“Jotun - All the Colours in the World”

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“This paper is written as a part of the undergraduate program at BI Norwegian School of Management. This does not entail that BI Norwegian School of Management has cleared the methods applied, the results presented, nor the conclusions drawn”
Executive summary

Jotun Kemisk Fabrik A/S was founded in March 1926, operating only in Norway until 1962 when it began to expand internationally. Today Jotun operates in more than 70 countries, and is one of the world’s leading manufacturers of paints and coatings. Jotun has been in the Chinese market since 1983, initially focusing only on marine coatings and protective coatings where the brand became very successful. Encouraged by this, Jotun China decided to enter the Chinese decorative paint market in 2001 with the long term goal of becoming the market’s leading brand. However, after 8 years in the Chinese decorative paint market, Jotun China has not been able to replicate its previous successes. Therefore, we the authors of this thesis, working in collaboration with Jotun China staff, set out first to determine the viability of Jotun’s latest strategy for the Chinese decorative paint market, and second to suggest concrete steps to follow if and when executing this strategy. Our findings are based on extensive market research, as well as collection and analysis of both primary and secondary data. Our thesis is presented in six parts. In Part One, we provide an introduction to our thesis and background information of Jotun, define our problem statement, research aim, and research questions, and describe the types of difficulties we encountered. In Part Two, we give an overview of our research and data collection methodology. We describe how data was collected and analysed, and comment on its reliability and validity. In Part Three, we provide short summaries of the various theories used in our analysis of Jotun and its strategy for the decorative paint market in China. In Part Four, we detail our secondary findings, followed by our primary findings. The secondary findings consist of an overview of China’s decorative paint industry and real estate market, as well as the meaning and importance of Guanxi in China. The primary findings consist of summaries and analysis of interviews we conducted with Jotun China employees, key dealers and their employees, and other relevant industry experts. In Part Five, we present our internal, external, and SWOT analyses of Jotun China. In Part Six, we conclude by presenting our recommendations with regards to achieving Jotun China’s goals in the Chinese decorative paint market. We explain why Jotun should continue operating in this market, and provide specific steps to properly execute the company’s latest strategy. This section also includes our SPD, and revisiting Jotun China’s goals, CFS and its strategic alternatives.
Methodology
Because the authors had little prior knowledge about the Chinese decorative paint market, an explorative design was applied in this thesis. To answer the problem statement, the authors based the research on published data, secondary data, and qualitative primary data collected through in-depth interviews and observations. The primary data was collected from Jotun employees, as well as dealers and their employees located in Shanghai, Kaiping and Shenzhen. The main purpose of the research was to explore how Jotun could positively influence its future placement in the Chinese decorative paint market.

Findings
The findings from the analysis and collected data indicate that Jotun is a global brand with quality products. However its knowledge and market orientation about the Chinese decorative market tend to be low. Jotun has no brand awareness amongst the Chinese consumers. Furthermore the competition in the paint industry is intense, and there exists many players, both local and international. If Jotun wants to remain in the market it must have a clear strategy and products with unique selling points. Moreover, because the dealers interact with customers every day and are familiar with their needs, Jotun should include them in the product development process. Finally, Guanxi is a cultural phenomenon that is vital to doing business in China. For Jotun to succeed in the Chinese market it must build and maintain Guanxi with its dealers.
Acknowledgement

The authors of this thesis would like to express their gratitude to all the people that have contributed and helped us throughout the thesis.

First of all, the authors would like to thank Mr. Bjørn Naglestad, General Manager of Jotun China, for his support and guidance, and for giving us the opportunity to work with the people of Jotun China.

Thanks to Mrs. Karin Bryntse for her guidance and constructive criticism. Her help has been invaluable to us.

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Abbreviations

JC – Jotun China
ZJG – Zhangjiagang
CIHL – COSCO International Holdings
Deco – Decorative
SOE – State owned enterprise
OEM – Original equipment manufactures
RMB – Renminbi, Chinese currency
YTD – Year to date
B2B – Business to business
Figure 1: Thesis outline
Part One: Introduction

1. Introduction

In this part, we the authors will provide an introduction to and background of our research, as well as define our problem statement, research aim, and the research questions. We will also describe the difficulties encountered during the course of our research. Lastly, this part will introduce Jotun Group and Jotun China, with particular emphasis on the latter’s history in China’s decorative paint market.

1.1 Background to research

Jotun AS is a Norwegian paint manufacturer, which is today represented in 91 stores throughout China\(^1\), and has been in the Chinese market since 1983. Jotun China is a subsidiary of Jotun AS and is currently operating in the marine coatings market, protective coatings market and in the decorative paint market.

In 2001, Jotun China entered the Chinese decorative paint market because of its previous success in the marine coatings and protective coatings markets. However, the company entered the decorative paint market without sufficient prior knowledge of the market or a comprehensive strategy, and existing competition was very tough.

It was not until 2003 that Jotun China developed a strategy for the Chinese decorative paint market. This initial strategy was to narrow the regional focus to select cities in China and target high-end customers who could afford a higher price of paint. But ultimately the approach was not successful. Because Jotun’s ultimate goal for the year was to increase sales volume, the company widened its regional focus to include more cities and began targeting the larger segment of lower-end customers by setting prices even lower than before.

\(^{1}\) Interview with David Shen, sales and marketing manager in deco retail in Jotun China
In November 2008 we the authors contacted Jotun China with a proposal, suggesting a short-term cooperation whereby we could analyze an aspect of its operations and simultaneously complete our bachelor’s thesis. Jotun China responded positively and we arranged a meeting to discuss this matter further. Both parties agreed that the decorative paint market in China would be the primary focus of this cooperation because after 8 years in the decorative market Jotun China had yet to execute a suitable strategy to increase profits and market share.

To achieve Jotun China’s goals of increasing its sales volume in the decorative paint market, it was clear that a new strategy would have to be implemented. In this context, we the authors, together with Bjørn Naglestad, General Manager of Jotun China, were able to define a clear problem statement whose answer would be the very strategy that Jotun China would need.

1.2 Problem statement

"What marketing strategy should Jotun apply to increase sales and be more profitable in the Chinese decorative retail market?"

In answering our problem statement, we will focus on the relationships between Jotun and its key dealers.

1.3 Research Aim

The aim of this research is to determine whether Jotun can effectively and viably achieve its stated goal of increased profitability in China’s decorative paint market through its new strategy of improving relationships with key dealers, and if so, what specific steps should Jotun take to implement this strategy.
1.4 Research Questions

In order to accomplish the research aim, we have identified these research questions that need to be answered:

1. How does Jotun currently operate in China’s decorative paint market?
2. How can Jotun improve its market knowledge in China’s decorative paint market?
3. How can Jotun’s relationship with its key dealers be improved?
4. What benefits can Jotun and the key dealers achieve by cooperating with each other?

1.5 Research Limitations

Jotun selected eight stores in China on which to focus, however due to time constraints we selected only four stores in three locations on which to conduct our research. The research from the four stores is supposed to inform us about Jotun’s current situation in China’s decorative paint market; however this information should not necessarily be generalized due to the limited focus of our research. Moreover, we wanted to visit one specific dealer that was not among the eight chosen stores to use as a basis for comparison and relevant research, but there this was not possible due to the lack of time. Furthermore, we chose to largely focus our research on the key dealers and Jotun’s employees rather than on the customers. The reason for this is that it was difficult to get enough interviews with customers to be of any use, because there were very few of them in the stores at when we were visiting the key dealers. Lastly, information about Jotun China’s competitors in the decorative paint market is limited because the majority of information available in China was in Chinese and also potentially unreliable.

1.6 Difficulties

Throughout the course of our research, we encountered several difficulties which, for the most part, were a result of cultural differences. For example, the language barrier made it so that we could not communicate directly with many of our interviewees who only spoke Mandarin. In addition, it is a cultural phenomenon
that Chinese employees rarely make negative comments about their employers and companies. Rather, they will go out of their way to praise them even if it is undeserved and untrue. Thus, we had to work harder to get honest answers from many of our interviewees in situations where we believe westerners would have been much more forthcoming. Finally, some of the presentations and informational materials provided by Jotun contained typographical errors, unverifiable statistics, and incorrect figures. Moreover, it was clear that some of the presentations were originally written in Mandarin and the English translations were not always clear.

2. Jotun China

2.1 Jotun Group

The information in this part is from business reviews and rapports provided by Jotun China, from now on also referred to as JC. Sources such as the company’s webpage and previous diploma project have also been used.

In March 1926, Jotun Kemisk Fabrik A/S was founded by a Norwegian businessman Odd Gleditsch. The man behind Jotun was highly focused on improving the quality of his products to increase his sales. Jotun started to expand internationally in 1962 and has continued to do so through present day. The company’s philosophy has been to be either number 1 or 2 in every market they enter, and to achieve this goal Jotun must always be alert to spot new market opportunities.

With 71 companies and 40 production facilities on all continents, and agents, distributors and branch offices in more than 70 countries, the Jotun Group is today one of the world’s leading manufacturers of paints and coatings. The Jotun Group has today 7100 employees and its head office is located in Sandefjord, Norway. The Group’s functions are production, development, marketing and sales of paint
systems and products. The Jotun Group’s total revenue in 2007 was NOK 10.061 million.

The Jotun Group consists of four business divisions: Jotun Coatings, Jotun Decorative, Jotun Paints, and Jotun Powder Coatings. Jotun Coatings has a global responsibility for marine and protective coatings. Jotun Decorative, from now on also referred to as Deco, covers the Deco paint market in Scandinavia. Jotun Paint covers the company’s activities in the Middle East and Southeast Asia. And, Jotun Powder Coatings develops, produces and sells powder coatings for industrial surface treatment of metal.²

![An overview of the Jotun Group, produced by the authors](image)

**Figure 2: An overview of the Jotun Group, produced by the authors**

### 2.2 Jotun China

As previously mentioned, Jotun has been in the China market since 1983. The company first established a sales office in Hong Kong for their marine coatings business. In 1993, Jotun decided to enter into a joint venture with COSCO. Although the company typically prefers not to enter into joint ventures, Jotun understood that it would have been extremely difficult to succeed in China without a partner familiar with the local market and business practices.³ The joint venture was established in Guangzhou, as was its first factory.

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² [www.jotun.no](http://www.jotun.no): “About Jotun”

³ Power point presentation provided and presented by Jotun China, 2008: “Jotun introduction October 2008”
In 2001, the company expanded its business, and started to provide coatings for the Deco market. In 2004, Jotun Paint HK started to construct another factory, this time in Zhangjiagang located in Jiangsu province.

In 2005, Jotun entered into another partnership with COSCOINTL (COSCO International Holdings), a subsidiary of COSCO Group. The joint venture was named Jotun COSCO Hong Kong, with each party holding 50% of the shares. At the time COSCOINTL’s core business was shipping services, including the trading of shipping vessels, brokering of marine insurance, and producing and selling of marine equipment, spare parts, communications and navigation equipment, and coating products. Jotun brought a wider range of coatings to the joint venture, including new marine coatings and coatings specially designed for shipbuilding. Jotun’s participation in the joint venture resulted in a significant increase in sales.

Today Jotun has three of its divisions in China: Deco paints, marine coatings, and protective coatings. JC has 10 offices and two production facilities. The company’s headquarters are located in Shanghai.

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4 Diploma project, 2007: “Jotun in Changing Colours”, page 6
6 Power point presentation provided and presented by Jotun China, 2008: “Jotun introduction October 2008”
7 Interview with Sharon Ding, brand manager in deco retail in Jotun China
8 Diploma project, 2007: “Jotun in Changing Colours”, page 6
2.3 Jotun Decorative China

The Deco retail and marketing department in JC consists of 25 employees. The hierarchical structure of the Deco paint department in China is shown underneath:

![Organizational map of Jotun decorative paint department. Provided by Jotun](image)

Today, Jotun’s products can be found in over 91 stores all around midland China, yet its market share is still low compared to that of the other top brands. According to figure 6 below, the market leader has 14% of the market share in the paint market. Jotun’s market share is included among the “others”. This section includes 70 foreign brands and 1900 local brands, making Jotun’s market share almost insignificant by comparison to the top 6 brands in China. Figure 5 below depicts an overview of Jotun’s situation in the paint market since 2005.

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*Power point presentation provided and presented by Jotun China, 2008: “Jotun introduction October 2008”*

*Power point presentation provided and presented by Jotun China, 2008: “Business review of the decorative”*
Figure 5: An overview of Jotun China’s market share

Figure 6: An overview of the competitors’ market shares

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11 Power point presentation provided and presented by Jotun China, 2008: “Business review of the decorative

12 Power point presentation provided and presented by Jotun China, 2008: “Business review of the decorative”
Table 1: The competitors’ market shares and their positioning in the market\textsuperscript{13}

\textbf{Table 1: The competitors’ market shares and their positioning in the market}\textsuperscript{13}

<table>
<thead>
<tr>
<th>Brand</th>
<th>Value (M)</th>
<th>Share</th>
<th>Positioning</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nippon</td>
<td>28</td>
<td>14%</td>
<td>High-middle and Economical</td>
</tr>
<tr>
<td>IC3</td>
<td>24</td>
<td>9%</td>
<td>Premium, High-middle and Economical</td>
</tr>
<tr>
<td>Akemen</td>
<td>10</td>
<td>4%</td>
<td>Economical and middle</td>
</tr>
<tr>
<td>Branded</td>
<td>9</td>
<td>3%</td>
<td>Economical</td>
</tr>
<tr>
<td>Carpa</td>
<td>6</td>
<td>3%</td>
<td>Medium range</td>
</tr>
<tr>
<td>Cinema</td>
<td>5</td>
<td>3%</td>
<td>Economical and middle</td>
</tr>
<tr>
<td>Top 8 Brands</td>
<td>86</td>
<td>36%</td>
<td>70% Foreign brands and 16% local brands</td>
</tr>
</tbody>
</table>

\textbf{2.3.1 Product assortment of Jotun China}

The product assortment that Jotun has in China is wide and supposed to meet the needs of Chinese customers with high and low income. This assortment includes paints for interior, exterior, wood and metal, floor, primer, and other areas.\textsuperscript{14} The products are divided into three segments: premium, medium and economy with matching prices. The premium segment contains products with high quality. The products can be tin tinged by multicolour machines and are some of the best products Jotun provides to the Chinese customers.\textsuperscript{15} The price for a can of Majestic Matt costs RMB 235 in retail stores, and is one Jotun’s most expensive products. The medium segment contains products with mid-range prices. The quality is naturally lower than that of the products in the premium segment, but they do still have very good features, and represent very good value for money.\textsuperscript{16} The economy segment contains products with the lowest price level. A can of

\textsuperscript{13} Power point presentation provided and presented by Jotun China, 2008: “Business review of the decorative”

\textsuperscript{14} Diploma project, 2007: “Jotun in Changing Colours”, page 8

\textsuperscript{15} Diploma project, 2007: “Jotun in Changing Colours”, page 9

\textsuperscript{16} Diploma project, 2007: “Jotun in Changing Colours”, page 9
Jotaplast, which is the main product of this segment, costs RMB 108 and is supposed to reach those with the lower income of Jotun’s target customers. Although this segment does not generate much profit Jotun still wants to provide products accessible to them, especially because developing areas in China where these customers reside constitute a large part of the total market in China. 

Currently the top five Deco products in JC exterior are:

1) Flex super: premium segment.
2) Jota sealer: medium segment.
3) Jota shield: medium segment.
4) Dura thane: premium segment.
5) Jota tough: economy segment.

In the interior segment the top five products today are:

1) Jotaplast: economy segment.
2) IPP: economy segment.
3) Strax Matt: medium segment.
4) Majestic Matt: premium segment.
5) Jota sealer: medium segment.

In 2008, Jotun adjusted the Majestic Matt product to better meet the needs of Chinese customers. The first Majestic Matt was not adjusted to meet the climate here in China. However the new adjusted product resulted in a significant increase in sales. Figure 7 shows the growth in sales from 2007 to 2008.

17 Power point presentation provided and presented by Jotun China, 2008: “Business review of the decorative”
18 Interview with David Shen, the sales and marketing manager in Deco retail in Jotun China
19 Power point presentation provided and presented by Jotun China, 2008: “Business review of the decorative”
2.3.2 Multicolour system

Jotun uses a system called “Automatic Tinting.” With this system it is possible to add colours to a base paint that can be tinted by using the multicolour tinting machine. Any colour can be mixed in less than three minutes and the tinting machines are able to produce more than 16,000 shades that are saved in a database. When Jotun first introduced the “Tinting System” in 1974, it was one of the only brands in the market with this system. As years have gone by, more of Jotun’s competitors have developed their own “Tinting System.” Today in the Chinese Deco paint market, big players like Nippon and ICI have their own multicolour machines. Currently, Jotun has 2% of the tinting market share in China while Nippon is the leader with 35%.

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20 Power point presentation provided and presented by Jotun China, 2008: “Business review of the decorative”

Figure 8: Tinting machine share in the market

2.4 Decorative Retail China Strategy: Past, Present, and Future

Jotun entered into China’s Deco paint market in 2001, attracted by the country’s large potential market and strong fundamentals for sustainable future growth within the industry, and encouraged by the company’s previous success in other sectors such as protective coatings. However, up to now, Jotun has not been able to replicate this success in the Deco paint market. The general consensus amongst the senior executives within JC is that when the company first entered the Deco market, it lacked a solid understanding of the local market and therefore could not formulate an appropriate strategy. Jotun seemingly decided to learn through trial and error. The time from 2001 to today has been a learning process by which Jotun has slowly been able to improve on its original vague, unstructured strategy and turn it into a very clear, precise, and focused strategy.

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22 Power point presentation provided and presented by Jotun China, 2008: “Business review of the decorative”
2.4.1 Past

According to Jotun’s National Sales Director, Mr. Zhou the company did not do enough preparation and market studies before entering the China’s Deco paint market. Jotun knew very little about its target consumer’s needs and requirements, about which product characteristics and features were important in China and about the local market in general. Therefore, it was virtually impossible for Jotun to adopt an informed strategy when entering the Chinese Deco market. Indeed, Jotun operated in the Deco paint industry for 2 years, learning along the way, before adopting a formal sales strategy.

Thus after 2 years, Jotun’s initial strategy was to focus on some cities and target high end consumers since they could afford a higher price. However Jotun’s team did not execute accordingly. Rather, they focused on the whole Chinese market and sold Jotun’s products to low end consumers. The reason for this, according to Mr. Zhou, was because every year Jotun set sales volume goals for the different markets, and the sales team believed that the only way to reach these goals was to expand into the entire China market and price the products very low. From then until now, Jotun has experimented with various strategies, including different discount schemes for its distributors. For example, Jotun at one time employed a strategy of pricing its products at a 5% discount to the prices of competitors Nippon and ICI. Another strategy was to create seasonal promotions, and offer further price discounts to Jotun’s distributors.

In addition, Jotun learned that the products it tried to sell in the Chinese market initially were a mismatch to the needs and requirements of domestic consumers. For example, Jotun initially imported Deco products from its manufacturer in Malaysia. Because these products were manufactured to perform in the Malaysian climate, Jotun discovered that it could only sell these products in Guangzhou, which had a similar climate. But in other cities in central and northern China where the climate is vastly different from that of Malaysia, the products were of no use to the consumer. As a result, Jotun had to manufacture its products to suit the needs of consumers in different regions of China, and has since instituted a biannual review of its products.

23 Power point presentation provided and presented by Jotun China, 2008: “Business review of the decorative”
Another point is that Jotun initially hired Norwegian sales managers. According to Mr. Zhou, “the Norwegian sales managers were effective in-house; however the Deco market in China was and still is a very local business, which created some problems for the sales managers who did not know how to speak Chinese.

“It is important for the sales managers to meet the consumers, so if a sales manager was supposed to speak with some of the consumers it would be a problem. Of course someone could translate for them, but then the Norwegian sales managers could only understand what the consumers were saying, but not understand what they were thinking!”

Moreover, having Norwegian sales managers created communication problems between them and the sales force, since the sales force were Chinese speakers. After 3 or 4 years, Jotun hired Chinese sales managers in response to the problem. Since Jotun’s initial strategy for the Deco paint industry in China, the company has changed its strategy every year. According to Mr. Zhou, “Jotun started with a very big and unclear strategy, so every year the company has tried to make it smaller and more concrete. After many years with an unclear strategy, we know now what we should focus on.”

2.4.2 Present

In October 2008 JC hired a new general manager, Bjørn Naglestad, and he had a new focus and strategy for Jotun’s Deco paint market division. His argument was that Jotun up until now was singularly focused on the number of stores it was represented in, but the new focus would be on profitability.

Reviewing the details of Jotun’s performance in China’s Deco paint industry since 2001, Mr. Naglestad discovered that Jotun's dealers were earning comparatively less by selling Jotun as opposed to its competitors. Dealers were motivated to sell Jotun because the profit per can was much higher than its competitors, but the sales volumes were much lower. Because Jotun operates in a B2B market and therefore does not have a strong channel to reach out directly to end-users, the new strategy would have to focus on Jotun’s distributors.

24 Interview with Mr. Zhou Lai Chun, national sales director in Jotun China
25 Interview with Mr. Zhou Lai Chun, national sales director in Jotun China
Thus Mr. Naglestad, together with the Deco paint division, created the following initiatives:

- Focus on Jotun’s dealers rather than its products or prices.
- Select 8 “trial” dealers based on current sales volumes, geographic location, and general reputation within the Deco paint industry.
- Understand the factors that will allow distributors to increase profits from selling Jotun’s paints.
- Develop “Guanxi” and maintain a strong, solid relationship with these 8 distributors.
- Work with the distributors when it comes to future product development because they are closer to the end-user and should have a good understanding of the local market’s product requirements.

The 8 “trial” distributors for the new Deco paint market strategy are:

1) Huiduo Trade Company, Nanjing
2) Hongshun Industry, Shanghai
3) Banmei Decoration Material Concourse, Yangzhou
4) Jiangchuayangguang Construction Material, Shanghai, Minhang Area Dealer
5) Far-east Paints Company, Kaiping
6) Baoan Area Xinanshengsheng Chemical Plant, Shenzhen
7) Jotun coatings Franchised Store, Zhanjiang
8) Huadu Area Xinhua Paints Decoration Material Store, Guangzhou

Jotun is also currently linking up its lab and R&D resources in China with its counterpart in Norway. According to Mr. Zhou, linking Jotun’s China with Norway departments is much more appropriate than linking Jotun’s China with Southeast Asia departments and the result should be that the quality of Jotun’s paint is much more in line with the Chinese consumers’ needs, especially in the Deco department.

2.4.3 Future

Jotun has come a long way since entering the Deco paint market in 2001.
Figure 9: Overview of the development of Jotun China’s strategy

As one can see, over time Jotun has learned from its experience operating in the market, and its strategy has continued to evolve and improve. If the new strategy with the 8 “trial” dealers is a success, it can be adjusted and expanded to include more distributors. According to Mr. Naglestad, “Let’s start with 8 and then think big after they have succeeded. If one can become successful, so can the others. The most important thing is to find a position in the Chinese decorative market. Be a quality supplier and to be known as an international brand that provides paint with excellent quality. We take one step at a time, but the dream is to become one of the best brands in the paint market.”

