



MARKETING RETAIL FURNITURE IN CHINA

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ABSTRACT

Best practices for retail marketing in general, and retail furniture in particular, are not the same in China as in the United States. While there are obviously similarities, in that “good marketing is good marketing,” we point out in this paper that there are several differences in effective marketing between China and the United States. We focus on the retail furniture industry, although many of the aspects we discuss hold true for other industries as well. As we note, these differences are based on culture, tradition, economics, and other factors.

INTRODUCTION

The simplest definition of marketing is “managing profitable customer relationships (Armstrong et al., 2014). In this paper we attempt to uncover and describe many of the differences between the best marketing practices used in China and the best marketing practices used in the United States. We focus on the retail furniture industry specifically. There are similarities throughout all of retail, and therefore, much of the analysis and perspective is also likely to apply broadly as well. The paper also notes specific facts about entering the Chinese market and doing business in China in general.

THE CHINESE CONSUMER

“Affluent consumers in China will remain an elite minority, making up only six percent of the population in 2020. (In the United States in 2010, more than half the population fell within the income bracket of \$34,000 or above, and were at that time labeled “affluent.”) But that six percent will translate into about 21 million affluent households, or 60 million affluent consumers” (Atsmon, 2012). Located primarily in China’s big cities these consumers are already present. They may operate successful businesses or may be involved with the Chinese government in some fashion. Direct observation suggests that these consumers enjoy eating with friends and shopping as much as their American counterparts do.

In addition to the affluent consumer, the Chinese middle class consumer is also coming on-line. A large portion of China’s 1.5 billion citizens, these consumers are feeling the effects of having (positive) disposable income for the first time. In the United States, family hierarchy still consists of multiple grandparents, multiple sets of sons and daughters and an even larger set of grandchildren. When assets are divided up upon the death of a grandparent, those assets tend to spread wide with many recipients receiving only a portion of that person’s wealth. However, the Chinese are experiencing an upside down pyramid in this regard. Thirty years of a “one child policy” in China has meant that in many cases the assets of four grandparents, and two parents, get funneled into only one child. This includes real estate holdings, cash and other assets. It is not uncommon for this one child to possess, say, three pieces of real estate. He or she lives in one and rents the other two. Suddenly, a medium size family who earned only enough to just get by, has now become a very small family with meaningful disposable income.

With all the talk about China as a singular place, it would be easy to start thinking of it as such. In fact, China, with its 1.3 billion consumers, is highly segmented with seven major markets with different languages and dialects. Each of these areas has its own customs, preferences and local government. The map in Figure 1 shows the seven major markets as outlined in an article by Liu (2000) published in the Journal of Consumer Marketing. However, within those zones, many more “sub-zones” exist. Marketers in China must be in touch with local preferences, because what works in one city or district may not work well in another.



(Liu, 2000)

Figure 1: A map of the 7 major Chinese markets

A FOCUS ON QUALITY

It may come as somewhat of a surprise to know that the Chinese place a very high value on quality. A family's everyday-ware dishes may be hundreds of years older than a counterpart family in the United States and be of very high quality. The country and its citizens have a much longer view of history than the typical family in the United States, dating back more than 3,000 years. That history is carried through the generations with artifacts and reminders of those who came before them.

With 1.3 billion citizens mostly located in the eastern portion of the country, many Chinese are short on space. Even in what is viewed as a luxury condo, space is often at a premium, and there is virtually no storage space. And, the rent for a one-bedroom condo in the major city of Shanghai averages around \$4000 per month in US dollars. With such minimal space, there may be no kitchen table or dining room table, but only a breakfast counter extending out from the kitchen. With so little overall furniture able to be fit into the "home" (apartment), each piece of furniture has to perform at the highest quality level.

There is irony regarding the importance of quality to the Chinese consumer compared to what is often described as a disposable mentality in the United States. This is because a large portion of the disposable furniture sold in the United States is made in China! This fact is not lost on the Chinese people. The Chinese are aware that products produced in their country are often substandard. Thus, they often prefer to buy foreign goods when available, especially goods from Germany or the United States. In 2010 China became the third largest export market of US goods (The Financial Express, 2011).

