Professionalizing Relationship Management in China

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“This thesis is conducted as a part of the undergraduate program of BI Norwegian School of Management. This does not imply that the methods applied, the results represented, nor conclusions drawn, are verified by BI Norwegian School of Management, or Fudan University.”
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Executive Summary
This thesis presents the findings from a comprehensive analysis of relationship management within the Business-to-Business market in China and it was completed during the spring of 2010. The thesis was conducted for Höegh Autoliners which is a Norwegian based Ro/Ro shipping company with a China division. With a sincere intent the authors sought out to provide solutions and strategies on how to further professionalise Höegh Autoliners’ service offer based on an efficient relationship management process adjusted to the Chinese B2B market.

Höegh Autoliners is one of the world’s biggest operators with in Roll- on Roll- off shipping with a global network that touches upon 4 continents. The company have been operating in China since 1996, and provide solutions within transhipment on own or external vessel capacity. They have established a stable network in China because they offer a high quality service. However, the President of Höegh Autoliners, Carl-Johan Hagman declared that they needed to understand their fast changing environments and establish closer relationships with their customers. Consequently, the authors began to study the relationship management process and the role of relationships in China.

After a short introduction of the thesis’ problem statement and research questions, a detailed description of Höegh Autoliners is presented. This description includes internal findings. The authors saw this as important to enable the readers to get an accurate overview of the company’s current position in the Chinese market. A methodology chapter follows, where the choice of research approach and design is presented. The main emphasis of this thesis has been to investigate essential factors a company must understand and implement to establish a successful relationship management process in the Chinese business-to-business market. Relevant theories have been applied and the authors have conducted expert interviews based on these issues to enable them to answer the thesis’ research questions. Additionally, based on analysis of primary and secondary findings the authors have identified Höegh Autoliners’ strengths, weaknesses, opportunities and threats to lay the foundation for the strategies that the authors have suggested. The strategy chapter consist of goals, critical success factors and guidelines for Höegh Autoliners to professionalize their relationship management process.
Methodology

Since the authors had little prior knowledge about the examined area, they needed to develop a deeper understanding of the business-to-business market in China. Therefore, an explorative research design consisting of secondary data and qualitative primary research was conducted.

The authors chose a qualitative methodology with in-depth interviews because it would provide the authors with an in-depth research that could not be achieved through quantitative data. The authors conducted interviews with authors, China experts, professors and internal interviews with employees in the China division of Höegh Autoliners.

The secondary data was collected through specific literature within the respective areas of study. The literature included articles, Internet, books, previous theses and reports.

Findings

The findings from the analysis based on collected internal data and expert interviews indicated that Höegh Autoliners is a global company providing a high quality stable service with an established network in the Chinese Ro/Ro shipping market. However, the authors discovered that their relationship management process needed to be further professionalized to establish closer relationships with existing and potential customers. Furthermore, the competition in the Ro/Ro shipping market is intense and there is a high price pressure. To keep their leading position and stay competitive Höegh Autoliners have to alter their marketing mix and streamline their relationship management to create a foundation to further expand their network upon. Moreover, achieving loyalty from customers is a challenge in China and there is a lack of guidelines within Höegh Autoliners on how to create circumstantial loyalty. For Höegh Autoliners to succeed in the Chinese market, they have to build trust with their customers as well as the government. In addition, they should demonstrate commitment to the China’s overall development and growth to achieve trust from the environment in which it operates. Lastly, they need to acquire knowledge on the role of contracts and the Chinese negotiation process to be able to build relationships that are consistent with the traditional as well as the modern Chinese mindset.
Acknowledgments

The authors wish to express their gratitude and thanks to all the people that have assisted them in the process of writing this bachelor thesis. Without these people it would have been impossible to obtain the information needed to get a superior result.

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Abbreviations

B2B- Business to Business
CEO- Chief Executive Officer
CSF- Critical Success Factors
GM- General Motors
GMC- General Motors Companies
NCC- Non-Containerized Cargo
OEM- Original Equipment Manufactures
PESTEL- Political, Economical, Socio-cultural, Technological, Environmental, and Legal
PRC- People Republic of China
RMB- Renminbi
RO/RO- Roll-on - Roll-off vehicle shipping
SOE- Stated Owned Enterprises
SPD- Strategic Problem Definition
SWOT- Strengths, Weaknesses, Opportunities, Threats
WWL- Wallenius Wilhelmsen Logistics
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1 Introduction

1.1 Background of Thesis

This thesis has been conducted to attain knowledge on how to do business in the Peoples Republic of China. China today is characterized by contrast, changes and pragmatism and presents an interesting business culture to study.\(^1\) The vast size of China’s market has the potential to attract resources from around the globe and to create new dependencies that will reorganize the world economy.\(^2\) Foreign culture has become an important part of the new Chinese culture as worldwide brands are becoming an integrated part of the Chinese society today.\(^3\) Consequently, it is very important for international companies to know how to do business in China as the market is becoming increasingly important from a global perspective.

Höegh Autoliners is a Norwegian shipping company with a global network that touches upon all continents. Höegh Autoliners started its car carrier operation in 1966 and they have provided solutions within transshipment since. Then, in 1996 the company started its operation in China and is already well established within the Ro/Ro shipping industry in China.\(^4\)

In the fall of 2009 the authors were contacted by the Commercial Assistant in Höegh Autoliners’ China division, Dag Kristiansen. He asked whether the authors could contribute to Höegh Autoliners’ new sales strategy and the authors accepted his offer. The President of Höegh Autoliners, Carl-Johan Hagman declared that on the sales side they needed a closer relationship with their customers and they needed to understand their markets. To solve this issue for Höegh Autoliners’ China division the authors sought out to investigate the changes and opportunities in the Chinese market, and determine internal weaknesses and strengths. Based on those findings the authors wanted to help Höegh Autoliners professionalize their relationship management process.

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\(^1\) Kristoffersen. 2009. *Det nye Kina.*


\(^3\) Fang. 2005. *Att göra affärer i dagens Kina*

\(^4\) Appendix 1. Interview: Dag Kristiansen.
1.2 Problem Statement

How can Höegh Autoliners achieve a competitive advantage by establishing and maintaining close relationships with their customers in China, based on effective relationship management?

1.3 Research Questions

To identify the scope of the thesis and have a plan for the research process the authors needed to have well-constructed research questions. If research questions were poorly formulated it might have led to an inadequate research process. The authors recognized that the research questions are of crucial importance to know what literature to select and to decide the suitable research design. Based on this the authors formulated and identified the following research questions:

- How can Höegh Autoliners differentiate themselves to stay competitive in the Chinese market?
- How can Höegh Autoliners improve their relationship with existing customers and establish new relationships with potential customers?
- What are the critical means that can lead to loyal customers?

1.4 Limitations

The Chinese Ro/Ro shipping market seems very dynamic (Ro/Ro shipping can be defined as carry rolling-stock cargo, which is rolled on and off ship decks). After the authors started the research process, there has been changes in the market situation. The authors based the thesis upon information gathered until April of 2010.

Höegh Autoliners have offices in both Beijing and Shanghai. However, the authors only managed to arrange internal interviews at the Shanghai office. The internal analysis is therefore based upon these interviews as well as public information.

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6 Bryman and Bell. 2007. *Business research methods.*
Companies are often reluctant in sharing information on current strategies and core competencies. This has created further limitations in the internal analysis. The strategies suggested are therefore based upon the knowledge the authors have managed to obtain.

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7 www.hoegh.com/hoegh/
2 Höegh Autoliners

The information on Höegh Autoliners is based on secondary data and internal interviews conducted in the China division. The authors present a detailed description to enable the readers to gain knowledge on Höegh Autoliners’ position and situation in the Chinese market today. The information obtained laid the foundation for the analysis and strategies that will be presented later on.

2.1 Leif Hoegh & Co

Höegh Autoliners have been in the international shipping industry for over 80 years and has a well recognized brand image. In the beginning Leif Hoegh found an opportunity in the growing market for oil transportation. In 1966 the company diversified its activities and introduced a new concept for transportation, Ro/Ro shipping.

2.2 Company Introduction

Höegh Autoliners deploys 67 vessels in its global trade system today. These are managed from a worldwide network of 31 offices in four different regions of the world and the head quarter is located in Oslo, Norway. Höegh Autoliners is a completely integrated Ro/Ro company, and is one of the leading global providers of Ro/Ro vehicle transportation services.

The Höegh Autoliners fleet consists of owned and chartered vessels which are designed for maximum flexibility to cater for the variety of rolling stock carried in the various trades. The company has expanded its carrying capacity through acquisitions, building of new vessels and lengthening of existing vessels. Höegh Autoliners is continuously investing in developing ship designs and specifications to improve efficiency. They are also focusing on decreasing negative environmental impacts to perform its business in a socially responsible way.

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8 www.hoegh.com/hoegh/
Höegh Autoliners’ global strategy is:

“To continue our growth in the emerging markets based on providing high quality and efficient port-to-port transportation service while defending our position in the emerged markets”.

This strategy is enforced by offering a service from port to port and not to involve in other services besides this, e.g. mainland distribution. To lower the cost for their customers they are continuously working to maximize efficiency through a more effective sailing route. Höegh Autoliners believe that through offering a stable service of high quality there will be added value for the customers in the long-term.

To support this strategy their corporate values are to be bold, agile and professional. These values have been set to strengthen the organization by providing their employees with a vision of which direction their decisions and work ethics should go. Höegh Autoliners’ intention is that these values will increase collective accountability in changing markets.

2.3 Höegh Autoliners Today

Höegh Autoliners has a strong financial and strategic position, which enables the company to respond quickly to customer requirements for increased capacity and improved service offerings. The year of 2008 represented a climax in Höegh Autoliners’ history of shipping cars, which is their main cargo. However, because of the macro-economic events that emerged in the third quarter of 2008, their global market share decreased significantly throughout 2009. The global financial crisis has had an impact on the auto industry leading to corresponding effects on the dynamics of the Ro/Ro industry. In addition it has created significant market uncertainties and an increasingly fierce competitive environment.

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12 www.hoegh.com/autoliners/about_us/
13 Appendix 1. Interview: Dag Kristiansen
14 www.hoegh.com/autoliners/about_us/
15 Höegh Autoliners. Leif Hoegh & Co and Höegh Autoliners.
16 Höegh.com/autoliners/multimedia/archive/00003/HAIN_01-09_3556a.pdf
2.3.1 Service

Höegh Autoliners’ service is to provide transshipment of different cargo within the Ro/Ro shipping industry. They provide a stable service compared to competitors in the way that they have a reliable schedule that they can give the customers one month ahead. Their steady schedules include regular loading ports which enable them to give their customers the promise that their bookings will not be cancelled and thereby ensure the customers sense of security. They state that these factors have led to a larger service network than their competitors.\(^{17}\)

Höegh Autoliners mainly serve automakers and NCCs (Non-Containerized Cargo, like large machinery and railroad engines, dry bulk and liquid bulk).\(^{19}\) To improve efficiency and keep their competitive position in the industry, Höegh Autoliners use a Mafi-trailer to carry non-rolling cargo onto the ship\(^{20}\) and a Tug-master to pull cargo on or off vessels.\(^{21}\) The Mafi technology was originally one of their competitors Wallenius Wilhemsen Logistics’ core products, which Höegh Autoliners has adopted in recent years because of the high value generated by using this trailer to transport the cargo. The maximum dimension for Mafi’s cargo is 21 meters long, 6.5 meters wide, 4.1 meters high and 100 tons heavy.\(^{22}\)

\(^{17}\) Appendix 2. Interview: Jonny Xia, Appendix 5: Mr. Huang, and Appendix 6: Mr. Tang

\(^{18}\) Höegh Autoliners. Leif Hoegh & Co and Höegh Autoliners.

\(^{19}\) www.portseattle.org/seaport/cargo/cargofaq.shtml

\(^{20}\) Appendix 1. Interview: Dag Kristiansen

\(^{21}\) Appendix 6. Interview: Haibin Huang

\(^{22}\) Appendix 1. Interview: Dag Kristiansen
2.3.2 Organizational structure

The company has moved fast to adapt its long-term growth strategy to the new market reality. They recently changed to a decentralized organization structure to move decision making as close to the customers’ interface as possible. This organizational framework has been implemented with the intent of becoming the quickest, best and most professional company in the market. In March 2009 the commercial trade responsibility that until then had been in Oslo was re-located to four different regions:

1. America
2. Europe
3. Japan, Korea and China
4. India, Middle East, Southeast Asia, Africa and Oceania.

The heads of the regions report directly to the company’s CEO (Chief Executive Officer) and have the full responsibility of executing business in their respective regions. The President of Höegh Autoliners, Carl-Johan Hagman, says that they have chosen process orientation as a tool; established core teams that are responsible for developing key processes. The teams are tasked with deciding on the best practices and efficient use of resources. These practices should provide a platform that enables the company to grow in the future.

2.4 Höegh Autoliners China

The company has operated in China since 1996. It was first established in Shanghai and then they gradually expanded to Beijing. Today Øyvind Ervik is in charge of the East Asia region, which includes Korea, China and Japan. East Asia is an essential vehicle transportation market and he states that:

"Our future success in these markets relies on our ability to develop more tailor-made services and deliver predictable, high-quality services".

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24 Höegh.com/autoliners-multimedia/archive/00003/HAIN_01-09_3556a.pdf
25 Höegh.com/autoliners-multimedia/archive/00003/HAIN_01-09_3556a.pdf
26 Höegh.com/autoliners-multimedia/archive/00003/HAIN_01-09_3556a.pdf
27 Appendix 1. Interview: Dag Kristiansen.


2.4.1 Locations

The company has offices in Beijing and Shanghai. Höegh Autoliners’ argue that 
good relationships with their customers are more important than offices outside 
Beijing and Shanghai. The size of the country limits the option of covering all 
customers' locations. The staff travels frequently to visit their customers; they 
are out of the office 80% of their work hours.

2.4.2 Organizational structure

Presented here is the current organizational map of the China division, which 
consists of local staff.

2.4.3 Trade ways

As opposed to many other shipping companies like for instance WWL and 
Nykcos, Höegh Autoliners only focus on sea transportations. They have five trade 
ways out of China, and some of the loading ports are located in Tianjinxngang, 
Dalian and Shanghai. The first one is from China to Europe and the

29 Appendix 5. Interview: Justin Tang and Appendix 6. Interview: Haibin Huang
30 Appendix 1, Interview: Dag Kristiansen
31 Appendix 6. Interview: Haibin Huang
Mediterranean. They offer a regular service for this trade way, and they have two or three sailings every month. All of the charging ports in Europe are located in developing countries since it is difficult to export products from China to the rest of Europe. The second trade way is from China to the west coast of South America with one sailing a month. Höegh Autoliners’ third trade way is from China to Africa, this service is new of this year with many charging ports. Also, Höegh Autoliners offer additional services to Oceania and America. However, these trade ways are not regular and all the cargo needs to transship through Japan.

![Trade ways out of China](image)

**Figure 4: Trade ways out of China**

### 2.4.4 Position in the Chinese Market

Höegh Autoliners have a leading position in the Chinese Ro/Ro shipping market, with a 30 percent market share in 2009. Since the company has been in the Chinese market for almost 10 years it is well known to all of their customers. They have established a solid customer network to which they provide a regular service. They have a stable, active and competitive position.

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33 Höegh Autoliners. *Leif Hoegh & Co and Höegh Autoliners.*
34 Appendix 2. Interview: Jonny Xia and Appendix 3. Interview: Justin Tang
36 Appendix 2. Interview: Jonny Xia and Appendix 5. Interview: Justin Tang
37 Appendix 2. Interview: Jonny Xia
Three or four years ago, before the financial crisis the Ro/Ro shipping market and Höegh Autoliners experienced a shortage in tonnage. This left little space for their Chinese customers. In early 2009, the situation changed because of the financial crisis. Suddenly a lot of carriers had free space and close relationships with customers became more important than tonnage. Therefore, it is essential that Höegh Autoliners continue to establish long-term relationships.

In the start of 2010, Höegh Autoliners’ market share decreased. According to their scheduled deliveries, vehicle shipping will continue to decrease in 2010. One of the reasons for this is that they keep the high price on their service instead of lowering it like many competitors have done. The argument is that Höegh Autoliners are in a leading position and they have the responsibility to set the market trend, rate and price, to increase the price in the overall market. As a result they need to sacrifice some cargo, but it is believed that this strategy will provide long-term profits.

### 2.4.5 Customers in China

Höegh Autoliners’ customers worldwide include many of the world’s leading manufacturers of new cars. In addition, the company is a leading carrier of second-hand cars, heavy machinery like trucks and buses, agricultural and road building, and tracked cargo. Furthermore their customers include manufactures of non rolling cargo, like crane parts, cable drums, boats and railcars. Höegh Autoliners’ main customers in China are automakers and long-term contract customers.

Nanjing Automobile Group Co., Ltd was founded in 1947, and is a major state-owned enterprise. The company is a wholly owned subsidiary of Shanghai Automotive Group Co., Ltd. and is China’s oldest automobile manufacture. The company produces cars, busses and

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38 Appendix 2. Interview: Jonny Xia and Appendix 5. Interview: Justin Tang
39 Appendix 2. Interview: Jonny Xia
40 Appendix 6. Interview: Haibin Huang and Appendix 5. Interview: Justin Tang
41 Appendix 2. Interview: Jonny Xia and Appendix 5. Interview: Justin Tang
42 [www.hoegh.com/autoliners/about_us/](http://www.hoegh.com/autoliners/about_us/)
43 Appendix 6. Interview: Haibin Huang
44 Appendix 5. Interview: Justin Tang
trucks, under brands like Soyat, MG, and Yuejin. Their subsidiary includes Nanjing IVECO Co., Ltd., Nanjing FIAT Co., Ltd., and Yuejin Vehicle Co., Ltd., Nanjing Automobile Group Co., Ltd. Wuxi Branch and others.\textsuperscript{45}

Harbin Hafei Automobile Industry Group Co., Ltd. is a partly-owned Chinese company which was established in 2006. They produce minibuses, minivans, small motor vehicles and automobile engines.\textsuperscript{46} The different brands the company owns is Hafei Saibao III, Hafei Saibao V, Hafei Saima, Hafei Lobo, Hafei Minyi M406, Hafei Newzhongyi, Hafei zhongyi, Hafei Pumian, Hafei Minyiypaiban, Hafei Ruiyi and Hafei Danshunagpai.\textsuperscript{47} Höegh Autoliners ship about 2000 units for Harbin Hafei every month.\textsuperscript{48}

GMC (General Motors companies) is one of the world's largest automakers and one can trace its roots back to 1908.\textsuperscript{49} GMC has 9 joint ventures and two wholly owned foreign enterprises in China. The products sold under the company are Buick, Cadillac, Chevrolet, Opel, Saab, Wuling and Jiefang.\textsuperscript{50} Höegh Autoliners is now responsible for about 19% of GMC's (General Motors Companies) export.\textsuperscript{51}

Nissan Motor Company was founded in Yokohama City, Kanagawa Prefecture in 1933.\textsuperscript{52} The company entered the Chinese market in 1972, and in 2003 Nissan formed a partnership with the DongFeng Motor Coperation and established a joint company called Dongfeng Motor Co., Ltd. With the exception of the Infiniti brand, most of the Nissan passenger vehicles are locally produced in China, like Tena, Tiida and X-trail.\textsuperscript{53}

\textsuperscript{45} www.nanqi.com.cn
\textsuperscript{46} investing.businessweek.com/research/stocks/private/snapshot.asp?privcapId=36852678
\textsuperscript{47} www.hafeiauto.com.cn/skin/hafei/en-index.htm
\textsuperscript{48} Appendix 5. Interview: Justin Tang
\textsuperscript{49} www.gmchina.com/english/corporate_info2/company_overview.jsp
\textsuperscript{50} www.gmchina.com/english/corporate_info2/company_gmchina.jsp
\textsuperscript{51} Appendix 5. Interview: Justin Tang
\textsuperscript{52} www.nissan-global.com/EN/COMPANY/PROFILE/
\textsuperscript{53} www.nissan-global.com/EN/IR/INSIDE/INSIDE-SP/CHINA/index.html
2.4.5.1 Long term relationships with their customers

Höegh Autoliners have been in China for a long time, they have grown together with their customers and Höegh Autoliners state that as a part of the reason why they have a great relationship with the manufacturers. To establish and maintain a good relationship it is important to visit the customers regularly, communicate with them and establish trust. Höegh Autoliners prefer face-to-face meetings and their staff is traveling a lot. The sales department tries to visit the key accounts every two or three months, and other important customers every four or five months. Most of Höegh Autoliners’ contract customers are from state owned companies where establishing trusting relationships is even more important. Höegh Autoliners state that because they have established trust with them they are less sensitive on price.