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26 Interview with Mr. Bjørn Naglestad, general manager in Jotun China
3. Research Methodology

3.1 Research methodology

The research design must specify which type of data is necessary in order to answer the research questions, how to get the information, and how to analyse this data.\textsuperscript{27} Which design one should employ depends on how much existing knowledge one has about the research area and what the ambitions are with regards to analysing and explaining connections.\textsuperscript{28}

This chapter aims to present the different stages in our research process. According to Gripsrud, Olsson and Silkoset (2004) the analysis process consists of six steps. Figure 10 below illustrates the various stages of the analysis process:

\textit{Figure 10: The analysis process} \textsuperscript{29}

3.2 Research aim and research questions

Gripsrud, Olsson and Silkoset (2004:48) state that \textit{“the first thing one should do is to formulate the research aim in a simple sentence, followed by several suitable

\textsuperscript{27} Gripsrud Geir, Ulf Henning Olsson & Ragnhild Silkoset, 2007: ”Metode og dataanalyse”, page 53

\textsuperscript{28} Gripsrud Geir, Ulf Henning Olsson & Ragnhild Silkoset, 2007: ”Metode og dataanalyse”, page 58

\textsuperscript{29} Gripsrud Geir, Ulf Henning Olsson & Ragnhild Silkoset, 2007: ”Metode og dataanalyse”, page 53
The research aim and questions will then give the researcher a better understanding of which questions need to be answered in order to achieve the research aim.

As mentioned earlier, Jotun has struggled a great deal in the Chinese Deco retail market. Nevertheless, management still believes that with the right strategy, Jotun Deco paint has a fair chance to grow in this market. Therefore, the aim of this research is to determine whether Jotun can effectively and viably achieve its stated goal of increased profitability in China’s decorative paint market through its new strategy of improving relationships with key dealers, and if so, what specific steps should Jotun take to implement this strategy.

“Having no research questions or having poorly formulated questions will ultimately lead to poor research”

The research questions are highly important because they will guide the researcher when searching through relevant literature, deciding which design to employ, making decisions about what data to collect and from whom, analysing this data, and last but not least, keeping the researcher focused on the research area. In order to solve the problem statement, we have identified these research questions:

1. How does Jotun currently operate in China’s decorative paint market?
2. How can Jotun improve its market knowledge in China’s decorative paint market?
3. How can Jotun’s relationship with its key dealers be improved?
4. What benefits can Jotun and the key dealers achieve by cooperating with each other?

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31 Bryman Alan & Bell Emma, 2007: "Business research methods", page 83
32 Bryman Alan & Bell Emma, 2007: "Business research methods", page 83
3.3 Research design

There are three main research designs; explorative design, descriptive design and causal design. This project employed only one research design, namely explorative design. The reasoning behind this is that one should employ the explorative design in cases where one has little knowledge about the examined area which is the case in this research. As mentioned above, the main purpose of this research is to explore how Jotun can positively influence its future place in the Chinese Deco retail market. To achieve this, we believe that a qualitative methodology, involving in-depth interviews and observation, were the most appropriate.

3.4 Data collection

The fourth stage in the analysis process suggests that the researcher should collect necessary data relating to the research area. It is common to differentiate between two types of data: primary data and secondary data. The former is data collected particularly to answer to your research questions, while the latter is data collected for another purpose.

3.4.1 Secondary data

It is quite common to gather information that might have been written about the subject before (literature studies) when using an exploratory design. Secondary data is by definition data that has already been collected by someone else for a different purpose. However, the main motivation to use this type of data is that it is less time consuming and cheaper than primary data. It is important to know where to find secondary data related to one’s project. Aaker et al. (2004) has divided secondary data into two groups depending on where the data can be found: Internal sources and External sources.

33 Gripsrud Geir, Ulf Henning Olsson & Ragnhild Silkoset, 2007: ”Metode og dataanalyse”, page 59
34 Gripsrud Geir, Ulf Henning Olsson & Ragnhild Silkoset, 2007: ”Metode og dataanalyse”, page 80
**Internal sources:**
Internal sources are information collected from within the company such as sales numbers, hierarchical structure, product information, company vision and mission, future plans etc.

**External sources:**
External sources are all information collected outside of the company and can be divided into two groups: standardized analysis and public information.

**Standardized Analysis:**
Professional bureaus normally make analysis to cover the needs of different industries and markets. From this type of data you can get more detailed information about your research area than from publicly available information. Such data are often more reliable, however it tends to be quite expensive to obtain.

**Public Information:**
As the name reveals, public information is information available to the public. The World Wide Web is an information source that has gained enormous popularity in recent years, due to easy Internet access. We have gathered relevant information via the Internet to support our project. In addition to the use of the Internet, we have also used literature studies (articles, books, public statistics), all related to our research.\(^{35}\)

The overall purpose of using secondary data is to obtain relevant background information about the examined area. Despite the fact that secondary data cannot answer all aspects of this project, it will help the researcher(s) to develop general knowledge, and in some cases secondary data can be used to confirm the findings from the primary data.

\(^{35}\) Gripsrud Geir, Ulf Henning Olsson & Ragnhild Silkoset, 2007: ”Metode og dataanalyse”, page 80
3.4.2 Primary data

Primary data can be collected in three ways:

1. Through communication with people
2. Through observation
3. Through document analysis (written material and visual material)

We found it most appropriate to employ the first and the second one - communication and observation - using qualitative methods. The reasoning behind this decision is that when a research aims to understand and find connections rather than to measure the situation, qualitative methods are preferable.\(^{36}\) In-depth interviews are commonly employed when the opinions, experience, and knowledge of the interview objects are of interest\(^{37}\), which is central in this project.

3.4.2.1 In-depth Interviews

We selected our interview objects carefully, according to relevance to our problem statement. Each person has shared his or her expertise and knowledge with us, and contributed to our findings. All interviews were pre-booked. Our interview objects are listed below:

Internal in-depth interview objects:

- Mr. Bjørn Naglestad - General Manager, JC
- Mr. Zhou Lai Chun – National Sales Director, JC
- Mr. David Shen – Sales and Marketing manager (Deco department), JC
- Mrs. Sharon Ding - Brand manager (Deco department), JC
- Jotun Deco Sales team (3 people), Shanghai office, JC


External in-depth interview objects:

- Mr. Adrian Wall – Co-founder and CEO of Wall Capital Advisors, China
- Mr. Lester Lam, CEO of Lai Fung Holdings, Hong Kong & China
- Jotun’s Key dealers: Mr. Hu Guanshun and Mr. Lee from Shanghai, Mr. Zhang Jinnian from Shenzhen, Mr. Shou from Kaiping. Including one employee in every store.

3.4.3 Observation

When the researcher uses observation as a method to collect primary data, he or she normally measures or observes phenomenon of interest. This method does not result in tangible information such as written or oral information.³⁸ It is common to differentiate between how the data is collected:

- Technical equipments
- Human observations

When utilizing the former, technical equipments are used to register the surroundings, while the latter is based on individual(s) observing and registering the surroundings.³⁹

In this thesis, the authors used human observations to determine how Jotun's paints were represented in the selected retail stores. During the course of this thesis, the authors visited 4 out of 8 retail stores. All 4 were also Jotun’s key-dealers and the meetings were all pre-booked. In addition to visiting the 4 retail stores after the new strategy was implemented, a field trip to the retail store in Jin Shen Material market in Shanghai was also organised in October. This was prior to the implementation of the new strategy in January. Visiting one retail store before and after Jotun’s implementation of the new strategy gave us an idea about how serious and dedicated the key-dealers were towards this new strategy.

3.4.4 Critical evaluation of secondary and primary research

Data collected from the Internet has been used in our research. Internet, which is a form of secondary data, is a cheap, easy, and fast way to get information.\textsuperscript{40} However, information on the Internet must be selected carefully and from reliable sources.

Reports provided from Jotun have also been utilized in this thesis. Despite the fact that the data in these reports was gathered by Jotun, some of the facts and figures were provided by Chinese government sources. Metrics published by China’s government are notorious for being unreliable and inaccurate.

We collected our primary data through in-depth interviews. In our in-depth interviews with the key dealers and their employees, a translator was necessary since the interview objects could not speak English. Having a translator gave us the opportunity to ask questions during the interviews if any points needed clarification. However, in using a translator, we exposed ourselves to her innate biases that might have had an impact on the accuracy of her interpretations.

3.5 Reliability and Validity

Whether one wants to conduct new research or study existing data, it is important to evaluate how trustworthy a source is. Reliability refers to the consistency of the measure of a concept\textsuperscript{41}, and validity has to do with whether or not a measure of a concept really measures that concept\textsuperscript{42}. In attempt to achieve a high level of reliability and validity, we took precautions.

Jotun provided us with a translator that could join us throughout the entire process. Our translator also happened to be our contact person and the brand manager at Jotun in the Deco department in China. Mrs. Ding is both fluent in

\textsuperscript{40} Gripsrud, Geir, Ulf Henning Olsson & Ragnhild Silkoset, 2007: “Metode og dataanalyse”, page 79

\textsuperscript{41} Bryman, Alan & Emma, Bell, 2007:“Business research methods”, page 163

\textsuperscript{42} Bryman, Alan & Emma, Bell, 2007:“Business research methods”, page 164
English, Mandarin and Shanghainese. The interviews with the key-dealers and their employees were all executed in mandarin. To ensure that valuable data was not left out we used a tape-recorder during all interviews. Recording the interviews created the possibility for further analysis in the future if necessary. All of these actions were utilized to enhance reliability.

As for validity, the process of designing the interview was given a lot of attention. We followed the rules of designing questions carefully with regards to avoiding very general questions, avoiding leading questions, avoiding long questions etc. The interview questions were then emailed to our supervisor, Karin Bryntse, for approval, with a full detailed description of what we were trying to investigate. This was to make sure that the questions were easy to understand and that the questions asked were relevant to our research questions. In addition, the interview questions were pre-tested before used.

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43 Shanghainese is a dialect of Wu Chinese spoken in the city of Shanghai. [www.wikipedia.org](http://www.wikipedia.org): “Shanghainese”
Part Three: Theory Review

4. Theories

4.1 Introduction

In this part, we have divided the theories which we are going to use in both the analysis and strategy. The theories that are introduced in part three are the ACE-model, the marketing mix, Porters’ five forces, PESTEL, brand awareness and brand recognition, SWOT, push and pull strategy, making your dealers your partners, and the country of origin effect. We feel that these theories are relevant to our thesis as relates to the aim of this research.

4.2 Analysis theories

4.2.1 Internal analysis

The internal analysis will be based on what Jotun can control and affect, such as its organization, its product and production, the prices, promotions, and distribution of its products, and its financial situation.

4.2.1.1 Attitude – Competence – Embodiment Model (ACE)

The ACE – model is introduced in this thesis to analyze the international organizational culture. If a company wants to succeed internationally, all of the units in the organization need to be included. It is the company’s internal engagement and its awareness of international processes that ultimately determines if the company will succeed with its expansion. By using this model, we will find out if Jotun’s organizational culture has affected its success in the Deco paint market in China.\textsuperscript{44}

\textsuperscript{44} Solberg, Carl Arthur, 2006: “Internasjonal markedsføring”, page 144-146
4.2.2 The marketing mix

The marketing mix is the assortment of marketing tools which the company uses to achieve its marketing goal among the segments. Its function is to help the manager develop a package that will satisfy the consumers’ needs and maximize the organization’s performance. The mix consists of 4 P’s: product, price, promotion, and place.

4.2.3 External analysis

In the external part, we will analyze the factors that Jotun has no or limited control over, such as its competitors, society, its consumers, the market, its suppliers, and its distributors.

4.2.3.1 Porter’s five forces

Porter’s five forces is a competition analysis model, where the five forces determine the segments’ structural attractiveness. The five forces are competitors, substitutes, buyers, suppliers, and potential intruders. A market or a segment will be less attractive if there are already several, strong or aggressive competitors. The risk of new substitutes entering the market or being in the market makes the segment less attractive. Additionally, the product substitutes draw a limit on price and profit. Further on, the segment will be less profitable if the buyers have a strong or increasing capability to force the price down. The consumers’ negotiation power will increase if, for example, the cost of switching products is low. The suppliers’ negotiation power, will on the other hand increase if they are well organized, there are few product substitutes, and when the cost of changing supplier is high. Last is the risk of new potential intruders entering the same market.

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45 Kotler, Philip, 2004: ”Markedsføringsledelse”, page 16
46 www.12manage.com: ”Marketing mix”
47 Kotler, Philip, 2004: ”Markedsføringsledelse”, page 198
4.2.3.2 PESTEL analysis

The PESTEL analysis will be used to analyze information about important macro economical aspects. The analysis is divided in six different categories: political, economic, socio-cultural, technological, environmental, and legal. The PESTEL analysis will help us to find out what kind of circumstances pose threats and opportunities for Jotun.48

The results of PESTEL analysis can provide JC a thorough understanding of external stimuli that, if not accounted for, could have profound effects on the achievement of its goals. From this perspective, PESTEL analysis should be considered crucial to Jotun’s success, particularly because operating in China is vastly different from operating in Western countries.

4.2.3.3 Brand awareness and brand recognition

Brand awareness is the probability of a brand being recognized by potential customers.49 On the other hand, brand recognition is the customers’ awareness that a specific brand name exists.50 These two theories will therefore be conducted in this thesis to analyze and measure how much the customers know about Jotun.

4.2.4 SWOT - analysis

The SWOT – analysis will be conducted to analyze Jotun’s strengths and weaknesses, and what opportunities and threats they face in the market. The strengths and weaknesses will be based on our internal analysis of the company, while the opportunities and threats are from the external analysis. Having an understanding of the positive aspects (strengths and opportunities) and the negative aspects (weaknesses and threats) of the company is helpful when the purpose of this thesis is to find how JC can implement the new strategy in the Chinese Deco market.51

48 Løwendal, Bente R & Fred E. Wenstøp, 2008: ”Grunnbok i Strategi”, page 229-231
49 www.businessdictionary.com: ”Brand awareness”
50 www.businessdictionary.com: ”Brand recognition”
4.3 Marketing strategy theories

4.3.1 Make your dealers your partners

Building a tight relationship between the company and its dealers is necessary if it wants to meet its customers’ needs. The local dealers have the possibility to get closer to the customers and can be the company’s source of market information. However, for a company to utilize these kinds of opportunities, it must as mentioned earlier, build a close relationship with its dealers and integrate them in its business systems. Moreover, the dealers can play an important role in providing the customers a variety of services before the sale and after the sale. In addition, the dealers can give the company information about the consumers’ feedback. To generate a tight relationship between the company and its dealers it is necessary for the both parties to invest assets such as money and training. Further, it is important that mutual trust exists between the parties and there is frequent communication between them. If a company wishes to launch a new product, it should consider if the product fits the distribution system and if the distribution system will add value to the product in front of the end user. Another factor that the company should consider when making its dealers its partners is to ensure that they are well run and to give them extraordinary support.52

4.3.3 Market orientation

An organisation must focus on three areas to be market orientated. These are: consumer orientation, competitor orientation and inter functional orientation.53 If a company regularly can provide the right products and service to their consumers, it is a company with the right orientation towards their consumers. Furthermore it is essential that the company understand the consumers’ value chain, both as it is today and how it can be in the future. A company can create the right value for its consumers by offering those benefits or by reducing their costs.54 Moreover the company must have enough information about its competitor’s strengths and weaknesses. It is important that the company is aware of the

52 Harward Business review, 2000: “Managing the value chain”, page 158 - 176
53Biong, Harald & Erik B. Nes 2003: “Markedsføring på bedriftsmarkedet” page 16
54Biong, Harald & Erik B, 2003: “Markedsføring på bedriftsmarkedet” page 16
competitor’s short and long term strategies so it can create their own strategy. Finally it was important that the organisation coordinate all their resources so the maximal value can be created for the consumers. All the employees in the organisation must cooperate with each other and work towards the same goals.\textsuperscript{55}

4.3.4 Relationship marketing

Relationship marketing is all market activities with the purpose to establish, develop and maintain relations\textsuperscript{56}. The goal is to strengthen the efficiency and productivity in the consumer-supplier-relation. The purpose behind relationship marketing is to develop a long-term cooperation. Loyalty and benefits are essential elements in these relations. The main essence is that the company move towards a strategy where the company and the consumer work together as a team.\textsuperscript{57} The cooperation requires that the partners develop activities together to reach mutual goals. Resources from both sides are necessary and they must be motivated and trust each other. The desired result with the relation is that the partners gain economical and non-economical benefits. It is not abnormal that the consumer and the company cooperate in product development. They can together develop the right selling points for the products, which in long-term have a positive effect on the sales. Non-economical benefits like reduction in uncertainty and a stronger image towards the market can be achieved through relationship marketing\textsuperscript{58} the cooperation is based on relationship marketing’s four P’s: purpose, partner, process and performance\textsuperscript{59}.

4.3.5 Relationship building

The cooperation between the company and its retailers can be based on relationships. Most relationships in the business markets tend to be long term.\textsuperscript{60} If the company and the retailers decide to cooperate it is crucial that both contribute

\textsuperscript{55}Biong, Harald & Erik B, 2003: “Markedsføring på bedriftsmarkedet” page 17
\textsuperscript{56}Biong Harald, Erik Nes, 2003: “markedsføring på bedriftsmarkedet” page 135
\textsuperscript{57}Biong Harald, Erik Nes, 2003: “markedsføring på bedriftsmarkedet” page 139
\textsuperscript{58}Biong Harald, Erik Nes, 2003: “markedsføring på bedriftsmarkedet” page 145
\textsuperscript{59}Biong Harald, Erik Nes, 2003: “markedsføring på bedriftsmarkedet” page 150
\textsuperscript{60}Biong, Harald & Erik B, 2003: “Markedsføring på bedriftsmarkedet”, page. 130
with resources and execute activities so the mutual goals can be achieved.\textsuperscript{61} It is not an easy task to build and maintain relationships. To build up the relationship there exist some guidelines. The relationship building model contains five steps.

1) First of all it is crucial that the partners define objectives and expected benefits of the relationship. The corporation must be advantageous for the partners. The consumer must be aware of what kind of benefits they will get if they decide to cooperate, both short and long term benefits\textsuperscript{62}.

2) The second step will be to choose the right partners for the potential corporation. The company must select the partners that fulfill its criteria. It is crucial that the partner is motivated and possess the resources needed for the cooperation. The company must go through all the potential candidates and judge if they have the right competence and technology. The selection of the right partners is a risky decision. Many companies have experienced subsequently that they did a mistake during the selection\textsuperscript{63}.

3) The third step is to establish a system of incentives to enhance cooperation. The cooperation must be attractive for the counterparts and they have to be conversely dependent on each other. Furthermore it is crucial that the consumer have both economical and non economical incentives to cooperate. The central element in the relationship between the company and its consumers must be trust. Finally it is important to have some control mechanisms so the guidelines for the cooperation are followed\textsuperscript{64}.

4) The fourth step is the most important step. The cooperation process must be managed and organized. The entrants in the cooperation must be aware of their tasks, and decide who will be in charge of the different activities. Furthermore it is important that the partners in the cooperation both have mutual and separate goals and know how to reach these stated goals\textsuperscript{65}.

\textsuperscript{61} Biong, Harald & Erik B, 2003: “Markedsføring på bedriftsmarkedet”, page 139
\textsuperscript{62} Biong, Harald & Erik B, 2003: “Markedsføring på bedriftsmarkedet”, page 152
\textsuperscript{63} Biong, Harald & Erik B, 2003: “Markedsføring på bedriftsmarkedet”, page 157
\textsuperscript{64} Biong, Harald & Erik B, 2003: “Markedsføring på bedriftsmarkedet”, page 162
\textsuperscript{65} Biong, Harald & Erik B, 2003: “Markedsføring på bedriftsmarkedet”, page 168
5) The last step will be to evaluate the process and the result. Have the counterpart reached their stated goals? Have this cooperation been successful? What kind of results is achieved? Is it beneficial to continue with the cooperation? Both economical and non economical goals must be evaluated\textsuperscript{66}

\begin{center}
\begin{tikzpicture}
  \node[rectangle, draw, fill=blue!20] (process) {
    \textbf{Relationship building process}
  };
  \node[rectangle, draw, fill=orange!50] (objective) [below of=process] {
    1. Define objectives and expected benefits of the relationship
  };
  \node[rectangle, draw, fill=orange!50] (partner) [below of=objective] {
    2. Choose partner(s) for potential cooperation
  };
  \node[rectangle, draw, fill=orange!50] (incentive) [below of=partner] {
    3. Establish a system of incentives to enhance cooperation
  };
  \node[rectangle, draw, fill=orange!50] (manage) [below of=incentive] {
    4. Organize and manage the cooperation process
  };
  \node[rectangle, draw, fill=orange!50] (evaluate) [below of=manage] {
    5. Evaluate process and results
  };
  \draw[->] (process) -- (objective);
  \draw[->] (objective) -- (partner);
  \draw[->] (partner) -- (incentive);
  \draw[->] (incentive) -- (manage);
  \draw[->] (manage) -- (evaluate);
\end{tikzpicture}
\end{center}

\textbf{4.3.6 Agent theory}

The agent theory sees the marketing channel as a network of contacts between principals and agents. A principal may be a producer, while an agent may be a retailer. When a principal wish to cooperate with an agent; to problems may occur; before signing the contract with the agent and after signing the contract. The two problems are called contrary selection and moral hazard. Contrary selection means that the agent has private information about conditions that will make the relationship unfavourable for the principal to go into. This problem occurs when a principal is offering a contract to an agent, and may also be called “hidden information”.

Moral hazard means that the agent behaves opportunistic after signing the contract, since the operations that are defined in the contract, cannot be controlled by the principal cost free. Example on opportunistic behavior is that the tasks that

\textsuperscript{66} Biong, Harald & Erik B, 2003: “Markedsføring på bedriftsmarked”, page 172
the agent has been given are defective and imperfect. This kind of behavior may be reduced by using results contracts, rules, routines, and increase the degree of control. 

4.3.7 The”Country of origin” effects

The “Country of origin” effects is according to Hill (2008)

“The extent to which the place of a product’s manufacturing influences its evaluations in the market”

Charles W.L Hill (2008), Global business today

Research has shown that “made in” indications affect the buyers’ preferences for different products, especially if the buyers have poor knowledge about the products. However if the “country of origin”- image of an international firm has an negative effect in the country its operating in, it needs to be aware that working hard against this effect is necessary; by for examples using promotion that emphasize the positive performance attributes of its product.