BRAND AWARENESS

US brands, such as Starbucks, McDonalds, KFC and even Dairy Queen, are available in even the most traditional zones of a city. Virtually every city has at least one large Apple store, and, it is reported that all of them seem "always busy" – similar to its American counterparts. See Figure 2. Brands such as Prada and Nike are very well known. The Chinese consumer understands and values these brands. Yet, "Chinese consumers have an inherent trust in the quality of foreign brands, but, because Chinese consumers are younger than their global peers, they tend to be less knowledgeable about foreign luxury goods" (Cray, 2013).



Figure 2: A typical "busy" Apple store in China.

BUYING MOTIVATIONS, CUSTOMS AND BEHAVIORAL CONSIDERATIONS

One of China's top two furniture retailers is KUKA. Discussions emphasized the importance in China of *appearance* of the furniture. While it is true that the American consumer, like the Chinese consumer, and all consumers everywhere, automatically notices appearance first, for the American consumer, *comfort* tends to be the primary buying motive. A typical American furniture shopper will select a few models which look like what they were hoping for, and then select between those in terms of comfort. A discussion of price, quality and other considerations comes next. If a piece of upholstery is uncomfortable to the US consumer, it is immediately crossed off the list. Each piece of upholstery has to comfort-wise "fit" the potential purchaser before the sale can move forward. In China it is the appearance of the piece that has to be the right fit, next is an examination of quality, then comfort in 3rd place. It would be interesting to obtain actual data from a consumer questionnaire put forth by the Chinese furniture industry to analyze the different attributes (comfort, appearance, price, quality, warranties, payment-over-time options, etc.) and see how the results of a factor analysis would differ.

La-Z-Boy dealers in the United States tend to display 20-30 different recliners lined up in rows. Many of them look similar, but they are displayed in different configurations in order to give the American consumer comfort choices. In China, KUKA displays only six to eight models, each one with its own mini-display or vignette and with individual POS (point of sale) material. Chinese shoppers could be seen *examining the chairs, but rarely sitting in them*. This is in contrast to American shoppers who tend to move from one chair to the next, *sitting in each of them*, in essence testing for the right comfort fit. With regard to furniture, appearance is the most critical variable in China while comfort is the most critical variable in the United States.

In the United States, larger retailers like Walmart and KUKA tend *not* to negotiate price. However, capitalism is alive and well in China. The Chinese *do* negotiate price on many of the goods they purchase. It has been part of the Chinese culture since the Silk Road came to China hundreds of years ago. The price of virtually every item purchased in China is able to be negotiated, with occasional exceptions, without any discernible pattern to these exceptions.

Also, mainland Chinese will often shop in their home city and then travel to Hong Kong to actually purchase goods that are expensive enough to warrant the expense of the trip. Indeed, Hong Kong has no sales (or VAT) tax, while

mainland China's VAT tax can be as high as 17%. Hong Kong is still run as an independent province with its own currency, borders and laws. One might speculate the analog of this in the United States, where shopping is often done live in stores, and the purchase actually made on the Internet, with no sales tax levied. Of course, perhaps a more analogous case of this is when a consumer drives over the border to another close-by state that does not have a sales tax to make a large purchase in that state. (In theory, in most states with a sales tax [e.g., Massachusetts], tax-laws say that the sales tax not paid must be reported on one's state income tax form and paid to the state of residence. It is speculated that this reporting rarely takes place.)

Delivery and service were once free as part of the sale in American domestic furniture stores. These [mostly family] furniture stores offered free delivery and they stood behind everything they sold even after a manufacturer's one year parts and labor warranty was up. This type of service can still be found in the United States, but with every passing year it gets harder to find. As a rule of thumb, American consumers not only pay for delivery but pay for service as well, if indeed, the service is even available. During the recession of 2007-2009, some stores had to choose which departments to eliminate. Service and warehouse personnel were often the first to go, in favor of less effective, but also less costly outsourced delivery providers. Negative consumer's service experiences can be found on *Yelp* and other websites explaining this situation.

This does not seem to be the case with China's successful furniture retailers. KUKA currently reports giving its customers both free delivery and a five-year parts and labor warranty. Quality is of the upmost concern, given this fact. This is part of a long-standing tradition of Chinese "*Guanxi*." "In *Guanxi*, the social and the personal have melded together and placed the relationship on a higher plane than mere friendship. There's a melding of family, friends and business associates into a communal group, where a trusting relationship exists between parties" (Cray, 2013). *Guanxi* networking makes up the very fabric of life in China. In a communal group, where a trusting relationship exists between parties, a five-year warranty goes virtually without saying.