A lot of the cargo in China is controlled by forwarders, who on behalf of the Original Equipment Manufacturers (OEM) find logistics solutions. In China the forwarders offer a price to the OEM and then they get the difference between this price and the price they actually pay for the logistics solution. There are some difficulties by establish long-term relationship with forwarders compared to directly with manufacturers. Forwarders are very price sensitive and if other carriers offer a lower price they will go to them instead. Over time Höegh Autoliners predicts that this will change gradually and that the OEMs will take control of their own logistics.

Potential problems to be aware of is meeting demand of their customers if the space is tight. Today, Höegh Autoliners has decided to focus on their long-term contract customers, and then they deal with price sensitive customers on a case-by-case basis. Prioritizing like this might result in a loss of the case-by-case customers.

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54 Appendix 2. Interview: Jonny Xia
55 Appendix 2. Interview: Jonny Xia
56 Appendix 2. Interview: Jonny Xia
57 Appendix 1. Interview: Dag Kristiansen.
58 Appendix 5. Interview: Justin Tang
2.4.5.2 Loyalty from their customers

To create loyalty it is important to establish a relationship that leads to commitment and support in difficult times. During the financial crisis customers still signed contracts with a high price because of their loyal relationship. Höegh Autoliners have managed this because they have a timely response to inquiries, secure space allocation as promised and maintain their high-quality service. Furthermore visiting customers regularly, providing them with necessary information and try to educate them; e.g. market information about growing markets or suggesting potential dealers etc. will also increase loyalty.

To increase new, potential customer’s loyalty Höegh Autoliners state the importance of one of their corporate values; professionalism. To show that Höegh Autoliners are professional they focus on these points:

1. Provide examples of previous work they have done in China; experience.
2. Focus on establishing a friendly relationship that can be a base for a future partnership.
3. Explain the company’s professionalism and service.
4. Give an impression of their opportunities in the future.

2.4.5.3 State Owned Companies vs. Private Companies.

Most of Höegh Autoliners’ customers in China are owned by- or partly owned by the government, since most of the auto- and machinery industry in China is government controlled. The government owned companies in this industry regards relationships and the service as more important than price. Generally, Höegh Autoliners prefer to do business with state owned companies, because of their business style. It is therefore important for Höegh Autoliners to keep good relationships with the government.

Private companies, like Geely and Great Wall are very active, this means they are trying to increase their market share both in the domestic, and in overseas

59 Appendix 5. Interview: Justin Tang
60 Appendix 6. Interview: Haibin Huang
61 Appendix 2. Interview: Jonny Xia
62 Appendix 2. Interview: Jonny Xia
63 Appendix 5. Interview: Justin Tang
64 Appendix 2. Interview: Jonny Xia
65 Appendix 5. Interview: Justin Tang
markets. They apply strict requirements for price, and believe that a low price is more important than the service. Geely are very price sensitive and they operate with a different bidding process than what is common practice. Geely summit all of the carriers to their office to inform them of necessary details. They precede the bidding like an auction, and they do not stop till they get the deal they want.\textsuperscript{66} Even though Geely has a particular business style that is not suitable to Höegh Autoliners’ current strategy, they are set on keeping a good relationship with Geely. In the future Geely might become an international company and a potential significant customer for Höegh Autoliners. They recently purchased Volvo and as a result their exports may increase. Therefore Höegh Autoliners aim to improve their relationship with Geely so that it will develop into a long-term contract.\textsuperscript{67}

Höegh Autoliners state that forwarders and private companies are generally more price sensitive.\textsuperscript{68} Höegh Autoliners cannot change the fact that they are operating in a price competitive environment and it is important to focus on keeping a close watch on the market’s pricing trends.\textsuperscript{69}
2.4.6 Competitors in the Chinese Market

Höegh Autoliners’ main competitors in the Chinese Ro/Ro market are Wallenius Wilhelmsen Logistics, Nykcos, Cido, Eukor, Mol and K-Line.  

![Figure 5: The Chinese Ro/Ro industry Competitive environment](image)

K-Line is a Japanese shipping company which mainly moves Japanese cargo around the world. Their Ro/Ro shipping division was founded in 1968.

WWL is a Swedish/Norwegian company that has been in the shipping industry for over 140 years. WWL is the leading independent provider of global factory-to-dealer transportation solution for the automotive, agricultural and construction equipment industries. One of WWL competitive advantages is that they have a zero-tolerance policy against cargo damage.

Eukor was founded in 2002 and their base is the export of

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73 [www.2wglobal.com/www/aboutUs/index.jsp](http://www.2wglobal.com/www/aboutUs/index.jsp)
Hyundai Motor and Kia Motors from their plants in Korea and around the world. The company has offices in both Shanghai and Beijing, and their trade routes also include Hong Kong.\(^74\)

**Mitsui O.S.K. Lines** Mol Car Carrier launched their Ro/Ro ships in 1965 to meet the needs of Japan’s growing automobile export trade. Since then their service has expanded to serving Japan/South Korea, North America, Europe and Southeast Asia.\(^75\)

Nykcos is a subsidiary of COSCO and NYK Line, and was established in 2003. The purpose of the subsidiary is to participate and lay groundwork for the promising transport business of export within the fast-expanding Chinese automobile market.\(^76\) Both COSCO and NYK Line operate in the Chinese shipping industry, and one of the reasons for their establishment is to strengthen their network in the Chinese market.\(^77\)

Cido is a Korean shipping company which was established in 1990. The company’s policy is to ensure safe operation of ship and protections of marine environment, observe mandatory regulation and rule. They also perform customer focus management to make the best profit and continuously improve effectiveness.\(^78\)

### 2.4.6.1 Strongest competitors

In general Höegh Autoliners considers Cido and Nykcos as the strongest and most threatening competitors. Cido exposes a threat because their main market is China. Nykcos have an advantage as they can benefit from COSCO’s large network in China.\(^79\) Considering business out of China heading east; west coast of South America and the Caribbean, Eukor is Höegh Autoliners’ main competitor.\(^80\)

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\(^{74}\) [www.eukor.com/homepage/eukor/about_introduction.jsp](www.eukor.com/homepage/eukor/about_introduction.jsp)

\(^{75}\) [www.naukri.com/gpw/mol/services.htm](www.naukri.com/gpw/mol/services.htm)

\(^{76}\) [www.japancorp.net/Article.Asp?Art_ID=4149](www.japancorp.net/Article.Asp?Art_ID=4149)


\(^{78}\) [www.cidoship.com](www.cidoship.com)

\(^{79}\) Appendix 2. Interview: Jonny Xia

\(^{80}\) Appendix 6. Interview: Haibin Huang
2.4.7 Future Challenges

According to the employees at the Shanghai office these are the future challenges for Höegh Autoliner:

- Competition: in 2002-2003, WWL and Höegh Autoliner were the only ones doing Ro/Ro shipping in China. Today, the number has had a significant increase and there is now fierce competition.  
- Price pressure from customers.
- Continue to have a high-quality service.
- Develop more long-term customers. E.g. establish long term relationships with companies like Geely, Chery and Byd.
- Höegh Autoliner are very dependent on their current customers. In case there is a problem with one of these customers it will heavily influence Höegh Autoliner’s business. Therefore, Höegh Autoliner should widen the customer network Get contracts with new customers and establish trust that leads to loyalty.
- The market is recovering from the financial crisis. A rapid increase in cargo demand means that they might face a space, tonnage problem.

2.4.8 Goals in regard to Relationship Management

Höegh Autoliner’s short term goals regarding relationship management: As of March 2010, the company needs to face the tight-space situation and secure space allocation for their key customers. They also need to develop long-term contracts with existing and potential customers. The most important is to keep relationships with key customers, especially the loyal ones and at the same time develop new key customers.

81 Appendix 5. Interview: Justin Tang
82 Appendix 2. Interview: Jonny Xia
83 Appendix 6. Interview: Haibin Huang
84 Appendix 5. Interview: Justin Tang
85 Appendix 6. Interview: Haibin Huang
86 Appendix 6. Interview: Haibin Huang
87 Appendix 6. Interview: Haibin Huang and Appendix 5. Interview: Justin Tang
3 Research Methodology

Conducting research in the Chinese market presented several challenges. According to Charles Oliver and John E. Coulter’s article “China Market research Strategies”, China poses a rare combination of the following five factors that the authors needed to take into consideration when designing their research strategy.

- The country’s size.
- The rate of change in the market.
- China’s markets are fragmented and diverse.
- Secondary information available in China is often old, questionable, or inaccurate.
- Individuals and businesses are often unreceptive to direct research inquiries.

3.1 Research Approach

It is common to distinguish between three main types of research designs: explorative design, descriptive design and causal design. Since the authors had limited knowledge about the research area in advance, an explorative research approach was chosen for the thesis. The objective of the research was to further explore the selected study topic.

Furthermore the authors decided upon a qualitative methodology approach to answer the problem statement. This because a qualitative approach is more appropriate to get a deeper understanding as and a broader insight than by using a quantitative approach. A qualitative research strategy focuses on words instead of quantification in the collection and analysis of data. According to Gripsrud, Olsson and Silkoset the three most common qualitative methods are:

- Observations
- In-depth interviews
- Focus groups

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90 Bryman and Bell. 2007. Business research methods.
This is supported by Bryman and Bell, which state that conducting interviews is probably the most widely employed method in qualitative research.\textsuperscript{91} Therefore the authors sought out to get in-depth interviews with experts within the respective area of study, internal interviews at Höegh Autoliners’ China division as well as Interviews with Höegh Autoliners’ customers.

### 3.2 Research Design

The choice of research design is the plan on how to collect and analyze data.\textsuperscript{92} The choice of design depend on several factors, two of which are defined by Gripsrud et al\textsuperscript{93}

- The authors’ knowledge of the topic
- The authors’ ambitions regarding analysing and outlining contexts

#### 3.2.1 Secondary Research

Data that other people have collected for their own research projects or commercial purposes can be defined as secondary data.\textsuperscript{94} Collecting secondary data is a method frequently used to gather information when operating with explorative design. In comparison to collecting primary data, secondary data is less time consuming, inexpensive and requires fewer resources. The authors acquired secondary information by reviewing relevant literature, such as up to date articles, previous thesis’, books and the Internet. The secondary research has been conducted for the purpose of finding information concerning relationship management in China.

#### 3.2.2 Primary Research

Primary research consists of data observed or collected directly from first-hand experience\textsuperscript{95} and are aimed at answering the research questions.\textsuperscript{96} It is usually the

\textsuperscript{91} Bryman and Bell. 2007. Business research methods.
\textsuperscript{92} Bryman and Bell. 2007. Business research methods.
\textsuperscript{93} Gripsrud, Olsson and Silkoset. 2004. Metode og dataanalyse.
\textsuperscript{94} Maylor and Blackmon.2005. Researching Business and Management.
\textsuperscript{95} www.businessdictionary.com/definition/primary-data.html
\textsuperscript{96} Gripsrud, Olsson and Silkoset. 2004. Metode og dataanalyse.
most reliable and useful research approach. However, it can be both time consuming and challenging; especially in China.97

The authors carried out in-depth interviews to collect valuable primary data as this is the most constitutive of all qualitative methods. Individual in-depth interviews are conducted when the individual’s personal experience, opinion or something similar are of the researchers interests.98 The authors have conducted in-depth interviews with Höegh Autoliners’ employees and representatives from the Chinese shipping industry, and other experts within the field; such as consultants, authors and professors.

3.3 Critical Approach to Secondary and Primary Research

The authors have used the Internet as a source of secondary data throughout the research process. As mentioned above, this is an easy, inexpensive and fast way of gathering information. However, it is not always the most reliable source. The authors have been aware of this when collecting and using secondary information. Generally, secondary sources have been critically assessed to make sure that they are reliable and the information provided is valid. When investigating the sources, the authors have for instance verified the source’s educational credits. In addition, they have also considered whether a research institution or a university employs the writer.

3.4 Reliability and Validity

“Reliability refers to the consistency of a measure of a concept (...)”99 “(...) while validity refers to the issue of whether an indicator or set of indicators that is devised to gauge a concept really measures that concept”.100

Reliability is an issue affecting both primary and secondary data. Data obtained from primary research can be valuable, but also incomplete, false or misleading. During the research study it was important for the authors to evaluate how reliable

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99 Bryman and Bell. 2007. Business research methods. Page 76-77
the sources were. For instance in China, the published information is often from the government, or undergone censorship.\textsuperscript{101} In order to limit gathering of unreliable information, all sources has been thoroughly evaluated by the authors. Reliability has been maximized through a series of crosschecks that has been built into the research design.

The authors were aware beforehand of the cultural differences that could affect reliability and validity in the interview process. For instance, the authors carefully constructed the interview questions because the Chinese people are generally reluctant to speak negative about their own company or positive about competitors.\textsuperscript{102} In addition the authors were aware that language barriers could occur, due to the fact that neither interviewees nor interviewers had English as their first language.

To minimize the impact of natural limitations of the memory the authors used a tape-recorder during the in-depth interviews. After each session they took the time needed to carefully transcribe the interviews to ensure that valuable data would not be left out.\textsuperscript{103}

When conducting in-depth interviews it was necessary to consider the validity of the interviewees. In order ensure that the information gathered through in-depth interviews was relevant to the problem statement, the authors’ interview objects was chosen carefully. The authors examined the interviewees’ expertise in his/her field and chose sources with broad knowledge and substantial experience within the studied topic.

### 3.5 Difficulties during the Research

The authors encountered the following difficulties throughout the research process:

\textsuperscript{109} Bryman and Bell. 2007. \textit{Business research methods}. Page 76-77
\textsuperscript{101} www.chinabusinessreview.com/public/0405/coulter.html
\textsuperscript{102} www.chinabusinessreview.com/public/0405/coulter.html
\textsuperscript{103} Bryman and Bell. 2007. \textit{Business research methods}. 
1. Technical problems due to weather conditions that led to bad internet- and phone connections. Authors rescheduled interviews accordingly.

2. The language barrier led to misunderstandings and unintelligible answers in the interviews. To manage this, the authors had to re-formulate interview questions to a simplified English level.

3. Relevant websites were only written in Chinese, so the authors had to get assistance from a Chinese colleague to translate.

4. Limited time due to a tight thesis schedule. The authors established a strict plan with deadlines that had to be kept by all group members throughout the research process.

5. There was a vast amount of secondary data on the respective topics of study and the authors had to be effective as well as selective when choosing which books and articles to base their arguments upon.

### 3.6 Interview Techniques

As the authors experience with in-depth interviews was limited, they needed to study and accumulate knowledge by reading literature that provided guidelines on how to formulate and conduct effective interviews.

According to Charles Oliver and John E. Coulter, questions should be structured with an open mind. In addition, some questions should be challenging in case the authors gain the interviewees’ confidence or the interviewee seems willing to offer more information. All the questions used were carefully developed before the interviews to avoid yes and no answers. Throughout the interviews the authors tried to focus on open- instead of “closed” questions. If the interviewee did not answer a question, the same question was asked again, put into other words by the interviewer. As mentioned, the authors recorded the interviews, took notes and later transcribed them to ensure that they captured all relevant data.

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3.7 List of Interviews

3.7.1 Internal interviews

The authors conducted internal interviews with:

- Dag Kristiansen, Commercial Assistant for Höegh Autoliners, China
- Johnny Xia, Senior Manager, been in Höegh Autoliners in China for over 10 years. Mr. Xia is responsible for Höegh Autoliners’ key accounts and is employed in the sales division.
- Haibin Huang, Trade Manager. Mr. Huang is employed in Höegh Autoliners’ sales division.
- Justin Tang, Trade/Traffic Manager. Mr. Tang is employed in Höegh Autoliners’ sales division.

3.7.2 Expert interviews

The authors conducted in depth interviews with:

- Dr. Wilfried Vanhonacker. Dr. Vanhonacker is recognized worldwide as a leading scholar in the fields of marketing science and the globalization of Chinese enterprises. He is known as an expert on doing business in China as he has 20 years of experience.
- Dag Tørvold, President and CEO of Nemko International. Mr. Tørvold has 15 years experience of doing business in China and 30 years of top management experience in international business.
- Geir Sviggum- Resident partner and Chief Representative at the law firm Wikborg Rein’s Shanghai office. Mr. Sviggum specializes in litigation and dispute resolution, and has handled international arbitrations and other disputes in China and several European countries.
- Pia Polsa, Assistant Professor, Hanken school of Economics, Finland. Ms. Polsa is also visiting scholar at Fudan University, School of Management, China. Ms. Polsa has expertise in qualitative cross-cultural research, use of multiple methods and doing research outside a researcher’s home country.
• Henning Kristoffersen, Social anthropologist. Specialized in topics such as negotiation and business culture in China. Mr. Kristoffersen is the author of “Det Nye Kina” and has 20 years experience of working in China.
• Erling Lystad, Director in Lorentzen&Stemoco Shanghai. LSS is a leading provider of ship broking and consulting services.

3.8 Summary
This report has implemented an explorative design consisting of secondary data and qualitative primary research. When conducting qualitative research, the authors have gathered primary data through interviews. The authors have conducted e-mail interviews, teleconferences and personal interviews.
4 Theoretical Framework

4.1 Introduction

The authors will use the PESTEL-analysis and Porters Five Forces to map the macro environment and the industry environment in which Höegh Autoliners operate. To gain an overview of how the company utilizes their marketing means in China, and to determine where they should make improvements, the authors will use the Marketing Mix. The authors will also use theories on relationship management to answer the problem statement. These theories include the guanxi network, contract management and the negotiation process. Lastly, the authors will present Höegh Autoliners’ current situation in China and important external factors in a SWOT-analysis.

4.2 PESTEL

By using this framework, the authors hope to be able identify factors in Höegh Autoliners’ macro environment that has the potential to influence the company’s success in China. PESTEL consists of the six following factors: political factors, economic factors, social-cultural factors, technological factors, environment factors and legal factors. However, the authors will only focus on the factors that are of relevance to the author’s problem statement: political factors, economic factors, socio-cultural factors and legal factors.

4.3 Porters Five Forces

Porter’s five forces can be used to map Höegh Autoliners industry environment. There are five forces that determine long-term profit and the attractiveness of a market or a market segment: industry competitors, potential entrants, substitutes, buyers, and suppliers.

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The authors have chosen to focus on three factors that may affect Höegh Autoliners’ competitiveness and level of success in China: industry competitors, buyers and potential entrants. They exclude substitutes since they do not consider other transportation means such as trains and airplanes a threat to Höegh Autoliners. Their cargo mainly differs in volume and size.

