To test the degree of relationship marketing – or *gunaxiawang* – practiced by these firms, four matters were surveyed: Pricing Objectives; Pricing Strategy, Factors Influencing Pricing Strategy; and Price Preferencing. Philip Kotler's list of pricing objectives and marketing strategies were used in the design of these questions. (Kotler 1997: 392 & 496)

In order to pre-test the questionnaire, ten business managers were approached to complete a trial survey. The feedback from these interviews were then used to refine some language problems and clarify the structure of the questionnaire. Once the final structured questionnaire was prepared, appointments for interview were arranged. The interviewers provided the respondents a copy of the questionnaire during the interview for them to complete. The interviewers provided clarification of the questions when necessary to ensure a minimum of confusion. The questionnaire was written in English with interviewers speaking both English and Chinese.

Discussion of Results

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