"Traditional *Feng Shui* is an ancient system based upon the observation of heavenly time and earthly space" (Wikipedia-1, 2014). Interest in how objects are placed is present throughout China and has practical bearing even today on anything dealing with the home – including the placement of furniture within the home. "The history of *Feng Shui* dates back 3,500 years before the invention of the magnetic compass" (Wikipedia-1, 2014). The Chinese were the first to discover the compass and had an in-depth understanding of the positioning of the stars. "*Feng Shui* was first used in China in the placement of graves (Water, 2014). *Feng Shui*, literally meaning "wind and water," is a traditional Chinese concept linking the destiny of man to his environment. It aims to ensure that people live in harmony with their surroundings. The Chinese have a deep belief in "*Chi*," and it is incorporated into many aspects of their life. *Chi* is the animating life force that is everywhere; it "permeates your home, physical surroundings, the rivers, roads, trees and all people" (Water, 2014). The purpose of *Feng Shui*, the "art of placement," is to enable you to tap the beneficial *Chi* energy to the maximum, in order to disperse, disrupt or remove obstructions to free the flow of *Chi*. Furniture placement within the home generally takes *Feng Shui* into consideration; certainly, most interior design work done in China starts with *Feng Shui* as the first building block in the room.

Color also has much more significance in China than in the United States. In China the color has strong meaning. When selecting apparel, furniture, or even the color of a new vehicle, this is taken into consideration. Based on Wikipedia-2 (2014)

- Black, corresponding with water, is a neutral color. In modern China black is used in daily clothing.
- White is associated with death and mourning and was formally worn at funerals, but now it depends on the age of passing. White represents gold and symbolizes brightness, purity and fulfillment."
- Red, corresponding with fire, symbolizes good fortune and joy. Red is found everywhere during Chinese New Year and other holidays and family gatherings.
- Blue represents nature and renewal, and often indicates spring time. The color implies vigor and vitality. Green is associated with health, prosperity, nausea and harmony.
- Yellow, corresponding with earth, is considered the most beautiful and prestigious color. The Chinese saying, *Yellow generates Yin and Yang*, implies that yellow is the center of everything. Associated with, but ranked above brown, yellow signifies neutrality and good luck. Yellow is sometimes paired with red in place of gold.

With all of these differences, what are the similarities? The upholstery frames that KUKA have on display are often identical to US frames, and some of the best-selling frames are full of color and variety. Some fabrics are the identical fabrics used in the United States, but, in China, they tend to be more colorful with florals and patterns.

DIFFERENCES AND SIMILARITIES IN FURNITURE RETAIL STORE OPERATIONS

Availability of special order upholstery in the United States can take between 8 to 10 weeks to arrive at the retailer. American manufacturers use a "just-in-time" system for materials, and do production planning before a "cut" is produced to save cost. Once the item ships, it may take two weeks or more for the item to arrive at the retailer because of issues with the United States trucking system. The 2007-2009 recession has reduced the number of furniture haulers in the United States, and they now not only charge more, but take more time with delivery, waiting in some cases to send out only trucks that are full. Expected delivery times have actually increased in the last five years for special order goods - going from 6 to 8 weeks on average, to 8 to 10 weeks on average. In China, furniture retailers quote closer to 45 days, or roughly six and a half weeks for delivery. They are closer to the source for "cut and sew" fabrics and a lot of furniture production in general. This simply cuts down on the time it takes for the manufacturer to deliver the product to the retail store. A furniture retailer coming into this market would need to keep this in mind for competitive purposes. For product coming from the United States, which is substantial in terms of perceived value, this wait would have to be taken into explicit consideration.