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67 Gripsryd, Geir & Arne Nygaard, 2005: ”Markedsføringskanaler”, page 161-165
68 Solberg, Carl Arthur, 2006: ”Internasjonal markedsføring”, page 109
69 Hill, Charles W.L, 2008: ”Global business today”, page 486
This part consists of the authors’ secondary findings and primary findings. In the secondary findings, the authors will give an overview of the Deco paint industry in China, the Chinese real estate market, and the importance of Guanxi in China. The internal findings are findings from each interview object that we have interviewed. Bear in mind that the finding from the salesmen is composites by the three salesmen that we interviewed.

5.1 Secondary Research Findings

5.1.1 Paint and Decorative Paint Industry in China

Past Performance
The paint industry’s performance in China has always been closely linked to the development of the domestic economy, which influences virtually all aspects of supply and demand. Consequently, China has been the fastest-growing major nation for the past quarter-century with an average annual GDP growth rate of over 10%, and the paint industry has similarly experienced rapid growth. The table below shows the relationship between GDP growth and the growth of paint production and sales in China from 2003 to 2005, specifically that both followed a simultaneous upward trend at nearly the same rate of increase:
Table 2: Growth Rate of China’s GDP and Paint Production and Sales (%)

<table>
<thead>
<tr>
<th></th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Growth Rate of Paint</td>
<td>18.36</td>
<td>25.71</td>
<td>28.03</td>
</tr>
<tr>
<td>Production and Sales</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>GDP Growth</td>
<td>7.6</td>
<td>9.5</td>
<td>9.9</td>
</tr>
</tbody>
</table>

Source: the National Statistics Bureau, Report on Chinese Paints Business

In addition, the number of paint manufacturers in China also increased, as depicted in the table below:

Table 3: Number of Paint Manufacturers in China

<table>
<thead>
<tr>
<th>Amount</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>3,000</td>
<td>4,000</td>
<td>4,500</td>
<td>8,000</td>
<td>10,000</td>
<td></td>
</tr>
</tbody>
</table>

Source: the National Statistics Bureau, Report on Chinese Paints Industry

As part of China’s tremendous economic growth, the real estate market has also enjoyed rapid development over the past decade, particularly in the residential sector, and this has directly resulted in the expansion of the domestic Deco paint market. As of 2007, the total output of China’s Deco paint industry amounted to 2 million tons, of which 70%-75% was for interior decoration and 25%-30% for exterior decoration. For the paint industry overall, domestic consumption of paint has increased roughly 20% over the past decade.70

Current Status

China’s relatively stable political environment has served to attract more and more foreign enterprises and foreign direct investment to the mainland, including the paint industry. However, the global financial crisis has indeed had a negative impact on China’s economy, particularly during the second half of 2008. The number of construction projects across China began to decline, as did domestic paint sales. Under extreme pressure to combat this economic slowdown, the Chinese government announced a US$ 586 billion stimulus plan for new infrastructure construction, urban construction and housing projects. The paint

70 Analysis on Decorative Paint Market, 2009, provided by Jotun China
industry stands to gain as these projects create greater market demand for paints and coatings in China. Moreover, major events like the 2008 Beijing Olympics, the 60th Anniversary of the People’s Republic of China in 2009, and the upcoming 2010 World Expo continue to boost investor confidence in China, stimulate the domestic economy, and thus provide newer business opportunities for the paint industry.\footnote{Analysis on Decorative Paint Market, 2009, provided by Jotun China}

China’s paint industry is not one of the 8”protected” industries related to China’s national and economic security. Therefore, it is relatively open to foreign participation. Already, the world’s top 10 paint companies by volume have all entered into China’s market: Akzo Nobel, BASF, Henkel, RPM, PPG, Valspar, Sherwin-Williams, Diamond Paint, Dupont, and Japan Paint. These and other foreign companies, along with privately held domestic companies, currently account for a minority 38% of China’s total market share but earn a majority 52% of the total profit. Conversely, Chinese SOE\footnote{SOE = state-owned enterprise} paint companies hold the majority of the market but earn less than half of the total profits. Of these SOE companies, only the following are amongst the world’s top 60 paint manufacturers by volume: Guangdong Huarun, Shanghai Paint Company, Guangzhou Zhuhua Group, Hunan Xiangjiang, Dabao Chemical, and Jiabaoli. As of 2008, the total number of paint manufacturers in China, including foreign and both Chinese SOEs and privately owned companies, numbers over 10 thousand, with a combined output of 5.97 million tons.\footnote{Analysis on Decorative Paint Market, 2009, provided by Jotun China} Total 2008 sales figures have not been published yet; however China’s paint industry recorded over RMB 100 billion in sales in 2007. This represented a growth of 27% from sales in 2006, and an annual increase in net profit of almost 30%.\footnote{\url{www.coating.baidajob.com}: “Web build model”}

Because China is such a geographically large market, very few companies have the resources to cover the entire region effectively. This has allowed small privately owned manufacturers with sufficient resources to emerge and service local markets. Foreign brands have responded with consolidation strategies, either through acquisitions or forming joint ventures. For the Deco market
specifically, joint ventures such as Nippon (China) Paint Co and UK ICI Paint Company currently account for 10% of the total market.\(^75\)

As for distribution, Beijing, Tianjin, Shandong, Jiangsu, Zhejiang, Fujian and Guangdong provinces together account for roughly 60% of the total paint market as of 2008. By contrast, paint manufacturing is largely restricted to the Yangtze River Delta and the Pearl River Delta regions.\(^76\)

**Future Outlook**

It is estimated that China will produce 6.80 million tons of paint in 2010, which would make the country the second largest producer and consumer of paint in the world. Maintaining with current trends, it is likely that foreign brands, and perhaps both domestic SOE and larger private brands, will continue to use a consolidation strategy to expand brand presence and market share across China. Additionally, domestic paint manufactures may become OEM’s\(^77\) for overseas distributors; further increasing China’s production volumes. Although the financial crisis may decrease overall global demand for paint as many developed Western nations slip into recession.\(^78\)

Indeed, the future of China’s paint industry looks bright, particularly the Deco paint industry. The main reason for this is China’s positive prospects for continued robust economic growth in spite of the financial crisis. The Chinese government seems determined, and likely to succeed in maintaining a 6-8% GDP growth rate, which allows for the continued enlargement of the emerging middle class, massive population urbanization, and continued expansion of the local real estate market.

\(^75\) Analysis on Decorative Paint Market, 2009, provided by Jotun China
\(^76\) Analysis on Decorative Paint Market, 2009, provided by Jotun China
\(^77\) OEM = original equipment manufacturer
\(^78\) Analysis on Decorative Paint Market, 2009, provided by Jotun China
5.1.1.1 The competitors

**Nippon**
Nippon is a Japanese paint brand and has established over 20 manufacturers across Asia. The company produces home Deco paint, industrial paint, paint for vehicles, and paint for architectural buildings. According to Nippon’s website, the company is constantly searching for and developing new paint technology to meet the world’s changing needs. Also, Nippon possesses the largest market share (14%) in the Deco paint market in China.

**ICI**
ICI or Imperial Chemical Industries is a British brand which manufactures Deco paint, paint for building materials, and coatings for cans and packaging. The company is headquartered in Slough, England, and its major manufacturers are located in USA, UK, Brazil, Argentina, Germany, Netherlands, France, China, India, and Malaysia. ICI has also additional manufacturing operations in 14 other countries. The company has its own sales distribution network spanning over 30 countries, however it also sells through distributors and agents.

**Huarun - 华润**
Huarun is a Chinese brand, which produces architectural Deco paints, wood paints, water based paints, and other industrial paints. The company is headquartered in Shunde, Guangdong in China. Huarun has several marketing and technical service centres, as well as a service team of technical engineers. According to Huarun’s website, it is approved as one of the “National High-tech Enterprises” by the Ministry of Science and Technology in China.

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79 [www.nipponpaint.com](http://www.nipponpaint.com): “Solutions & Products”
80 [www.nipponpaint.com](http://www.nipponpaint.com): “About Nippon Paint”
81 Power point presentation provided and presented by Jotun China: “Business review of the decorative”
82 [www.icipaints.com](http://www.icipaints.com): ”About ICI Paint”
83 [www.huarun.com](http://www.huarun.com): ”About Huarun Paint”
5.1.2 China’s Real Estate Market

In recent years, the real estate market fundamentals in China have been strong, particularly on the demand side, due to high economic growth, urbanization, and the significant development of a middle class with an increasingly higher disposable income. Through most of 2007, property prices in many of China’s cities, particularly Shanghai and Guangzhou, experienced significant growth. But despite this growth, the real estate market remains characterized by inefficiencies created by miles of bureaucratic red tape, restrictions on foreign exchange, and unreliable information and statistics.\(^{84}\)

Sustained robust growth in this market led to concerns about speculation and a Chinese real estate bubble. In 2008, China’s central government implemented regulations aimed at preventing the economy from overheating, such as increased capital gains tax on sale of property and harder access to credit and mortgages. These measures adversely impacted property prices to varying degrees across China. Additionally, severe snowstorms in the winter of 2007-2008, the Sichuan earthquake and significant adjustments in domestic stock markets also affected market sentiment and the volume of transactions in China’s real estate market. Finally, recent events in the U.S. subprime mortgage market and the ensuing global financial crisis have resulted illiquidity and volatility in the wider global credit and financial markets, including markets in Asia, and has created even greater uncertainty in China’s real estate market.\(^{85}\)

However, China was and is one of the largest and fastest growing economies in the world, with GDP having grown at an average rate of over 10% between 1997 and 2007 and forecasted to grow at an average annual rate between 6-8% between 2008 and 2010.\(^{86}\) This extended period of high growth has also led to significant growth in disposable income and purchasing power and dramatic urbanization, with millions of people migrating from lower income agricultural areas to higher-paying jobs in the cities and suburbs. These demographic shifts have led to

\(^{84}\) Lai Fung Holdings, 2008: “China Real Estate Presentation” (power point)


infrastructure growth and property development, which are required to support and sustain such urbanization. Demand for infrastructure spending in the PRC over the next three years alone is estimated at US$725 billion.\textsuperscript{87} Metrics to quantify the trend of urbanization in China estimate that 400 million people will move from the countryside to tier 1 and 2 cities by 2014, and the United Nations estimates China will have more than 60 cities with populations exceeding 1 million by 2020. As already mentioned, the immediate effect of such population movement will be a significant increase in demand for residential and commercial properties. One of the more conservative estimates is 13 million new housing units per year to match the demand. Research also suggests that a large percentage of the urbanizing population will enter into the new middle class. By 2020, it is estimated that the middle class will have grown to over 200 million, making it the largest single income group in China.\textsuperscript{88}

Moreover, China’s government has changed direction regarding real estate market regulations, and has made efforts to protect the real estate industry. Such efforts include a decrease in capital gains tax from sale of real estate and an increase in bank lending quotas for mortgages. It is also very likely that the government may in the near future relax foreign capital restrictions and make available certain other tax incentives which may further stimulate transaction volume and support sales prices. This, coupled with the government’s stimulus plan designed to promulgate growth in China, will ensure stable development over the long-term, even if the global economic challenges continue to have some impact on China’s overall economy, including the real estate market.\textsuperscript{89}

5.1.3 The Importance of Guanxi in China

Guanxi is a term that is typically used to refer to an overall Chinese concept of “relationships”, whether interpersonal or between individual/group, group/group, organization/organization. However, this concept is extremely culture-specific

\textsuperscript{87} Wallam Capital, 2009: “Confidential Private Placement Memorandum- Limited Partnership Interest”, page 10

\textsuperscript{88} Wyatt Choy (HSBC), 2008: “Investment in the China Real Estate Market” (power point)

\textsuperscript{89} Wallam Capital, 2009: “Confidential Private Placement Memorandum- Limited Partnership Interest”, page 10
and therefore cannot be adequately expressed by an English-language equivalent. “Chinese society is distinct because Guanxi is ubiquitous and plays a central role in daily social and business life.”  

90 The word “relationship” is not enough, as Guanxi includes the concepts of “networking”, “personal connections”, and other similar social constructs. Below is a definition to give the reader an idea about the concept of Guanxi:

“Guanxi involves cultivating personal relationships through the exchange of favours and gifts for the purpose of obtaining goods and services, developing networks of mutual dependence and creating a sense of obligation and indebtedness.”

91 It is clear that the China market cannot be tackled effectively today without paying due attention to the construction and maintenance of good Guanxi.”

92 Guanxi could be the difference between a company’s success or failure in China. For evidence of this, a recent study by the authors Standifird and Marshall seems to have established that:

1. The Guanxi-based transactional arrangement appears to have significant latent strength by allowing for the reconstruction of transactions to meet new opportunities and changing circumstances.

2. The transaction cost advantages of Guanxi-based exchange specifically lies in the way Guanxi deals with governance problems associated with bounded rationality and opportunism.

3. Guanxi possesses the capacity to reduce transaction costs associated with environmental uncertainties, such as communicating, negotiating, and coordination transactions, as well as maladaptation and/or failure to adapt.

4. Guanxi has significant potential to facilitate the building of interfirm and firm-government relationships in China’s increasingly market-oriented environment.

90 Parnell, Martin F, 2005: “Chinese Business Guanxi: an organization or non-organization”, page 35

91 Parnell, Martin F, 2005: “Chinese Business Guanxi: an organization or non-organization”, page 35

92 Luo, Yadong, 2000: “Guanxi and Business”, page 246
5. In general, the development of a Guanxi network reduces costs associated with searching for partners and negotiating contracts. The time horizon is crucial: 'Each business interaction must be treated no as an independent event but as a building block for future exchange...Managers should maintain a long-term horizon with the short-term objectives focused on nurturing the development of a network.'

Therefore, it comes as no surprise that “foreign marketers and investors who have maintained good Guanxi with local suppliers, buyers, partners, and government authorities have a competitive edge over those who have not, in the smooth running of routine business operations, in securing information about government policies, and in securing various administrative approvals.” It has also been argued that because it is such a powerful tool, “deploying Guanxi becomes ‘the weapon of the weak’.” A weak company with strong Guanxi can, overtime, become a strong company.

However, the reality of Guanxi in China is far more complex than a “you scratch my back and I’ll scratch yours” concept, and building a Guanxi network requires time, energy, money, a foundation of common interests or attributes, and above all, trust and loyalty. Wining-and-dining, gift-giving, participating in group bonding activities such as golfing, and general entertaining are some common means of building and maintaining Guanxi. To be sure, “there are a variety of ways to do favours other than dinner and entertainment. For instance, assistance in the education of a client’s children, household appliance or cosmetics purchases, or having a holiday tour together are among the options...the ‘visiting abroad’ invitation may be the most effective and immediate means to build Guanxi with the person invited.”

When trying to build a Guanxi network, foreigners are typically at a disadvantage compared to local or foreign-born ethnic Chinese. The liability of foreignness

94 Luo, Yadong, 2000: “Guanxi and Business”, page 247
95 Luo, Yadong, 2000: “Guanxi and Business”, page 247
96 Luo, Yadong, 2000: “Guanxi and Business”, page 247
propels the costs of Guanxi construction and difficulties of Guanxi cultivation. Amongst these difficulties, language is a fundamental hurdle. To express oneself in Chinese, especially in Mandarin, is a necessary condition for developing one’s own Guanxi. Thus, multinational companies find that hiring local Chinese is required for successful Guanxi building.⁹⁷

In addition, it is also important for companies to identify the right individuals with which to build Guanxi. It is both unnecessary and a waste of resources for a company to try and establish Guanxi with a large number of people in a company or government agency. “In searching for the right person at the top level, a foreign business needs to find who has the dominant power in controlling the firm, and has better relationships with local authorities.”⁹⁸

Once established, Guanxi requires continuous nurturing and maintenance. Ongoing social interaction, such as social visits, invitations to dinner, and gift giving help facilitate this process. But to truly instil a sense of trust and loyalty in Chinese partners, a company must reciprocate and demonstrate ongoing reliability, trustworthiness, and loyalty. According to authors Wong and Leung, “trust only exists ‘when one party has confidence in an exchange partner’s reliability and integrity’.”⁹⁹ Furthermore, “once credibility is established, its maintenance is dependent on good work performance and the perseverence of a person in honouring his word. If he does not keep his word or cheats, he forfeits his trustworthiness.”¹⁰⁰

Ultimately, Guanxi is an inescapable reality of doing business in China and is required at all levels within the operations of a company. Both domestic and foreign companies alike must be prepared to invest resources to build and maintain a strong Guanxi network. As Martin F. Purnell explains,”the conduct of business in today’s People’s Republic of China is still beset by countless bureaucratic hurdles which make the creation and development of effective...

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⁹⁷ Luo, Yadong, 2000: “Guanxi and Business”, page 251
⁹⁸ Luo, Yadong, 2000: “Guanxi and Business”, page 249
¹⁰⁰ Luo, Yadong, 2000: “Guanxi and Business”, page 255-256
5.2 Primary findings

In this part of the thesis we will present findings based on information collected through in-depth interviews and questions sent by email.

5.2.1 Internal findings

5.2.1.1 The General Manager in Jotun China

Interview with Bjørn Naglestad, the General Manager in JC (Appendix 2)

The aim of this interview was to learn about Mr. Naglestad’s experiences as a Western manager working in China, to understand how he manages the relationships with his employees, and, as the man behind the new strategy with the key dealers, to find out about his future goals for Jotun’s Deco paint department.

Jotun’s current market share in the Deco paint market is very low. According to Mr. Naglestad, Jotun would have to double their sales volume in the Deco market to just break-even. Thus one of Mr. Naglestad’s primary focuses is to increase sales. As an international brand with great success in both the marine and protective coatings market in China, Mr. Naglestad believes that Jotun can become profitable in the Deco market as well with the right strategy. To do this, he wants to focus on the relationships with eight strategically chosen key dealers and help them to increase profits through sales of Jotun’s products. If the strategy can succeed with the eight dealers, then in the future it can be implemented in other retail stores and other distributors.

According to Mr. Naglestad it is not enough simply to have a clear strategy. The strategy must be implemented by all of the employees in the Deco department. The whole department has to believe in it and follow through on its responsibilities. Because Mr. Naglestad is a relatively new manager, having started in October 2008, he still has not had the opportunity to get to know all of the employees in JC. Moreover, Chinese culture as it applies to business and the workforce has been a particular challenge for him, despite the fact that he worked
in Thailand for many years. Some examples that Mr. Naglestad gave of problems he has had to face in China include communication problems as a result of the employees’ poor English skills and the rigid hierarchical system that makes employees less likely to approach him with questions or concerns.

5.2.1.2 The National Sales director in Jotun China

Interview with Zhou Lai Chun, National sales director in JC (appendix 2)

The purpose of interviewing Mr. Zhou was to gain a better understanding of the history of JC’s Deco paint department, including the company’s motivations for entering the market and the initial strategies implemented by the department. Interviewing Mr. Zhou was highly recommended by the general manager of JC, Bjørn Naglestad, since Mr. Zhou had worked in the company since Jotun first entered China and best knew the history behind JC.

According to Mr. Zhou, JC entered the Chinese Deco paint market due to its success in the marine coating and protective coatings market in China. JC’s goal for this market was to be profitable and own a small part of the market. Jotun’s strategy at that time was to target high-end consumers in tier-one cities. However instead of following the strategy, Jotun employees launched products all over China and did not target high-end consumers. Furthermore the lack of pre-launch market research and market orientation resulted in products that did not match with the Chinese consumers’ needs. For example, Jotun products were initially imported from Malaysia and were customized for the weather there. However, the Chinese climate is not the same as the Malaysian climate, and therefore the products were not suitable to be sold in China.

JC has changed its strategy for Deco paint every year since they entered the Chinese market. Mr. Zhou described several things wrong with previous strategies. First of all, Jotun lacked knowledge about the Deco paint market in China, which resulted in products that were not suited for the Chinese consumers. Second, when Jotun first entered the Chinese market, the managers of the Deco department were all Norwegian. This resulted in internal communication problems between the managers and their employees because of the language
barrier. Furthermore, it was frequently change of leaders in the department, in turn, had a very negative effect on the company. Ultimately, every new manager had a new strategy for the Deco market and it was hard for the employees to keep up with it.

Today Jotun is expanding its R&D resources in China. The goal is to create products that are suited to the needs of the Chinese consumer. The new strategy is supposed to increase Jotun’s market share in the Chinese Deco market. Mr. Zhou thinks that the most important thing for Jotun to do in the future is to educate its consumers who know very little about paint. Jotun has to teach them to see the differences between good and bad quality paint, and make them associate Jotun’s products with good quality.

5.2.1.3 The Sales and Marketing manager in Deco retail in Jotun China

Interview with David Shen, the sales and marketing manager in Deco retail in JC (appendix 2)

The main aim with this interview was to learn about Mr. Shen’s functions and responsibilities under the new strategy and Jotun’s main problems in the Chinese Deco market.

Mr. Shen believes in Jotun’s products and brand. As a foreign brand with good quality products, Jotun has a great opportunity in the Chinese Deco market. The main problem is that the market is saturated with many strong competitors. However, with the new strategy Mr. Shen believes that Jotun’s situation in the market will improve.

Mr. Shen chose the eight key dealers based on factors like their motivation and sales volumes. He continues to play an important role in the new strategy, including developing actions plans, continuously keeping in touch with the key dealers, and having one-on-one meetings with them on a regular basis.
5.2.1.4 The Brand Manager in Deco retail in Jotun China

Interview with Sharon Ding, brand manager in Deco retail in JC (appendix 2)

The main aim for this interview was to learn about Sharon Ding’s functions and responsibilities under the new strategy and her advice to increase Jotun’s market share.

According to Mrs. Ding, Jotun’s main problem is its weak position in the Chinese Deco market compared to that of its competitors. By contrast Jotun is doing very well in protective and marine. Chinese consumers like to physically see and touch the results before buying paint. Competitors like Dulux have taken advantage of this by having result samples in all its retail stores. In this way the consumers have the opportunity to see how the paint will look like on their walls.

Moreover there are only 3 people in Jotun’s marketing department. Mrs. Ding feels that over the past 8 years, Jotun’s focus on the Deco department has been very little.

Mrs. Ding is an important part of the new strategy. She has to regularly arrange meetings with the key dealers, update them with necessary product information, and design market activities. Moreover Mrs. Ding’s advice to Jotun is to build its own strategy, rather than follow its competitors. Jotun has to differentiate its products so it can develop into a preferred brand by Chinese consumers.

5.2.1.5 The Salesmen in Deco retail in Jotun China

Interview with the salesmen in Deco retail in JC (appendix 2)

The aim of these interviews was to find out about the salesmen’s tasks in the company and test their knowledge about the new strategy.

All of the salesmen were very knowledgeable about the new strategy and they all believe that their relationships with the key dealers are very strong. All of them visit the stores at least once a week whereby they provide onsite support and updated company and product information. Furthermore all of them highlight the
importance of Guanxi in the Chinese business culture. Having strong Guanxi will help Jotun to succeed in the Deco paint market in China. Their suggestions for Jotun were to focus more on advertising, strengthen the product quality, and continue to provide excellent service to the dealers.