4.3.1 Industry Competitors

Intense rivalries exist in industries with several companies. The companies that have successfully differentiated their products have less rivalry.108

4.3.2 Bargaining Power of Buyers

When the product is undifferentiated and the buyers are price sensitive, their switching costs are low resulting in a high bargaining power. Furthermore, when buyers purchase a significant portion of the industries total output and/or sellers annual revenues, their bargaining power is high.109

4.3.3 Threat of Potential entrants

The threat of new entrants is determined by entry and exit barriers. If the entry barriers are high, the threat of new entrants tends to be low. The entry barriers depend on the economy, technology and government policy requirements of the industry. 110

4.4 Marketing Mix

The marketing mix consists of means a company can use to satisfy their target groups’ needs111 and maximize the organization’s performance.112 The authors will present factors that are important for Höegh Autoliners to be aware of so they

108 Hitt, Ireland and Hoskisson, Strategic Management. 2005
112 www.12manage.com. Marketing mix
can shape its marketing mix in accordance with the Chinese B2B market to ensure future success and growth in China.

![Figure 7: The Marketing Mix](image)

### 4.5 Relationship Management in China

Höegh Autoliners need an effective and professional relationship management process to obtain closer relationships with their customers. To address this issue, the authors will present several theories on relationship management; Dr. Vanhonacker’s *guanxi* network, contract management and Tony Fang’s theory on Chinese negotiation style.

### 4.6 SWOT

The SWOT analysis is a general evaluation of a company’s strengths, weaknesses, opportunities and threats. The analysis involves monitoring the external (opportunity and threats) and internal (strengths and weaknesses) marketing environment. The authors will use a SWOT- analysis to analyze and identify Höegh Autoliners’ strengths, weaknesses, opportunities and threats.

![Figure 8: SWOT Analysis](image)

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5 Analysis

5.1 Findings from Secondary and Primary Sources

5.1.1 Structure of Findings
The secondary and primary findings are presented in a logical order, from a general to a narrow and specific perspective. PESTEL has been used to gain an overview of factors in the general environment that might influence Höegh Autoliners in China. The authors have used Porter’s Five Forces to analyze the industry environment in which the company operates. The Marketing Mix has been used as a framework to present important marketing means for Höegh Autoliners in China. Next, the authors present theories on relationship management, which is important when doing business in China. Here, the authors present theories on guanxi, contract management and negotiations.

![Figure 9: Authors’ visualization; from a general to a specific perspective](image)

5.1.2 PESTEL

5.1.2.1 Political Factors
The Peoples Republic of China (PRC) is a socialist state ruled by the Communist Party.\(^{117}\) Political engagement is under strict control, and even though there is great freedom for most economic activities,\(^ {118}\) some are still controlled by the government. China follows a state planned five-year plan.\(^ {119}\) These usually regulate industrial sectors that are largely controlled by the government through state-owned or partly state-owned companies, such as the automobile industry. Currently, China is following its eleventh five-year plan. The twelfth plan will count for 2011-2015.\(^ {120}\) The five-year plans have the possibility to affect foreign

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\(^{118}\) Kristoffersen. 2009. *Det nye Kina.*


\(^{120}\) sinolize.com/index.php/china-economy/38-general/1291-china-prepares-its-12th-five-year-plan
companies’ success in the Chinese market. Therefore, Höegh Autoliners should pay attention to their content.

In addition to the five-year plans, companies operating in China should be aware of other government planning. On March 25th 2009, the government announced that the goal of constructing Shanghai into a global shipping hub by 2020. This plan includes improvement of the infrastructure of the port in Shanghai and enhancing competitiveness for domestic companies. It also aims to establish Shanghai as an international financial center. High-end financial services will therefore be developed to facilitate the constructions of the global shipping center.121

Even though China is ruled by a central government,122 Chinese bureaucracy has been developing along regional lines because of the country’s large distances and regional differences. Many state-owned enterprises (SOEs) are therefore run by local government institutions (sub-national governments).123 These state-owned companies have been the force behind the socialist market economy.124

5.1.2.2 Economical Factors
Significant public investment, an increased focus on education, the industrialized sector’s fast development and the population size are factors that have contributed to the rapid economic growth of China.125 Economical factors are important because Höegh Autoliners’ success depends largely on a high level of export from China.

Currency rate can also influence exports. The United States has long claimed that the Chinese currency, Renminbi (RMB), has been undervalued. If the Chinese government chooses to appreciate the RMB, it could have a negative effect on Chinese exports. On the other hand, it could also have positive effects on the imports due to a “richer” currency.126

121 http://www.china-embassy.org/eng/zmgx/t559830.htm
125 annualreport2009.premierfarnell.com/case_studies/?id=1441
During the financial crisis, China witnessed the sensitivity of their economy. From 2008 to 2009 both export and imports dropped during eleven consecutive months. To restore the Chinese economy, the government is aiming for a more balanced economic growth driven by domestic consumption and development in the rural parts of the country.\textsuperscript{127}

In 2009, China experienced a great raise in export and became the world’s largest exporter.\textsuperscript{128} The Chinese automobile export also seems to be rising. According to Mr. Erling Lystad, Director in Lorentzen & Stemoco Shanghai, China’s automobile market will become a large export market. Now, the majority of production is for the domestic market. He argues that export will rise when the domestic market becomes saturated, and the manufacturers will be able to produce for other markets.\textsuperscript{129}

To advance the fragmented auto industry, the China Auto Industry Plan 2009-2011 is aimed at boosting sales and stimulating the economy in the short run. In the long run, the government wants to consolidate the fragmented industry by creating fewer, large companies and encouraging mergers and acquisitions. Additionally, the government aims to become a world leader in manufacturing hi-tech, electric powered cars. They want to focus on their research and development capabilities and on environmental friendly technologies and energy savings.\textsuperscript{130} The government’s goal on auto industry’s production (sales) volume of 10 million units for 2009 was reached in October that year.\textsuperscript{131}

The shipping industry in China is also growing fast. Earlier there were only two or three big players, but now there are many shipping companies in China. Mr. Lystad states that this industry will continue to grow fast as the Chinese are very talented business people that are good at getting investors to provide capital for projects.\textsuperscript{132}

\textsuperscript{126} fas.org/sgp/crs/row/RS21625.pdf
\textsuperscript{127} www.fas.org/sgp/crs/row/RS21625.pdf
\textsuperscript{128} www.guardian.co.uk/business/2010/jan/10/china-tops-germany-exports
\textsuperscript{129} Appendix 4. Interview: Erling Lystad
\textsuperscript{130} Höegh Autoliners. Leif Hoegh & Co and Höegh Autoliners.
\textsuperscript{131} www.fas.org/sgp/crs/row/R40924.pdf
\textsuperscript{132} Appendix 4. Interview: Erling Lystad
5.1.2.3 Socio-cultural Factors

The rapid development of China has lead to an unevenly developed market.\textsuperscript{133} The difference between rich and poor increases more in China than in any other developing country.\textsuperscript{134} Even though Chinese peoples’ behavior is increasingly influenced by Western values and lifestyle, China’s large population and the competition for resources will continue to shape peoples’ behavior. It will also continue to make traditional cultural traits such as face, interpersonal relationships and tactics important aspects when handling relationships in China.\textsuperscript{135}

The Confucian mindset continues to influence Chinese values and behavior. For instance, their strong distrust towards “outsiders” can be explained by the “Five Cardinal Relationships”. The relationships are between ruler and subject, father and son, husband and wife, between siblings and between friends. They are all characterized by reciprocity. The Confucian mindset focuses on these cardinal relationship and leave strangers on the outside.\textsuperscript{136}

Chinese people tend to seek social stability and harmony. This can be achieved by fulfilling the “Five Cardinal Forces” meaning that every person fulfills their duties defined by their position in society. The Chinese society is hierarchically structured, and social order is generally considered more important than individual rights. The age and rank of the negotiator can therefore determine the attitude of the Chinese host organization toward the foreign company.\textsuperscript{137}

Harmony can also be related to the Chinese concept of face. As Chinese people are generally defined by their families and networks, an individual’s face is determined by its social network, and its reputation achieved through moral behavior. Harmony can be reached by maintaining face and avoiding shame. Because of the need for harmony, Chinese have the ability of distance themselves from emotions and avoid showing them. They will usually behave carefully, wisely, and patiently and seek compromise. They also tend to avoid direct and open conflicts, since it usually leads to loss of face for the parties involved.

\textsuperscript{133} Fang. 1999. \textit{Chinese Business Negotiation style}.
\textsuperscript{134} Kristoffersen. 2009. \textit{Det nye Kina}.
\textsuperscript{135} Fang. 1999. \textit{Chinese Business Negotiation style}.
\textsuperscript{136} Fang. 1999. \textit{Chinese Business Negotiation style}.
\textsuperscript{137} Fang. 1999. \textit{Chinese Business Negotiation style}.
Generally, the Chinese value reputation, creditability, personal character, sincerity and quality.\(^{138}\) To succeed in China, Höegh Autoliners need to take all the factors above into consideration in every aspect of their business.

Closely related to *face* is the concept of *guanxi*, which refers to “reciprocal obligations”. Building *guanxi*-relationships can be very time-consuming since it is important to build these relationships with the right people. To succeed, foreign companies may have to use intermediaries. Also, relationships alone are generally not enough to succeed on the Chinese market in the long run.\(^{139}\)

Chinese behavior is unique because they can choose guidelines from three philosophical teachings: Confucianism, Taoism, and Buddhism. Therefore, they can be very practical and flexible.\(^{140}\) They possess a “moral flexibility” that enables them to adopt ideas and concepts, and adjust their behavior to different situations.\(^{141}\) Therefore, Chinese people are culturally equipped with both a cooperation-oriented strategy, deriving from Confucian values, and a competition-oriented strategy from Chinese stratagems; strategic tactics and ploys. The “Confucian gentleman” tends to aim for a cooperative “win-win” situation, while the stratagems are based on the idea that the marketplace is similar to a battlefield. The main message is to “subdue the enemy without fighting”. Höegh Autoliners need to understand this strategic mindset before entering a business relationship in China. Even building and maintaining relationships has a strategic dimension. Using stratagems helps Chinese negotiators cope with strangers, from outside the Chinese culture. It enables them to be flexible, practical, pragmatic, and situation oriented. Honesty can “neutralize” the usage of stratagems.\(^{142}\)

Lastly, another aspect of Chinese culture is the ancient philosophy of *Feng Shui*.\(^{143}\) An important element in this philosophy is the use of colors, which can have

\(^{143}\) www.businessknowhow.com/growth/feng_shui.htm
various effects depending on the color. Each has a specific expression and meaning.\(^{144}\)

### 5.1.2.4 Legal Factors

In most countries, their general legal system has been formed in the society over hundreds of years. This has resulted in the establishment of a uniform common sense of law. Geir Sviggum, Chief Representative for the Norwegian law firm Wikborg Rein states that China has developed their current legal system within last 30 years. It makes the gap between the common sense of law and the general legal system vast.\(^ {145}\) As a consequence, business in China is often regulated by unpublished policies, which are unavailable to foreigners, and foreign companies often experience that the government influences the contents of a contract.\(^ {146}\) Additionally, many Chinese still prefer to solve disputes and problems through negotiation and not in court.\(^ {147}\)

The Chinese attitude towards laws and regulations has also been shaped by traditional philosophies. Confucian teachings are skeptical to a legal system, and rely on relationships as the way to solve issues.\(^ {148}\) Their values place great importance on interpersonal relationships and trust. Laws and legal ways are in direct conflict with Confucianism because, according to this mindset, enforcing laws and regulation indicate a lack of trust. Confucianism represents a moral ethic; it focuses on lifelong learning and moral cultivation, and emphasizes sincerity above all. Chinese therefore tend to use the concept of *face* to encourage a sense of shame, guiding people from behaving unethically instead of enforcing a legal framework.\(^ {149}\)

### 5.1.2.5 Conclusion of PESTEL

The macro environmental factors mentioned above have the potential to affect the implementation of Höegh Autoliners’ relationship management strategy. The company should pay special attention to political factors such as government planning, and economical factors that can affect Chinese exports. Now that the

\(^{144}\) [www.buzzle.com/articles/feng-shui-colors.html](http://www.buzzle.com/articles/feng-shui-colors.html)  
\(^{145}\) Appendix 9. Interview: Geir Sviggum  
\(^{147}\) Fernandez and Underwood. 2006. *China CEO*.  
\(^{148}\) Appendix 9. Interview: Geir Sviggum
financial crisis seems to be cooling off, the authors have identified export potential in the Chinese automobile industry.

China represents a challenging environment, and the authors have identified several socio-cultural factors that could affect relationship management. Despite of Western influence, Chinese peoples’ behavior will continue to be shaped by Chinese values and culture. These traditional values also affect the legal environment in China. The authors should consider this when recommending a strategy to Höegh Autoliners.

5.1.3 Porters Five Forces

5.1.3.1 Rivalry between Industry Competitors

In the Chinese Ro/Ro shipping industry, in which Höegh Autoliners operate, the rivalry amongst competitors is high. There exist several large players. The majority of these companies are international companies, especially Japanese or Korean. There are also some domestic competitors. Many of these companies provide a similar service. Therefore, they compete aggressively in order to succeed.

After the financial crisis the competition in this industry has become fiercer, especially in terms of price. However, this is likely to change and Höegh Autoliners’ employees believe that the market will stabilize over the next years.150

The local Chinese competitors can benefit from government support. The government can request local OEMs to support Chinese Ro/Ro shipping carriers.151 These carriers are rapidly improving quality. They are quickly approaching international service quality standards, while maintaining a low price level.152

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150 Appendix 5. Interview: Justin Tang
151 Appendix 6. Interview: Haibin Huang
152 Fernandez and Underwood. 2006. *China CEO.*
5.1.3.2 Buyers’ Bargaining Power

The Ro/Ro shipping service is a relatively undifferentiated logistics solution. The carriers transship Ro/Ro cargo, with similar ships and similar MAFI technology. This increases the customers bargaining power.

In general, due to the financial crisis, the price level in the Chinese Ro/Ro shipping industry dropped 30-40 percent during the previous year. This has lead to increased price pressure from customers. Höegh Autoliners China serves two different types of buyers; long-term contract customers and case-by-case customers. Their customers are both government-owned and private companies. These have different levels of bargaining power.

The governmental long-term contract customers are generally less price sensitive than the private customers. They usually stress quality and the importance of relationships. Höegh Autoliners therefore aim to establish close relationships with them and secure space allocation for them. This contributes to increased switching costs. On the other hand, it is difficult to achieve loyal customers in China in general and therefore their bargaining power increases. The authors consider the long-term government customers’ bargaining power medium to low.

Their private customers are generally price sensitive and they use special bidding methods. They choose from a pool of suppliers and base their decisions on who offers the lowest price. Their switching costs are low, because there are many companies offering the same service, with variations in quality. Their purchase decision is mainly based on price. Based on these factors, their bargaining power is considered high.

5.1.3.3 Threat of Potential Entrants

China is one of the most attractive markets in the world. The shipping industry is currently very attractive for new entrants and they pose a large threat for Höegh Autoliners.

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153 Appendix 6. Interview: Haibin Huang
154 Appendix 6. Interview: Haibin Huang
The financial crisis forced some shipping companies to sell their ships for a low price, because the cost of maintaining them was too high. Hence, it is easier for new entrants to buy high-quality ships at a low price, and enter the Ro/Ro shipping industry with the same technology as the major companies.\(^{155}\) It is predicted that Japanese companies will enter the Chinese Ro/Ro market in the near future.\(^{156}\)

As the market seems to become more fragmented, the price pressure from customers and competitive rivalry will increase.

5.1.3.4 Conclusion of Porter’s Five Forces

The Chinese Ro/Ro shipping industry is an attractive industry with intensive rivalry amongst competitors. The Ro/Ro service itself is relatively standardized, which increases bargaining power for buyers who focus more on price than on quality and relationships. The price drop that the industry has experienced after the financial crisis has contributed to increasing price pressure from customers. However, Höegh Autoliners prefer to cooperate with state-owned or partly state-owned companies. These customers often prefer quality and good relations with suppliers over low price.

In the future, it seems like this industry will become more fragmented, and Höegh Autoliners will have to compete with more low-cost Chinese and Korean carriers.

5.1.4 The Extended Marketing Mix

The marketing mix originally consists of 4 Ps: product, price, promotion, and place. Since Höegh Autoliners’ is offering a service and because it is important for the company to adjust their marketing mix to the Chinese market, the authors have chosen to include two additional service-P’s; process and people. Process concerns where and how buyers acquire and use the product/service. People refer to the use of people/staff within a company.\(^{157}\)

\(^{155}\) Appendix 1. Interview: Dag Kristiansen  
\(^{156}\) Appendix 6. Interview Haibin Huang  
5.1.4.1 Price

It can be a risky strategy for a Western company to compete on price in China. Instead of a low price, a company can add value to their service offer. A customer will always seek to maximize value. Value can be defined as the utility multiplied by the cost. This means that the customers seek the utility of the product, not the product itself. A company will have to provide higher value to their customers to outdo their competitors. To maintain price and add value, a company could improve its product, services, and communications, which may be less expensive than cutting price and operating at a lower margin.

Chinese customers are generally price sensitive. Thus, price competition in China is often fierce and Chinese negotiators are usually very good at haggling on price. At the same time, there is also an increasing pressure to offer top-quality services at prices lower than elsewhere in the world. Hence, many companies experience narrow profit margins in China.

On the Chinese B2B shipping market, high service quality and other value adding elements can be a way to handle the low-price issue. Companies like Höegh Autoliners must explain to their customers why their price is higher, and the value that is added for the high price. The extra value must be of relevance to the customer. A strong and well-known company name can legitimize a higher price. China is becoming more quality oriented and a differentiation focus in quality is becoming more valid. The criteria to become a preferred supplier were previously the ability to offer a low price. Now, it is a combination of price and quality.

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158 Appendix 8. Interview: Pia Polsa
161 Fernandez and Underwood. 2006. China CEO.
162 Appendix 8. Interview: Pia Polsa
163 Appendix 7. Interview: Henning Kristoffersen
164 Appendix 10. Interview: Dag Tørvold
165 Appendix 4. Interview: Erling Lystad
5.1.4.2 Product

Høegh Autoliners’ service is their product, and it consists of both tangible- and intangible resources. This includes everything that surrounds their service: quality, additional service, equipment, technology, warranties and brand.\textsuperscript{166}

Social anthropologist and author, Mr. Kristoffersen argue that to survive in the Chinese competitive market a company need to deliver their service on time, and of high quality. Chinese companies still often lack the ability to provide and deliver great service. This can benefit companies such as Høegh Autoliners who provides a high quality service, and enable to reach the quality conscious customers. To be successful in the Chinese market, it is also required to compete on some additional elements such as loyalty, trust and personal relations.\textsuperscript{167}

Personal relations are important in China. However, for Chinese people, with whom they establish and maintain relationships, is a strategic decision. If the Chinese decide to stay in a business relationship it is only because it benefits them. To make them stay, a company must offer something that they do not already have. The development in China is going so fast that the technological lead the Westerners had is becoming weaker. A company must therefore offer a quality consciousness.\textsuperscript{168}

To effectively shape a company’s service offer, it is important to be familiar with the customers’ preferences. To become a preferred logistic supplier in China a company should be reliable and relationship oriented by focusing on building long-term relationships. They also need to provide a service of high quality and have strong financial position as well as capacity, high efficiency, quick responses to inquiries and a stable, low price. However, CEO and Chairman of the Board of Volvo, emphasizes that quality and service is more important than price.\textsuperscript{169}

Additionally, company should have knowledge about relevant legislations and governmental issues and a local network and local knowledge.\textsuperscript{170}

\textsuperscript{166} Framnes, Pettersen and Thjømøe. 2006. \textit{Markedsføringsledelse}.
\textsuperscript{167} Appendix 7. Interview: Henning Kristoffersen
\textsuperscript{168} Appendix 3. Interview: Dr. Vanhonacker
\textsuperscript{169} Bachelor Thesis written for WWL. 2005. \textit{Customer interview}
\textsuperscript{170} Bachelor Thesis written for WWL. 2005. \textit{Customer interview}
Shanghai General Motors (GM) choose logistics suppliers because they are considered “family” and further emphasize that the supplier must be willing to establish long-term contracts. Furthermore the supplier must have the intention to create a win-win situation, and be open to the opportunity to grow together as partners.\textsuperscript{171}

5.1.4.3 Place
There are several variables that can be used to segment the Chinese business market, such as geography, benefits sought, and usage rate. According to Bonama and Shapiro,\textsuperscript{172} a company should first study demographical variables. Such as which industries they want to serve, the size of the companies they want to serve, and in which geographical areas they want to operate to target customers effectively.\textsuperscript{173}

Höegh Autoliners can also segment on variables such as the targets purchasing approaches; if those customers the company wants to serve are engineering dominated, financially dominated customers and so on. Furthermore, segmentation variables can be based on a decisions to serve companies that prefer leasing, service contracts, system purchases or sealed bidding. Evaluate whether they should serve companies that are seeking quality, service or price. Lastly, a company could segment on situational factors or personal characteristics, if they should serve risk-taking, or risk-avoiding companies, or if they should serve companies with a high or low loyalty-degree.\textsuperscript{174}

5.1.3.4 Promotion
The authors, Meyer and Rowan, argue that once an organization has learned how to look good, it need only do face work to survive.\textsuperscript{175}

The geographic location of a company and proximity to their customers can be important.\textsuperscript{176} Höegh Autoliners’ customers in China are located in several different parts of the country. Yet, Höegh Autoliners only has offices in Beijing
and Shanghai. However there are other means of achieving proximity to customers in China.