It is difficult to find an exact figure to determine closing rates among sales people at American-based furniture stores. Some individual retailers will tell you that they close 80% of their customers; yet, periodicals and journals claim

that close rates are between 20-40% on average throughout the industry. Retailers who claim 80% close ratios may be reflecting “wishful thinking.” If they are counting pending customers who may visit the store multiple times, as one closed sale, and they have a very strong presence in a market with limited competition, this “80%” might be accurate, but misleading. Furniture stores in the United States are destinations. “Old timers” on American sales floors will tell you, “No one comes to a furniture store just to look around; these people have the intention to buy.” There is some truth to that old adage. In the 1930’s to 1950’s, furniture stores moved out of U.S. cities, many of whom adopted “wayside” as part of their name. Especially in rural markets, a furniture shopper had to drive 10-50 miles or more just to visit the store. If someone drove an hour to get there, he/she probably was not really “just looking.”

This is generally not the case in China. Furniture stores tend to be in furniture malls, with lots of other stores located in one central place in the city. For less than \$7.00 U.S., anyone can take a taxi and be at the mall relatively quickly. Many subway systems are like mini cities, literally capable of moving millions of people effectively every day. A short detour off one line to another and you are likely to be near a furniture mall with plenty of great restaurants nearby. This is a perfect combination for two great Chinese past times, eating and shopping! According to data at KUKA in Hangzhou, close rates in China tend to be closer to 10% for this reason.

A uniformed sales staff seemed to be present in many of the stores in China. This signifies to the customer what the sales staff role is at the store and exhibits a degree of professionalism. Less than a decade ago in the United States, male sales people wore ties, and twenty years ago, female sales staff predominately wore dresses. You will still see some of this today, but by dressing up too much, a sales person in the United States can also create a barrier between themselves and their customers who are generally dressed in a casual manner. In China, typically, the uniformed sales staff is pleasant and anxious to be helpful. Male sales staff wear matching sweaters and slacks.

The KUKA Flagship store in Hangzhou utilizes the same proper store orientation used in the United States. The sales staff is on the left when you enter the store and a path of openness invites you to browse to the right. Chinese sales people are not too pushy, but, as noted, want to be helpful and informative, and once engaged with the customer, they usually stay with them. The tone and the professionalism of the sales staff appear to be on par with that of the usual retail furniture store in the United States.

The temperature in the stores in China is typically much colder than the norm in the United States. It appears that heat is available in the Chinese stores, but few heat terminals are visible. It is not clear why this difference occurs; it clearly may be a cost issue. The sales staff wears full button-down coats to cope with the lesser amount of heat. The temperature difference in Chinese stores is often at least 15 degrees (F°) colder than what is usually the case in a store in the United States.

VISUAL MARKETING – A KEY

Signage is a key in China. Entire cities light up at night with neon and LED signage and enormous television screens with advertising dot the landscape. In Hong Kong the largest sky scraper in the Kowloon district becomes a rolling billboard at night. “Direct Mail and cold calling may work well in some countries, but they don’t work well in China. They are viewed as intrusive” (Cray, 2013). This is not unique to Hong Kong or mainland China. Indeed, there are various European countries, France being a most notable one, which has very strict privacy laws and views direct mail as somewhat intrusive. Countries vary significantly in terms of their attitude toward direct mail and unsolicited offers through catalog marketing or telemarketing.

“However, multimedia kiosks and video boards, which may be viewed as intrusive in the United States and parts of Europe, have a significant impact on the Chinese consumer” (Cray, 2013). It is also true that the level of sophistication in outdoor electronic media is far greater in China than what we see in the United States. The American furniture industry tends to avoid an overabundance of electronic media outside stores. The presence of this would lessen the value of the store in the eyes of the American consumer, by giving the exterior a look that would be perceived as too “tacky.” Zoning boards in towns across the United States would literally explode with rage if media signage such as those used in China were used in their city or town. However, the use of enhanced digital signage in the United States might be what is needed to draw attention to a location. If it is tastefully done and in the right market, creative, enhanced outdoor digital displays could bring welcome attention to some American-based furniture stores. It would be an interesting experiment to consider the impact of various types of digital displays in the United States.

As in the United States, Chinese companies utilize spokespeople on TV, and, based on frequency of use, television advertising is one of China’s biggest advertising media. Again based on frequency of use, it would seem that the Chinese prefer to use a celebrity spokesperson. In the furniture industry in the United States, it is more common to have the spokesperson be a member of the family that runs the business. National brands in the US, however, do utilize celebrities to advertise on television and these ads are available to local furniture stores carrying these brands. A example in the early part of 2015 that exemplifies an increased use of celebrities are the ads by “Rooms To Go” which attach branding to both Sofia Vergara and Cindy Crawford together in *the same ad*, describing the “Sofia Vergara Collection” and the “Cindy Crawford Home.”