5.2.2 External findings

The authors have been on field trips and visited retail stores to see the conditions first-hand. We observed that Jotun products are well presented in the different stores. In the retail store in Kaiping, Jotun is the first brand noticed when entering and is the only interior paint brand carried by the store. Similarly, the other stores have placed Jotun’s products in the centre where visibility is very high. The products are elegantly placed and the cans look clean. The multicolour machine was clean and well-kept, and there were a lot of brochures available for the customers. The key dealers do also have different types of colour charts so the customers can see the results before buying the paint. It seems like the key dealers have taken the new strategy very seriously and are now focusing on selling Jotun products to its customers. All of the key dealers spoke very highly about Jotun and they all seemed very optimistic about the new strategy.

The authors also visited the modern trade centres to see how Jotun’s competitors were represented. The one that we especially noticed was a German brand called Dufa. The products from this brand tended to be standardized. All the descriptions written on the cans were in German and nothing was translated into Chinese. According to our guide, Chinese customers tend to believe that Germany is a very environmentally conscious country. Therefore, products from Germany are popular in the Chinese market, especially since Chinese consumers have become more health and environmentally conscious over the last few years.
5.2.2.1 The key dealers and their employees

Interviews with the key dealers and their employees (appendix 1)

5.2.2.1.1 Interview with Hu Guanshun, a key dealer in Shanghai

The main aim of this interview was to learn about Mr. Hu’s experience selling Jotun paint, his expectations with Jotun’s new strategy, and his advice for how Jotun can improve in the future.

According to Mr. Hu, representatives from Jotun will visit his store 2-3 times a week. This is similar to Jotun’s competitor, Nippon, who also sends representatives 2-3 times a week. By contrast, Dulux visits the store almost every day while local Chinese brands almost never visit.
Despite the frequency of visits by Jotun representatives, Mr. Hu believes that the communication between him and Jotun is still lacking. He thinks that Jotun’s sales people need to bring more information about Jotun’s products and marketing strategies, promotions and activities. He also feels that Jotun should consult with him before launching new products, because his insight could prove useful when developing these new products. Currently, Mr. Hu is satisfied with the good quality of Jotun’s products; however he is dissatisfied with Jotun’s sales strategy. He does not believe Jotun has a clear understanding of the Chinese paint market, and this is the reason why it does not perform as well as its competitors. Mr. Hu gave an example to prove his point: Jotun’s furniture paint is of better quality than Nippon’s, however Nippon sells more because of its superior selling strategy.

Mr. Hu believes that Jotun needs to address three specific issues to improve its market share in the Chinese Deco paint market. First, Jotun needs to invest in advertising in order to improve its brand awareness. Second, Jotun needs to improve its understanding of the Chinese market and use this knowledge to develop a better sales strategy. Third, Jotun needs to ensure that the dealers can earn higher margins by selling Jotun’s products. This will motivate the dealers to increase sale volumes and therefore increase Jotun’s profits.

In addition, Mr. Hu mentioned that Dulux is the top selling brand in his store. He attributes this to several reasons. First, Dulux allows him to earn higher margins which motivate him to sell more Dulux products. Second, Dulux does a lot of advertising and has good brand recognition amongst Chinese consumers. Third, Dulux products have unique selling points that distinguish them from its competitors’ products, such as nice fragrances and easy to clean. Fourth, Dulux provides dealers with result samples of its products so that customers can physically see what the paint looks like. Mr. Hu recommends that Jotun considers the reasons for Dulux’s success in his store when developing its own marketing and sales strategy.
5.2.2.1.2 Interview with Meng Yang, an employee in Hu Guanshun’s store in Shanghai

The main aim of this interview was to learn from someone who sells Jotun’s products directly to end users about his perception of the brand, the perceptions of his Chinese customers, and advice for how Jotun can improve in the future.

Mr. Yang has been in the paint business for 10 years, having received the majority of his training from courses provided by Nippon. He said that Jotun also provides training sessions, primarily about multicolour paint, but that he feels Nippon’s training is better than that of Jotun. For example, he is still unable to tell the differences between Jotun’s 4 Majestic Matt products. Mr. Yang also personally prefers Nippon’s paints to Jotun’s paints because it has better functions.

According to Mr. Yang, his customers typically do not have any knowledge about paint. Older customers are typically only familiar with Nippon since it was one of the original brands to enter the Chinese market. Some customers even believe that “Nippon is paint and paint is Nippon.” Younger customers are familiar with a few more brands. But overall, only 5% of Mr. Yang’s customers are familiar with the Jotun brand. For the most part, customers do not ask for advice when selecting paint. They usually just request the brands they are familiar with, usually Nippon. Customers are also price sensitive, preferring to buy the cheapest paint from a well-known brand that meets their needs. Mr. Yang will try to sell Jotun products to his customers, emphasizing that it’s from Norway. Chinese customers tend to feel that European products are of better quality and more environmentally friendly than Chinese products. However, because Jotun is not a well known brand, customers are not always receptive.

Therefore, Mr. Yang has the following two recommendations for Jotun to be more successful in the Chinese market. First, Jotun should invest in advertising to build a stronger brand name for itself. Second, Jotun should enter the supermarkets which would also have the effect of increasing brand visibility and brand recognition.
5.2.2.1.3 Interview with Mr. Lee, a key dealer in Shanghai

The main aim of this interview was to learn about Mr. Lee’s experience selling Jotun paint, his expectations with Jotun’s new strategy, and his advice for how Jotun can improve in the future.

According to Mr. Lee, representatives from Jotun’s competitors only visit his store once a week. Representatives from Jotun will visit his store 4 times a week, because Jotun is his main brand. During these visits, Jotun representatives will review Mr. Lee’s sales figures, as well as provide updated product information, brochures, and paint samples. Mr. Lee is very satisfied with the frequency of these visits, and does not feel that he needs additional help from Jotun’s representatives.

Currently, Mr. Lee is very satisfied with the good quality of Jotun’s products; he considers Jotun to be a mid-high level brand. He recommends that Jotun develop a clear set of goals in China and a clear strategy to achieve them. Part of this strategy should include advertising, though expensive, and entering the supermarkets to strengthen the brand’s image, even. Also, Jotun should continue to build strong relationships with its dealers, because they have the power to persuade customers to purchase Jotun products. Jotun should also try and expand its presence into more dealers as another means of strengthening its brand awareness.

90% of Mr. Lee’s customers know nothing about paint. However he thinks this is appropriate, since the responsibility is on him and his employees to provide advice to the customers about the different types of paint. But again, Mr. Lee stressed the importance of brand awareness. He believes that the customers need to be made aware of the Jotun brand and relate it with good quality and results.

5.2.2.1.4 Interview with Liu Hai, an employee in Mr. Lee’s store in Shanghai

The main aim of this interview was to learn from someone who sells Jotun’s products directly to end users about his perception of the brand, the perceptions of his Chinese customers, and advice for how Jotun can improve in the future.
Mr. Hai has been in the paint business for almost 10 years, and has only ever received training from his boss and never from Jotun or any of its competitors. Personally, he feels that the most important thing is to learn how to sell Jotun products, and not necessarily a lot of information about Jotun as a company. Therefore he does not think it is necessary to receive training from the brands, and that instruction from Mr. Lee is sufficient. However, when asked he was unable to explain the differences between Jotun’s 4 Majestic Matt products.

According to Mr. Hai, his customers typically do not have any knowledge about paint. He says that they usually equate high priced products with higher quality. Customers usually do not ask for advice, but regardless Mr. Hai always tries to help them find the right paint for their needs.

Mr. Hai has the following two recommendations for Jotun to be more successful in the Chinese market. First, Jotun must continue to research and develop new products that will suit the needs of Chinese consumers, particularly when it comes to their colour preferences. Second, Jotun should invest more in advertising to increase brand awareness. If the customer knew about Jotun as a good quality brand before coming to the store, it would be easier to sell them Jotun paint. Personally, Mr. Hai thinks very highly of Jotun’s products and would certainly buy them himself.

5.2.2.1.5 Interview with Zhang Jinnian, a key dealer in Shenzhen

The main aim of this interview was to learn about Mr. Zhang’s experience selling Jotun paint, his expectations with Jotun’s new strategy, and his advice for how Jotun can improve in the future.

According to Mr. Zhang, representatives from Jotun will visit his store once a week. This is similar to Jotun’s competitors who also send representatives once a week. At these weekly meetings, representatives will review Mr. Zhang’s sales figures, discuss the current competitive environment, and provide updated product information. Mr. Zhang believes that visits once a week is sufficient, however he wishes that Jotun representatives would contact him before coming to his store so that he could be better prepared and meetings could thus be more productive.
Currently, Mr. Zhang is not satisfied with Jotun’s sales strategy. He believes Jotun does not have a clear understanding of the Chinese paint market and the needs of the Chinese consumers. According to him, Jotun products do not have any strong selling points either. He believes that Jotun must strengthen its brand awareness through advertising, as well as improve its packaging. For example, he claims that the Majestic paint cans rust easily which is obviously not nice to look at. All these things make Jotun products harder to sell then the products of its competitors that do have strong brand recognition and selling points. Mr. Zhang believes that Jotun needs to address the above issues to improve its market share in the Chinese Deco paint market.

According to Mr. Zhang, the customers in his store seldom have any knowledge of paint. But he believes that this is not necessarily a problem. Rather, it is the job of his employees to provide advice to the customers. Mr. Zhang mentioned that Jotun does a sufficient job of training his staff and providing information and brochures.

In addition, Mr. Zhang mentioned that ICI is the top selling brand in his store. He attributes this to several reasons. First, ICI’s products are a good match with the needs of the Chinese consumers. Also, ICI comes out with 2-3 new products a year, and they always have unique selling points. Second, ICI does a lot of advertising and has good brand recognition amongst Chinese consumers.

The largest motivating factor for Mr. Zhang to consider when deciding which brands to sell in his store is profit. He will always choose to push the products of the brand that allow him to make the most profit. Service provided by the brand is a second consideration.

5.2.2.1.6 Interview with Liu Li Sa, an employee in Zhang Jinnian’s store in Shenzhen

The main aim of this interview was to learn from someone who sells Jotun’s products directly to end users about his perception of the brand, the perceptions of his Chinese customers, and advice for how Jotun can improve in the future.
Mr. Liu has been working in Mr. Zhang’s store for 1 year, previously having worked at a different paint store. Although he has not been in the industry for a very long time, he went through 2 months of training given by Nippon. Up to now he has never received any training from Jotun, so he is unfamiliar with its products. For example, he finds it very difficult to distinguish between Jotun’s 4 Majestic Matt products. Therefore, Mr. Liu said he personally prefers Nippon paint to Jotun paint as he is more familiar with the Nippon brand and its high quality and results.

Except for the professional painters, Mr. Liu’s customers typically have no knowledge about paint, although some customers might be familiar with a few brands that advertise. Most of his customers will ask for his advice when selecting paint. Therefore, Mr. Liu believes that it is very important for Jotun to provide him and the other employees in the store with training so that they can do a better job selling Jotun paint. In addition, he recommends that Jotun advertise its brand so that customers can be more familiar with the quality and different functions of its paints. If Jotun can address these issues, Mr. Liu believes it can increase its market share in China’s Deco paint industry.

5.2.2.1.7 Interview with Mr. Shou, a key dealer in Kaiping

The main aim of this interview was to learn about Mr. Shou’s experience selling Jotun paint, his expectations with Jotun’s new strategy, and his advice for how Jotun can improve in the future.

According to Mr. Shou, representatives from Jotun will visit his store once a week. This is similar to Jotun’s competitors, specifically Nippon and ICI, who also send representatives once a week. At these weekly meetings, representatives will review Mr. Shou’s product orders and sales figures, discuss sales strategies, and provide updated product information. Mr. Shou understands that Kaiping is not first tier city like Shanghai, however he would like to see Jotun representatives visit him more often, preferably 2-3 times a week. Mr. Shou was particularly impressed when Jotun’s general manager, Mr. Bjørn Naglestad, came to visit his store. Bjørn was very enthusiastic about working closely with Mr. Shou, and the
personal visit was a demonstration of Jotun’s sincerity. Mr. Shou was very happy and grateful for the “face” he received through Bjørn’s visit.

Mr. Shou feels strongly about the high quality of Jotun’s products. In fact he just repainted his entire store using Jotun’s paint. However, he believes the Jotun needs to be doing more to increase its market share. Mr. Shou had the following suggestions. First, Jotun needs to strengthen its brand awareness in China’s market through advertisement. Jotun needs to emphasize its selling points to distinguish itself from its competitors. For example, Jotun’s paints have a glossy effect when applied which looks very good, and Jotun should point this out as an advantage to using its products. Jotun should also include second and third tier cities in its sales strategy as another way of increasing overall brand awareness in China. Lastly, Jotun should provide some sort of training program for Mr. Shou’s employees, especially because his store’s main brand is Jotun.

According to Mr. Shou, the customers in his store seldom have any knowledge of paint. To help educate the customers, Mr. Shou has a checklist with all the relevant points that his customer should be aware of when selecting a product. The most popular brand in his store is TOA from Thailand. Mr. Shou attributes this to the fact that TOA was the very first brand he carried when he opened his store.

The largest motivating factor for Mr. Shou to consider when deciding which brands to sell in his store is profit. He mentioned that selling ICI and Nippon products does not allow him to earn as much profit as does Jotun products. Furthermore, he believes the Jotun brand has very good growth potential in China’s Deco paint industry.

5.2.2.1.8 Interview with Chen Li, an employee in Mr. Shou’s store in Kaiping

The main aim of this interview was to learn from someone who sells Jotun’s products directly to end users about her perception of the brand, the perceptions of her Chinese customers, and advice for how Jotun can improve in the future.
Ms. Li has been in the paint business for 5 years, and has only ever received training from her boss and never from Jotun or any of its competitors. She feels that Jotun should provide some sort of training so that she can become familiar with the brand and its products. Until now, she is still unable to tell the difference between Jotun’s Majestic Matt products. Ms. Li also believes that going through training will teach her how to better sell Jotun’s products. For now, she has to rely on product updates and brochures provided by Jotun’s representatives.

According to Ms. Li, her customers typically do not have any knowledge about paint. Her customers usually ask for advice, usually regarding the different functions of the paints carried in the store.

Ms. Li believes that in addition to providing training, Jotun also needs to do some advertising to improve its brand awareness amongst Chinese customers. If the customers knew about Jotun as a good quality brand, it would be easier to sell them Jotun paint. Personally, Ms. Li likes Jotun’s products, but she would probably choose to use TOA, a brand from Thailand, over Jotun products. This is because she is more familiar with the brand since it was in the store ever since he first began working.

5.2.2.1.9 Summary of the key dealers’ advice and suggestions

The respondents, both the dealers and their employees, have advice for Jotun. First of all, the dealers want Jotun to provide training to their employees. The content of this training should be focused on how to sell Jotun products rather than pure knowledge about the products. All the respondents want Jotun to improve its brand image and marketing strategy. Jotun also needs to develop unique selling points to distinguish it from its competitors, and not follow the strategies of its competitors. Jotun also has to do more research to understand the needs of Chinese consumers. The respondents believe this is essential to success in the Chinese paint market. The dealers also believe that advertising is very crucial to success in the Chinese market. The market is very large in China and Jotun must make its brand visible. Distributing in the supermarkets is one a way for Jotun to achieve this visibility. According to the respondents, the Chinese customers also like to see the result before buying paint. Jotun should address this
and consider how to display the results of its paints so that customers can see Jotun’s quality with their own eyes. The dealers also desire strong cooperation between themselves and Jotun, including continuous updates about new products and features. All this support from Jotun will help the dealers and their employees to better sell Jotun’s products.

5.2.2.2 The CEO of Wall Capital Advisors

Interview with Adrian Wall, CEO of Wall Capital Advisors (appendix 3)

Adrian Wall is the co-founder and CEO of Wall Capital Advisors (WCA) The main aim of this interview was to speak with a third-party expert in doing business in China who is also unrelated to Jotun regarding the new strategy and the paint industry in China.

Based on his previous business experiences in China, Mr. Wall highlighted the importance of having Guanxi in China, particularly for foreign companies in highly competitive industries like Jotun. Mr. Wall claimed that having a strong relationship with Jotun’s retailers would, all things being equal make them prefer Jotun compared to other brands in the Deco paint market. In this way, Mr. Wall implicitly agreed that Jotun’s new strategy would be successful.

In addition, Mr. Wall thinks that Jotun should be aware of the growing middle class and the potential for future growth in the residential real estate market in China. The demand for housing is increasing rapidly in China, and so is per capita income. The Chinese government is trying its best to narrow the gap between the rich and poor in China and the rising middle class represents a large target market for Jotun.

Mr. Wall also argued that it is very important to understand China outside of the paint industry. He advised that Jotun consider cultural, social, environmental, and political aspects of China that, although not directly related to the paint industry, could have both positive and negative impacts on its business nonetheless.
5.2.2.3 The CEO of Lai Fung Holdings

Interview with Lester Lam, CEO of Lai Fung Holdings (appendix 3)

Lester Lam is the CEO of Lai Fung Holdings. The main aim of this interview was to learn about the real estate market in China and the consequences of the financial crisis on the industry.

Before the financial crisis, land was very expensive in China because high consumption of land led to a relative scarcity and consequent price increases. The government was worried about continued real estate speculation, and so implemented several regulations to help cool this down. The financial crises turned the situation around; real estate prices started falling, and the government had to reverse some of its previous policies to boost the market. In addition, the government started to encourage Chinese banks to increase mortgages and lending to boost investment and spending.

According to Mr. Lam, China will be one of the fastest countries to recover from the financial crises. He pointed out that even at the height of the financial crisis; China still continues to demonstrate positive GDP growth of over 6% per quarter. He also believes that demand for residential projects will increase substantially as a result of urbanization trends and the growth of the middle class over the next ten years.
Part Five: Analyses

6. Internal analysis

In this part, the authors have done an internal analysis, external analysis, and a SWOT analysis of JC.

6.1 ACE – model

6.1.1 Attitudes

To find out if Jotun has the right attitude for success, the authors have analyzed the company’s risk willingness, level of market orientation, and its attitudes towards other cultures.\(^{101}\)

6.1.1.1 Risk – willingness

Jotun AS possesses a high degree of risk willingness, having entered unexplored markets at an early stage.\(^{102}\) In addition, when entering new markets, Jotun always strives to be number 1 or 2 in the market. With regards to China, Jotun expanded quite early in 1983 and entered into a joint venture with COSCO group in 1993. Today, JC is highly successful in the marine coatings market and the protective coatings market; however in the Deco market Jotun has not yet achieved the same level of success. Jotun entered China’s Deco paint market 8 years ago, which is relatively late compared to its main competitors who have been in the market for much longer. Furthermore, Jotun entered this market without sufficient preparation or knowledge.

6.1.1.2 Market orientation

Market orientation is a philosophy whereby a company makes decisions based on information gathered from the market and close consumer relations. Most

\(^{101}\) Solberg, Carl Arthur, 2006: ”Internasjonal markedsføring”, page 139

\(^{102}\) Diploma project, 2007: ”Jotun – In Changing Colours”, page 84
markets are moving towards a more market oriented approach because consumers have better knowledge about products and competitors. A company must be sensitive to the needs of its consumers or it could potentially lose them to competitors. A successful company focuses more on developing its relationship between its representatives and its consumers, and adjusting its market position, rather than focusing on product development. JC established a regional R&D unit in Shanghai, China, which is wholly owned by Jotun A/S, in an effort to be physically close to the growing markets in marine and protective coatings. A Deco R&D centre has also been established in Shanghai, primarily to run tests and make adjustments to the products that were initially developed in Jotun’s Malaysia R&D centre. As part of its new strategy, JC has started to develop products from “scratch” that are more suited to meeting the needs of Chinese consumers.

“We have realized that the climate and the special Chinese building standards and application methods call for individual development.”

Bjørn Naglestad, general manager in JC

Considering that Jotun entered the Chinese Deco paint market without a strategy, it comes as no surprise that Jotun has had difficulty matching the success it has achieved in the marine and protective coatings markets.

### 6.1.1.3 Attitudes to other cultures

As mentioned earlier in the thesis, Jotun AS is present in many different countries and in many different types of markets, operating with staff of mixed nationalities. This shows that the company has a high cultural understanding and substantial experience in many different ways of doing business. As stated in Jotun’s website:

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103 Solberg, Carl Arthur, 2006: "Internasjonal markedsføring”, page 140
104 Email conversation with Bjørn Naglestad, general manager in Jotun China,
105 Interview with Zhou Lai Chun, National sales director in Jotun China
“Our strategies and action plans are based on local development. We are there because of the market and we operate responsibly in the local community. We respect local culture, laws and regulations. The foundation of Jotun's corporate social responsibility lies in our values and business principles”.

6.1.2 Competence

Competence refers to Jotun’s skills and insights in general areas such as sales techniques, logistics, market analysis, etc.¹⁰⁶

6.1.2.1 Product competence

Carl Arthur Solberg (2006) writes that the successful companies that have expanded abroad focus on two areas – product development and cooperation with consumers – rather than focusing on providing better services and delivery systems than its competitors.¹⁰⁷ JC has established its own R&D department near its factories to ensure innovative product development. However, according to some of the respondents at Jotun, the company is, as mentioned earlier, too slow when it comes to product development in the Deco paint market. Furthermore, respondents have said that the company’s products have no selling points or unique advantages compared to the products of its competitors.

6.1.2.2 People competence

According to Jotun’s sales and marketing manager, Mr. Shen, the company’s human capital is its main competitive advantage. Jotun consists of employees with good educational backgrounds and experiences that are highly valuable to the company. Jotun operates abroad by having a staff comprised of both Norwegians and locals in its sales offices. Utilizing the local employees benefits Jotun with regards to providing better competence about the market, as well as a better understanding of cultural issues and business practices. This is certainly the case in China, where Jotun has created a sales team that is highly competent when it comes to paint, Chinese culture, and local business practices. The job of the sales

¹⁰⁶ Solberg, Carl Arthur, 2006: ”Internasjonal markedsføring”, page 142
¹⁰⁷ Solberg, Carl Arthur, 2006: ”Internasjonal markedsføring”, page 142
team is to visit the retailers’ stores, provide them with updated product information, and report whatever requests for assistance they may have. In addition, it is important for them to maintain relationships between JC and the retailers. Hiring locals as salesmen makes it easier for Jotun to communicate with its retailers and consumers. The salesteam consists of some salesmen who have formerly worked for Jotun’s competitors, such as Nippon. Jotun also has an international trainee programme where its goal is to hire and train competent employees. Additionally, Jotun has its own “Jotun Academy”, where it offers learning programmes focused on sales, purchasing, management, and operations. These programmes are designed to improve employees’ overall competence.

According to the company’s website:

“Competence development has always had high priority in Jotun. Our strategy states that training of employees is crucial in order to secure future development.”

6.1.2.3 Health, safety and environment competence

“Health, safety and the environment (HSE) is a management responsibility in Jotun”

Jotun’s HSE report 2008

In 1998, Jotun introduced the HSE standard into the company to help the employees in Jotun gain a better understanding and attitude towards health, safety and the environment of the chemical industry. Its HSE vision is “Jotun A/S will enhance long-term competitiveness and financial performance through a responsible approach, attitude and actions regarding Health, Safety and Environment”.