A unique aspect of business marketing is how web pages are used. The Web becomes the backbone of a supplier/customer communication network that enables customers to track shipment information, order products and access other account information that helps manage the supply process.\textsuperscript{177}

Foreign companies in China should consider a Chinese company name. The name should have a positive cling, and it should be associated with the company’s service or products. It has to be consistent with what the company wishes to communicate, and the Chinese characters used should have a favorable meaning.\textsuperscript{178} Western shipping companies such as Höegh Autoliners often use blue and white colors in their logo. However, according Feng Shui teachings, these colors are associated with funerals and mourning in China.\textsuperscript{179}

5.1.4.5 Process

To survive in China today, a company should aim to be market driven. These companies have a strong market orientation, meaning that they are very good at understanding and satisfying customer needs and demands. They tend to do better than others on predicting future market trends, and they are usually able to develop strong relationships with their customers.\textsuperscript{180}

China is a country that has always been eager to learn and this is how they have built up this country. A foreign company may therefore be able to develop relationships with their customers by educating them, and providing them with useful information.\textsuperscript{181}

In addition to only aiming to establish various relationships, Chinese managers’ highlight the importance of knowing whom to approach in the government for

\textsuperscript{176} Brandt. 2001. \textit{The Importance of Proximity}
\textsuperscript{177} Dwyer and Tanner. 2006. \textit{Business marketing, connecting strategy, relationship, and learning.}
\textsuperscript{178} Kristoffersen. 2009. \textit{Det nye Kina.}
\textsuperscript{179} www.accessfengshui.com/feng-shui-color-meaning.html
\textsuperscript{180} Dwyer and Tanner. 2006. \textit{Business marketing, connecting strategy, relationship, and learning.}
\textsuperscript{181} Appendix 8. Interview: Pia Polsa
support with projects, and what government agencies that could influence different projects.  

5.1.4.6 People

Höegh Autoliners must be good at utilizing and maintaining talented employees in China in order to meet customer needs and demands, and compete with domestic rivals. They need employees who know and understand how to succeed in the Chinese market. To do this, Höegh Autoliners’ managers must understand the level of competence that the sales team needs to become competitive in their market.

Companies can benefit from their sales management teams learning languages so they can speak the customer’s native language. Salespeople add value by identifying customer needs, and developing and delivering solutions for those needs. Serving the needs of customers can include training on how to use the product or service effectively, handling customer complaints, and taking care of customer needs. Salespeople should be able to gather information and act on that information in a way that brings additional value to customers.

Successful organizations are often those where the degree of differentiation and the means of integration match the demands of the environment. Differentiation occurs when the sales department focuses on customer satisfaction and building long-term relationships with their customers. Unstable environments, like the Chinese environment, require a higher degree of differentiation to meet varying and complex demands. Organizations operating in this type of environment need to delegate decision making to lower levels in the hierarchy, so that problems can be dealt with through direct communication with those who possess relevant knowledge.

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183 Hexter and Woetzel. 2007. *Operation China, from strategy to execution*.
188 Hatch with Cunliffe. 2006. *Organization theory: Modern, Symbolic and Postmodern Perspectives*.
To gain control and create diversity, a company needs to have a balance of international and Chinese competence. Then tasks can be managed according to competence. The sales team needs to have the ability to communicate and maintain Höegh Autoliners’ international profile. Having only Chinese staff in an international office could be risky. There is the danger of opportunistic behavior and the fact that they will be more loyal to the Chinese companies instead of an international firm. A company needs to establish control over the quality of the services they provide and ensure that it is up to the international standard the company stands for.  

5.1.4.7 Conclusion of Marketing Mix

There are several means Höegh Autoliners can use to market their service. A competitive price seems to be very important in China. However, according to the authors’ findings, it is risky for an international, well-known company to compete on price. It might be damaging to the company’s reputation of high quality. Additionally, some Chinese customers now focus more on quality than on price. The authors believe customers who prefer high quality and loyal business relationships will be attracted to Höegh Autoliners’ service offer. It might also be less expensive for the company to focus on differentiation variables such as communicating their stable and high-quality service, in addition to other value adding activities than to compete on price.

Even though the findings suggest that Höegh Autoliners should locate themselves close to their customers, the authors believe that they do not have to expand to new locations. The company’s employees are out of the office most of their time to maintain good relationships with their customers. Additionally, the Beijing office covers the north of China, while the Shanghai office covers the south. There are other means that are effective to improve proximity to customers. They could also establish close relationships with customers by providing them with information.

To succeed in the Chinese market, the competence of Höegh Autoliners’ staff is important. This can serve as a differentiation variable. However, the company
needs to consider whether they want to continue with only Chinese staff, or if they want to create balance by hiring foreign expatriates.

5.1.5 Relationship Management in China

Höegh Autoliners need an effective relationship management process to acquire and maintain long-term relationship in China.\(^{190}\) Generally, relationship targets are individuals with power to influence a company’s success.\(^{191}\)

A relationship is defined by both parties’ expectations. Salespeople are required to set proper expectations, monitor order processing and delivery, ensure proper use of the product, and assist in serving the customer. When a salesperson does a good job on establishing the relationship by ensuring a successful initial experience, there is an opportunity for additional sales. Companies should aim to reach a commitment stage that can be considered a promise to continue the relationship.\(^{192}\)

A company’s employees should have knowledge about local business culture and practice since China is characterized as pragmatic and result oriented.\(^ {193}\) Difficulties companies might experience are often in a cultural context. Times are changing, and difficulties related to culture will decrease. However, it will take time because of China’s large population. Companies must accept that there are still special business practices in China, and things cannot be done in a foreign company’s usual way. There is always a kind of compromise they must agree on to succeed in China. If they keep to their own norms and rules they will have problems in this market.\(^ {194}\)

General difficulties might be that the Chinese already have existing networks. For a foreign supplier it can be hard to enter these. It is difficult to add something that is of value to the Chinese because they get the value they need in their existing

\(^{190}\) Dwyer and Tanner. 2006. *Business marketing, connecting strategy, relationship, and learning.*


\(^{192}\) Dwyer and Tanner. 2006. *Business marketing, connecting strategy, relationship, and learning.*

\(^{193}\) Appendix 10. Interview: Dag Tørvold

\(^{194}\) Appendix 4. Interview: Erling Lystad
To ensure added value, a company will have to study their own procedures to ensure they are up to the standards and the quality they require.

5.1.5.1 Guanxi

The importance of business relationships is not unique to China. However, in different cultures managing relationships are surrounded by different cultural norms. Western relationships are mainly between companies, while *guanxi* is between individuals. In addition to being long-term, permanent and important, it can function as a strong competitive advantage in China. The concept is intangible and it is characterized by reciprocity. It is based on providing and repaying favors. *Guanxi* incorporates trust, as well as the ability to demonstrate sincerity and to build relationships. It takes a number of years to develop proper *guanxi*. When, for instance a new negotiator appears, that negotiator must rebuild the whole network. The original negotiator can introduce, but newcomer has to rebuild the relationship to develop a social form.

*Guanxi* has to do with peoples’ background and hierarchy is important to the Chinese. If a company does not know people with the same social level, they must work through intermediaries. Then they need to target intermediaries who have social access to that person. If a company is approaching new customers, they have to use acquaintances. There is usually someone in a network who knows the person they want to get in touch with. An introduction is the way to get initial interest. The Chinese are in general very careful about whom they build relationships with, because relationships come with obligations that they need to

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195 Appendix 8. Interview: Pia Polsa
196 Appendix 4. Interview: Erling Lystad
197 Appendix 3. Interview: Dr. Vanhonacker
199 Appendix 3. Interview: Dr. Vanhonacker
202 Appendix 3. Interview: Dr. Vanhonacker
203 Appendix 3. Interview: Dr. Vanhonacker
205 Appendix 3. Interview: Dr. Vanhonacker
206 Appendix 4. Interview: Erling Lystad
engage in. For them it is a strategic decision, they want to be able to fulfill the obligation and save face.\(^{207}\)

A person’s face depends on its guanxi, both the quality of the relationships and the size of the network. A person who has a face receives respect as well as a good reputation, and would therefore have a greater opportunity to create good guanxi\(^{208}\) and further expand their customer network. An existing network can therefore provide a company with a competitive edge since it facilitates access to their network members’ resources.\(^{209}\) An influential individual is often a desired guanxi-target. However, if he or she loses this important position, Chinese people tend to leave.\(^{210}\)

Guanxi can be used as a means to get access to critical information and get things done. Because of the cultural gap, it is therefore crucial for a foreign company to have a good guanxi network.\(^{211}\)

5.1.5.1.1 Corruption or Guanxi

Since the lines between personal and business relations are often blurred in China it is important that employees share the same understanding of acceptable and unacceptable business practices.\(^{212}\) In China “using” a relationship creates an obligation to do something at a later date. Guanxi is not the same as corruption because guanxi is relation-focused whereas corruption is transaction-focused.\(^{213}\)

5.1.5.1.2 The Importance of Guanxi

Even though the nature of guanxi is changing as China evolves into a more international and standardized business environment,\(^{214}\) it will continue to be an important factor when doing business in China. This is because the cultural heritage will remain in China.\(^{215}\) In addition, companies will need guanxi to cope with the government’s involvement in economic matters and because Chinese

\(^{207}\) Appendix 3. Interview: Dr. Vanhonacker
\(^{212}\) Fernandez and Underwood. 2006. *China CEO*. Page 198
\(^{213}\) Vanhonacker. 2004. *Guanxi Networks in China*. Page 50
\(^{214}\) Fernandez and Underwood. 2006. *China CEO*. Page 214
business laws often are written in vague terms, leaving interpretation open to individual officials. If officials favor someone, they get better judgment.216

5.1.5.2 Guanxi Networks in China

It is essential for a company to be able to generate good guanxi and avoid relationships that could become a liability. The authors have created the visualization above based on the leading scholar and China expert, Dr. Wilfried R. Vanhonacker’s theory on guanxi from the article: “Guanxi Networks in China”.218 Höegh Autoliners can consider following this model when establishing and improving guanxi-relationships in China.

5.1.5.2.1 Strategic Design

The strategic design consists of short and long-term targets and needs. It should also include a plan for dealing with indebtedness219 such as a balance sheet to map supply and demand for guanxi on a regular basis.220

5.1.5.2.2 Building Guanxi Networks

Building guanxi-networks consists of four steps:

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216 Fernandez and Underwood, 2006. China CEO.
First, the company needs to target whom to build a relationship with, and identify what this target values. This is supported by professor Pia Polsa. She adds the need to get personal. Guanxi is all about give and take. In China the customer is a friend as well as a business partner, and therefore the individual seeking the relationship must take the risk of getting on a personal level.

The second step is scouting, which means identifying a common base for the relationship. This is supported in the expert interviews. Scouting bases can be:

- Kinship, which is blood related
- Same origin or dialect
- Past workplace, or school so that they are former colleagues or classmates
- Trade associations or social clubs that facilitate opportunities for interaction through social activities.

If a base does not exist, the company has to rely on intermediaries.

The third step is to signal to the target an interested in a relationship.

Lastly, “packaging” instrumental objective refers to hiding that the aim is merely an instrumental relationship.

5.1.5.2.3 Maintaining Guanxi

Maintaining guanxi includes expressing a wish to continue the relationship. Continual social interaction and ongoing demonstration of trustworthiness and sincerity is crucial. To succeed companies must study and take the other party’s personal needs and demands into consideration. Small things like doing a favor to its customer that does not appear to have an immediate positive outcome for the
company itself, can lead to improved guanxi. Providing favors the other party wants can strengthen the relationship. Failure to do so can lead to loss of face.

Patience is a virtue within these personal relationships. The company’s employees also need to be present; by traveling to visit customers regularly to achieve a personal connection. A phone call, fax or email is not sufficient. To build up trust the company’s employees has to get very personal with the guanxi-target. It is all about patience and time.

5.1.5.2.4 Managing Guanxi
Managing guanxi includes disassociating the relationship from the benefits received. Here, it is important to focus on the relationship. To succeed, it is important to be familiar with the target.

In a business relationship the Chinese customer seek stability and trust, and for Höegh Autoliners it is important to truthfully care about their contract partners and their families. The concept of family can also be extended to the local community or the state. With new and potential customers an easy way to create guanxi is to be introduced by someone within a network, as this conveys loyalty.

There is a common agreement from the expert interviews that it is very difficult to build the kind of loyalty and commitment that the Chinese have amongst themselves. The highest level of loyalty and commitment are amongst relatives, where loyalty is a duty. It has nothing to do with guanxi because it is blood related. In addition the Chinese are relatively disloyal by nature. It is not the Chinese way to be loyal business wise. The reason might be that the Chinese are generally distrustful people because they have grown up with Confucian
values teaching them not to trust strangers. A company must create an
environment and process so that they gradually learn to trust.\textsuperscript{238} If they succeed in
creating a trusting environment they can achieve circumstantial loyalty with
guanxi. Then it is the length of a relationship that remains one of the key points in
achieving loyalty.\textsuperscript{239} A long-term contract with an ongoing relationship,\textsuperscript{240} or
repeated exchange of favors can create a form of loyalty.\textsuperscript{241} Still, foreigners must
respect the country, its people and its rules. Only then they might be able to get a
similar relationship and achieve loyalty. They must be willing to have a reciprocal
relationship and spend time to adjust.\textsuperscript{242}

Managing Guanxi with Government

The basic principles are the same for private and state-owned companies, but there
are some differences and difficulties in dealing with the government. In a state-
owned company the senior management are often government officials and
thereby on a political career path. On this path they cannot make any mistakes and
have to be extremely careful whom they socialize with, especially concerning
external relations such as foreigners, which can always used against them. In
addition, in China it is protégé based, so they are always selective on whom they
bring into the system because the nature of any relationship could undermine their
power. It is because of this power that government officials often are guanxi-
targets. If it is the other way around, and the official is looking for a relationship,
it is usually based on individual ambition. However, if it is not based on
individual ambition, the person might have been sanctioned by the government. In
that case, the obligations are not directly linked to the individual. In general, it is
necessary to know the motivations and obligations of a guanxi-target. There might
be alternative motives behind the interest in a relationship.\textsuperscript{243}

Despite a fast growth in business the past years, the basic thinking in China is still
communism. Regulations and government control are more visible there than in
most other countries. Therefore, a company must identify which government
institution that is important within their specific business. They must also be

\textsuperscript{238} Appendix 3. Interview: Dr. Vanhonacker
\textsuperscript{239} Appendix 8. Interview: Pia Polsa and Appendix 3. Interview: Dr. Vanhonacker
\textsuperscript{240} Appendix 4. Interview: Erling Lystad
\textsuperscript{241} Luo, Yadong. 2000. Guanxi and Business.
\textsuperscript{242} Appendix 8. Interview: Pia Polsa, Appendix 3: Dr. Vanhonacker and Appendix 4: Mr. Lystad
aware of the fact that a company can appear to be private but in reality is a local organization that is semi-governmental, which means that their decision-making is heavily influenced by government. Within a guanxi relationship there are a lot of cultural expectations. A company must live up to them so that they do not become an unpredictable political uncertainty.

5.1.5.3 Contract Management

Contract management needs to be studied from an interaction perspective that focuses on interaction in and between relations, and also from an institutional perspective that focuses on the interaction of the social systems that surrounds the management of contracts. When managing a contract, a company needs to be aware that structures and behavior are formed through adjustments to the patterns of the societies they operate in. Therefore contracts need to be in accordance with the laws, industry standards and accepted norms in those societies.

Within inter-organizational theories there is a focus on the importance of trust, based on a long-term cooperation and development of common norms as a founding basis of continued cooperation. Long-term relations should be characterized by trust and with established routines for communication. Formal procedures need to be combined with a flexible attitude. An important element within buying and selling processes is interaction and it needs to be within the frameworks for long-term and comprehensive relations. Gadde and Håkansson claims that the insecurity that always exists in business co-operations can be handled with a mutual trust between the partners. In addition, within theories on relations for the service business the importance of written specifications and regulatory conditions is emphasized. Special constructions in the contract and control systems are needed to prevent and handle deficiencies in contract compliance.

Furthermore, inter-organizational theories points out that the partnership-phase is characterized by long-term relations, with integrated cooperation. In this phase

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243 Appendix 3. Interview: Dr. Vanhonacker
244 Appendix 10. Interview: Dag Tørvold
245 Appendix 3. Interview: Dr. Vanhonacker
there is an open discussion on price instead of bidding, as well as efficient information sharing and high flexibility. Continuous communication is a key component to develop trust and facilitate adjustments in this phase. The perception of several researchers indicates that the contracts design is of importance to implement the partnership-phase.248

A company needs to understand that contracts demand continuous management, competence and coordination. Take advantages of standards, but at the same time combine them with their own demands. A company should not underestimate the risk of misunderstandings and the need for local knowledge. But instead take advantage of the possibilities of communicating knowledge and mutual learning.249

5.1.5.3.1 Contracts in China
The Chinese say that contracts are not about a piece of paper, it is about trust.250

In Chinese business culture there is a tendency to look differently upon contracts than Westerners do.251 Foreign companies need to understand the Chinese way of dealing with contracts. To do things in China is not the same as what is optimal other places in the world, because in China they will take advantage of the other party’s weaknesses. A company has to be prepared. They should try to map whom they are dealing with and possible difficulties that could occur.252 In addition, they should have knowledge about the Chinese legal system, laws and regulations.253 Use knowledge of Chinese legislations to show respect for the country and create trust.254 This is not just in a contractual matter, but also to secure and analyze all the rights a company feel they have and want to protect. In addition analyze all risk and minimize the risk as much as the can. Only by doing these steps, they can reach a level of professionalism when doing business in China.255

250 Appendix 4. Interview: Erling Lystad
251 Appendix 4. Interview: Erling Lystad
252 Appendix 9. Interview: Geir Sviggum
254 Appendix 8. Interview: Pia Polsa
255 Appendix 9. Interview: Geir Sviggum
Höegh Autoliners also need to keep in mind that the real negotiation often starts after the signing of the contract.\textsuperscript{256} The Chinese perceive a contract as an initial step in a business process; it can be compared with the Western letter of intent. Höegh Autoliners should prepare for continuous negotiation on changes and challenges during the contractual relationship.\textsuperscript{257} The company will need people that can work with a flexible Chinese strategy, so that they can catch the right opportunities when they occur. A legal contract is not the best way to protect oneself in China, social influence is.\textsuperscript{258}

In China, companies sign vague contracts that leave space for interpretation. Then they start building a relationship. Every time there is a cost or risk that needs to be divided, the parties meet and discuss how to do it. The Chinese will wish to compromise and they are open for discussion of conflicts.\textsuperscript{259}

When writing long-term contracts, foreign negotiators need to focus on being as strict and structured as possible, so that there is little room for manipulation from the Chinese side. There are two issues that need to be addressed in a contract. First, if there is a conflict and it cannot be solved based on the contract, what country’s legal system should be applied so that the conflict can be resolved. The second is dispute solving; how and where will are conflict be resolved. The alternatives are regular courts or arbitration. Arbitration is a different form of solving a dispute with an international standing as it has almost 150 countries as members. It refers to an agreement in the contract on a voluntary dispute solving in another country. It is the most common way to solve disputes within international contracts. If companies are to solve disputes in China, they must agree upon arbitration. If the company has a thorough contract, which includes choice of law and a valid arbitrary clause, they can stand strong against a Chinese counterpart. They should then be able to enforce the contract in a relatively simple way in China.\textsuperscript{260}

\textsuperscript{256} Appendix 4. Interview: Erling Lystad
\textsuperscript{257} Appendix 9. Interview: Geir Sviggum
\textsuperscript{258} Appendix 3. Interview: Dr. Vanhonacker
\textsuperscript{259} Appendix 9. Interview: Geir Sviggum
The Perception of Contracts in China is Changing

The Chinese are studying the use of contracts because they are concerned of having the image of being a grey market, where everything is going through relationships and corruption. They want to build up their country so they can function through their contracts. It is only a matter of time before they see the value of it. In the long-term, they have already learned to turn around and use contract to their advantage. They are also being selective in what they pick out for the contracts, so that it gives them a benefit. But for now it is still just a framework that can always be re-negotiated.