CONCERNS TO BE AWARE OF

Corruption in China is still part of the fabric of the country. The lines between what is corruption and what is *Guanxi* can be hard to determine. “Friendships in China are action-based, rather than feeling-based. For example, a sign of friendship between parties would be the receipt of a sizable contract, even though you were not the most qualified or lowest bidder. In return, you would give a red envelope containing cash to your friend as a reciprocal gesture of that friendship. A red envelope with cash is how people traditionally present gifts to one another in China” (Cray, 2013). It is also true that most major companies are state owned to at least some degree. This means that an American participating in this type of “friendship” would be subject to the United States Foreign Corrupt practices act of 1977, which is being enforced by United States Department of Justice. A summary of this act is as follows:

“The Foreign Corrupt Practices Act of 1977, as amended, 15 U.S.S 78dd-1, *et seq* (“FCPA”), was enacted for the purpose of making it unlawful for certain classes of persons and entities to make payments to foreign government officials to assist in obtaining or retaining businesses. Specifically, the anti-bribery provisions of the FCPA prohibit the willful use of the mails or any means of instrumentality of interstate commerce corruptly in the furtherance of any offer, payment, promise to pay, or authorization of the payment of money or anything of value to any person, while knowing that all of a portion of such money or thing of value will be offered, given or promises, directly or indirectly, to a foreign official to influence the foreign official in this or her capacity, induce the foreign official to do or omit to so an act in violation of his or her lawful duty, or to secure any improper advantage in order to assist in obtaining or retaining business for or with, or directing business to, any person” (United States Department of Justice, 2014).

Intellectual property rights in the United States have little carry over in the Chinese market. “One of the reasons for this is that eight percent of China’s GDP comes from the counterfeiting of creative works, consumer goods, industrial products and software. That is significant. Therefore, it is very unlikely that there will be an end to the production of counterfeit goods in China in the foreseeable future, because of the significant profits and the number of people employed in the production process” (Cray, 2013). Eight percent of China’s GDP is a large number! Their economic output of counterfeit goods is more than many countries’ *entire* economic output. This does not mean that business cannot be done in China; it means, rather, that this “corruption” has to be taken into consideration and planned for. In Beijing, as well as other cities in China, one will often see Americans and other tourists buying knock-offs of the very luxury items sold in nearby stores. The irony here can’t help but be noticed. It is comical that the Chinese consumer calls the fake Rolex, the “Relax,” because there is no great fear of losing it, since it is going to work only for a short while anyway!

Reciprocity is another factor which is built into the fabric of Chinese life. “Reciprocity is simple: You do me a favor, and I’ll return that favor. I may not return it immediately, but the favor you extended to me I will eventually return” (Cray, 2013). Understanding reciprocity in China is important in negotiation and business dealings. It should not be taken lightly if one intends on doing business in China.

One needs to be careful where one targets geographically. China has more than ten new modern “ghost cities.” These are “cities” that are partially built for a large population but are incomplete and nearly empty. This is hard to imagine, considering that 20% of the entire world’s population lives in China. “For years, high GDP growth has insured local officials’ promotions within the Chinese Communist Party. In the case of the faltering Manhattan replica of Yujiapu, it helped boost Tianjin’s GDP growth rate to around 16 percent for three years, the fastest in China at the time. And, *that* helped former Tianjin mayor, Zhang Gaoli, get promoted to Vice Premier of China. In Zhang’s rearview mirror, on his way to Beijing, was a failed project and mountains of debt. Hundreds of miles away lies China’s most infamous example of a colossal waste of investment, the city of Kangbashi. Here, on most mornings, you can watch staff members of the local hotel do a choreographed dance to techno music sprinkled with horse calls, while taxi drivers pull up to watch. There is really nothing else to do there. The city, built for a population the size of Pittsburgh, is nearly empty” (Schmitz, 2014); indeed, the city is a “ghost city.”

This phenomenon also exists on a lesser scale within major populated cities, where big new buildings in various locations sit empty. On the surface there is no explanation for it, but one can speculate that the developers did not have an understanding of *Guanxi*, and their licenses to open were simply not approved. Of course, it is also possible that in some cases developers may have speculated incorrectly.