According to Jotun's vision, all of its activities shall:

- Prevent work-related illness
- Promote employees’ physical and mental health

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• Protect life and property

• Prevent pollution

The company follows the HSE policy by providing quality products that consist of natural, healthy, and environmentally friendly ingredients. Furthermore, Jotun is reducing its production waste, improving the safety and maintenance standards at its factories, and taking measures to prevent damaging the environment. In addition, the company provides its employees with training and awareness programmes to strengthen their knowledge about Jotun’s impact on the environment. According to the Health, Safety and Environment report from 2008, the HSE standard will give Jotun long term competitive strength and financial results. Jotun’s goal for 2010 is to achieve an internationally recognized health, safety and environmental certification.110

6.1.3 Embodiment

When a company wishes to expand internationally, it is important that it possesses the right set of attitudes and competence. In addition, it is vital that the entire company is a part of the internationalizing process.111 Jotun AS has expanded into many countries after it first entered Libya in 1962, and is therefore already a player in the international market. The company has positioned itself as a global brand in the world’s markets. When entering new markets, Jotun is engaged in developing values and a good organizational culture. The company’s culture is highly valued by its employees. Jotun AS has four key values that are introduced in its offices: loyalty, care, respect, and boldness. These values are to be used within the organization, towards its consumers, and towards the environment.112 Jotun AS has relocated managers from its headquarters in Norway to China so as to ensure that the company’s values are introduced and enforced abroad.113

111 Solberg, Carl Arthur, 2006: ”Internasjonal markedsføring”, page 143
112 www.Jotun.com: ”About Jotun”
113 Diploma project,2007: ”Jotun – In Changing Colours”, page 87
6.2 Financial analysis

As mentioned earlier in the thesis, JC has been in the Deco retail market for 8 years, without achieving the desired market share. This indicates that Jotun AS is a financially strong company\textsuperscript{114}, and can afford to keep the China Deco paint department in the market. Due to the company’s economical situation, Jotun’s goals are not limited by financial constraints.\textsuperscript{115} In addition, JC’s success in the marine and protective coatings market have positively impacted the overall company’s financial situation in China. However, the Deco paint department loses money, and the general manager says that the company needs to sell twice its current sales volume to achieve break-even. Therefore, JC’s goal in the Deco paint market is to increase its sales. According to Mr. Berge JC’s sales income in the Deco market in 2008, was RMB 15 080 942(millions). The total sales income for JC in the Deco retail market and the Deco project market was RMB 53 356 000 (millions)\textsuperscript{116}.

7. Marketing mix

To answer research question 1 - \textit{How does Jotun operate in the decorative retail market in China today}, the authors have chosen to use the marketing mix. The marketing mix is utilized to analyse the situation of JC’s internal conditions today.

When the company first entered the Chinese Deco paint market, it imported its products from Dubai\textsuperscript{117} and Malaysia which resulted to a mismatch with the

\begin{itemize}
  \item \textsuperscript{114} Email conversation with Fredrik Berge, financial trainee in Jotun China
  \item \textsuperscript{115} Diploma project, 2007: “Jotun – In Changing Colors”, page 88
  \item \textsuperscript{116} Email conversation with Fredrik Berge, financial trainee in Jotun China
  \item \textsuperscript{117} Interview with Mr. Bjørn Naglestad, general manager in Jotun China
\end{itemize}
Chinese consumers’ needs, such as the climate and the price of the products\textsuperscript{118}. JC has therefore adjusted its marketing mix towards the Deco market in China.

\textbf{7.1 Product}

JC’s product in the Deco retail market in China is paint. In the Chinese market, JC has chosen to utilize the production adoption strategy; which is to modify its products to meet the local conditions and preferences\textsuperscript{119}. A product may be divided into four levels, which are core product, physical product, extended product, and symbolic product. The core product in JC’s paint is that the company’s products need to satisfy the consumers’ needs and demands on paint. The company’s physical product is the assortment of paint that Jotun offers to its consumers. The company offers interior- and exterior paints. Addition, it manufactures wood-, metal-, floor paint and etc. The extended product is the services and features that fulfil the physical product functions. Jotun offers only paint through an indirectly distribution channel\textsuperscript{120} to its end consumers, and possesses therefore no special supplementary services to its products. However, in the retailers’ stores, Jotun have provided its storeowners with different types of colour charts and brochures about Jotun and its products that they can show to the consumers. In addition, the service that the retailers provide when selling Jotun paints, could be a part of the extended product. Last, the symbolic product is the colours and package of JC’s products that should indicate quality and style\textsuperscript{121}.

JC targets high end consumers and people with less money by offering expensive paints and less expensive paints. In the high end segment, Majestic paint is the main focuses in the Chinese Deco retail market, while in the low end segment it is IPP (Interior Project Paint)\textsuperscript{122}. According to some of the employees in the key dealers’ store, both consumers and the employees themselves have difficulties to differentiate the Majestic products.

\textsuperscript{118} Interview with Mr. Zhou Lai Chun, national sales director in Jotun China
\textsuperscript{119} Kotler, Philip, Kevin Lane Keller & Taihong Liu, 2009: ”Marketing Management in China”, page 571
\textsuperscript{120} www.kunnskapssenteret.com: ”Direkte og indirekte distribusjon”
\textsuperscript{121} Solberg, Carl Arthur, 2006: “Internasjonal Markedsføring”, page 274
\textsuperscript{122} Email conversation with Mrs. Sharon Ding, brand manager in Deco retail in Jotun China
Furthermore, the company provides only tangible products and does not offer any after sale services. Findings in this thesis emphasis that the paint that Jotun offers is quality products; however some of the respondents feel that the company is too slow in product development. Regarding the new strategy, Jotun is now, as mentioned earlier, developing its products from the beginning and optimizing its product assortments.

7.2 Price

The price on JC’s Deco paint products in China is similar to its competitors. One of JC’s Deco paint products named “Strax Matt” was in 2008 priced at 165 RMB for the end consumers, while Nippon and ICI have priced its similar products at 168 RMB and 165 RMB. Moreover, the low segment product IPP (Interior Project Paint) was priced at 140 RMB in 2008, while Nippon and ICI priced its products at 135 RMB and 155 RMB. At first, JC priced its products too high, but they have now been adjusted to the Chinese consumers. Moreover they are giving the dealers a higher profit per litre sold than their competitors.

7.3 Place

According to Gripsrud and Nygaard (2005) JC is using a selective distribution strategy where its products are distributed in some of the possible stores where consumers can buy paint. The company’s products are accessible in 91 multiple brand stores in China. Several of the stores are to be found in building market, building materials streets and modern trade centres. For this year, Jotun has planned to dedicate more focus on key areas such as Shanghai, Guangzhou, Kaiping, Shenzhen, Zhanjiang, Yangzhou and Nanjing. The different key areas

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123 Power point presentation provided and presented by Jotun China, 2008: “Business review of the decorative”
124 Interview with Mr. Zhou Lai Chun, national sales director in Jotun China
125 Power point presentation provided and presented by Jotun China, 2008: “Business review of the decorative”
126 Gripsrud, Geir & Arne Nygaard, 2005: “Markedsføringskanaler”, page 28
127 Interview with Mr. David Shen, sales and marketing manager for Deco retail in Jotun China
that have been chosen, will be receiving training from Jotun. Additionally, Jotun will set up meetings and conferences with the key dealers\textsuperscript{129}.

### 7.4 Promotion

Jotun does not invest a lot of money in commercials and advertising in China. This is a strategy that is utilized in every market that the company operates in. Jotun does therefore not use a pull strategy to sell their products, but rather trust on their retailer to “push” the products on the Chinese consumers\textsuperscript{130}. However, Jotun divides its marketing in “above the line” and “below the line”. “Above the line” or outdoor marketing is advertisement that are placed nearby the Multicolour retail stores. This is to attract people to the stores. “Below the line” is a set of market activities that Jotun has developed for the Multicolour’ stores. The purpose is to emphasize the Multicolour stores’ image. Moreover, Jotun has advertised on buses, magazines, newspaper and billboards. In addition it has promoted its brand name by placing its name on one of the commercials TV screen at Pudong in Shanghai. Further on, Jotun has its own brochures which are distributed in the retailers’ stores. The brochures consist of information about the brand and its products\textsuperscript{131}. Last, the company has its own global website where Jotun promotes its brand and products. The website is also created in Chinese, since many Chinese people have poor English skills\textsuperscript{132}. However the Chinese website has not been updated for awhile. The promotion element in the marketing mix has been highly emphasized by the respondents. Some said that if a company wants to succeed in China, it needed to use its resources in advertisement.

\textsuperscript{129} Power point presentation provided and presented by Jotun China, 2008: “Business review of the decorative”

\textsuperscript{130} Interview with Mr. Bjørn Naglestad, general manager in Jotun China

\textsuperscript{131} Diploma project, 2007: ”Jotun – in Changing colours”, page 45-48

\textsuperscript{132} www.Jotun.com
8. External analysis

8.1 Porter’s five forces

8.1.1 The degree of competitive rivalry

The paint industry in China has taken-off since the residential real estate boom began in 2003. It is predicted that the paint industry will grow fastest in China and India compared to other regions in the world due to factors such as population, economic growth, and increased construction projects. The paint industry is seen as a large market with low technological requirements, short production periods, and rich rewards. These factors make the market in China very attractive to potential entrants, particularly because the Chinese market is so huge. The result of this is very intense competition within the industry. The competition in the paint market in China is very global. According to Mrs. Ding, there exist almost 10,000 paint companies in the Chinese Deco market today. Among these are both local and international companies. The most famous foreign paint enterprises in China are Nippon, ICI, and PPG. These foreign companies own over 30% of the total market share in China. These companies were the first to enter the Chinese market and thus have gained strong brand recognition in the Chinese market. There exist low levels of product differentiation in the paint market, which makes the level of competition even higher. Brands must compete in both price and non-price related areas such as innovation and marketing. Furthermore the consumer bears virtually no costs in switching from one brand to another. Therefore, there is an intense struggle in

133 Analysis on Decorative Paint Market, 2009, provided by Jotun China, page 17
134 Analysis on Decorative Paint Market, 2009, provided by Jotun China, page 2
135 Analysis on Decorative Paint Market, 2009, provided by Jotun China, page 20
136 Analysis on Decorative Paint Market, 2009, provided by Jotun China, page 6
137 Interview with Sharon Ding, brand manager in Deco Retail & Marketing
138 Analysis on Decorative Paint Market, 2009, provided by Jotun China, page 23
China’s Deco market to capture consumers. Advertising in China is very expensive, and only the biggest brands can afford to advertise its products. And just as it is not expensive to enter the Chinese Deco market, exiting is likewise relatively inexpensive. There are two main concerns when contemplating to exit the market. First is the compensation you have to pay for your dealers. Second is that if a foreign company decides to exit the Chinese paint market, the possibility of ever successfully returning again is greatly minimized. Ultimately, because the products in China’s Deco paint industry are not specialized and the costs are relatively low, companies that are not profitable are not forced to remain in the market. According to Mr. Naglestad, the general manager of JC, the approximate cost to exit the Chinese Deco paint market is around 2 million RMB.

Summary of rivalry: Jotun has many aggressive competitors in a market that is fragmented with many local and international rivals. Brands like ICI and Nippon are established in the Chinese market with strong brand recognition among Chinese consumers. This puts pressure on Jotun to regularly improve its product line and enter into a price war with its competitors. Although competition is fierce and expensive, there remains huge potential in China’s paint market. As an international brand with a history of success around the world and in China, Jotun does have opportunities to become an important player in China’s Deco paint market.

8.1.2 Threat of new entrants

China is seen as such a huge market with great potential, which attracts many new entrants. Chinese consumers tend not to be very loyal to any one brand name when it comes to buying paint. According to employees in the retail stores we visited, most of the consumers have heard of the brand names that advertise in commercials. Beyond this they do not have much knowledge about paint, but rather they want the employees’ advice. This makes it easier for new competitors to enter the market. If a company has a clear marketing strategy, it

139 Interview with Bjørn Naglestad, general manager in Jotun China
140 Interview with Bjørn Naglestad, general manager in Jotun China
141 Interview with Chen Li, employee in Kaiping
has a high probability of success in the Chinese market. Furthermore, the barriers to entry in the Chinese paint industry for a foreign company are not high. The paint industry is not on the list of 8 protected industries issued by the Chinese government as relates to national and economy security. Therefore, it is very open to participation by international players, which is another big threat to Jotun. Moreover if a company wants to exit the Chinese paint market, the exit costs are not high.

**Summary of threat of entry:** As the situation is today in the Chinese Deco paint market, the risk for new competitors to enter the market is very high. The Chinese Deco market is easy to enter because of the low-level sophistication of common technology and easy access to distribution channels. Furthermore the market is easy to exit because of low exit costs and little specialized products.

8.1.3 Threat of substitute products

The existence of close substitute products increases the propensity of consumers to switch to alternatives. For the paint industry, the nearest substitute product to paint is wallpaper. Earlier, tiles were also seen as a substitute to paint, but since the government recently discovered that tiles posed a health risk for consumers they are no longer considered a threat to the paint industry. According to Mr. Naglestad, these substitutes are not seen as a significant threat to Jotun. Rather, Jotun’s concern is focused more on the high level of competition in the Deco paint market. However if a buyer wants to buy wallpaper instead of paint, the related switching costs and the relative price of the substitute are not high. Wallpaper and paint cost almost the same.

**Summary of substitute products:** There exist substitutes, such as wallpaper, with almost the same price as paint in the Chinese market. However these are not seen as a very big threat for Jotun.

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142 Analysis on Decorative Paint Market, 2009, provided by Jotun China, page 7
143 Interview with Bjørn Naglestad, general manager in Jotun China
144 Interview with Bjørn Naglestad, general manager in Jotun China
8.1.4 The buyers’ power

The power of buyers refers to the impact that consumers have on a product industry.\textsuperscript{145} This is also described as the market of outputs. The buyers’ power increases if they can collectively put pressure on the price of the products. Also if the switching costs are relative low the buyer’s power increases. The buyers in the paint industry are powerful for several reasons. First, the buyer has a wide range of brands from which to choose, and there is very little differentiation between the products of the various brands. Second, the costs to the consumer to switch brands are not high. Third, there exists other substitute to paint which gives the consumers even more power. For example, the costs to switch over to wallpaper are not high. According to several storeowners in the paint market whom we interviewed, consumers often ask for advice when buying paint.\textsuperscript{146} Having a lack of knowledge slightly decreases the power of the buyer. In other words, the employees in the stores can exert power over the buyers’ decisions because of their lack of knowledge about paint.

**Summary of buyer power:** Overall the consumers in the paint market have more power than the producers. However, consumers do lack knowledge about paint, granting some power to the seller to influence the buyers’ decisions.

8.1.5 The suppliers’ power

The bargaining power of suppliers is also described as inputs. Jotun’s suppliers do not have more power than Jotun for the following reasons. First, Jotun can choose amongst lots of suppliers. The products are standardized, so there exists many suppliers. And Jotun’s costs to switch from one supplier to another are very low, further weakening the power of the supplier.\textsuperscript{147} Second, the prices in the market are fixed and since Jotun is such a large international player, it has an advantage when buying from the suppliers.\textsuperscript{148}

**Summary of supplier power:** Because Jotun is such a large international brand, it has power over its suppliers in the paint industry. The suppliers are in a weak

\textsuperscript{145} [www.quickmba.com](http://www.quickmba.com): “porter’s five forces”

\textsuperscript{146} Interview with Mr. Shou, storeowner in Kaipin

\textsuperscript{147} Kotler Philip, 2004: “markedsforingsledelse” page 199

\textsuperscript{148} Interview with Bjørn Naglestad, general manager in Jotun China
position because there exist so many in the market, and because the cost of switching from one supplier to another is low.

Figure 11: Porter’s five forces. Produced by the authors

8.2 PESTEL analysis

8.2.1 Political Factors

Deng Xiaoping’s political reforms introduced a new brand of socialist thinking, *Socialism with Chinese Characteristics*, which allowed for selective privatization of businesses and partially reopened China to the rest of the world after having been closed off since the founding of the PRC. China’s recent economic success can be traced back to these administrative reforms that aligned the incentives of the local bureaucracy with the national goal of rapid, market-based development. To be sure, private investment has also been a key factor behind China’s growth. Since Deng Xiaoping’s political reforms, China has excelled in encouraging both foreign and domestic private investment, and now contributes about 4% to overall world GDP.  

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However, the Chinese government has not created an entirely free-market based economy. Rather, the central and local governments have developed the capacity to function as "helping hands" in economic development, and in most cases final approval of economic development and private investment lies with them. This approach, combining elements of a free-market economy with a regulated socialist economy, comes with its share of costs and risks. For example, some of the unintended consequences of involving local governments so heavily in the economic reform process include tendencies toward overinvestment, local protectionism, and more difficult macroeconomic control. It also breeds opportunities for corruption by local government officials who wield power, often unchecked and overlooked by central government authorities.\textsuperscript{150} These risks are not lost on the foreign investor; according to a survey conducted by A.T. Kearney, a leading global consulting firm, investors are primarily concerned about rule of law issues over the next five years, with threats to intellectual property and uncertainty over the political and legal environment topping the list.\textsuperscript{151}

Yet despite these concerns, China is still the top destination for foreign direct investment, and has the highest confidence index.\textsuperscript{152} This is because as China’s business environment rapidly evolves, the government’s role is likewise being transformed and actively trying to address the concerns noted above.\textsuperscript{153}

**Government Regulation of the Paint Industry, or Lack Thereof**

The General Administration of Quality Supervision, Inspection and Quarantine (AQSIQ) Bureau is one of several bureaus in China that supposedly have some oversight authority over paint regulation. Chinese regulatory limits were first placed on lead paint in 1986, and more stringent standards were phased in between 2001 and 2003. On the books, China’s paint standards are stricter than those in the United States. For example, Chinese standards require that paint intended for household or consumer-product use contains no more than 90 parts of lead per million. By comparison, American regulations allow up to 600 parts per

\textsuperscript{151} A.T. Kearney, 2007: “New Concerns in an Uncertain World, section 2 page 4-5
\textsuperscript{152} A.T. Kearney, 2007: “New Concerns in an Uncertain World, section 2 page 4-5
million (ppm). The regulations are supposed to safeguard health, particularly in cases involving children, where ingesting excessive amounts of lead has been linked to disorders including mental retardation and behavioural problems. But current enforcement of the regulations in China is lax. In 2007, an investigation led by Dr. Scott Clark, a professor of environmental health at the University of Cincinnati, sampled paint suppliers Shanghai and other parts of China in recent years, and in some 26% of the cases, they said, the paint met neither American nor Chinese standards. And the reason for this is simply cost. Paint with higher levels of lead often sells for a third the cost of paint with low levels. So it comes as no surprise that in such a competitive and poorly regulated market as China’s paint industry, manufacturers sometimes cut corners to improve the bottom line.\footnote{www.sciencedirect.com; “Why lead in toy paint, It’s cheaper”}

In October 2008, research funded by the Guangzhou Medical Foundation and the Medical Research Foundation of Guangdong Province was published concerning lead in housing paints:

"After prohibitions on lead gasoline additives, which have proved to be a public health accomplishment worldwide, many countries focus on other exposure source of children lead poisoning. Removing lead from paints is one of the important measures. Although there have been regulatory limits on lead in paints in China, evidence reported in this article indicates that lead-based paints were very common in new paints available for housing and in existing residential paints. 29 of 58 new paint samples (50\%) had lead content equal to or exceeding 600 ppm, including 14 (24\%) equal to or exceeding 5000 ppm. The highest sample contained 153,000 ppm lead, about 15\% of the paint weight. 32 new paints (55\%) contained “soluble” lead exceeding 90 ppm, the current lead limit on paints in China. Of the existing paints, 16 of 28 samples of existing paint (57\%) collected from 24 kindergartens and primary schools had lead concentrations equal to or exceeding 600 ppm, including 6 samples (21\%) equal to or exceeding 5000 ppm. The highest concentration sample contained 51,800 ppm lead, accounting for 5.2 \% of the paint weight. It has been shown in many areas that paint lead is a major exposure source for lead poisoning in children. This is particularly true after the phasing out of lead from gasoline. Effective limitation on lead content in new paint, and lead hazard control measures directed towards existing paint, could reduce children blood lead levels.
There has been a lead standard for paints in China since 1986 and a stricter limit was introduced in recent years. [The Chinese government] should take it seriously and enforce regulations, commit a long-term challenge to eliminate paint lead as it is the threat to current and the next generation.”

The results of two separate investigations leads to the same conclusion: the Chinese government poorly enforces the standards set for the paint industry.

8.2.2 Economic Factors

The result of China’s economic reforms has been amazing. China has been the fastest-growing nation, averaging an annual GDP growth rate of over 10% for the past quarter century. In just a few years, tens of millions of people have been able to escape poverty.

![Average Annual Income Per Capita, 1980-2008](image)

**Figure 12: An overview of the average annual income per capita from 1980-2008**

According to the World Bank, the average income in China was just US$ 293 in 1985. But in 2006, that figure had risen to US$ 2,025.  