5.1.5.4 Negotiation

Chinese negotiation strategy is affected by degree of trust between the parties. It can be either cooperation-oriented or competition-oriented. The authors have studied professor and author, Tony Fang’s theory on Chinese negotiating style to suggest an effective negotiation strategy for Höegh Autoliners in China. The authors will only analyze the elements that are relevant to their problem statement from this theory. For instance, they will not comment on Chinese technical behavior.

5.1.5.4.1 Chinese Business Culture

According to this theory, Chinese negotiation behavior is influenced by three aspects called, the PRC condition, Confucianism and Chinese stratagems. The PRC condition constantly changes, whereas Confucianism and Chinese stratagems do not.

The PRC Condition

The PRC Condition refers to social and political characteristics, especially Chinese bureaucracy, which has developed after the PRC was founded in 1949. It also refers to the special situation in China.

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260 Appendix 9. Interview: Geir Sviggum
261 Appendix 8. Interview: Pia Polsa
262 Appendix 4. Interview: Erling Lystad
Because of political influence, decision making in China can either be very slow or very quick. Due to the Party’s presence in every aspect of the Chinese society, the Chinese government often turns out to be the “biggest boss” in a negotiation situation.266

Confucianism
Confucianism includes six values that can affect Chinese business negotiating behavior: moral cultivation, the importance of interpersonal relationships, family orientation, respect for age and hierarchy, avoidance of conflict and need for harmony, and the concept of *face*.267

Chinese Stratagems; “ji” 计 (计)
Stratagems refer to Chinese negotiation tactics. This is the strategic component of Chinese business culture. The main message is to “subdue the enemy without fighting”, and the highest strategic principle is flexibility.268

4.1.5.4.2 Chinese Business Negotiation Behavior
Chinese business negotiation behavior can vary across the country.269 Mr. Fang has identified the following patterns:

Political Behavior
Foreign companies negotiating in China often experience that the government is the ultimate decision maker. Therefore, the Chinese negotiating team tends to be large, because it consists of people from different departments with different interests.270

Legal Behavior
Chinese tend to renegotiate the contract throughout the business relationship. Also, the Chinese tend to insist on arbitration in China because the Chinese arbitration system is more familiar with Chinese law than foreign arbitration system. Since

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China’s legal system is maturing rapidly, international business practices become more respected.  

Social Behavior

Chinese usually try to establish trust in the other party during the pre-negotiation phase. This is done through gathering of information, personal contacts, and social activities. In this phase, guanxi and trust play key roles. Building trust and guanxi is time consuming and personality, cultural sensitivity and communication skills are important. In addition the Chinese generally considered sincerity and reputation to be important factors.

Commercial Behavior

The Chinese tend to prefer to cooperate with large and financially strong foreign companies. They also tend be very price sensitive and will therefore never stop haggling over price.

Strategic Behavior

The Chinese stratagems can be used to cope with the inherent distrust for strangers. The following are examples of deliberate strategic behavior:

• Chinese negotiators tend to play off business rivals against one another by making them feel like they are being compared.
• They can use manipulating techniques such as playing tough and soft.
• Chinese negotiators may also use foreigners’ notion of China and the Chinese, such as face, to their advantage.

This is further supported by the authors’ expert interviews who say that Chinese are very good at listening and paying attention to details. Negotiators must be very alert in learning what they say as they are accustomed to a society of listening. Learn to read between the lines and listen to everything they say. They are very sophisticated and they can detect very small changes in body movement and therefore read people very well. It is very difficult to read a

275 Appendix 3. Interview: Dr. Vanhonacker
Chinese person and therefore they have an advantage here. It can be developed, but that requires a long experience with living in the Chinese culture.²⁷⁷

4.1.5.4.3. Negotiating With Government

There still exist a lot of grey areas in the Chinese laws. Therefore, decision-making processes in China are still complex. In general, negotiating with the Chinese government can be challenging for a foreign company like Höegh Autoliners. To succeed under such conditions, international managers need to be flexible, focus on the long-term objectives, and adjust their business plan to Chinese standards. Successful negotiation with the government also depends on the understanding of the governmental mindset.²⁷⁸

4.1.5.4.4 The Negotiation Process

The Chinese negotiation process tends to be time-consuming because a Chinese negotiating team is normally a consensus-reaching group.²⁷⁹ To prepare for the negotiation, it is important to learn to know the company’s target and their negotiators, and find out their weaknesses. Study what they value and implement this is in the negotiation process. This will take time and companies need to get involved with numerous dinners and socializing, it takes hard work and initiative.²⁸⁰

According to Mr. Erling Lystad, Chinese are not very difficult negotiators; the foreign party must have the ability to play their game. They are very natural and it is hard to make mistakes unless a participant gets angry and hit his or her fist in the table.²⁸¹ It is important that both parties are able to maintain face throughout the negotiation.²⁸² The key is to be patient, clear and logical as well as not afraid to tell the Chinese counterpart what they want.²⁸³ Dr. Vanhonacker further supports this statement. He adds that, if the foreign side knows the rules of the Appendices:

²⁷⁶ Appendix 8. Interview: Pia Polsa
²⁷⁷ Appendix 3. Interview: Dr. Vanhonacker
²⁷⁸ Fernandez and Underwood. 2006. China CEO.
²⁸⁰ Appendix 8. Interview: Pia Polsa
²⁸¹ Appendix 4. Interview: Erling Lystad
²⁸² Appendix 3. Interview: Dr. Vanhonacker
²⁸³ Appendix 4. Interview: Erling Lystad
game, Chinese are very predictable. As mentioned earlier the Chinese are very strategic people.\(^{284}\)

Negotiation behavior usually changes over time. According to Mr. Fang, there are three negotiation phases: pre-negotiation, face-to-face interaction and post negotiation. The six main patterns of Chinese business negotiating style influence these stages.\(^{285}\)

Pre-Negotiation
Pre-negotiation refers to the initial formal and informal activities.\(^{286}\) At this stage, planning and research is important. Chinese negotiators usually accumulate information about is counterpart in order to flexibly adjust their tactics accordingly.\(^{287}\) Negotiators also try to identify the people that make decisions.\(^{288}\) Additionally, their own lawyers should read Chinese legislation before going into a negotiation.\(^{289}\) Negotiators aim to establish relationships and hopefully, trust, with their counterparts in the pre-negotiation phase.\(^{290}\)

Face-to-Face Interaction
This stage includes the formal negotiation sessions and the parties try to forge contractual terms that preserve the relationship. As mentioned, as a consequence of the Chinese bureaucracy, the face-to-face interaction can either be very quick, or very slow. Höegh Autoliners should be aware that Chinese companies often employ professional negotiators with little incentive to end the discussions for this phase of the negotiation.\(^{291}\) Chinese people pay special attention to etiquette. Therefore, a large difference in age and rank between negotiating parties will be considered impolite.\(^{292}\)

\(^{284}\) Appendix 3. Interview: Dr. Vanhonacker
\(^{289}\) Appendix 8. Interview: Pia Polsa
Negotiators may use tactics and ploys to win the negotiation.\textsuperscript{293} There are two ways to respond to their tactics and ploys; to study Chinese strategy or realize that no matter how hard they try they will not be as good as the Chinese. The best way is to play use own strengths and do it in a Western way but with a Chinese sensitivity, respect and understanding.\textsuperscript{294}

Post-Negotiation

As mentioned, the Chinese side often continues to renegotiate even after the contract is signed. They expect their counterparts’ lines of communication to be constantly open.\textsuperscript{295}

4.1.5.4.5 Critical Success Factors for Negotiating in China

The expert interviews provided the authors some critical success factors on how to negotiate in China:

- According to Pia Polsa the most important success factor is respect. She told the authors to show respect regardless of anything, regardless of all the issues Westerners look down upon. This statement is further supported by several of the other interviewees.\textsuperscript{296}
- Be flexible and understanding, Chinese are a holistic society and their dynamics are very different.\textsuperscript{297}
- The Chinese rules and strategies have been here for a long time and they are not likely to change, they will always be Chinese deep down in their DNA. Be aware that even though they behave Western they have their Chinese values deep within.\textsuperscript{298}
- Establish whom the company is dealing with, if it is governmental, semi-governmental or private companies.\textsuperscript{299}
- Reciprocity is key. Höegh Autoliners’ employees need to have a genuine interest in helping the Chinese company and be willing to learn from each

\textsuperscript{294} Appendix 3. Interview: Dr. Vanhonacker
\textsuperscript{295} De Mente. 2009. The Chinese Mind.
\textsuperscript{296} Appendix 8. Interview: Pia Polsa
\textsuperscript{297} Appendix 3. Interview: Dr. Vanhonacker
\textsuperscript{298} Appendix 3. Interview: Dr. Vanhonacker
\textsuperscript{299} Appendix 10. Interview: Dag Torvold
other. By learning what the Chinese customer genuinely need they can help them in a more sufficient way.\textsuperscript{300}

- In many situations where a company negotiates with the Chinese they will have a broader knowledge than the Chinese have. The company has to be careful not to overrun and give the Chinese some space. Be aware of where the boundaries are so that the company does not push the Chinese into a corner and make them loose face.\textsuperscript{301} If the Chinese want to say no then the company must let them, nobody can force the Chinese, they will always protect face.

- Be clear on principles; tell the Chinese counterpart what is not negotiable.

- Pay attention to details of their language when negotiating, what they say and how they say it.\textsuperscript{302} Do not underestimate the Chinese due to their poor English capability.

- Small tokens of appreciation can be a tool in building trust.

- Negotiate on the right organizational level.\textsuperscript{303}

\textbf{5.1.5.5 Conclusion of Relationship Management}

In order to create an effective relationship management process, Höegh Autoliners need to consider several issues closely related to the topic. The company should establish a professional process based on strategic choices on who to build relationships with, and knowledge about local business culture. The company must also consider general difficulties and special characteristics affecting relationship management in China.

The concept of \textit{guanxi} is similar to Western relationships. The main differences concern reciprocity. Since Höegh Autoliners is interested in getting a larger and more influential network in China, they will need to understand and implement an effective \textit{guanxi} strategy for building, maintaining and managing \textit{guanxi}. They may also have to establish firm distinctions between \textit{guanxi} and corruption.

There are additional considerations to be aware of when establishing and maintaining relationships with the government. Höegh Autoliners should focus on

\textsuperscript{300} Appendix 8. Interview: Pia Polsa
\textsuperscript{301} Appendix 4. Interview: Erling Lystad
\textsuperscript{302} Appendix 3. Interview: Dr. Vanhonacker
understanding these difficulties, and what would be the best way to approach government relationships.

As a major part of relationship management, the company will also have to consider issues regarding contract management and negotiation. Here, there are also special characteristics associated with business in China, and especially within business with the Chinese government.

5.2 Summary of analysis

To map what Höegh Autoliners can do to further professionalize their relationship management process, the authors has recognized the issues that need attention in accordance with the thesis’ research questions.

How Höegh Autoliners can differentiate themselves to stay competitive in the Chinese market.

The authors’ task was to decide what best practices and efficient use of resources are needed within the teams to provide a platform that enables the company to grow in the future. Höegh Autoliners is operating in a complex environment influenced by both Western as well as traditional and modern Chinese culture. The industry environment in which the company operates is highly competitive, and this competition is predicted to increase in the future. Many competitors compete mainly on price. Höegh Autoliners are market leaders in China and they wish to maintain their current price, which is higher than many others. The company therefore needs to differentiate themselves to stay competitive in China.

The authors have concluded from the findings that there is a lot of potential to further customize Höegh Autoliners’ brand image and promotion to fit their Chinese customers. It is also necessary to increase availability for existing and potential customers. Therefore, the authors will provide strategies on how Höegh Autoliners can differentiate by altering the marketing mix. They will provide strategies for promotion, people, and process. The offices in Beijing and Shanghai currently employ only Chinese staff. The expert interviews suggest that this might lead to an imbalance. It is stated that there is a need of both international and

Appendix 10. Interview: Dag Tørvold
Chinese employees to be able to provide the international competence that Höegh Autoliners should provide in their relationships. The authors see that it is critical for Höegh Autoliners to differentiate internally by diversifying and expanding their workforce to suit China’s fast growing environment. Additionally, they will provide strategies for professionalizing and streamlining relationship management.

**How Höegh Autoliners can improve their relationships with existing customers and establish new relationships with potential customers.**

A relationship in China comes with reciprocal commitments. The authors believe it is essential for Höegh Autoliners to understand how this works and to be able use their existing network as a base for establishing new relationships.

The authors recognize that Höegh Autoliners lack specific guidelines in the relationship management process. They believe that an effective relationship management process can lead to a competitive advantage in China. To succeed, Höegh Autoliners need develop and implement effective relationship management plan. The authors will use Dr. Vanhonacker’s theory to provide suggestions.

It is clear that Höegh Autoliners already have good network in China. However, they need to expand their network as China is growing fast and the export rate is expected to rise within the coming years. They need to develop a wider presence in the Ro/Ro market. By expanding their network Höegh Autoliners will give their customers added value and will be able to keep their high quality and high price in the competitive market.

**What are the critical means that can lead to loyal customers.**

The authors will provide Höegh Autoliners with guidelines that enable them to achieve commitment, loyalty and trust from their customers. In addition, they have come to the conclusion that thorough preparation is essential before going into a negotiation and before handling contracts in China. A contract can be the first step to trust when Höegh Autoliners establishes long-term relationships.

Before and after signing the contract it is vital that Höegh Autoliners negotiate for a win-win outcome. Mr. Fang’s theory considers the special Chinese characteristics and mindsets that need to be understood and how it affects the
Chinese negotiation process. The findings suggest that it is important to pay back indebtedness in a timely and proper manner, as well a repeated exchange of favors, to increase circumstantial loyalty. A balance sheet can be used to keep track on the indebtedness. Additionally, to increase loyalty to the company, the findings suggest that they should illustrate and interest in maintaining the relationship and in the counterparts family as well as the development as the state as a whole. The authors will suggest strategies to handle these issues.
6 SWOT analysis

The authors have conducted thorough internal analysis that enabled the authors to find the strengths and weaknesses of the company, and a comprehensive external analysis that highlighted the opportunities and threats. It was important for the authors to investigate and acquire an understanding of these aspects to be capable of laying the foundation upon which the authors will define a precise strategic problem definition. The authors have aimed at using the essence of the SWOT in the Strategic Problem Definition so that a useful as well as relevant strategy can be suggested for Höegh Autoliners.
6.1 SWOT Matrix

Weighting scale:

5 – significant strength  2 – medium weakness  
4 - medium strength       1 – significant weakness
3 – neutral

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<tr>
<th></th>
<th>Level of strength/weakness</th>
<th>Importance to the market/High Autonomes</th>
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<tbody>
<tr>
<td><strong>Strengths</strong></td>
<td></td>
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<tr>
<td>Global organization</td>
<td>3</td>
<td>5</td>
</tr>
<tr>
<td>Long experience</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Solid customer network</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>Leading position in China</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Regular service schedule</td>
<td>5</td>
<td>4</td>
</tr>
<tr>
<td>Strong financial position</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>Big fleet-many ports</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Chinese staff</td>
<td>5</td>
<td>3</td>
</tr>
<tr>
<td>High price</td>
<td>4</td>
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<tr>
<td><strong>Weaknesses</strong></td>
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<tr>
<td>Lack of adaptation of promotional activities</td>
<td>1</td>
<td>4</td>
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<tr>
<td>Lack of diversity within the China division</td>
<td>1</td>
<td>4</td>
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<tr>
<td>Lack of specific guidelines &amp; goals concerning relationship management</td>
<td>2</td>
<td>5</td>
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<tr>
<td>High dependency on their customers</td>
<td>3</td>
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<tr>
<td><strong>Opportunities</strong></td>
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<tr>
<td>Rise in exports from China</td>
<td>4</td>
<td>5</td>
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<tr>
<td>New markets in Europe</td>
<td>3</td>
<td>5</td>
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<tr>
<td>Emerging niche markets</td>
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<tr>
<td><strong>Threats</strong></td>
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<tr>
<td>Increased competition</td>
<td>4</td>
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<tr>
<td>Price pressures</td>
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<td>4</td>
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<tr>
<td>Space and tonnage</td>
<td>4</td>
<td>5</td>
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</tbody>
</table>
6.1 Strengths

- Höegh Autoliners is a global organization, with 31 offices in four regions of the world and has a leading position globally.
- Höegh Autoliners has long experience and history in both the international and Chinese market as they have been in China since 1996.
- Höegh Autoliners has a large and solid customer network, with both state-owned companies and private owned customers.
- Höegh Autoliners offer a high quality service with a regular sailing schedule.
- Höegh Autoliners has a strong and stable financial position; the company owns all their ships.
- Höegh Autoliners have a big fleet and offer more trade ways (3 out of China) than their competitors with many charging ports.
- Höegh Autoliners China division consists of mainland Chinese with an high education.
- Höegh Autoliners have a high price compared to competitors.

6.1.2 Weaknesses

- Höegh Autoliners lack specific goals and guidelines concerning relationship management.
- Lack of diversity within the China division.
- Lack of adaptation of promotional activities.
- Höegh Autoliners are very dependent on their current customers. In case there is a problem with one of these customers it will heavily influence Höegh Autoliners’ business. Therefore, Höegh Autoliners should widen the customer network.

6.1.3 Opportunities

- In 2009 China became the world largest exporter, and it is predicted a further rise in exports, especially within the automobile industry. This increase will be a great opportunity for Höegh Autoliners.
• Opportunity of new trade lines with charging ports in new markets such as Russia and other significant countries in Europe. E.g. Geely are considering expansion to Western Europe and Cheery to Russia.
• Emerging niche markets to win in the rapidly changing environment of China, within the environmental focused industry, e.g. windmill blades.