With all of this information at hand, one might wonder why not simply place a store at the edge of the city or slightly outside the city, in the same way American furniture stores did in the twenty years beginning around 1930? Many of these districts outside of the city would offer incentives to move to those locations. The reason is that the geographical size of the major Chinese cities is much larger than cities in the United States; for instance, while you can drive from Boston to Cambridge, Massachusetts in a one or two mile loop, the area of Beijing is 6,487 square miles! That is more than two-thirds of the area of the entire state of New Hampshire (9,350 square miles.) Additionally, within just five to ten miles out of the city proper, infrastructure, such as roads, power and utilities might not exist, or exist just on the highway. The population of Beijing is over 21 million people, and yet, road traffic just ten miles out of the “downtown/center” area of the city (but well within the land boundary of the city of Beijing) is light, and the land sparsely populated by farmers. This is not unlike some Canadian cities where farm land abuts the city. Retailing in China is done within the “center” of cities, and it is important to know this and embrace it if one’s intention is to do retail business in China.

Some western companies like Ikea are building mega stores in isolated areas closer to the edge of the cities. However, the jury is still out whether this strategy will be successful. An immediate negative is the lack of foot traffic. A furniture store located in a smaller mall space is going to keep overhead down, still differentiate itself, and most importantly, keep costs down. Given the marketing challenges we have already discussed, there is a danger in attempting to change consumers’ established patterns. The old adage, “location, location, location,” seems to be relevant both in the United States and China (and, likely, everywhere in the world.)

DOING BUSINESS IN CHINA

The Chinese VAT or Value Added Tax is the primary method of taxation within the country. “A value-added tax is a form of consumption tax where the seller charges the VAT to the buyer and then pays this tax to the government” (Cray, 2013). “The current general VAT rate in China on the sale or import of goods, as well as on providing processing, repair and installation services is 17%. A lower rate of 13% applies to goods such as paper products, food essentials and heating products for residential use” (VAT in China: Some basics). Depending on how a business is setup, however, one can make a portion or perhaps even all of the tax payment back in the form of a refund or subsidy from the government. Careful planning is necessary with respect to this issue. It is recommended that at least one year be allowed to deal with various paperwork and to go through the right channels to set up a new business properly from an accounting and legal standpoint.

The high tax will also limit a retailer's ability to offer price incentives to prospective buyers. Without structuring your business in such a fashion to get a large portion of that 17% tax returned, it might be difficult to operate in China. One needs to plan for this upfront.

It is well known that the cost of labor is less expensive in China than in many other countries; however, it must be kept in mind that China's labor laws are often compared to those of France, which also has a socialist system. The cost of providing housing assistance, medical insurance, unemployment insurance and more, runs 35-40% more than the individual's wage amount. Knowledgeable resources for Chinese employment practices are necessary before moving forward in China. Chinese workers work on both open-term and fixed-term contracts. China Law blog gives a short overview: "Each employee must be hired pursuant to the terms of a written contract. After the initial contract term expires, you may re-hire the employee pursuant to a second fixed-term contract. However, at the end of that fixed term, the employee will be automatically converted to an employee with an open-contract term. This means you have only one chance to hire an employee on a fixed term basis" (<http://www.chinalawblog.com>, 2014).

"Due to the above considerations, determining the length of the initial employment term is critical. We recommend an initial term of three years. This has two benefits. First, it allows you to provide a six month probationary period, during which time you can terminate an employee for any reason. This gives adequate time to test the basic skills of an employee. Second, it delays the onset of the open-term period for a period long enough to allow you to determine whether you wish to allow an employee to convert to the open-term status" (China Employment Contracts: Ten Things to Consider, 2014).

PRICING

With pressure from the VAT and the increased cost of doing business in China, a product is likely to be more expensive there than if it were purchased in the United States. Ethan Allen's CEO was interviewed about their stores in China, and was quoted as follows: "...he also said the Connecticut-based company prices its furniture in China at 25 percent to 30 percent above United States levels, due to higher business costs there" (Barris, 2014). This percentage may be higher than usual because most of Ethan Allen's pieces are produced at plants in the United States or Mexico. Companies like Ashley mix product produced in Asia with product from the United States. "Ashley relies on furniture made at its own plant near Shanghai and elsewhere in Asia, though it ships small amounts from its eight plants in the United States" (Hagerty, 2014). This may help reduce the cost to the Chinese consumer while also giving Ashley flexibility with VAT subsidies and rebates.