However, the recent global financial crisis has had a large impact on China’s economy in reducing the rate of growth. China’s National Bureau of Statistics announced that GDP grew by 9% to over RMB 30 trillion in 2008. “Annual

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156 [www.news.bbc.co.uk](http://www.news.bbc.co.uk): “Chinese learn to live with reform”
growth in China’s GDP slowed in the first quarter of 2009 to 6.1%...[but] China’s government has said it is determined to achieve annual growth of 8%, and to expand its domestic demand.\textsuperscript{157} To achieve this “China has started to implement a RMB 4 trillion stimulus package to counter the impact of the global slowdown.”\textsuperscript{158}

Already the positive effects can be seen:

“Industrial output expanded 5.1% in the first quarter of 2009. Fixed asset investment on items such as new factories and equipment was up 28.6% in March. Spending on property development grew by 4.1% in the first quarter and retail sales remained strong with a 14.7% growth during March.”\textsuperscript{159}

**Mitigating the Effects of the Financial Crisis**

Chinese exports have undergone 6 straight months of decline, beginning in November 2008, as the global financial crisis has continued to take its toll. Exports in February 2009 fell 25.7% year-on-year, the worst slump for China in more than a decade. April 2009 was only marginally better with a decline of 22.6% year-on-year. This slowdown on China’s massive export machine – on which the nation’s economy largely depends – has led to the closure of thousands of exporting factories\textsuperscript{160} and layoffs of as many as 20 million migrant workers.\textsuperscript{161}

However, Premier Wen Jiabao made it clear at the 2008 Tianjin Summer Davos Forum that the most important task for the central government in 2009 would be to ensure sound economic growth at a rate of 7-8% to mitigate the effects of the global financial crisis. Thus it comes as no surprise that China’s macro fiscal policies are all geared towards achieving that goal. As previously mentioned, the Chinese government has already begun implementing a RMB 4 trillion stimulus package to boost domestic economic growth. Additionally, part of this stimulus package is designed to transform China from a manufacturing-based economy to one more based on domestic demand and consumption. This is a long-term goal,
to be sure, and will require more than just augmenting employment and increasing income levels of the lower and middle class workers. According to the Nielsen Company, one of the world’s leading marketing and media information firms, the average Chinese family saves about 30% of its income, largely because of China’s frail social safety net. Without support systems like social security or health and unemployment insurance, people must rely on their own resources to pay for a hospital stay or a child’s education. Thus, to stimulate consumer spending it is also imperative to speed up reforms of China’s support systems. Nonetheless, there are signs that Chinese consumers are open to the possibility of spending more of their money. According to Nielsen’s most recent Global Consumer Confidence Survey, 72% of Chinese consumers are optimistic that China is not in a recession. Accordingly, China’s Consumer Confidence Index of 96 has remained stable since 2006, and hovers about the global average index of 84. 56% of consumers surveyed are optimistic about their personal finances in 2009.162

Ultimately, China’s plans to mitigate the financial crisis by encouraging domestic consumption and financing the “widespread emergence of infrastructure construction, urban construction, and housing projects will likely increase product demands within the paint industry.”163

The Bullish Residential Real Estate Market

The demand for Deco paint in China is related to the growth and demand of its housing market. According to research published by DTZ, one of the world’s largest real estate advisors, robust economic growth and continuing real estate reform in China has attracted substantial inflows of foreign capital in the real estate market. The recent slowdown in the residential real estate market does not signify a weakening investment market, rather it is an indication that the market is maturing. Even though the market is slowing down, the residential market is still considered bullish simply due to the size of the Chinese population and the ongoing trend of urbanization.164

163 Analysis on Decorative Paint Market, 2009, provided by Jotun China
164 DTZ Research, 2006: “ Real Estate Investment in “ , page 1-6
The Ministry of Construction in May of 2006 announced that new residential real-
estate projects should develop mid-low price mass housing to meet the demands of the emerging middle class. However, the vast majority of new residential projects are mid-high end, because developers are not economically motivated to build low-end housing. According to Mr. Lam, CEO of Lai Fung Holdings, a major Hong Kong real estate development company, “the total value of residential properties sold en-bloc in 2006 was approximately US$ 591 million, which was 5 or 6 times more than 2005.” Moreover, in spite of the financial crisis, demand for mid-high end housing continues to show strong fundamentals in both tier 1 and 2 cities across China. “And therefore, the future market for residential property development is very bright in China.”

**Lower Cost of Capital and Interest Rate**

According to Mr. Wall, CEO of Wall Capital Advisors, a boutique merchant bank in China, the Chinese government has a mandate to encourage lending and extensions of credit. Increased availability of financing, as well as low interest rates, will encourage both residential real estate development projects aimed at China’s emerging middle class, as well as encourage the middle class to purchase residential properties. This in turn will boost demand for Deco paints. Furthermore, because cost of capital is comparatively low, manufacturing companies can consider expanding its operations and production, acquiring new capital equipment or upgrading existing equipment, and stockpiling production inputs assuming prices have not increased. Of course, need should be the driving force behind plans for expansion, and so other factors need to be considered, including a company’s current production as a percentage of total capacity. But all things being equal, now is an ideal time to take advantage of low asset values and low interest rates.

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165 Interview with Mr. Lester Lam, CEO of Lai Fung Holdings
166 Lai Fung Holdings, 2008: “China Real Estate Presentation” (power point)
167 Interview with Mr. Lester Lam, CEO of Lai Fung Holdings
168 Interview with Mr. Adrian Wall, CEO of Wall Capital Advisors
8.2.3 Social Factors

China is the world’s most populous nation – over 1.3 billion consumers underpinning an economy that, prior to 2009, has been averaging over 10% growth for two decades. Certainly, this was a major reason why Jotun decided to enter the China market in the first place. However, not all 1.3 billion people in China can be considered part of Jotun’s consumer base.

Jotun’s consumer base will largely be found in urban cities where there exists demand for aesthetically pleasing homes, and therefore paint. The level of urbanization in China was calculated at almost 40% of the population in 2002. According to Wall, an estimated 400 million Chinese people will move from Western and Central China to Eastern China over the next ten years. In 30 years at current population growth rates, China’s urban population will grow from 350 to 750 million. Combine this phenomenon with the fact that China’s domestic economy continues to grow and the standard of living continues to rise. The number of households earning over US$ 5000 rises more rapidly than the average income of the US$ 5000 plus household. The gap in income distribution between the rich and the poor will diminish with the emergence of a large and influential middle class. Consequently, Jotun should anticipate a staggering growth in its potential consumer base in China.

Social Trends: Rise of the Health Conscious Consumer

China’s booming economy has not only improved the financial situations of local Chinese, but has also changed their perceptions of health care and living standards. Healthcare consumption has increased dramatically, and at the beginning of 2009 the government announced an investment plan of RMB 850 billion for a national healthcare system reform that would improve quality, accessibility, and efficiency. This has naturally led to the emergence of health conscious Chinese consumers, which has not only impacted the growth of the packaged and organic health foods industry, but also the paint industry as well.

169 Interview with Mr. Adrian Wall, CEO of Wall Capital Advisors
172 www.cscout.com: “China Caters to the Hip and Health Conscious”
In China the market share for green paints is expected to see high growth, in spite of the economy, because the merits of healthy, environmentally friendly green products are becoming increasingly more important to the Chinese consumer.\footnote{www.greenbiz.com: “China’s Paint and Coating Industry to Grow With Greener Products”}

8.2.4 Technological Factors

China understands the importance of promoting technological advancement to serve the purpose of economic development. In February of 2009, Premier Wen Jiabao stated in an interview with the Financial Times that “China plans to use foreign exchange to buy the much-needed technology, equipment and products.”\footnote{www.fmprc.gov.cn: “Premier Wen Jiabao”} He further called on Western developed nations to participate in technology exchange programs with China. Research and development expenditure has increased six fold during the last decade, and was calculated to be US$ 136 billion in 2006. China is clearly trying to create an environment conducive to technological advancement, and its aim is to be amongst the “Top 10 Technology Powers in the World” by 2010.\footnote{Diploma project, 2007: “Jotun in Changing Colours”, page 40}

Paint Research and Development Centres in China

There are many research institutes and research and development centres in China that are either fully or partially dedicated to the paint industry. These include: Changzhou Paint Chemistry Research Institute, Northern Paint Chemistry Research Institute, Qingdao Paint Chemistry Research Institute, Institute of Organic Chemistry of Chengdu Branch of Science and Technology Academy in China, Langfang Petroleum Pipeline Chemistry Research Institute, and many Universities and private enterprises currently manufacturing paint in China. Jotun is one of these private enterprises and has established a research and development centre to continue to create value-added products to meet the performance demands of its consumers. The company also maintains a research facility at its new factory in Zhangjiagang.\footnote{Diploma project, 2007: “Jotun in Changing Colours”, page 41}
8.2.5 Environmental Factors

As mentioned above, the AQSIQ Bureau in China has some regulation oversight of the paint industry. Although still considered lax by western standards, enforcement of the safety and environmental standards of paint and paint manufacturing is expected to become stricter, especially given the negative media attention that China continues to receive from tainted food, rubber, plastic, and paint products. Moreover, "environmental protection is a priority in the 11th Five Year Plan (2006-1010). This is one of the reasons why the central government has re-asserted its power, so that the local government does not prioritize economic development [at the expense of] environmental protection." 177

Environmental Law and the Paint Industry

The environmental law - Removal of Hazardous Substances (RoHS)" which requires removal of hazardous substances, and non environmental friendly chemicals such as heavy metals and formaldehyde" 178 was passed in 2006. China RoHS "will impact the disclosure of certain colours of paint, where hazardous components are used intentionally in concentrations of less than 1000 ppm. Additionally products must be non-toxic and odourless." 179 Given that RoHS was passed in 2006 and enforced beginning in 2007, Jotun presumably already made necessary adjustments to meet China RoHS standards despite China’s reputation for lax enforcement.

8.2.6 Legal Factors

China’s current legal system has been influenced by a number of factors, including traditional Chinese views on the rule of law, China’s socialist background and a tradition of civil law combined with certain common law characteristics. Thus, the Chinese legal system could potentially be classified as being a hybridization of civil law with common law characteristics. 180 However, implementation and enforceability of Chinese laws and regulations is extremely challenging, and often neglected all together. Theoretically, the courts exercise judicial power independently, and are not subject to influence by governmental or

177 Diploma project, 2007: “Jotun in Changing Colours”, page 33
178 Diploma project, 2007: “Jotun in Changing Colours”, page 33
179 Diploma project, 2007: “Jotun in Changing Colours”, page 33
180 American Chamber of Commerce in Shanghai, 2007: “Orientation China Guidebook”, page 137
commercial authorities. However, in reality this is not the case. Too many foreign investors, litigation in China seems like an exercise in futility, since influences by the Chinese government and other administrative authorities can undermine the predictability and certainty of the rule of law. Therefore, arbitration, though still somewhat elementary in China, is often viewed as a more effective way to settle commercial disputes.

However, it must be said that China’s legal system is improving. China’s accession to the World Trade Organization (WTO) in November 2001 has ushered in radical changes to the Chinese legal system, and has fundamentally accelerated the process of China’s acceptance of the rule of law. In recent years, a series of laws and regulations, including the Government Procurement Law, the Administrative License Law, and the Administrative Procedure Law have been promulgated to help regulate the government, symbolizing that the Chinese government is transforming from authority-oriented to more service-oriented.

**Intellectual Property and the Paint Industry**

China has long had a poor reputation for protecting intellectual property, and this is reflected in the above-mentioned A.T. Kearney Foreign Direct Investment Confidence Index analysis. However, with the government’s focus on maintaining high levels of economic growth and attracting foreign direct investment, China has been forced to address the concerns of both domestic and international companies to protect intellectual property. In recent years, China has seen a soaring of patent applications by Chinese companies and individuals. There also have been widely publicized intellectual property rights cases, demonstrating that Chinese companies are taking a more aggressive approach to protecting these rights. The Chinese government admits that it will take time to raise intellectual property rights protection to the same level as developed Western nations.

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182 American Chamber of Commerce in Shanghai, 2007: “Orientation China Guidebook”, page 139
Violation of intellectual property in the paint industry is not well documented, and metrics provided by Chinese sources with regards to intellectual property is typically unreliable; but it can surely be assumed that infringement within the industry occurs. The authors of this thesis have seen first-hand fake Jotun paint for sale by unrecognized distributors. A well-known case on intellectual property right infringement was publicized in 2003, when Chatoyant District Quality and Technology Supervision Bureau in Beijing seized a large amount of paint and 945 empty paint canisters branded with the Hongshi trademark from Baiyutu Chemical Factory. The company eventually admitted that it bought empty paint containers, applied faked Hongshi trademarks to them, and then filled them with non-Hongshi paint.\textsuperscript{184}

\textsuperscript{184} Diploma project, 2007: “Jotun in Changing Colours”, page 35.
8.3 Jotun’s brand awareness and brand recognition in China

Jotun has achieved brand awareness worldwide with their products in Deco retail. The situation in China however is different. According to Mr. Nagelstad is Jotun’s brand awareness per today very low amongst Chinese consumers within the Deco retail market. The business units marine and protective are well known, but when it comes to Deco retail, Jotun today have no brand recognition amongst the
Jotun has a policy of using a small amount of their budget on advertising. The reason for this policy is the high cost for advertising in China. Jotun believes that they will lose money in the long run if they decide to use too much money on advertising their products\textsuperscript{187} this has result in no commercials on the television since this is the most expensive method. The consumers can find information about Jotun on the internet, on billboards and on buses. Jotun have also used magazines and newspapers\textsuperscript{188}. All the key dealers that were interviewed in the surveys highlighted the importance of using television commercials in the Chinese market to get brand recognition. Chinese consumers tend to rely on commercials. They find them trustworthy\textsuperscript{189}. None of the key dealers that were interviewed had have consumers in the stores that had heard about Jotun. Most of them know about the brands Nippon and ICI Dulux because of their intensive use of television commercials\textsuperscript{190} the employees in the retail stores find it hard to sell Jotun's to its consumers when they do not recall Jotun products in any way\textsuperscript{191} most of the consumers who come to the stores to buy ICI or Nippon are hard to convince to buy another brand\textsuperscript{192} the competitors in the paint market today has a very strong brand awareness compared to Jotun.

8.4 The retailers

JC utilizes a selective distribution form\textsuperscript{193} in the Deco paint market in China. As mentioned earlier, the company manufactures its products and then sells them indirectly\textsuperscript{194} to its consumers through local retailers.

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\textsuperscript{186} Diploma project, 2007: “Jotun in Changing Colours”, page 75
\textsuperscript{187} Interview with Mr. Bjørn Naglestad, general manager in Jotun China
\textsuperscript{188} Diploma project, 2007: “Jotun in Changing Colours”, page 46
\textsuperscript{189} Diploma project, 2007: “Jotun in Changing Colours”, page 77
\textsuperscript{190} Findings from the key dealers and their employees
\textsuperscript{191} Findings from the key dealers and their employees
\textsuperscript{192} Diploma project, 2007: “Jotun in Changing Colours”, page 76
\textsuperscript{193} www.kunnskapssenteret.com: ”Valg av distribusjonsform”
\textsuperscript{194} www.kunnskapssenteret.com: ”Direkte og indirekte distribusjon”
JC’s retailers are private owned multiple brand stores which are located in building market, building materials streets and modern trade centres. According to the general manager in JC, Mr. Naglestad, the retailers accepted to sell the company’s products in their stores, since they wished another alternative of a brand in their stores. However, the retailers have a high negotiation power compared to Jotun, since the retailers have other brands to sell.

In an indirect distribution channel, it is the retailers that have the closer relations to the consumers than the manufacturer. Since paint is a high involvement product, the consumer spends a lot of time choosing the right paint. This makes the service degree very central. The consumers need professional and quality service from the retailers. It is therefore necessary for the consumers to receive information that is needed to know about paint by the retailers. Regarding that Chinese consumers have poor knowledge about paint, give the retailers the opportunity to affect the consumers’ decision making.

8.4.1 The chosen key dealers

As mentioned earlier in the thesis, JC has chosen eight key dealers, regarding its new strategy. The key dealers has been chosen by the sales and marketing manager in JC, David Shen. Mr. Shen based is choice on factors such as the retailers’ sales volume, their motivation and what segment the retailers focused on. For JC, it was the young dealers that were attractive for the company to choose, since they possessed the right set of attitudes towards the new strategy. In addition, Jotun had already close relationship with the chosen key dealers, however their relationship are closer today after the strategy was introduced. JC maintains its relationship with its key dealers by having meetings and conferences. The company also meets up with the dealers one by one where the

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196 Findings from the key dealers and their employees
dealers may give feedback, talk about their needs and etc. According to one of the key dealers in Shanghai, the communication between JC and him was poor\textsuperscript{197}.

8.5 The Chinese consumer

The Chinese population can basically be divided in two groups. The first group lives in the urban cities in China. They have a higher income and are more interested in fashion, quality and international brands. Especially in Shanghai people tend to spend more money and their willingness to try new products is high\textsuperscript{198}. The second group is people living in small towns and rural areas in China. Their income is a little lower which makes them use more time on considering different products before buying. However there has been an increase in income both for rural areas the last few years\textsuperscript{199}. Buying a home is seen as a major investment in China. Most Chinese only buy one house or apartment in their lives. All things related to the house are regarded as important\textsuperscript{200}. Paint is one of them. Buying paint is time consuming and people often hire professionals from home Deco companies to help them chose the right paint\textsuperscript{201} these factors makes paint a high-involvement product. A high-involvement product is a “value good that is purchased only after long and careful consideration”\textsuperscript{202}. According to the storeowners and employees in the retail stores most of their consumers are amateurs. They do not have any knowledge about paint. Some of them have heard of some of the brands trough commercials, while some of them rely on the advice given by professionals, from home Deco companies, friends and family\textsuperscript{203}. This makes the power of the salesmen stronger. They have influence on the buyer’s decision because of their lack of knowledge. Further on according to the storeowners Chinese people prefer light colours compared to dark colours on their walls. A light colour makes the apartment look bigger and more harmonic\textsuperscript{204}. Moreover since the “one child policy” came to China in 1979 the focus has been

\textsuperscript{197} Interview with Mr. Hua Guanshun, storeowner in Shanghai
\textsuperscript{198} Diploma project, 2007: “Jotun in Changing Colours, page 22
\textsuperscript{199} Diploma project, 2007: “Jotun in Changing Colours, page 23
\textsuperscript{200} Diploma project, 2007: “Jotun in Changing Colours”, page 57
\textsuperscript{201} Findings from the key dealers and their employees
\textsuperscript{202} www.businessdictionary.com: ”high-involvement product”
\textsuperscript{203} Findings from the key dealers and their employees
\textsuperscript{204} Findings from the key dealers and their employees
on the “little emperors” needs. When buying paint for these little children, most of the parents are very conscious about finding the right paint. The paint should not smell or contain any kind of chemicals that can affect the health of their child\textsuperscript{205}. The new generation in China today is more health conscious than their parents. Surveys has shown that younger consumers are willing to pay 20\% to 30\% more for premium construction materials for their unfinished homes\textsuperscript{206}.

9. SWOT - analysis

A SWOT analysis has been accomplished to evaluate Jotun’s strengths, weaknesses, opportunities and threats. The strengths and weaknesses have been ranked from 1 to 5 where 5 is a great strength, 1 is a great weakness and 3 is neutral. In addition, the strengths and weaknesses have been ranked according to their significance in the market. The opportunities and the threats have been valued according to their attractiveness/seriousness and their probability of occurrence in the market. The SWOT analysis has been divided in a competence matrix, opportunity matrix, and a threat matrix\textsuperscript{207}.

The strengths and the weaknesses in the SWOT table have each been given a letter, which will be presented in the competence matrix. Moreover, the letter A in the second and the fourth columns represents the ranking of JC’s strengths and weaknesses, while the letter B represents their significance in the market.

The opportunities and threats have each been given a letter and a number, which will be introduced in the opportunity and the threat matrices. In the second and the fourth columns, the letter C represents their degree of attractiveness/seriousness, while the letter D represents their probability of occurrence in the market. C and D have been ranked from high to low.

\textsuperscript{205} E-mail conversation with Mrs. Sharon Ding, brand manager Deco retail in Jotun China
\textsuperscript{206} \texttt{www.forbes.com}: ”the health conscious Chinese consumer”
\textsuperscript{207} Framnes, Runar, Arve Pettersen\& Mathias Thjømøe, 2006: ”Markedsføringsledelse”, page 145
<table>
<thead>
<tr>
<th>STRENGTHS</th>
<th>WEAKNESSES</th>
</tr>
</thead>
<tbody>
<tr>
<td>(A) GLOBAL BRAND NAME</td>
<td>(M) LOW MARKET SHARE</td>
</tr>
<tr>
<td>A=5 B=4</td>
<td>A=1 B=4</td>
</tr>
<tr>
<td>(B) A LEADING PAINT COMPANY IN THE MARINE- AND PROTECTIVE COATINGS MARKET IN CHINA</td>
<td>(N) SLOW IN PRODUCT DEVELOPMENT IN DECO</td>
</tr>
<tr>
<td>A=5 B=4</td>
<td>A=2 B=4</td>
</tr>
<tr>
<td>(C) GOOD SUPPLIERS, BOTH INTERNATIONAL AND LOCALS</td>
<td>(O) POOR MARKET ORIENTATION IN DECO</td>
</tr>
<tr>
<td>A=4 B=4</td>
<td>A=1 B=5</td>
</tr>
<tr>
<td>(D) INTERNATIONAL COMPETENCE AND EXPERIENCE</td>
<td>(P) LANGUAGE BARRIERS AND CULTURE BARRIERS WITHIN THE COMPANY</td>
</tr>
<tr>
<td>A=5 B=4</td>
<td>A=2 B=4</td>
</tr>
<tr>
<td>(E) GOOD HUMAN RESOURCES</td>
<td>(Q) LOW BRAND AWARENESS AND RECOGNITION</td>
</tr>
<tr>
<td>A=5 B=4</td>
<td>A=1 B=5</td>
</tr>
<tr>
<td>(F) FINANCIALLY STRONG</td>
<td>(R) DIFFICULT TO DIFFERENTIATE THE MAJESTIC PRODUCT LINE</td>
</tr>
<tr>
<td>A=5 B=4</td>
<td>A=1 B=5</td>
</tr>
<tr>
<td>(G) GOOD ORGANIZATIONAL CULTURE</td>
<td>(S) THE PRODUCTS HAVE POOR SELLING POINTS</td>
</tr>
<tr>
<td>A=4 B=4</td>
<td>A=1 B=5</td>
</tr>
<tr>
<td>(H) HAS R&amp;D FACILITIES IN CHINA</td>
<td></td>
</tr>
<tr>
<td>A=5 B=4</td>
<td></td>
</tr>
<tr>
<td>(I) GOOD QUALITY PRODUCTS</td>
<td></td>
</tr>
<tr>
<td>A=4 B=5</td>
<td></td>
</tr>
<tr>
<td>(J) HEALTH, SAFETY AND ENVIRONMENTAL COMPETENCE</td>
<td></td>
</tr>
<tr>
<td>A=4 B=5</td>
<td></td>
</tr>
<tr>
<td>(K) HIGH RISK WILLINGNESS</td>
<td></td>
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<tr>
<td>A=4 B=4</td>
<td></td>
</tr>
<tr>
<td>(L) PRESENT IN SEVERAL STORES IN CHINA</td>
<td></td>
</tr>
<tr>
<td>A=4 B=2</td>
<td></td>
</tr>
<tr>
<td>OPPORTUNITIES</td>
<td></td>
</tr>
<tr>
<td>---------------</td>
<td>---------------</td>
</tr>
<tr>
<td>(O1) DOMESTIC ECONOMIC GROWTH IN CHINA</td>
<td>C= HIGH D= HIGH</td>
</tr>
<tr>
<td>(O2) HUGE, POTENTIAL MARKET</td>
<td>C= HIGH, D=HIGH</td>
</tr>
<tr>
<td>(O3) BLOOMING REAL ESTATE MARKET</td>
<td>C=HIGH D=HIGH</td>
</tr>
<tr>
<td>(O4) THE RISE OF HEALTH CONSCIOUS CONSUMERS</td>
<td>C=HIGH D=HIGH</td>
</tr>
<tr>
<td>(O5) THE RISING MIDDLE CLASS</td>
<td>C= HIGH D= HIGH</td>
</tr>
<tr>
<td>(O6) THE WORLD EXPO 2010</td>
<td>C=HIGH D=HIGH</td>
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*Table 4: Overview of Jotun China’s strengths, weaknesses, opportunities and threats.*
9.1 Competence matrix

![Competence matrix diagram]

**Figure 15: Competence matrix**

The competence matrix is based on the strengths and the weaknesses of the company. The strength and weaknesses are measured by their significance in the market and their degree of strength, weakness, or neutrality. The matrix identifies all of JC’s strengths and weaknesses that were identified from the internal and external analyses, as well as findings.