6.1.4 Threats
• Price pressure in the Chinese Ro/Ro shipping industry; the OEMs (especially private owned) are price sensitive, and use open bidding methods, were they chose the Ro/Ro shipping company with the lowest price.
• Increased competition in the Chinese Ro/Ro market; small domestic players from China and competitors from Japan are likely to enter the market. This will result in a fragmented industry.
• Space and tonnage problems, the industry is getting on its feet from the financial crisis and are once again facing a space and tonnage problem.
7 Strategy

The strategic approach of this thesis will be based upon the findings and analysis. The authors will provide strategies on how Höegh Autoliners can professionalize their relationship management process to enable them to continue to be successful in the Chinese market.

7.1 Strategic Problem Definition

The strategic problem definition (SPD) is the final product of the analysis. It serves as the foundation for the further development of the strategy. Based on the most important factors in the SWOT-analysis, the authors have formed the following SPD:

*How can Höegh Autoliners use their dominant market position and stable service offering while expanding their network and streamlining their relationship management, to take advantage of the growing market and handle the strong price competition?*

7.2 Goals – Long-term and Short-term

The Strategic Problem Definition serves as a base for formulating and developing long- and short-term goals. Based on the authors’ findings and analysis, they have identified both long-term and short-term goals in relation to relationship management for Höegh Autoliners.

The long-term goals should be accomplished within 5-10 years (Strategic Goals). Short-term goals should be accomplished within 1-2 years (Operative Goals).

7.2.1 Long-term Goal

*Höegh Autoliners should remain in a leading position in the Chinese market without reducing their price.*

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7.2.2 Short-term Goals

Based on the findings and the analysis, the authors have identified the following short-term goals to fulfill the SPD:

- Höegh Autoliners’ web page and logo should be customized to meet Chinese standards, within one year.
- Increase the number of employees with the percentage needed to deal effectively with Höegh Autoliners expanded network within two years.
- Hire international competence on a managerial level and within the sales team within two years.
- Höegh Autoliners should establish educational programmes for their customers within one year.
- Establish a training program for employees regarding the new relationship management processes within one year.
- Höegh Autoliners’ customer network should be widened with a significant percentage, in order to stay competitive, within two years.

7.3 Critical Success Factors

On the basis of analyzing secondary and primary findings in addition to Höegh Autoliners’ current strategic situation, the authors have identified the following critical success factors (CSF):

- **Customization**
- **Balanced and enlarged staff**
- **Streamlining the relationship management strategy**

7.3.1 Customization

Höegh Autoliners need to customize their image to the Chinese market. They have to create a new image that show respect for the Chinese culture and people, whilst still upholding their international image.
7.3.2 Balanced and Larger Staff

A balanced and diversified staff is critical to lay the foundation needed for Höegh Autoliners to achieve the goals above. Furthermore the current China division has to be enlarged to enable Höegh Autoliners to meet the needs of their expanding customer network.

7.3.3 Relationship Management Strategy

Höegh Autoliners currently has a large customer network consisting of many mature relations. However, the company does not have a specific relationship strategy on how to further improve current relations as well as establish new relations. Therefore an efficient and professional relationship management strategy is critical for Höegh Autoliners’ further network expansion and future success.

7.4 Strategic Suggestions/Recommendations

Höegh Autoliners is operating in a challenging environment. To maintain their leading position, they should uphold their current service level while focusing on professionalizing their relationship management process. To be able to do this, they should alter their marketing mix to lay the foundation to streamline their relationship management strategy.

7.4.1 Altering the Marketing Mix

To maintain their leading position in the Chinese market, the authors suggest that Höegh Autoliners should make alterations to three of the six P’s in the extended marketing mix presented in this thesis: promotion, people and process.

7.4.1.1 Promotion

Höegh Autoliners are proud to have an international image and the authors recommend that they should maintain this image. However, as a player in the Chinese market, they should also aim to show respect for China and its culture and values. The authors therefore suggest that Höegh Autoliners should customize what seem to be little details. A Chinese version of their web page must be...
developed. Figure 11 shows Nykcos’ and Höegh Autoliners’ respective web pages to illustrate this. By customizing the web page they signalize an effort to adjust. Additionally, they increase their accessibility and availability to their customers.

Figure 11: Illustration of a Chinese web page

The company should change the colors of their logo, as illustrated in figure 12, from the current blue, to gray and red colors. In China blue color is associated with funerals and mourning. The red colour can represent good fortune and strength, and the grey colour can reflect the notion of balance.

Figure 12: The Authors’ suggestion for customization of logo
7.4.1.2 People

To handle the competitive environment, maintain their current service level while professionalizing their relationship management process, Höegh Autoliners need a larger and more diversified work force. Today, the China division only consists of Chinese staff and it does not generate the international image that Höegh Autoliners want to uphold. The workforce must have the discipline and professionalism to prospect at the right levels; use their communication skills to get Höegh Autoliners’ message across as well as being able to negotiate for a win-win outcome. There is a pressure of internal differentiation to be able to expand their network whilst meeting customer demand in the complex environment of China. Therefore they should balance their staff by hiring expatriates in managerial positions and within the sales team. This will allow different parts of the organization to specialize in handling different customer demands. It will provide Höegh Autoliners with a diversified internal complexity to match China’s complex environment.

The expatriates should devote themselves to building and maintaining relationships. Since expatriates tend to move around, Höegh Autoliners should use long-term employee contracts to ensure a valuable and continuous relationship building process.

7.4.1.3 Process

A common way to do business in China is to establish a reciprocal relationship. Höegh Autoliners should continue with providing customers with necessary information e.g. about growing markets. In addition they should try to further educate their customers to build loyal and trusting relationships. The authors suggest that they should prepare educational programmes on logistics so their customers can increase their knowledge within the industry. Here, Höegh Autoliners also has the possibility to promote their company. The programs could be held in one session, over a weekend, or once a week for one month. This should be adjusted to match customers’ preferences. The programme could be integrated in social activities aimed at improving relations. It could also be an integrated part of a business invitation to Norway. Both manager and sales team should be present at the lectures. By doing this, Höegh Autoliners can continue to
grow together with their customers by showing a genuine interest to help them and a willingness to learn from each other.

7.4.2 Streamlining Relationship Management

Höegh Autoliners is facing several concerns as the financial crisis is fading. Their current prices are higher than several of their competitors, which might result in loss of the price sensitive customers. However, they should keep this price to increase the price level in the industry and to demonstrate consistency. To prevent the loss of customers, they will have to continue providing a high-quality service while streamlining the current relationship management process.

To streamline the relationship management process Höegh Autoliners need to know how to manage and maintain relationships as well as consider the role of contracts and adjust their negotiation process. All of these factors need to be in accordance with the PRC condition.

7.4.2.1. Managing relationships

The company’s relationship management strategy should include guidelines for maintaining and expanding the network. To establish these guidelines the authors has used Dr. Vanhonacker’s theory on guanxi networks. By following these guidelines, Höegh Autoliners will be able to expand and maintain a network that can benefit Höegh Autoliners’ reputation and also provide access to new relationships. The suggestions also consider the governmental aspect since many of Höegh Autoliners’ customers belong to the automobile industry, which consists mainly of state-owned and partly state-owned companies.

7.4.2.1.1. Building and Expanding Network

To effectively expand their network they need to have a specific targeting plan. The company should carefully study potential relationship targets before approaching them to avoid relationships that could become a liability. They should gather information about potential targets from individuals within their existing network. Their targets should be influential individuals that has the power to affect the company’s success or individuals that have good relations with local
government authorities. They can reach the right top-level individuals by consulting with lower-level officials.

Once the target is identified, Höegh Autoliners should identify a common basis for the relationship, since relationships usually develop between individuals that share some common past. With only local Chinese employees, Höegh Autoliners should possess several relationship bases. In cases where no bases exist they should use their existing network, through introductions from trusted intermediaries of high age and rank, and existing customers that can guarantee both sides’ behavior and sincerity.

Höegh Autoliners’ employees also need to signal to the target that they are interested in a relationship. Choosing the right signal can demonstrate sincerity, trustworthiness and integrity. In addition, they should aim to “package” the instrumental objective so that the target does not suspect that Höegh Autoliners is merely interested in an instrumental relationship. To establish relationships, Höegh Autoliners should aim to give the target face by inviting them to social events they could easily attend or give personal attention such as:

- Inviting the target to presentations about the company or to baptism of new ships.
- Extended invitations to visit Norway for key targets. On the visit abroad they should arrange meetings with high-level managers in Höegh Autoliners and Norwegian government officials. Such means will contribute to giving face to the target.
- The company should also aim to reduce risk and give government managers a sense of security by cooperating with the company. To do this they should refer to other governmental relations they already have.

7.4.2.1.2. Maintaining Relationships with Existing and New Customers
Höegh Autoliners should excel in maintaining relationships with existing and new customers to gain a competitive edge in China. To succeed, they need to follow up and demonstrate an interest in continuing the relationships. They should:
• Continue having employees out in the “field” to engage in continuous social interaction through regular meetings with customers. Because of time and money-constraints there is a limit to the amount of close a relationship an individual can develop and maintain. Therefore, the most important customers and relationships should be devoted more time than the less important.

• Höegh Autoliners should also be aware of their indebtedness from their customers and other relationships. They should pay attention to the balance sheet and pay back indebtedness in a timely and right manner to avoid loss of face within the relationships.

• To transform individual guanxi into organizational guanxi, Höegh Autoliners’ managers should get involved. They could support social activities initiated by the employees.

7.4.2.1.3 Managing relationships to Create Loyal Customers

Gaining loyalty from customers is a challenge in China. When managing their relations, Höegh Autoliners’ staff should focus on the relationship and not the instrumental objective. In China one has to get personal to manage a trusting relationship, only then Höegh Autoliners might achieve circumstantial loyalty. To increase circumstantial loyalty the authors suggest that Höegh Autoliners should:

• Create an environment and process that will enable the customers to trust the company. This can be done through repeatedly exchange of favors so that the customers will experience stability in the relationship.

• Considerate gifts based on research of the targets needs and wants.

• Use long-term contracts to demonstrate commitment to the customers as well as helping their customers achieve their goals.

• Invite high-ranking officials to meet with Höegh Autoliners’ CEO, CFO and COO. This will illustrate their commitment to the Chinese customers.

• Lastly, Höegh Autoliners should demonstrate commitment to the country’s overall development and growth to achieve trust from the environment in which it operates:

  o Höegh Autoliners should study the Communist Party’s five-year plan and they should contribute to reach governmental goals. For example they should be a key contributor in transforming Shanghai
into a shipping capital, which is the governments’ goal to accomplish within 2020.

- They should meet with local officials and provide information on what is needed to become a world-class port in terms of logistics, safety and other aspects the company might have knowledge about. They should aim to build relationships with these officials, and show that they are in it for the good of China.

- To show commitment to increasing the general knowledge in China, Höegh Autoliners should share this expertise by providing technical training at universities. HSBC\textsuperscript{306} sponsors finance lectures from visiting professors at Fudan University. Höegh Autoliners can sponsor trips to ship yards/ports or they can provide guest lectures sharing their expertise of the shipping market. E.g. at universities such as Shanghai Maritime University.\textsuperscript{307} In addition to being a mean to demonstrate commitment, it can also contribute to attracting both potential employees and customers.

7.4.2.2. The Role of Contracts in China

Höegh Autoliners should consider contract management as a mean in professionalizing their relationship management process. A contract can be used to initiate trust and loyalty in a business relationship. In addition, it can be used to illustrate professionalism. For Höegh Autoliners to succeed with contract management in China, the authors have identified the following suggestions:

- Be familiar with Chinese contract law as it will serve as an advantage in negotiations as well as show respect.
- Analyze all risk associated with dealing with the contract.
- Insist on including choice of law in the contract that states which country’s legal system should be applied in case of a conflict.
- Include a valid arbitrary clause in the contract, in Beijing or Shanghai.
- Long-term contracts should be strict and precise so there is little room for manipulation from the opponent.

\textsuperscript{306} www.econ.fudan.edu.cn/intro.do?opr=ema_student1
\textsuperscript{307} en.shmtu.edu.cn/articles/00335-BachelorsDegreePrograms.htm
If there are strong relations between the parties and necessary clauses on arbitration and choice of law is included, it will not be difficult to enforce the contract in China.

7.4.2.3 The Negotiation Process
When the parties have established a relationship, and mutual trust between the parties is high, Chinese tend to use a cooperative negotiation strategy. If mutual trust is low, they tend to apply tactics and ploys to win. Also, negotiation behavior tends to vary because of vast regional differences and China’s great size. The authors want to provide Höegh Autoliners with general guidelines to succeed in a Chinese negotiation process. These are especially useful for the expatriates that Höegh Autoliners needs to employ:

- Preparation and sensitivity: Höegh Autoliners’ negotiators should be well prepared before engaging in a negotiation. They should be aware of their counterparts’ strengths and weaknesses, Chinese laws and regulations and regional cultural differences. They should also be good listeners, and avoid pressuring their Chinese counterpart. To enable the Chinese counterpart to gain face, they should leave some room for haggling on price.

- Patience and flexibility: The negotiators should be patient, since negotiations in China can be very time-consuming. To succeed, it is important to negotiate on the right organizational level; both teams should consist of people with the same age and rank. They also need to be flexible in terms of negotiation tactics.

- Professionalism and quality: Höegh Autoliners’ negotiators should act formal and focus on quality and mutual benefits. They should aim to establish trusting relationships between the parties that allow them to grow together. To neutralize their counterparts’ tactics and ploys, Höegh Autoliners negotiators must be honest and clear on their principles. They should dear to say “no”, when necessary. This way they can demonstrate their limits and that they are sincere. If they manage to do this without anyone loosing face, they can gain respect from their Chinese counterpart.
7.5 Conclusion

The authors have focused on improving relationship management as a contribution to Höegh Autoliners’ sales strategy in the Chinese market. To study how the company should professionalize their relationship management process, the authors created the following problem statement:

*How can Höegh Autoliners achieve a competitive advantage by establishing and maintaining close relationships with their customers in China, based on effective relationship management?*

After careful research and analysis the authors narrowed their problem statement down to this SPD:

*How can Höegh Autoliners use their dominant market position and stable service offering while expanding their network and streamlining their relationship management, to take advantage of the growing market and handle the strong price competition?*

China is a complex market, and the Chinese culture is influenced by both Western values and traditional Chinese values. Traditional Chinese concepts such as *guanxi* continue to be important, and affects how companies should approach relationship management, negotiation and contract management. The authors have reached the following recommendations for how Höegh Autoliners can take advantage of the growing market and handle the strong price competition.

Since Höegh Autoliners consider it their responsibility as market leader to increase the general price level in the Chinese Ro/Ro market, they must differentiate to stay competitive. The authors recommend that Höegh Autoliners should professionalize and streamline their relationship management process. To be able to do this, they need to make alterations to their marketing mix to demonstrate commitment and respect to the Chinese culture and values. They should customize their promotion by translating their web page and change the colors of the logo. Furthermore, they should expand and diversify their work force to create internal differentiation. Providing their customers with a reciprocal learning environment is also of importance to give added value.
To improve their relationships with existing customers and establish new relationships with potential customers the authors recommend that the company’s employees follow the authors’ guidelines on how to effectively build, expand, maintain and manage their network. Selecting relationship targets should be a strategic decision so they avoid relationships that could become a liability. They must choose relationships where they will be able to pay their indebtedness in a timely and correct manner.

To achieve circumstantially loyal customers the authors recommend that Höegh Autoliners aim for mutually beneficial relationships. To overcome initial distrust when approaching potential targets, they should use introductions form intermediates or existing customers. Relationships with key customers, both existing and potential, and government officials should be followed up more closely than others. In addition, Höegh Autoliners should demonstrate their long-term commitment to their customers and make contributions to China’s overall development and growth.

They should also follow the guidelines on contract management and negotiation. This will enable Höegh Autoliners to build relationships that are consistent with the traditional as well as the modern Chinese mindset.
8 Final Thoughts

8.1 Reflections

In the course of the thesis study the authors met many expected and non-expected challenges and wanted to reflect on what could have been done differently.

Firstly the authors met difficulties in the attempt to obtain customer interviews. The authors have made a serious effort to contact Höegh Autoliners customers, but unfortunately there was no response. Because of this the findings on customers’ preferences within the B2B Ro/Ro industry is obtained from a previous thesis written for WWL in 2005. The interview objects are Mr. Johansson (Volvo), Mr. David Reech and Mr. Michael Raubracher (Shanghai GM), and Mr. Shen Xiaoping (Shanghai VW). The shortcoming of these findings is that they are secondary and that they are relatively out of date.

Secondly, the authors were only able to obtain interviews at the Shanghai office and not the Beijing office. Additionally, when conducting internal interviews at the Shanghai office, a significant language barrier occurred. Although the authors sent the interview questions by mail beforehand, there were misunderstandings when asking the questions because of the interviewees’ lack of ability to understand a professional English level. The authors tried their best to re-formulate the follow up questions so that the interviewees understood what was asked and got relevant answers needed for the thesis.

Thirdly, the authors have gone through a comprehensive amount of secondary data to find the relevant theories for this thesis. It has been extremely time consuming and the authors have unfortunately spent time on going through irrelevant information. However, after months of thorough research the authors were fortunate to find the adequate amount of secondary data on the respective areas relevant to the thesis. A negative consequence of the time spent on this might be that there will be a limited reliability in the strategic part because of the time pressure. On the other hand, the time pressure created an increased need of efficient delegation of work and a need for superior team work and cooperation. The authors have fortunately been aware of the limited time from the start and have therefore been extremely careful when managing the competence and
resources within the group and delegated accordingly. This has led to an efficient research process and the authors have met every deadline without any significant difficulties. The reason for the superior collaboration between the group members is also because of the high level of motivation within the group. Furthermore, there has been an equal aspiration to get a result of high quality and to achieve knowledge on a personal as well as educational level. In addition, the supervisors have arranged schedules that made the authors work harder to meet the deadlines set and enabled the authors to manage their time efficiently. The regular meetings with their main supervisor have provided the authors with the relevant and useful advice. This guidance has been necessary for the authors to continuously adjust the focus of their thesis work and process, so that the final thesis would be of exceptional quality.

Lastly creating goals for the strategy was challenging since success in relationships often is based on social capital; trust, loyalty and obligations etc. The nature of these factors is vague and they are difficult to measure.\(^\text{308}\) Although the authors did not obtain any information concerning current problems within contract management and the negotiation process at Höegh Autoliners, they were still taken in consideration. This because they are important aspects in the relationship management process and the authors saw it necessary to provide general guidelines on how to they are put into practice in China.

8.2 Suggestion for Further Research

8.2.1. Direct relationship with OEMs

At the time being Höegh Autoliners is working directly with the OEMs as well as through forwarders, they should evaluate whether there should be an increased focus on working directly with OEMs as it is an important discussion in China today.

Suggestions on the subject: One method to achieve direct relationships could be to build up NBA programmes for the OEMs where the goal would be to educate

them. However, Höegh Autoliners must consider that in China most relationships are interconnected. The company could chose to focus on educating and working directly with the OEMs, but it could be damaging to a company if the OEMs already have established guanxi with the forwarders. If the forwarders are eliminated it could affect the network in which the company operates. In addition, Höegh Autoliners must always be aware that the government is a part of a network. Today a lot of business is done through intermediaries, because foreign companies do not think that they have the sufficient knowledge to do it directly.

The common perception is that having an intermediary has a clear value and is recommended by those who serve as forwarders. They state that if a company is in a situation where it gets stuck, they can take initiative to find a solution that would not be able to get directly. However the world is changing and it could be possible to work directly with Chinese OEMs. One solution could be to integrate the forwarders, recruit them to the company and in this way give them sense of security. Höegh Autoliners should see this as an opportunity. Höegh Autoliners has a local staff that has the competence to communicate directly with the OEMs.