As marketers, we look at pricing from two perspectives. First, what we need to make and second, what the market will accept. "Price is another important marketing factor to consider and, like the localization, requires finding the right balance between two ends of the spectrum. China's Per Capita GDP is \$6,076 USD, compared with Australia's \$67,723, the United States' \$49,922 and the United Kingdom's \$38,589. Western companies operating in China must adjust their prices to suitable levels that their target Chinese consumer can afford. Companies should also consider price level differences across different regions of the country, as there are vast differences in income levels between different cities. However, foreign companies should not simply charge the lowest prices possible; marketing campaigns for luxury foreign products with a high perceived value could backfire if the price is too low. Luxury goods have a huge market in China, and wealthy people are willing to pay more for valuable goods. If the good is too inexpensive, it loses its "status" and uniqueness. It becomes a common product that everyone can have. Companies operating in China need to consider the perceived value of their products or services along with the disposable income level of their target audience, and price their products and services accordingly" (Startup China, 2014). Thoroughly testing the impact of price on sales and profitability of one's product is advised – of course, this may be viewed as a universal strategy, not at all limited to marketing in China.

PARTNERSHIP WITH CHINESE COMPANIES

"Ethan Allen furniture already is available in 77 stores in China operated by the United States Company's local retailing partner, Markhor Furnishings Company. Ethan Allen's chief executive, Farooq Kathwari, said in an interview that he expects the number of Markhor stores carrying Ethan Allen products to reach at least 100 within a year (Hagerty, 2014). La-Z-Boy furniture has one of the most successful relationships with the local Chinese company, KUKA. They place La-Z-Boy product on their showroom floors while also managing a portion of their Asian production as well. The La-Z-Boy/KUKA partnership seems to work well, with committed professionals on both sides, with the joint goal of being successful. Their partnership appears likely to be very successful as consumer markets in China grow.

However, excellent relationships between United States and Chinese firms are not always the norm. "The Chinese have an inherent wariness of foreigners due to the country's long history of conflict with other nationalities. The Chinese don't trust foreigners and, more to the point, anyone outside of their family" (Cray, 2013). Conventional wisdom seems to indicate that specific characteristics which make one firm successful in China versus another that is not successful are "due diligence" and more importantly, "patience." Again, to some degree, this is a universal truth for partnering companies to embrace.

EXTRACTING PROFITS

It must be remembered that the Chinese Yuan is not traded worldwide, only within China. This isn't a huge hurdle when investment is going into China, but it can be a hurdle when trying to extract profits from your operation. Many companies locate a holding company in Hong Kong or Singapore for just this reason. In Hong Kong you are close to the market, (in fact you are in an autonomous portion of China), and you do not need a visa to travel there.

IN CONCLUSION

China's many diverse markets are new and exciting opportunities for United States retailers and members of the

United States Furniture Industry. The combined marketing focus, which has made a company successful in the United States, is unlikely to be directly transferable to the Chinese market. Successfully entering the market will take patience and resources. Now may be a good time, however, to enter the market and begin to build a network on the ground. A trusting network of partners will take months or years to build, as will testing various districts within China to discover which ones suit your product the best. Many American consumers have been affected by sky rocketing cost of living expenses, which have reduced their spending power. Carefully entering the Chinese market now while it is in its infancy, may eventually balance the ups and downs of economic cycles in the United States. The concept of American domestically-produced furniture and other products, keeping factories busy while selling to the Chinese, has great potential. People who operate American malls that are suffering from declining traffic, would likely be jealous if they observed the health of malls in China. Mall-based retailers looking for new growth opportunities might consider expansion to China, if they haven't already done so. It is rumored that freight traveling *toward* China is two-thirds the cost of freight coming *from* China, and this may offset some of the cost of domestic American production. The demand for quality foreign goods is present in China, and many of our domestic companies produce the type of quality goods the Chinese consumer is looking for. It seems a natural fit that the opportunity to develop "profitable customer relationships," and sell into the Chinese consumer market be explored.

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