One of JC’s greatest strengths is the company’s *human resources*, which is a staff comprised of both local Chinese and Norwegians that possess high degrees of competence. JC should therefore maintain and exploit this strength. Another great strength is both Jotun AS’ and JC’s *positive financial situation*. This is due to Jotun AS’ overall success as a *global brand name* and JC’s success as the *leading paint company* in the marine and protective coating markets. Furthermore, the company has years of experience in doing business with other countries and therefore has strong *international competence*. Moreover, JC has introduced a *health, safety and environmental* policy in every factory it operates. This is another competence that the company should strive to maintain, as these are highly important issues today. According to the key dealers, JC provides *good*

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208 Framnes, Runar, Arve Pettersen & Hans Mathias Thjømøe, 2006: ”Markedsføringsledelse”, page 143
Jotun China – All the Colours in the World

quality products, but with poor selling points. Jotun should therefore focus its effort to improve in this area. In addition, both the dealers and their customers have difficulties in differentiating the Majestic product line. Again, JC should do something to address this problem.

Another great strength is the company’s R&D facilities that are located near to its factories. JC should maintain its effort in these facilities in an effort to address its weakness of being slow in product development. Jotun also is known for its good organizational culture, which is highly valued by its employees. Moreover, JC has good suppliers, both internationally and locally. Jotun is also known to have high risk willingness by entering new foreign markets. According to Solberg (2005) the most successful companies are those who are financially strong and are willing to take risks. Furthermore, its products are present in many stores in China; however this may also be a risk of overinvestment.

One of JC’s greatest weaknesses in the Deco paint market is its poor market orientation. Therefore, this is represented in the “critical corner” of the competence matrix, and is something that JC must improve. Furthermore, the company has quite low market share, and low brand awareness and recognition amongst Chinese customers. Lastly, JC has communication problems within the company, stemming from language barriers and culture barriers between local and foreign employees; however this is seen as a minimal weakness since the barriers are small.

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209 Solberg, Carl Arthur, 2006: ”Internasjonal markedsføring”, page 139
9.2 Opportunity matrix

Figure 16: The opportunity matrix

The opportunity matrix identifies the most attractive opportunities in the market that Jotun may pursue. Jotun’s major opportunity in the Chinese Deco market results from the growing real estate market. The ongoing trend of urbanization of China’s population correlates to an overall increase in demand of Deco paint. The Expo in 2010 also represents a very unique marketing opportunity for JC. Furthermore it will be extremely important for Jotun to consider the rising middle class when formulating marketing strategies since, in the future, they will represent the vast majority of the total market demand of Deco paints in China. Also the increasing number of health conscious Chinese customers is another golden opportunity for Jotun. The company has the opportunity to reposition its brand to address the demands of this niche market in order to capture this market. Therefore because of China’s enormous population of over 1.3 billion and the country’s high levels of economic growth, there exists a tremendous potential market for the Deco paint industry.
Figure 17: Threat matrix

The threat matrix will value the threats which may impact Jotun’s operations and limit its opportunities. The main threat that Jotun should be aware of is the *intensely competitive situation* within the Deco paint market. There exists too many players, both local and international. Also the threat of *new intruders* is high because of the low barriers to entry. Furthermore there exists a threat of *retailers’ high negotiation power*, but this threat is not as serious because of the good relationship between Jotun and its dealers. Additionally the *customers’ negotiation power* is also not a serious threat because of the customers’ lack of knowledge about paint and their need for advice from the salesmen. As mentioned earlier, *substitutes such as wallpaper and tiles* are not a big threat for Jotun either. *Poor intellectual property rights and uncertainty over China’s political and legal environment* have always been threats when operating in the Chinese market. Finally *the financial crisis* has been a threat to global economy and in China has resulted in slower economic growth.
10. Strategy

10.1 Strategic problem definition

Our strategic problem definition is developed on the basis of one of JC’s greatest strengths and weaknesses, and one of its biggest threats and opportunities.

“How can Jotun best utilize its strong and highly competent human resources in China to more effectively compete with and outperform the other major players within the Deco paint industry, while simultaneously improving its market orientation to take advantage of opportunities created by the expanding real-estate market?”

10.2 Jotun China’s goals in the Chinese decorative paint market

10.2.1 Operative goals

Its short term goal is to:

• Differentiate between the four Majestic products
• Create clear and unique selling points (Country of origin, end results, health and environmental products)
• Educate the key dealers on how to sell JC’s paints, teach them sales technique and arguments.
• Create brand recognition by focusing on promotion. JC needs therefore to:
  - Frequently update the official website
  - Continue with current promotion activities
  - Change the colour charts to match up with consumer preferences (emphasize light colours)
10.2.2 Strategic goals

- Frequently increase its market competence and gain a better understanding about trends in consumers’ preferences and its competitors’ situation.
- Develop stronger brand awareness.
- Expand the new strategy to its other retailers.
- Include the retailers in its product development ➔ focus group
- Launch health & environment friendly product to meet the changing consumer needs
- Create brand awareness
- Be in the consumers evoked set

10.3 Critical factors of success

The critical factors of success are based on the internal- and external analysis, and our findings. The factors need to be present if JC wants to reach its stated goals. The critical factors of success are:

- Market orientation
- Brand recognition and brand awareness
- Launch health friendly product
- Improve its relationship with the key dealers
10.4 Strategic alternatives

We have identified two alternative courses of action for Jotun. Jotun can either stay in the Chinese Deco market and implement the new strategy, or it can exit the market. We did not see staying in the market with the current strategy as an alternative for Jotun since that strategy is vague and has not resulted in any profit for Jotun.

Alternative 1: JC pulls the company out of the retail Deco paint industry.

This alternative is based on Jotun’s financial situation in this market. As mentioned earlier in the thesis, to achieve break-even the company needs to double its sales volume. According to the general manager in JC, Jotun loses approximately RMB 1 million every year in the Deco paint market. Furthermore Jotun’s brand recognition amongst the Chinese consumers is low even though it has been in the market for almost ten years. The tough competition in the market also makes it difficult for Jotun to be visible. The consequence Jotun must be aware of if they decide to exit the Deco paint market in China is that the chances for future return are limited. When Jotun exits the market, the relationship and trust it had with its dealers will be lost. Since trust is essential in the Chinese business market, Jotun will face many challenges if it decides to come back and try to rebuild that trust. Moreover the cost to exit the market is approximately RMB 2 million.

Alternative 2: Stay in the Deco paint market in China and implement the new strategy with the eight key dealers.

The basis for this alternative is that JC and the mother company are financially capable to continuing supporting its presence in China’s Deco paint industry. The market is big and has room to grow. The company provides good quality products and has good competence to utilize in the Deco paint market. Moreover, JC has a good distribution network and has good relation with its distributors.
The risk of staying in the market is that JC can continue to lose money, if the strategy is not well executed. However the consequences in pulling itself out of the market are that JC needs to pay compensation to its retailers and it needs to let go of an entire department of employees.

10.5 EXECUTION of STRATEGY – Stay in Deco China

After 8 years of operating in China’s Deco paint market, Jotun developed its latest strategy with the primary goal of increasing profits. Initially, the strategy was to select a group of 8 key dealers of Jotun’s products and work closely with them to increase sales in their stores. By helping the key dealers increase their sales, Jotun will effectively be increasing its sales as well. To be sure, there are myriad other benefits to both Jotun and the key dealers which will be outlined in the section below. But for both sides to reap the rewards of this strategy, Jotun and the key dealers must have a detailed execution plan and the discipline to follow it through. Based on the findings and analysis of our research, we the authors recommend the following execution plan, divided into 5 steps as shown in the below model.

<table>
<thead>
<tr>
<th>Relationship building process</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Define objectives and expected benefits of the relationship</td>
</tr>
<tr>
<td>2. Choose partner(s) for potential cooperation</td>
</tr>
<tr>
<td>3. Establish a system of incentives to enhance cooperation</td>
</tr>
<tr>
<td>4. Organize and manage the cooperation process</td>
</tr>
<tr>
<td>5. Evaluate process and results</td>
</tr>
</tbody>
</table>

The key to success will be the development and maintenance of the relationship between Jotun and the dealers. Building a strong and close relationship based on trust and reciprocity will allow both Jotun and the key dealers to achieve the shared goal of increased profitability, as well as multiple ancillary benefits.
Step 1: Define objectives and expected benefits of the relationship

Jotun

As already mentioned, Jotun’s primary objective from establishing relationships with the key dealers is to increase its profitability in China’s Deco paint market, which is achieved by helping the dealers increase their sales. To do this, Jotun should expect to use its key dealers as a channel of information about its market orientation. Because the key dealers are in constant contact with the end-users, Jotun should expect to learn about the customer’s product needs and preferences. With this information, Jotun can improve its product development to suit its customers. The key dealers are also in contact with Jotun’s competitors and can provide valuable information regarding the overall competitive landscape, as well as the individual strategies being implemented by competitors. Finally, Jotun should expect that by building strong relationships with key dealers and motivating them to sell Jotun’s products, the company will experience increased brand awareness through word-of-mouth.

Key Dealers

Similar to that of Jotun, the primary motivation of the key dealers to cooperate closely with Jotun is to increase profitability. To do this, the dealers must be willing to share information it learns through their experience with the customers and Jotun’s competitors. The key dealers should expect to be included by Jotun in its product development process, because by learning about the needs and preferences of the customers, Jotun can make new products better suited to Chinese customers. The dealers should also expect Jotun to give them and their employees more and better training opportunities. With more knowledge about the products and effective sales training, the dealers will be able to sell more Jotun paint.
Step 2: Choose partner(s) for potential cooperation

**Jotun**

Jotun chose to focus on its key dealers for reasons mentioned above. Specifically, the key dealers are in continuous contact with both the end-user customers and Jotun’s competitors, as outlined below.

Therefore, the key dealers possess invaluable information that Jotun can use to achieve its goals in the market.

To be sure, Jotun does not have the resources to begin developing strong relationships with all of its dealers simultaneously. Part of executing the strategy is choosing the appropriate dealers to work with initially based on specific criteria likely to maximize the chances of success. Thus, Jotun decided to choose 8 key dealers based on their high sales volumes, demonstrated high levels of motivation and enthusiasm, and mid to high-end market segment focus. Jotun also showed a preference for younger key dealers who are more open-minded as opposed to older, more conservative dealers. Finally, Jotun chose key dealers with whom it already had an existing relationship that could be strengthened faster and more easily. The key dealers Jotun chose are:

1) Nanjing Huiduo Trade Company
2) Shanghai Hongshun Industry
3) Yangzhou Banmei Decoration Material Concourse
4) Shanghai Minhang Area Jiangchuyangguang Construction Material Dealer
Key Dealers

Dealers in China’s Deco paint industry typically work closely with and sell multiple paint brands. However, by building a relationship with one particular brand and agreeing to push that brand above all others, the dealer creates an opportunity cost of working with the other brands he carries. Of course he can continue to sell these brands in his store, but his efforts and resources must be focused on the one brand he has chosen. Therefore, the dealer must be careful to choose the most suitable brand with the highest potential to increase his profitability. In the case of the 8 key dealers, given their focus on mid-high end customers, Jotun is a great fit for them. Jotun is a high quality brand that currently has a comparably low share of the market, which means that Jotun has high growth potential. Furthermore, Jotun is a Norwegian brand with a positive country of origin effect. Chinese customers associate Norway with pure water, fresh air and rigid product quality restrictions; in other words, they are predisposed to believing that products from Norway are of high-quality and environmentally friendly. Lastly and most importantly, Jotun offers the key dealers higher margins per can of paint sold than its competitors such as Nippon and ICI.

Step 3: Establish a system of incentives to enhance cooperation

Jotun

Jotun’s primary incentive to maintain discipline when executing its strategy is to increase profits in the short-term. However Jotun also has an incentive to increase profits in the long-term. If the strategy to strengthen relationships with the key dealers is a success, the next step is to replicate the strategy with a broader group of dealers and further increase profits.

Jotun also has non-economic incentives. The first is improving its product development by learning from the key dealers about the needs and preferences of
the customers. The second non-economic incentive is to discourage moral hazard on the part of the dealer that could be harmful to Jotun. By necessity, Jotun will be sharing confidential information with its key dealers, including its sales strategy and new product developments, just to name a few. In addition, the key dealers already possess a record of Jotun’s sales figures and other sensitive financial information. Therefore, Jotun is incentivized to properly execute its strategy and increase profits for its dealers to motivate the dealers against switching to a competing brand. Jotun would also be incentivized to improve its Guanxi with its key dealers as another means of protecting themselves against moral hazard. Having strong Guanxi with the dealers means having their loyalty through a strong degree of interdependence and sense of obligation.

**Key Dealers**

The key dealers’ primary incentive to work closely and exclusively with Jotun is economic, namely to increase profitability. The dealers are incentivized to increase sales of Jotun’s products because they can earn higher margins per can sold as compared to other brands. The dealers would be further incentivized if Jotun would consider offering additional bonuses for dealers who meet high sales targets.

Of course, the dealers have non-economic incentives as well. First, by attending training sessions provided by Jotun, the dealers and their employees stand to increase their knowledge of Jotun’s products and sales techniques. Second, the dealers are incentivized to reciprocate the exchange of information and share their knowledge of Chinese consumers and Jotun’s competitors. By doing this, they improve Jotun’s products and provide the company with valuable competitive intelligence. Finally, the dealers have an incentive to improve Guanxi with Jotun. As mentioned above, having strong Guanxi instils a sense of obligation between the two parties involved. If the dealers have strong Guanxi with Jotun, they will have a stronger position to negotiate even better margins and performance based bonuses in the future, as well as better product payment and credit terms.
Jotun

To achieve its goals in China’s Deco paint market, Jotun needs to meet the expectations of the key dealers. Specifically, Jotun needs to include the dealers in its product development process, provide the dealers and their employees with product and sales training, and take necessary measures to ensure the dealers increase their sales and profitability.

Jotun should first designate company representatives with the specific task of building Guanxi with assigned key dealers. By doing so, the representatives will be in continuous communication with the key dealer, and likewise the dealer will feel that he always has access to Jotun through a dedicated contact. This representative will serve as the conduit for relaying information to and from the key dealer. He will be charged with collecting relevant information with regards to the dealers’ sales figures, customers, and other brands sold in the store, and reporting this back to Jotun. The representative will also be in charge of informing Jotun of any needs or requests made by the dealers. Having received vital information through the representatives, Jotun will be able to improve strategic decisions as relates to product development and its competitors.

It is important for Jotun to remember that when building and maintaining Guanxi, the company must honour its promises to the key dealers. Only in this manner can Jotun earn their trust and loyalty. For example, Jotun must provide effective training for the dealers and their employees, as promised. Additionally, if Jotun agrees to pay performance based bonuses to dealers, it must do so in a timely fashion. Finally, Jotun should be prepared to utilize traditional Guanxi building methods such as gift giving, wining-and-dining, and providing other forms of entertainment.

Key Dealers

To achieve their goals in China’s Deco paint market, the key dealers must meet with Jotun’s expectations of this cooperation. Specifically, the key dealers need to provide the Jotun with detailed information regarding their customers and competitors, and help increase brand awareness through word-of-mouth. The key
dealers also need to utilize the resources provided by Jotun to the fullest extent possible, thereby increasing their sales and Jotun’s profits.

To accomplish this, the dealers need to be open and willing to sharing their information with Jotun’s representatives. Jotun representatives will be working hard to build trust and loyalty with the key dealers, and therefore the dealers should reciprocate by not engaging in opportunistic behaviour that could harm Jotun. Dealers should also instruct their employees to take full advantage of training programs offered by Jotun.

**Step 5: Evaluate process and results**

**Jotun and Key Dealers**

This strategy is long-term and neither Jotun nor the key dealers should expect immediate results. However, after a sufficient amount of time has passed, both parties should evaluate the results of the relationship through a cost-benefit analysis, including economic and non-economic goals. If the results prove unsuccessful, then each party should objectively analyze the process to determine where the execution of the strategy went wrong and whether it can easily be fixed. Ultimately, Jotun must decide for itself, based on analysis of the process and results of its strategy, whether it should continue to pursue the current strategy, expand it to include a greater number of dealers, or abandon it for a new strategy. Likewise, the key dealers must decide for themselves whether they should continue to develop an exclusive relationship with Jotun, or dissolve the partnership in favour of another brand.

**10.5.1 Adjustments in the marketing mix**

Jotun must use the information they get from its retailers to adjust its marketing mix so it can efficiently reach customers.

**10.5.1.1 Product**

Jotun needs to differentiate its products so as to be preferred over the products of its competitors. One of Jotun’s major problems today is that none of its products have strong selling points. Jotun can create the selling points by tight corporation
with the chosen key dealers because they know exactly what the Chinese customers’ preferences are. They can pass on this crucial information to Jotun so the company can adjust its products accordingly. Since Jotun’s focus is on the premium segment, products within this category should be its first priority. Moreover Jotun also needs to work on the design and packaging of its Majestic products. It is difficult for both the employees of the key dealers and their customers to see the differences between the products in the Majestic Matt line. This might be accomplished by displaying the functions of each product more clearly on the can and choosing different colours for each product.

10.5.1.2 Promotion

If Jotun wants to achieve higher brand recognition within the next two years, it has to use some kind of promotional activities. Because of its tight marketing budget, advertising would not be the best choice. Jotun should continue with its promotions on billboards, magazines and newspapers. They should also continue to have brochures and colour charts in the retail stores. However since bright colours are preferred by the Chinese consumers Jotun should consider to change the layout of its colour charts accordingly. The picture below shows the difference between Jotun’s colour chart and the chart of its competitors. While the competitor’s emphasis the bright colours in the chart, Jotun’s charts look dark because of the layout. Moreover a regular update of Jotun’s website is necessary. The website should be used to provide updates to consumers and answer their questions. Moreover Chinese consumers like to see the result they will get before buying paint. An option here could be to provide samples and paint kits in the retail stores so the consumers have a chance to see how the paint will look like on their walls.
If Jotun succeeds in promoting its products, it will enjoy increased brand awareness amongst the consumers in the paint market. If this brand awareness is positive the result will be that the consumers speak highly about Jotun’s products to others. This word of mouth communication can be extremely effective for Jotun, particularly because of its low budget for marketing activities. Consumers tend to be more convinced by word-of-mouth then commercials, and in that way Jotun’s products can be promoted in a most economical way. However Jotun should be aware of the fact that this kind of communication is difficult to control. Negative comments and rumours can spread that can negatively affect the image of Jotun’s products. Finally since Jotun is a financially strong company, it will be capable of providing samples or paint kits to dealers to be displayed in their stores so that Chinese customers can see the results first-hand.

10.5.1.3 The “country of origin” effect

Norway is a country which is associated with pure water, fresh air and rigid product quality restrictions. However, as a global brand, Jotun typically does not emphasize these factors in its promotional strategy. But there exist many global brands in the Chinese paint market which has made it difficult for Jotun to differentiate itself from its competitors in the eyes of customers. Jotun should consider letting the key dealers use the country of origin effect to sell Jotun’s

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210 Schiffman, Leon G & Leslie Kanuk, 2004: ”Consumer behavior”, page 515
products to Chinese customers. If the key dealers have the opportunity to promote Jotun as a Norwegian brand, a selling point is created. To be sure, Jotun will continue to be a global brand, but now Chinese customers will be able to distinguish the company and brand from all of the other global brands in the market.

11. Recommendations

Of the two alternatives, we recommend that Jotun elect to pursue alternative two – remaining in the Deco paint market in China and implementing the new strategy with the eight key dealers. In addition, Jotun should follow closely the relationship building model as previously discussed. This includes providing training to its key dealers, involving them in the product development process, and focusing on building and maintaining Guanxi with them. Disciplined execution of Jotun’s strategy will result in the highest possible chance of achieving the company’s goal of increased profitability in China’s Deco paint market.
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APPENDIX 1: Summaries of in-depth interviews with storeowners and employees in the chosen stores

Interview with the storeowner in Shanghai

Interviewer: Sharon Ding
Interview object: Mr. Hu Guanshun
When: March 16, 2009
Where: Jin Shen Building Material Market

1. The name of the storeowner/manager/laoban
   Hu Guanshun

2. How long have you managed this store?
   15 years

3. What kind of background (work experience/ education) do you have?
   College, but before starting my own business, I worked for the government.

4. Do you get visits from representatives from the brands you have in the stores, if so, how often do they usually come? What do they usually do when they are here?
   Nippon visits the store at least 2-3 times a week. Dulux visits the store almost every day. However the local brands seldom visit the store.

   When the salesmen visit the store, we usually just discuss sales volume and they ask me if I need any support. The high level managers visit the store twice a year, once at the beginning of the year so they can look back at the last year's result and performance. In addition, we discuss the strategy of the next year. The second visit is half a year later, where we compare our performance with the plans we made at the beginning of the year.
5. If you get visits from Jotun, how often is it? Would you like them to come more often? What kind of help would you like to have from them?

Jotun visits the store almost 2-3 times a week. I think the frequency of the visits is enough, however the communication between Jotun and me is lacking. I think the salesmen should be the link between me and Jotun. The sales person should bring more information about the strategy, products, new activities and promotions, and anything else new from Jotun to the store. I think that Jotun should discuss with us before launching anything new. That would be better.

6. When you order products from Jotun, how long does it takes for Jotun to deliver the products?

After I have ordered products from Jotun, I usually receive them in 2 or 3 days. It's the same with the other brands, because they all produce in Shanghai.

7. As one of 8 chosen stores, what expectations do you have for Jotun, and what are your plans for Jotun’s products in the future?

Jotun has good quality products and it is a good brand. I hope Jotun will do better in the future. For now I think that Jotun has a poor selling strategy. I do not think that Jotun understands the Chinese paint market very well and has therefore not been successful in the market. I think Jotun should learn more about the market and its competitors, and have a clear strategy. This will give Jotun more confident to perform better. Let me give you an example. Earlier, Jotun and other brands produced furniture paint. Nippon’s furniture paint was not as good as Jotun; however its paint sold very well just because of its selling strategy. So as I said earlier, Jotun has very good products and a good brand, however its strategy must change.

8. How do you think Jotun’s products can become more interesting for the Chinese customers? Which are the best selling points for Jotun to the Chinese customers?

The customers prefer famous brands such as Nippon, ICI, etc, however even though Jotun is not so famous I think that the customer would like Jotun’s products because of its good quality. The customers that have used
Jotun paint think it is good and are quite satisfied. When operating in the Chinese market it is important to have a famous brand. Having a popular brand is the power to make the customers select your brand. When the customers recognize your brand, it will also know what functions your product has.

9. When new products arrive, how does Jotun provide you with the necessary information about the products? (Brochure about the products, a short presentation given by Jotun’s representatives, etc.)