8.2.2. Emerging markets

To win in the rapidly changing environment of China, Höegh Autoliners must focus on how to reach emerging customer segments. China has emerged as the leading force, and gone past USA in terms of investment in renewable energy. The country has taken a strategic decision to invest in wind and solar technology in a time when the demand for energy increases rapidly. Other Western countries are behind their plans of investment some because of the global economic crisis and experts means, some because of lack of political willingness. China still has a strong position since the global financial crisis, and this gives the country a great opportunity to be the first to invest. This gives Höegh Autoliners the opportunity to focus on shipping non rolling cargo such as windmill blades. This niche industry gives major profits and it is important that they catch this opportunity at an early stage. They should also study opportunities of export to other emerging markets, such as Russia.

309 Appendix 8. Interview: Pia Polsa
310 Appendix 4. Interview: Erling Lystad
311 Appendix 8. Interview: Pia Polsa
312 Hexter and Woetzel. 2007. Operation China, from strategy to execution.
313 www.dagsavisen.no/utenriks/article477854.ece
8.2.3. The issue of ensuring space allocation

Initially, the authors learned that Höegh Autoliners had much space on their ships for their Chinese customers. However, they recently learned that this situation is changing, and that the company probably will face problems with space allocation in the near future. If Höegh Autoliners make an effort to improve current relationships and expand their customer network, they might have to increase capacity to handle more customers and issues concerning space allocation. This issue goes beyond this thesis’ scope, regardless Höegh Autoliners need to consider acquiring more ships to ensure space allocation and tonnage for their customers in the future.

8.2.4 A flexible price

It was vaguely expressed in one of the internal interviews that one weakness of Höegh Autoliners could be that they should be more flexible on price. However this statement was withdrawn because it was not consistent with the company policy; not to engage and encourage price wars. However, many of Höegh Autoliners main competitors have lowered their price in the Chinese market and it could be necessary to look into the possibility of introducing alternative pricing strategies.

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314 Correspondance with Dag Kristiansen
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9.1 Books


9. 2 Thesis


9. 3 Articles


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Appendix # 1

Internal interview, Dag Kristiansen

E-mail interview with Dag Kristiansen, commercial assistant Höegh Autoliners

1. Vi hadde satt veldig pris på om du kunne forklare dette mellomleddet ("forwarderne") dere forhandler med litt mer detaljert.
Vi jobber både mot forwardere og OEMs. OEMen tar 20 000 på å ha det mellomledet hvis du forutsetter at OEM selskapets logistikk divisjon kan håndtere logistikkken til samme kost som forwarderen. Gitt de fleste kinesiske bilprodusenters mangl på eksport erfaring, er nok kostnaden høyere og kunnskapen mindre i mange tilfeller. Vi jobber selvsagt for å øke kunnskapen deres. Vi jobber for å få mer last direkte fra OEMene da vi tror at deres eksport vil øke fremover. Men vi ser at mange ikke er villige til å binde seg til langsiktige avtaler men foretrekker å operere på en spot basis.

1.2. Hvilket prisnivå ligger Höegh Autoliners på i Kina i forhold til sine verdens konkurrenter, og i forhold til lokale konkurrenter?
Vi ligger på samme/noe over våre konkurrenter. Historisk har vi vært veldig aggressive og har derfor en stor markeds andel i dag.

1.3. Vi har tenkt en del på dette med pris sensitivitet i det Kinesiske markedet, og hva kan Höegh Autoliners gjøre for å senke prisen til sine kunder? Både på lang og kort sikt? Eller gjøre det lønnsomt for kundene og velge Höegh Autoliner på langsikt?
Höegh Autoliners sin strategi er å tilby en tjeneste fra port til port og ikke involvere seg i tjenester utenfor dette, som for eksempel innland distribusjon osv.
For å senke kostnaden for kunden jobber vi hele tiden for å maksimere vår effektivitet gjennom en mer effektiv seilingsplan og slik senke vårt kostnadsnivå.
Gjennom å tilby en stabil tjeneste av høy kvalitet vil det også være lønnsomt for kunden å velge oss på lang sikt. Men siden produktet til de kinesiske produsentene først og fremst konkurrerer på pris, er en lav pris fra oss viktigere enn en pålitelig
schedule i mange tilfeller. Samtidig er det også mange utenlandske produsenter i Kina og disse er også opptatt av pris, men også av kvalitet og pålidelighet.

1.4. Hvilke faktorer annet enn pris kan Höegh Autoliners fokusere på for at det skal være lønnsomt for kundene og velge Höegh Autoliners?

Selling points er pålidelighet i vår seilings plan (lasting og lossing til lovet tid), kvaliteten på servicen (kundeeffekt, mindre skader på lasten enn hos konkurrentene), flere seilinger enn våre konkurrenter.

1.5. Hvem er det som forhandler for Höegh Autoliners? Er det native kinesere i teamet? Hvilke kvalifikasjoner bør Höegh Autoliners forhandlere ha?

Vår Kina organisasjon består kun av kinesere med høyere utdanning.

1.6. Hvem er det Höegh Autoliners forhandler med? Bare ”forwardere”? Er det flere mellomledd? Forhandler dere direkte med kunder også? Hvis, hvor i organisasjonen er disse? Hvilke avgjørelser kan de ta?

Vi forhandler både med forwardere og direkte med OEMs. Hos OEM sitter vår forhandlingsmotpart som regel høyt i logistikk/salgs avdelingen slik at de har beslutnings myndighet. Noe av lasten er også på såkalt FOB terms, dvs. at det ikke er OEMen men kjøperen av lasten som ordner med logistikken. Da forhandler vi direkte med kjøperen der han sitter. Om det er i Afrika så er det vår Afrika region som tar seg av kontakten, om det er Europa så er det vår Europa region som tar seg av kontakten. Men alt koordineres gjennom vår region og Kina avdelingen vår. Kaller det double ended sales.

1.8. Har dere noen form for etter-service med tanke på relasjons bygging?

Som å holde kontakt, middager, seminarer?
Vi er veldig aktive på å holde kontakten og våre selgere skal være utenfor kontoret 80% av tiden. Det være bedriftsbesøk, middager, seminarer, åpning av fabrikker og havner, besøk på båt med kunde osv. Wine and dine er veldig viktig i Kina.

1.9. Vi har undersøkt, og vi har ikke funnet en kinesisk versjon av Höegh Autoliners hjemme side, finnes dette? Hvis ikke, kunne ikke dette vært en fin måte å la eventuelle kunder lese og lære om Höegh Autoliners på?
Vår hjemme side er ikke ansett for å være et selling point ift våre kunder da det er BTB. Så langt.

1.10. Du nevnte på det første møtet vi hadde med deg at kontrakter ikke alltid ble holdt. Ble det fastsatt en årsak for at det kinesiske selskapet valgte å avslutte kontakten med dere? Kan du gi oss en forklaring på hva som eventuelt skjedde? Hva tror dere selv er grunnen til at kontrakter ikke blir holdt?
Kontrakter blir gjerne brutt dersom kinesisk motpart får tilbud om en lavere rate. Nå skjer ikke dette veldig ofte, men det skjer.

1.11. Kan du si oss noe om Höegh Autoliners interne styrker og svakheter?
Vi har en stor flåte, en global organisasjon, lang erfaring i denne bransjen, sterk økonomi, solid kundebase, vel balansert handelsmønster.

1.12. Kan du si noe om Höegh Autoliners problemer i forhold til salgsstrategien?
Hovedutfordringen i Kina er det lave prisnivået. Ikke vanskelig å få last bare man går lavt nok med raten. Men vanskelig å skru prisen opp senere.
Appendix #2

Internal Interview, Jonny Xia

Face-to-face interview with: Jonny Xia, 16.04.2010
Mr. Xia is Senior Manager in Marketing and Trafficking, Höegh Autoliners China. Mr. Xia has been with the company for over 10 years, and he is responsible for key accounts and the sales team.

2.1. What position do you believe Höegh Autoliners has in the Chinese market today?

I believe Höegh Autoliners is in a leading position in the Chinese (Ro/Ro shipping) market because we have been in this market for nearly 10 years and we have been well known to almost all the Chinese customers; the manufacturers, and the forwarders and trading house. In these 10 years we have established the customer network as well as regular service out of Shanghai to other continents. In the meantime, our market share in China is also in a leading position. Right now, our last year, the market share is around 30 percent of the export. Import we are not so strong cause we suspend our inbound service from Europe form 2007. Because before 2007 we have the regular service from Europe to China, we have a contract with BMW. But at that time we have space and, tonnage problem and we cannot meet the requirement of BMW because they have very strict requirement on the changing time. In case we can meet their requirement to Japan, we cannot meet the requirement to China so we had to make a choice between Japan and China, so finally the headquarter decided we will take Japan boarding, so we give up the China boarding. Now, even we resume, we restarted the inbound service from 2009, last year. But, because most of the carriers had been secured by our competition, so far the inbound service is not so good.

2.1.1. What about Höegh Autoliners competitors, what position do you believe they have in the Chinese market today?

In the past three or four years, because at that time, this market is very strong and almost all the carriers have the problem of shortage of tonnage and space. So, at that time, our market share is limited by our tonnage, by allocation, because
maybe we have 5000 cars for export, but the space-allocation give to China maybe only 2000, so we have to give up the others to our competitors. So, at that time it is quite difficult to say who is the leader because even some of the small companies, like some of the Korean carriers, they do not have any strong relationship with the customers, but they have tonnage, so they can secure a very large market share. But, last year the situation is different. The market is going down and then the customer relationship is much more important than the space. Other carriers, our competitors, I think they are followers, they are just following our steps. Of course, they are trying to get a big market share, and they are dumping their price, and they are trying to open more trading to enlarge their market share.

2.1.2. Which of the competitors do you consider to be the one that is positioned closest to Höegh Autoliners?

Close is Cido and Nykcos. Nykcos is the joint venture between Cosco and Nyk. But Nykcos they, this joint venture, and they are the booking agent of Nyk in China, Nyk is a very big Japanese carrier, so they are also strong. On the other hand, Nykcos because they also have the background of Cosco, so they have very large network. I think Cido and Nykcos are close to our position.

Do you consider them to be a threat? Yes, because Cido and Nykcos, both of them are very aggressive in terms of price and especially for Cido because they don’t have any contract with Japanese or Korean manufacturers and China is one of the most important markets for them, so they are very aggressive.

2.2. Proximity to the customers may give companies an advantage over competitors. However, Höegh Autoliners is only located in two major cities in China, Beijing and Shanghai. What other locations are attractive for Ro/Ro firms?

Guangzhou in South-China. Actually, NYKCOS, MOL, WWL, they have the office in Guangzhou. For NYKCOS, Guangzhou is their head quarters. The reason why we did not locate ourselves in Guangzhou is, in South-China the manufacturers are limited and most of the export is form Japanese joint venture just like Hundai. We have considered setting up office in Guangzhou because Nissan is one of our major partners globally. Nissan, they also have a joint venture
in Guangzhou, Dongfeng Nissan, and several years ago, Nissan they have talk about some export from China. So at that time we considered to set up an office to take care of our most important partner. But this office, in our mind, the function will be focused on operation. But the end of 2008, and this is the financial crisis and Nissan have stopped everything because the domestic market is very, very good and almost all the joint ventures, the global OEM, they focus their China business just in the domestic market, so this export plan was suspended. We also suspended our plan to set up the third office.

**Will the exports increase after the financial crisis?** Yes. But this is subject to the Nissan business. In case Nissan told us they decided to start. But we know now that Japanese and Korean manufacturers, they are now moving a lot of export, manufacturing base to India and now there is a lot of the Nissan cargo exported from India, so maybe the export out of China maybe not so quick.

2.2.1. Proximity and location in general deals with how easy it would be for the customers to get in contact with the company and find information about the company. However, your web page is only in English. Do you think Höegh Autoliners would attract more customers by translating its web page into Chinese and in general customize its image more? (Have you thought about translating the web page and customizing the image more?):

No, so far we don’t have this plan because most of our customers, dealing with us, they are doing the export or import business and they are good at English language. There is not a real problem for most of them to understand, to read our web. When we started the business in China, at that time we translate our brochure to Chinese. But later on, we found actually the English version is more popular for these customers because they will think your company is a global company. The Chinese people, they sometimes like to do business with some large, foreign companies. Another problem is: because the brochure is always updated, so some information with the Chinese version is out of date so we maybe have to put some of the stick to make some changes, so it’s not so easy, so finally we decided to give up the Chinese version and just now we just use the English version. So I don’t think it is necessary to translate the web page into Chinese.

**Because it gives you a global image?** Yes, you’re right.
2.3. Could you please describe the main service that your firm provides?

Our company is focus on the sea transportation. We are not like other carriers just like WWL or Nykcos. Except sea transportation they also provide some logistics, terminal operation or forwarding, but we just focus on the sea transportation. Now we have three trade ways out of China. The first one is from China to Europe, to Mediterranean and Europe. We have two or three sailings every month, and Shanghai, Xingang, Dalian are the regular loading ports. The major, charging port is in Algeria, Libya, Egypt and Sibir, this is the developing countries. Cause now the Chinese products is quite difficult to enter European countries. The second one is from China to the west coast of North America. We have one sailing every month. The loading port is in Shanghai and Xingang. The charging country is Chile, Peru, Columbia and Equador. The third one is from China to Africa, including East Africa, South Africa and West Africa. This service is a new service, started from this year. The loading port is Shanghai, Xingang and, the charging ports is a lot of ports. We had another service from China to the Middle East, through the Persian Gulf. But we suspended this service from this February, because the cargo volume is not regular. We don’t have country/contract in distributing and the income is not so good, so we decided to suspend. Except these three trade ways we also have service to Columbia and America, but we don’t have the regular service for this trade. All the cargo has to transship through Japan.

2.3.1. What makes Höegh Autoliners’ service better than that of the competitors?

Bigger service network than our competitors and we have the regular sailings. This is important. Regular service and regular loading ports, this is very important for the customers. Other carriers, because they don’t have some of the regular sailings, sometimes the customers will be afraid because sometimes when they make the booking, but maybe this carrier will suddenly announce they cancel this sailing because there is not sufficient cargo. But we always try our best to keep this service regular.
2.4.1. To what industry do your main customers belong?

Now, almost, they are the manufacturers. When we entered the Chinese market, because in China there are more than 100 manufacturers (automobile??), and there are maybe more than 1000 staff for the trading house. So at that time, it is very difficult because at that time we only have Shanghai office and we have only six people, so it is very difficult for us to cover the whole market. We have to rely on come forwarders, some large forwarders in this industry and we make some contracts with them and appoint them as booking agents. When we grew up, we set up some relationships with some big manufacturers. They think we can provide a regular and reliable service, so they like to set up some direct relationship with us. From 2007, we started to sign some contracts with the manufacturers directly, so now our main customers belong to the auto manufacturers.

2.4.2. To which industry does you most profitable clients belong?

Actually, our profitable cargo is mainly the land (…) cargo. Because for the contract cargo we have to give them some favorable price, we have tariffs and rate for the (…) cargo and this is something higher than the contract rate. So, of course, we can get more profit from this (.) cargo, and most of this (…) cargo is from forwarders.

2.4.2.1. What means (how) do you have to attract more customers from this industry (goal to attract more customers within this industry?)?

For this kind of cargo, what we do is, we will offer the regular service because for this kinds of customers, the service is very important because their export is not so regular. I think, for our contract customers they have a regular export every month and usually we will arrange the schedule and arrange the space according to their requirements. But, for the (…) cargo, they have to follow our schedule because for the contract customers, they can give us their requirements: “I want some, for example, middle man”, so we will, according to their requirements, arrange the schedule for this (…) cargo. They always follow our schedule. So, our schedule, the regular and stable schedule is much more important for them just like I give you some example because they will think: in case we suddenly cancel this sailing or this schedule, these forwarders will suffer a very large loss, the shippers, maybe
they will claim some loss to them, so. The stable service is very important, because they pay more money so they want better service.

2.4.2.2. How you establish any long-term relationships with customers?
Actually, it is quite difficult because they are forwarders and the forwarders, you know, they are not like manufacturers. Manufacturers maybe they like some of the long-term relationship, but the forwarders, they will be more price sensitive. In case other carriers also can offer some very regular service, but also some aggressive price, most likely they will go.

2.4.3. Are most of Höegh Autoliners customers in China companies that are owned by- or partly owned by the Chinese government (do you approach them differently)?
Yes, it is different. Actually, most of the manufacturers, they are government owned or partly owned by the government. Of course there is some private, just like Geely and Great Wall, this is some of the private. The private companies, they are more active because they will do anything. They are trying to get a large market share and do more business in domestic market and overseas market, so they are very aggressive and they are very active. For us, we actually like to do business with the government owned companies because the private companies, they are more price sensitive, and they have very strict requirements on the price, and they think price is more important than service. For those government owned companies, relationship and service is more important than price. Just like Geely, Geely is a very famous and very large private company, and especially after they purchased Volvo. We did a lot of business with Geely in the past two years, but now we don’t like their business style because even we have a very close relationship with them, but they will do some very strange things, just like bidding. The bidding, other automakers, this is very common, very normal thing to do bidding for some business, for some trade. They will send some inquiry to us, and they give us volume and some other requirements, and then we offer the price, and then they will pick one or two carriers. This is a very normal procedure, but Geely is a different story. They will call all the carriers together go to their office and then they will told you, now we have maybe 3000 units from China to Iraq, and place offer, everybody offer. This is first round, and then he will tell
you: “you are now ranked number three or number one, so you can change your price now”, just like some auction. They will go and go and go together. We don’t like it; we think this is not a business style. Maybe in short-term they can get some benefit, but in a long-term they will lose more, we think. In this respect, this is the difference between the government owned and the private companies.

2.5. How do you deal with negotiation situations where the people you are negotiating with are not the real decision makers?
I think I will do the same thing, just like I face decision makers, I will give him the introduction of our company: our advantages and other things, and I think I will try to let him understand the benefit to cooperate with us, and then he can deliver this information to the people behind him.

2.6. Chinese customers are very price-sensitive. Does Höegh Autoliners currently have a strategy for dealing with price sensitivity in China?
Yes. Some customers is very price sensitive, but some is not so sensitive. I think for these forwarders and the private companies; they are much more price-sensitive. But for those government owned companies sometimes they think relationship and service is more important. We are now trying to, because we don’t like price wars and we don’t like to dump the market so we always like to establish some close relationships with the customers. We will talk with them, we can give them some stable price, and maybe in this year this price maybe is not so competitive but next year, this price is very good. We like to give them a very stable. The problem is, most of our customers, our contract partners, they can accept this idea. But the problem is, sometimes our competitors, they will approach the receiver because maybe, in China, maybe our competitors, they go to our customers and they offer some price lower than our rate, but our customers will say: “No, we have contract with Höegh Autoliners, we will not accept anything”. Then, they will go to the receiver; they will offer some very low rate. So, our customers, they will receive the pressure from the receiver saying “hey, somebody offer the very cheap price, why you do business with this company, this company – the price is very high, so please go to other”. This is a very big problem actually. Sometimes we have to follow our competitors to adjust our price, otherwise our customers, they will have a big problem with the receivers.
Most of our contract customers, they are not so price sensitive because most of our customers they have a very good relationship with us, and almost they are the government owned companies. For Geely and Great Wall, now we, especially after the financial crisis, we did very little business with them because they are very price sensitive and we don’t like to compete with other carriers for this cargo. I always tell our customers just like the difference between Höegh Autoliners and Cido; I just say to them, I say that: “the difference between Höegh Autoliners and Cido is just like a Japanese car and a Chinese car. In case these two cars, they sell at the same price most people, they will choose the Japanese car, not the Chinese car. So, the Chinese car, they will keep a lower price to keep this different position, so this is just like Höegh Autoliners and Cido. In case we do the same price, most of the customers, they will choose Höegh Autoliners. So, Cido, they will keep several dollars lower than our price. And in case we reduce, Cido will reduce again. So, it is endless this competition. So, we will stop. But for Geely and for some of the private companies of the forwarders, they will think that the price is more important than the service, so they will choose this lower price.

2.7. Establishing and maintaining reciprocal guanxi-networks is important when doing business in China. Does there exist guidelines for Höegh Autoliners employees to systematically and effectively establish guanxi?

We are always trying to keep a regular customer visit to our customers because we think maybe the phone call, a face-to-face meeting will be much more useful than the phone calls, so we will keep our staff traveling every week to see our, for of the key accounts, maybe we will two months or three months we will pay a visit and for some other important customers maybe we will see them four or five months. There are not any special guidelines to establish guanxi. Guanxi, I think there are not some special guidelines. Just, this is “he like me or he don’t like me”, but I have to say, when I started to do business and I visited a lot of manufacturers to meet their important export staff because at that time I was young and exporters, the auto export business is also a very new business in China and almost the people doing this business is also very young so it is very easy for us to make friends. So, when we grow up, their businesses grow up, so our companies can also grow up together with them. We had a lot of relationships with the manufacturers, more than seven or eight years and we are very good friends.
2.7.1. Once you have established close relationships with customers, in what way does Höegh Autoliners try to increase their loyalty to the company?

The first one, we will visit them regularly and we will provide some information they need because sometimes they will need some market information, just like which market now is growing, because recently what cargo you ship to which country and we can offer this information to them and we can introduce some potential dealers or something to them. On the other hand, we will give them some education, from time to time, we will told them we have a long term business relationship with some Japanese manufacturers we offer them the very regular service and regular price and we can grow up together like partners, something like this. Of course, relationship is very important and think you are his friend or you are his brother and he will trust you, and he also think you will give him the best service, the best price. In this way, we increase their loyalty, and sometimes maybe they have some problems, just like I told you, they receive some pressure from and at the time we will trying to help them to solve this problem, maybe we will reduce our price even our contract has not expired, but we will reduce our price to help them.

Do you approach new and potential customers in a different way? Yes, of course. The new, potential customers, I think the most important thing I will do is to our professionalism, we are professional. We did a very, very good work in China. I will show him some examples and of course we will try to make friends first because we always say the business is business and friend is friend, maybe now we cannot do business, but it does not mean we cannot in the future. So, we will try to show these customers our professional and our good service. We will give them some impression, we can do the business very good and we are like to make friends with them and then we will keep them and call them to increase their impression and some day, in case we can any opportunities. This is the way we approach the new customers.

2.7.2. What do you consider Höegh Autoliners’ core competencies?

Professional and flexible because we will do our adopt to change, trying to meet the requirements of customers.
2.8. What do you consider to be the company’s weaknesses?
Should be more flexible in terms of price? But I think this is not our company policy, cause the price war. So, nothing can be improved in this aspect. And other things, now most of our business, most of our volume is from contract partners and the customers and the destinations is very single, it is very limited, so in case there is any problems with this partners, just like most of our cargo is for Algeria, and in case Algeria, their economy is not so good and going down, there will be a very large influence with our business. So, we should widen our network, our customers, and service. We should not focus only on one destination or two destinations. We should keep a balance.

2.9. What do you believe are the short- and long-term challenges for your firm?
The short-term challenges of course is the price, because we receive the price pressure from our customers because of the competition. But this pressure, this request is, actually the China price has been dropped more than 30 or 40 percent compared with one years ago so this also give us a lot of pressure because the result, the financial result is not so good. I think the short-term challenge is, for us is; we should increase the price, it is possible, but it is not so easy because the supply and the demand is still, the supply is still over the demand. So, it is not so easy but I think the first thing we should make the market stable and we are trying to do something to increase, maybe improve, still improve our service and to enlarge our cargo base. This is our short-term challenge. The long-term challenge: because our contracts and our destinations are not so good, and our cargo mix is also not so balanced because most of our cargo is the heavy cargo, the bus or heavy duty trucks or machinery. So our long-term challenges we try to make our cargo mix more balanced, we need to increase the percent of the passenger car. We should establish some more relationships with some of the carmakers; not only the commercial vehicle producers and we should establish more relationships with just like Chery, Geely, and Byd.

Final comments: Leading position in the Ro/Ro shipping market: Of course this is the last year because this year our market share is going down because one of the reasons is the we just, like I told you, we want to increase our price, but in this
way we have to sacrifice, we have to give up some cargo because we are the market leader and we think we should also have this responsibility to take the market to going up. So, we take a leader to increase our price. Of course we have to pay some cost to do such thing. So, in the first month of this year our market share is going down. On the other hand, we suspend our trade to Middle East. This also has some influence of our market share.

You think that it will provide long-term profits? Yes.
Appendix #3

External Interview – Dr. Wilfried Vanhonacker

Skype Interview with Dr. Wilfried Vanhonacker, 22.04.2010
Dr. Vanhonacker is recognized worldwide as a leading scholar in the field of marketing science and an expert on doing business with China and the globalization of Chinese enterprises.

3.1. (Guanxi): What is needed to build a long-term guanxi relationship with domestic customers in China?
Guanxi by definition is always long term. It is not a transaction. In Chinese contexts relationship is important, and relationship is always permanent. To build a relationship, the first step is to be able to get to the person, identify the target that you need. You have to get to them. Chinese society is all about protocol and is quite structure. You cannot just call a person and say “hey I want to take you out”. Only do that to people with the same social level, if you don’t have it, you have to work with intermediaries. Find intermediaries who have social access to that person; through school, classmates.
In private sector it is easier, in public sector if the person is governmental and so on, that is about the only way. Chinese are very protective of whom they build relationship, comes with obligations. Very careful to whom they build relationships with, who they will engage in, it’s a strategic decision. Don’t want to be in relation with someone whom they are obligated to do something for, that they don’t want to do. Can lead to loss of face; face related, if one engage in a relationship they want to be able to fulfill the obligation in the relationship. Chinese are very careful about that.

3.1.1. Is there a difference between private and state owned companies here?
Well state owned companies’ senior management is government official, and they are on a political government path. Political is a matter of not making any mistakes, in politicians in Chinese politics. If you want to get high up, you have to be extremely careful with external relation, and how you relate to foreigners; can always be used against you. You can only move up in a political career path if you
are clean. Will be used it against you if you are not clean. In china it’s not election based but protégé based, so always careful who they bring into the system. The basic principals are the same, but there are some difficulties in dealing with government.

3.2. If you would be able to establishing *Guanxi* with officials more do not want to exploit your recourses but they are not more pure but sincere? They are often the people that are targets for *guanxi*, because they have the power. If it is an official looking for a relationship it is based on individual ambition, be careful. The nature of the relationship this could underdemine their power. Either way you have to know the motivations, as there might be alternate motives. If you deal with politicians and they are willing to approach you, have to know their motivation. If it is not a personal motivation, you have to find out why, and what’s behind it, and then you have to know whether it’s individual or if they are sanctioned by government to identify targets. You can never say no before you approach the person. You have to find out why this person, what are their obligations, what is its motive, why would they want why would you want. A relationship with a Chinese there are a lot of cultural expectations. If you not live up to those you would become a political uncertainty, and you would become unpredictable, and they will go away from you.

3.3. The Value Network: Are you familiar with the Norwegian professors, Stabell and Fjeldstad’s theory on value networks as an alternative to Porter’s Value Chain Analysis? (If not: The Value Network can be used to analyze a service company’s value creation. It consists of reciprocal primary activities and support activities Firms that can be considered value networks usually rely on mediating technology, linking together independent customers. *The value network itself is the determinant of the value for the customers. Value increases with every customer added to the network.* ) Do you believe that this theory can be applied to understanding the value creation in a shipping company in China?
Do you believe that this theory can be applied to *guanxi*-theory in order to explain how enlarging and improving a company’s *guanxi*-network can lead to positive outcomes for the company?

The *guanxi* is an asset that means it enhances the value of any company, any organization if the *guanxi* is of good nature and a valuable asset that is. Like any asset it can become a liability. Potentially something that is useful, because of you have a good network, you can use it to enhance your business. You can also use it in a defensive purpose by defending your business. If you are in the government sector, if you have the right government *guanxi* you can prevent interference. Can also use it in a progressive active way to get access and businesses grow. Not familiar with the model, but in industries where access to raw materials, access to the market and distributors and so on are valuable and important than having good *guanxi* network in those fierce is definitely an access.

3.4. If you have a good network, or if you enlarge your *Guanxi* network, would it be easier to enlarge it further? That you get more people that can introduce you too more potential *Guanxi* targets and so on?

Yes, definitely. It’s like a social network, a friend, obligation to reciprocate. That person can introduce you to another person. You have the basis to build a relationship is the broad network. Use targets as intermediaries to grow and help you expat. E.g. expats who comes to China, there is therefore a change every 3 or 4 years, it takes them a number of years to develop relationship, when the old person leaves, and the new person comes in, the new person must rebuild the whole network, because the *guanxi* is with individual and it is not with the company.

3.5. Do you believe they have to rebuild the *guanxi*? The company has a lot of contacts and relationship. Do you believe this will damage their reputation in China?

First of all, the company doesn’t have *guanxi*, individuals have *guanxi*, and therefore it depends on the individual in the company. Does it affect their reputation? Yes in commercialized sense; because everybody understands the value their network will understand how powerful they are. Problem: *Guanxi*, not very public, Chinese are very careful in telling whom they know. People who
show of are usually the one who don’t have the network. The one, who are very well connected, be very careful in advertising them. To extend that there is not very public information. It is difficult to leverage it as strength. The good about china is that people suspect you to have a good network. When Chinese people deal with you they will always look who’s behind you, who you are connected with. If you are connected to a very powerful source, they will be very careful. The shadow could fall on them. So in that sense it is powerful, but it affects general awareness and prestige and reputations, depends on how well the network is known. Culturally it is no reason they would advertise it. That’s why guanxi networks are so complicated, because they are not very open, and you don’t know who knows whom and why.

It is not unique to China you know, having friends help in any country. However, in each culture there is a cultural protocol on how you manage them and maintain them, what are the obligations and so on.

3.6. **Guanxi doesn’t mean loyalty. What increase the loyalty with B2B customers?**

Loyalty has nothing to do with guanxi, loyalty has to be blood relation, family relation; and then you have duty and loyalty. The only thing you could create with guanxi is called circumstantial loyalty. It may look like it is loyalty, but it’s not loyalty in the real sense. They have the choice if they want to do it or not, as long as they don’t lose face,

3.6.1. **But if you give them face, that would be a way to increase the loyalty?**

Also what people do, open architecture because of the Chinese culture. You can be as a non-Chinese, a part of the Chinese families, like the Sicilian mafia. If you are part of the family, you follow the rules you have, the loyalty and duty to do, you do not have that ethics. Guanxi is based on reciprocal. You don’t control the timing and the context of the relationship, this is dangerous. Therefore very careful to what relationship they engage in and what obligations there are, because they don’t want to lose face. Need to live up to the obligation.
3.7. Difficulties of loyalty for a foreign company to only employ native Chinese?

In every part of the world, it’s not an issue of the Chinese; it is about the type of people you have. Guanxi, individuals work in company and clients, same principles inside a company. Important for the senior manager to have good relationship with employees (guanxi), emotional component, and then you will have loyalty.

If you put it on a continuum: family on one hand and stranger in the other, guanxi is in the middle.

Family-----------------------------Guanxi-------------------------------Stranger

You need emotional content to move closer to the family side of the relationship, if you can get this kind of loyalty inside the company. It is not easy to find a good Chinese friend, but when you have become friends, you are friends for life.

3.7.1. Is it any particular means or ways to do this?

In the context of China, in Scandinavia the business culture is transactional, Chinese are relationship oriented. Chinese they are holistic, they don’t compartmentalize their life. Approach from a Chinese perspective; don’t make a distinction between professional life and personal life. Interest in family and kids, important to have social occasions build this relation, show them you understand their culture, and play by their rules, you first of all give them cultural face, and show the willing to learn. That’s a good basis to build loyalty. Be careful whom you bring in, every culture there are crooks. When you look at Chinese companies when they’re recruiting Chinese employees, it is not based on skill and such, but quality of the person, try to guess whether you are a good person. If the person is purely transactional, that’s not real loyalty. You want people that are attached to you, not because you pay, but they are real obligated.

3.8. Chinese are good in looking trough who you are, and listening and paying attention to every detail in order to be sure who you are, and see through you.

They come from a sensitive culture. You can but a Chinese on a chair and he will be smiling the whole day, and you have no idea what he thinks. Example; the Chinese learn from they are very little to detect very small changes in body
movement. They are very sophisticated, they learn very well, and they can read us very well. You can develop it if you are in China for a long time. If you know the rules, they are very predictable. It’s a game, if you don’t know the rules, you lose the game. If you know the rules you can *strange* them.

Chinese are very strategic; they live in a rule bound society. Not very forgiving, if you do a mistake it is not proper forgiven, give proper *face*, not lose people.

### 3.9. How can foreign companies respond to tactics and ploys?

Play the same game. Two ways; beat them at their own game. Study the art form of Chinese strategy. Or the other way play with the rules that no matter how hard I try I will not be as good as them. Play to your strength, do it the western way, but with a Chinese sensitivity and understand the signals. Don’t try to be Chinese, then you will be beaten up. Be who you are, but be very sensitive and understand the signals. It is not that complicated, obviously they are very good at it, lot of history, experience, they like a good game, like to be challenged. They are people of principles. Respect is one thing, doing it is another thing. You will never be Chinese, but understand how they are, difficult to know how to approach it. Know how to behave. Instead of playing a role in a play you don’t understand.

### 3.10. Critical success factors when negotiation with counterparts in doing B2B in china:

Pay attention to the details, and what they say, and how they say it. Important to let them negotiate in their own language. Helps to know the language, the way they say it is more meaningful in how they say it.

Be flexible because of their holistic society, their dynamics is very different, understand them.

Principle, be clear, tell them what is not negotiable.

Never put them in a corner, *face* saving way out, if they want to say no, let them. You cannot force the Chinese, it is not important that they agree, but that they will to it. Give them room to maneuver. Understand the game, if it’s a big contract its not always the same people you meet, that is how they protect face. Often the most important person is not involved in the negotiation.

Time is not that important in this culture, it is a lot of these rules and strategies that have been here a long time. Not likely to change very quickly, so once you
figure it out. They will always be Chinese deep down in their DNA; will be a part of their attitude in a long time. They may behave like European, but on the inside they are Chinese.

3.11. Design contracts in order to gain more trust

Trust; extremely distrustful people, grown up that way, a part of the Confucianism education, not to trust strangers. If you engage with Chinese they will start out from a position of distrust. Totally different from Europe, but will be careful. Start from the opposite side, they want to see if they could be able to trust you. First they will not trust you, no matter what. Create an environment and process so that they can learn to trust you. Slowly you can build more trust.

Contracts; cultural history, China never had a period where there as a uniform code of law. It’s a Confucianism society and it is hierarchical; the higher you are in the pyramid, the more you are allowed to do. Who you where implies that the content of law, which means distrustful about contracts. Look at it is that contract in China is a summary of the negotiation at to that point. You cannot assume that when the contract is signed, everything is done. Have flexibility, it is a complex society, different, always moving and changing. Not everything goes according to the contract. It’s China. Need people who can work with that. Chinese strategy, create a flexible, look for the right moment, right opportunity. They know that it is important to us, so they will sign a contract to not lose face.

Face issue; important to westerners, don’t want to lose face. The way you protect yourself is not legal contract, its social influence, a combination have the right relationship. China is challenging but an opportunity to learn.
Appendix # 4

External Interview – Erling Lynstad

Face-to-face interview with Erling Lynstad, 24.04.2010
Erling Lynstad is the director in Lorentzen&Stemoco Shanghai. LSS is a leading provider of ship broking and consulting services


4.2. (Price): Kinesiske B2B kunder anses for å være veldig fokuserte på pris. Hvordan kan man benytte differensieringsstrategier for å overvinne denne prisesensitiviteten?
Villig til å betale mer, større kontrakt, helst med Höegh Autoliners fordi det er tryggere. Men kinesiske konkurrenter nærmer seg. Forretninger under bordet; uoffisielt, ikke så lett for et utenlandsk firma. Bestikkelser er ulovlig.

4.3. (Guanxi): Hva skal til før å bygge opp en langsiktig guanxi-forhold til (innenlandske) kunder i Kina?
Guanxi; sett at det har vert viktig med bonuser, mindre viktig i Shanghai, fordi det er et internasjonalt og kontrollert område.
4.3.1 Langsiktig guanxi forhold?


4.5. Vi har lest at kinesiske forhandlere bruker taktikker og ploys for å vinne i en forhandlingssituasjon. Hvordan kan et vestlig selskap håndtere disse på en effektiv måte?
Vær med på spillet, 10-15 år siden hvor motparten er urimerlige, sånn har det vært i vesten, det er vanskelig å sloss her.
Utrolig mange møter, bruker tolk selv om de kan engelsk. Ikke bli sint og slå i bordet. Tålmodighet, faglig sett riktig. Være klare, logisk, ikke redd for å si ifra.
De prøver seg hele tiden, da må man si at dette kan vi ikke gjøre og så får man heller se om de bløffer eller ei.

4.6. Hva anser du som kritiske suksessfaktorer når med forhandler med en kinesisk motpart på B2B markedet?

4.7. I Kina er det jo vanlig å forhandle med mellomledd (som gjerne er ansatt av kunden), og ikke direkte med OEM-kundene. Men, i mange tilfeller kan det være mer lønnsomt og effektivt for begge parter å forhandle direkte med hverandre.

4.7.1. Hvilke kriterier er viktige for å bli en fortrukket leverandør av logistikk tjenester i Kina?

4.8. Hvordan kan en utenlandsk selskap utforme og bruke kontrakter til å skape mer tillit i forholdet med sin kinesiske motpart?

4.8.1. Hva slags insentiver tror du en utenlandsk bedrift kan tilby sin kinesiske motpart slik at den vil ønske å respektere kontrakter?

4.8.1.1. Hva med bruk av tolk i forhandlinger?

4.9. (Laws and regulations): Hvilke lover og regler representerer etter din mening de største hindringene for import og eksport av Ro/Ro cargo til og fra Kina?
Vet aldri når kinesisk myndigheter lager nye regler. Truet kinesisk industri med mye konkurrenter, da kan det komme hindringer for Höegh Autoliners. Alt kyst er
lisensbetinget og kontrollert. Men et internasjonal business står allikevel ganske fritt.

4.10. **Hva mener du er de fremtidige utsiktene for kinesisk eksport (spesielt innen relevante industrier)?**
Kommer til å bli svært. Fordi hoveddelen er produksjon. Har fått fra 40% til 100% av delene er produsert i Kina. Tro på at når markedet er mettet vil de eksportere.


4.11. **Hva er de fremtidige utsiktene for den kinesiske shippingindustrien i Kina (både for kinesiske og vestlige firmaer), for eksempel fremtidig konkurranse (spesielt for Ro/Ro shipping industrien)?**


**Etter diskusjon**
Risikabelt med bare kinesere på kontoret, slik som Höegh Autoliners har. For å ha kontroll og skape diversitet må man ha en blanding av internasjonale og kinesere. Da kan man fordele oppgaver etter hvem som har kompetanse innen det. Innebærer en stor risk med å la kinesere styre hele greia, er en fare for
opportunistisk atferd og at ditt er mer lojale mot sine egne enn mot et internasjonalt firma. Kinesere er veldig tilpasningsdyktige, de reiser til Amerika og blir amerikanske, men med en gang de kommer tilbake blir de kinesere fullt ut og tar tilbake gamle kinesiske verdier. Man på passe på, som det ble nevnt i begynnelsen av intervjuet, sørge for at kvaliteten på tjenestene står til den standard som Höegh Autoliners har satt, at salgssteamet har den kompetansen som trengs for å formidle og opprettholde Höegh Autoliners internasjonale profil og standarder.