Jotun provides us with brochures about the products and a launch conference where the salesmen make a presentation about the products. The launch conferences are the main information channel when launching new products.

10. How many employees do you have in your store? How long have they been here?

I have three assistants in my store and the average of their working period is ten years.

11. What kind of background do they have? (education, work experience)

Some of the employees have only finished their middle school education. They also have some previous work experience before starting in this store. The employees get training here and they also learn about the products by themselves.

12. What kind of product information do they get from the paint companies? And what does Jotun provide?

The employees in my store receive training from Jotun’s salesmen through the presentations. In addition, they learn about Jotun’s products by reading Jotun’s brochures.

13. According to your opinion, what can Jotun do to increase Jotun’s market-share in the Chinese market? What do you think about its product yourself?
The first one is advertisement. Advertisement is very important especially in the China market. The Chinese customers believe in advertisement. The second is, as I mentioned earlier, that Jotun should have its own good selling strategy and have a better knowledge about the Chinese market. The third one is that the dealers/distributors should earn more money when selling Jotun’s products (bigger margin between the retails’ price and the customers’ price). In other words, do not give the benefits to the customers by lowering the products’ price; however let the distributors earn their profit. If some of the dealers earn more money and become successful, it will show the other dealers that there is a lot of money in selling Jotun’s products. This will result in more distributors that are willing to sell Jotun’s products. Jotun’s business will then become larger. As mentioned, advertisement is important. Nippon for example earns a lot of money just because of its heavy use of advertisement. By letting the dealer earn enough profit, the dealers can take care of the advertisement for Jotun.

I chose to sell Jotun has good quality products and because the brand has a good reputation.

14. From your own experience, do you think the customer usually has a lot of knowledge when buying paint? What other information would be helpful for the customer?

The customers have poor knowledge about paint. For them paint is Nippon and Nippon is paint. Nippon is very big here in China and they were the first one to sell paint in the Chinese market.

The customers do not need any professional knowledge about paint, because they only pay attention to the final result. An effective way to sell paint to the customers is to show them the final result of the paint, such as samples of painted wood plates. The Dulux brand is doing well in the Chinese market, since it has single brand stores that only show the finishing result of its paint.
Jotun's image is good, but it should consider how its products are placed in stores. The price should not stick to the shelf. To increase the market share, I feel that Jotun should stop following its competitors. Nippon and Dulux are much stronger brands. Even if both brands lower prices, Jotun should not do the same, but rather have its own strategy. Secondly since Jotun has products with good quality, it should try to show this to the customer, by showing them the results. Thirdly by supporting the key dealers, Jotun will probably experience an increase in its market share. If Jotun provides support to its key dealers, by keeping the price of its products stable, and giving more profit to the key dealers, they will probably help Jotun in return. In that way both Jotun and the key dealers can earn more money. A good example of this is the local brand Classic. Classic supports the dealers, and helps them earn money. At the same time Classic does not lower the price of its products.

I would say that over 50% of the customers listen to our advice.

15. Which one of the brands in your store is most popular? Why?

In my store and in the Shanghai paint market, Dulux is the brand that sells the most. One of the reasons is that the brand lets the dealer earn better profits which makes everyone willing to sell Dulux products. Another reason is that Dulux is using a lot of advertisement and the brand can be seen in every paint store. Furthermore, Dulux also has single brand stores that give the customers an impression that the brand and products are quite good. Moreover, Dulux launches new products quite often and every product has its own special selling points such as “nice fragrance”, “easy to clean”, etc.

Another brand that traditionally sells well is Nippon. However the brand has been selling very badly the past few years because its strategy does not allow distributors to earn as much profit. This resulted in dealers giving up the brand. Many brands have now realised that the most efficient way to earn money is to let the dealers earn more profit. The dealer will then help the companies to promote its products. So the first
thing Nippon did this year was to make the margins between the retails’ price and the customers’ price bigger.

The profit we get from Jotun by selling one bucket of paint is enough, however when considering that the total sales volume is very limited, the total sales profit is quite low. Advertisement is therefore quite important, so the sales volume can be bigger while the margin stays the same, and we can earn more. The price on Jotun’s products is a bit lower than Nippon; however it is the sales volume that counts.
Interview with an employee in Shanghai

Interviewer: Sharon Ding
Interview object: Mr Meng Yang
When: March 16, 2009
Where: Jin Shen Building Material Market

1. The employee’s name:
   Meng Yang

2. How long have you been working here?
   *I have been working here for ten years.*

3. Have you worked in any other paint stores before?
   *I have never work for another paint company before starting here.*

4. What kind of training did you get when you started working in this store?
   How often do you get updated information/training from the producers?
   *I had no training whatsoever before starting here, however during my ten years in this business I have participated in several courses provided by Nippon. The training that Jotun provides is about multicolour paint. But I seldom join the training because I have worked in this industry for 10 years, so I think that I already know a lot about this paint. When new products arrive, I try out the paint myself so that I can see how it works. So since I feel that I have enough knowledge I usually let other employees go instead. As for training programs I personally prefer Nippon, because I think they have the best training for dealers. Dulux on the other hand provides no training at all. Jotun holds training sessions once or twice a year.*

5. From your own experience, do you think the customers usually have a lot of knowledge when buying paint? If yes, what kind of knowledge do they have?
   *No, the customers usually do not have any knowledge about paint. They only know the brand or the product. Older people recognise Nippon,*
because Nippon entered China a long time ago. Some people even think that Nippon is paint and paint is Nippon. Young people, however, know a bit more. Some can differentiate between the all-in-one and the five-in-one, for example. Most people have not heard of Jotun; I would say approximately 95% have not heard of Jotun, because Jotun does not pay much attention to advertising. I think that having a strong brand name is necessary to succeed in China.

6. Do many customers ask for advice when buying paint? In what areas do they need to be more informed and educated about the products?
Customers usually do not ask for advice. For example if they know that Nippon has easy clean paint, they would just request to buy easy clean only. But I would try to persuade them to buy other products since the profit is low when selling the low end products. Sometimes they listen, other times they don't, depending on how well I sell the product. Usually they just compare the price and the functions and then the customer would choose which one is most suitable. Painters come here to buy paint; most of them haven’t used Jotun before, so Jotun needs to provide them with additional information on how to use the products. I will tell the customers about the origin of Jotun and that it is from Norway. The impression customers will have is that Jotun paint is European and of good quality and environmentally friendly. I also think that customers like to see what they are buying. Having a sample of the end-results would be very useful. Dulux has already done this.

7. According to your opinion, what can Jotun do to be more successful in the Chinese market? And how can Jotun change the product, information-material, and promotions to better attract the Chinese customers?
In my opinion, advertising and building a stronger brand name is the most important and efficient way to improve market share. Another thing is to enter the building material markets. In these supermarkets they have many brands and the price is fixed. More retail customers will visit these supermarkets because of the setting; they will enjoy the paint shopping experience. I think Jotun should use the pull method and not push.
8. Do you think it is difficult to differentiate between the four “Majestic” products?

   Some of the customers cannot recognise the Majestic products, and some know the difference because of the five-in-one and all-in-one labelling. These are all familiar to the customer.


   Jotun’s product is of good quality, but I prefer Nippon because I like Nippon’s functions better.

10. How can Jotun arrange for education/information about its products to the customers and to the employees in the shop? Do you have any suggestions?”

   I think it would be better if Jotun could provide training in its branch/factory rather than here at the store. I think that Jotun should not focus on the products, but rather focus on training and advising the key dealers on how to sell Jotun’s products.
Interview with the storeowner in Shanghai

Interviewer: Sharon Ding
Interview object: Mr. Lee
When: March 17, 2009
Where: Songjiang

1. : The name of the storeowner/manager/laoban
   
   Mr. Lee

2. How long have you managed this store?
   
   I opened this store 5 years ago, but I have worked in the paint business for 14 years.

3. What kind of background (work experience/ education) do you have?
   
   I just finished my high school and then started my business.

4. Do you get visits from representatives from the brands you have in the stores, and if so, how often do they usually come? What do they usually do when they visit?
   
   As for our distribution products, no salesmen come to visit the store. I just buy the products and then sell them. The other brands visit the store often; the salesmen come once a week. Usually the salesmen only ask how the sales are, but as the relationship gets stronger, I try to help the salesmen in selling their products and favour them.

5. If you get visits from Jotun representatives, how often is it? Would you like them to come more often? What kind of help would you like to have from them?
   
   Jotun is my main brand. Jotun representatives visit me four times a week. That is enough. I do not need more help from the salesman in Jotun, but if I want to organize some project, I would like Jotun to help me with that.
6. When you order products from Jotun, how long does it take for Jotun to deliver the products?
   Usually the products arrive in 2 or 3 days after my order. The delivery time does not matter to me, since I have a big warehouse. If there is an emergency Jotun always delivers fast.

7. As one of 8 chosen stores, what expectations do you have for Jotun, and what are your plans for Jotun’s products in the future?
   As for the Jotun Company, it should have a strong strategy and consider what its aim should be: how can Jotun develop, how much market share would Jotun like to achieve in three years, how much money does it want to invest? It is up to the headquarters in Norway, not just Jotun China, to decide and have a goal. If Jotun wants to do some advertising, it should know how much money it would like to spend on this. Further Jotun should think about the dealer. The dealers are the ones with the power to persuade the customers. If Jotun China can build a relationship with the dealers and support them, the dealers will in return help Jotun to sell its products. Do some advertisement and be clear how much money you will use in this.

8. How do you think Jotun’s products can become more interesting for the Chinese customers? Which are the best selling points for Jotun to the Chinese customers?
   Jotun's quality is very good, and should be considered a mid-high level brand. There are two ways to build Jotun's brand: first, advertisement is a very good way to achieve some brand awareness. The only problem is that this is also a very expensive method. The other way is to enter into the supermarkets. This is a way which is less expensive. For Jotun I think this is the best way, and its image will be stronger as a result. Colour and appearance of Jotun's products is also very important. Environmentally friendly products are also highly valued in the Chinese market. If Jotun wants to enter the supermarket, it should consider making the fee for the
use of tinting machine\(^1\) free, because otherwise it is too expensive for the dealers. Dulux and Nippon do it for free.

9. When new products arrive, how does Jotun provide you with the necessary information about the products? (Brochure about the products, a short presentation given by the Jotun’s representative, etc.)
   Jotun holds presentations when the new products arrive. Jotun representatives also have sales meetings with me and give me paint samples. These paint samples are very important for me. These help me to sell the products to the customers. We do also get some brochures about the new products.

10. How many employees do you have in your store? How long have they been here?
    * I have three assistants and all of them have worked here for four or five years.

11. What kind of background do they have? (education, work experience)
    * All of them have just finished high school.

12. What kind of product information do they get from the paint companies? And what does Jotun provide?
    My assistants get information about the products from me. Jotun only needs to give me the information and then I can tell the employees about the products.

13. According to your opinion, what can Jotun do to increase Jotun’s market-share in the Chinese market? What do you think about its product yourself?
    * I like Jotun products. They are good quality and that is why I choose Jotun as my main product. But it is quite limited since only some stores sell Jotun. More stores should sell Jotun to increase brand awareness. If you want the Chinese people to like your product you have to make it

\(^1\) Multicolour machine
visible to them. Therefore advertising and selling to supermarkets are the best ways.

14. From your own experience, do you think the customers usually have a lot of knowledge when buying paint? What other knowledge could be helpful to them?

90% of the customers do not know anything about paint. The customer does not have to know much about the product, but they should have heard about the brand name, so they can have an idea of the result, and quality. Jotun has to emphasise the importance of colour, appearance, and result of its product.

15. Which one of the brands in your store is most popular? Why?

Jotun is my main product and the most popular one. I try to sell Jotun to almost every customer in the store.
Interview with an employee in Shanghai

Interviewer: Sharon Ding
Interview object: Mr. Liu Hai
When: March 17, 2009
Where: Songjiang

1. The employee’s name:
   *Liu Hai*

2. How long have you been working here?
   *3 years*

3. Have you worked in any other painting stores before?
   *I have been working with the owner, Mr. Lee, in this business for almost ten years.*

4. What kind of training did you get when you started working in this store?
   How often do you get updated information/training from the producers?
   *I did not receive any training. The only information I got is from my boss. I have never been provided with any form of training by Jotun, and I do not think it is necessary.*

5. From your own experience, do you think the customers usually have a lot of knowledge when buying paint? If yes, what kind of knowledge do they have?
   *The customer normally does not have any kind of knowledge about paint. Most of them think that high price reflects good quality.*

6. Do many customers ask for advice when buying paint? In what areas do they need to be more informed and educated about the products?
   *The customers usually won’t ask for our advice, but we provide them with our advice and help them to find the right paint with the right quality. Some of the consumers hire professionals to help them, so they can buy the right paint.*
7. According to your opinion, what can Jotun do to be more successful in the Chinese market? And how can Jotun change the product, information-material and promotions to better attract the Chinese customers?  
*First Jotun must have the right colour products to suit the Chinese customer’s preferences. Second would be to advertise more.*

8. Do you think it is difficult to differentiate between the four “Majestic” products?  
*It all depends on how we introduce the products, but the customer does not have any knowledge.*

*I like them. They are of good quality, and I would buy Jotun’s products.*

10. How can Jotun arrange for education/information about its products to the customers and to the employees in the shop? Do you have any suggestions?  
*Jotun could provide some kind of training to the employees, but I do not think it is absolutely crucial for success. The most important thing to learn here is how to sell Jotun products, not necessarily a lot of information about Jotun the company. My boss can provide advice on how to sell Jotun products.*
Interview with the storeowner in Shenzhen

Interviewer: Jack Zhong
Interview object: Mr. Zhang Jinnian
Date: April 2, 2009
Where: Shenzhen

1. The name of the storeowner/manager/laoban
   Zhang Jinnian

2. How long have you managed this store?
   15 years

3. What kind of background (work experience/education) do you have?
   I have only finished junior high, so I don’t have a high level of education. I have only been working with paint; I have no other work experience.

4. Do you get visits from representatives from the brands you have in the stores, and if so, how often do they usually come? What do they usually do when they visit?
   I have other brands in my store and the sales people usually come once a week. When they visit us we talk about the competitive situation, updates on sales numbers, and the company’s strategy. Also the sales people will provide us with necessary information about the products.

5. If you get visits from Jotun representatives, how often is it? Would you like them to come more often? What kind of help would you like to have from them?
   Jotun’s sales personnel also visit us once a week – the same frequency as the other brands. When they are here, they also talk about the sales condition, competitive environment, and updates on products. The focus here is often on the products. I don’t think that Jotun sales people should come more often, once a week is enough. But I would like the sales people from Jotun to contact me before they visit and explain what they need
6. When you order products from Jotun, how long does it take for Jotun to deliver the products?
   Normally it takes 7 days, but this is an improvement. Because of lack of communication at the beginning of the cooperation the delivery was quite slow. One order could take more than 10 days before it arrived.

7. As one of 8 chosen stores, what expectations do you have for Jotun, and what are your plans for Jotun’s products in the future?
   Right now Jotun’s product does not have any particularly good selling points. In the future I hope that Jotun will develop products that better suit the Chinese customer. Also I would like to see Jotun work on the brand image. The package needs improvement; for example the Majestic can rusts easily which does not look good. Therefore I would like Jotun to continue to work with these issues.

8. How do you think Jotun’s products can become more interesting for the Chinese customers? Which are the best selling points for Jotun to the Chinese customers?
   I think that Jotun does not know what the Chinese customers want. If Jotun wants to be more appealing to the Chinese customer they need to understand their needs, their purchase criteria, and so on. Like I mentioned earlier, Jotun’s products today have no particular selling points, which makes it a bit tough for us to sell to the customers, especially when they have not heard of the brand before.

9. When new products arrive, how does Jotun provide you with the necessary information about the products? (Brochure about the products, a short presentation given by the Jotun’s representative, etc)
   It depends on the situation. When Jotun launches a new product, for example the four Majestic paints last year, it held seminars and presentations. But when Jotun makes product adjustments or
10. How many employees do you have in your store? How long have they been here?
*4 employees and they have worked here for approximately one year.*

11. What kind of background do they have? (education, work experience)
*No higher education and most of them have no previous work experience.*

12. What kind of product information do they get from the paint companies? And what does Jotun provide?
*The employees get information from most of the brands I have in my store, and sometimes these brands even provide additional training to our staff. So there are many different ways of getting information about the products. Jotun also provides us with training and brochures. I think it is enough.*

13. According to your opinion, what can Jotun do to increase its market-share in the Chinese market? What do you think about Jotun’s product?
*I think the most important point here is advertising and building a strong brand name in China. Jotun needs to differentiate themselves from the competitors.*

14. From your own experience, do you think the customers usually have a lot of knowledge when buying paint? What more information could they use?
*The customer seldom has any knowledge about paint, but I don’t think that they need more knowledge. It is our job to provide them with advice regarding paint.*

15. Which one of the brands in your store is most popular? Why?
*It is ICI that is most popular. I think the reason is that its products match up with the customer’s needs and ICI does a lot of advertising. ICI also comes out with new products 2-3 times a year to meet the customer’s changing needs. Each new product has unique selling points.*
16. There are approximately 8000 decorative paint brands in the Chinese market. How did you choose the brands you sell in your store?

_The most important factor is profit. I have to ask myself, can I make money by selling this product? The service provided by the paint companies is important too._
Interview with an employee in Shenzhen

**Interviewer:** Jack Zhong

**Interview object:** Mr. Liu Li Sa

**When:** April 1, 2009

**Where:** Shenzhen

1. The employee’s name:
   
   Liu Li Sa

2. How long have you been working here?
   
   *I have worked here one year.*

3. Have you worked in any other paint stores before?
   
   *Yes I have worked in another paint store before, but they did not carry the Jotun brand.*

4. What kind of training did you get when you start working in this store? How often do you get updated information/training from the producers?
   
   *Nippon gave us training that lasted 2 months. We have not received any kind of training from Jotun.*

5. From your own experience, do you think the customers usually have a lot of knowledge when buying paint? If yes, what kind of knowledge do they have?
   
   *No, they do not have any knowledge about paint. Sometimes if the buyer is a painter they have more knowledge. The customers only know about some brands because of advertising.*

6. Do many customers ask for advice when buying paint? In what areas do they need to be more informed and educated about the products?
   
   *They do not need to be educated about the paint, since we can help them and tell them what to buy. Most of the customers do ask for our advice.*
7. According to your opinion, what can Jotun do to be more successful in the Chinese market? And how can Jotun change the product, information-material and promotions to better attract the Chinese customers?
   Jotun can be successful if it promotes its products in the right way. Jotun must use some advertising so the Chinese customers can get to know the Jotun brand, and the functions and results of its products.

8. Do you think it is difficult to differentiate between the four “Majestic” products?
   Yes, it is very difficult; to be honest I do not know the difference between all of Jotun’s products.

   Jotun is good, but I would choose Nippon. This is because I know much more about its products and I also know for sure that the result is good.

10. How can Jotun arrange for education/information about its products to the customers and to the employees in the shop? Do you have any suggestions?
    Jotun should arrange some kind of training for the employees. They do not need to educate the customers because we the employees can to that.
Interview with the storeowner in Kaiping

Interviewer: Jack Zhong
Interview object: Mr. Shou
When: April 2, 2009
Where: Kaiping

1. : The name of the storeowner/manager/laoban

   Mr. Shou

2. How long have you managed this store?

   I have worked in this store for 12 years.

3. What kind of background (work experience/ education) do you have?

   I have a high school education, and I have working experience in the paint business for 20 years.

4. Do you get visits from representatives from the brands you have in the stores, and if so, how often do they usually come? What do they usually do when are here?

   Once a month we get visits from the representatives from the other brands. This is because Kaiping is not a key city. Nippon and ICI come here to talk about general things like orders and sales.

5. If you get visits from Jotun representatives, how often it is? Would you like them to come more often? What kind of help would you like to have from them?

   Jotun also comes once a month. Jotun representatives discuss their strategy with us. We want Jotun to visit us more; 2-3 times a month would be nice. Also, Bjørn visited this store last month, which I was happy about and surprised. He was very enthusiastic, warm and honest. It shows to me that Jotun is committed to working with me. Overall I feel Jotun has very good products and very good people.
6. When you order products from Jotun, how long does it take for Jotun to deliver the products?
   
   *The products only take 2-3 days to deliver.*

7. As one of 8 chosen stores, what expectations do you have for Jotun, and what are your plans for Jotun’s products in the future?

   *We want Jotun to focus on the decorative market. Its market share is very low at this time. Also if Jotun chooses to focus on the second tier and third tier cites like Kaiping, it would help us. I want Jotun to be a success in my store, and for that I need Jotun’s help.*

8. How do you think Jotun’s products can become more interesting for the Chinese customers? Which are the best selling points of Jotun to the Chinese customers?

   *Jotun does not have any particular selling points, but its quality is very good. Jotun needs to create a good strategy which can make the brand successful in the market. Furthermore, Jotun should do some kind of advertising so the customers get to know the brand. Jotun’s paint has a glossy result compared to its competitors. This glossy effect makes the walls look much better, and Jotun should consider advertising this advantage. Jotun has to improve its brand image in the Chinese market.*

9. When new products arrive, how does Jotun provide you with the necessary information about the products? (Brochure about the products, a short presentation given by the Jotun’s representative, etc.)

   *Jotun provides us with brochures and arranges meetings so we can get all necessary information.*

10. How many employees do you have in your store? How long have they been here?

   *I have 11 employees here in this store; 4 of them have been here for 12 years.*

11. What kind of background do they have? (education, work experience)
All of them have just finished high school. Some of them have some previous experience in the paint business.

12. What kind of product information do they get from the paint companies? And what does Jotun provide?
I teach my employees the information they need to sell the products. If Jotun could provide some kind of training to my employees it would be nice especially since my focus is on Jotun’s products.

13. According to your opinion, what can Jotun do to increase Jotun’s market-share in the Chinese market? What do you think about its product?
Jotun should have a clear vision of what the company stands for and create a brand image so the Chinese customer will prefer its products. Besides this Jotun should consider focusing on more cites and not only the top tier cities. China is very big and represents many opportunities in the market. Jotun’s products are very good. The quality is super. I have just repainted my store with Jotun paint. I believe in the quality, and it is easier for me to sell the product if I believe in it myself.

14. From your own experience, do you think the customers usually have a lot of knowledge when buying paint? What other information could they use?
Most of them do not have any knowledge about paint. We have a checklist with all the points that are necessary to think about when buying paint. In that way we help and teach the customer to choose the right paint.

15. Which one of the brands in your store is most popular? Why?
The most popular brand here in this store is the brand from Thailand named TOA. This is because when I first opened the store, TOA was the first brand I carried.

16. Why did you choose Jotun?
ICI and Nippon could not provide me enough profit. I have to choose another brand and Jotun seems to be a steady brand with good growth opportunities.
Interview with an employee in Kaiping

**Interviewer:** Jack Zhong  
**Interview object:** Ms. Chen Li  
**When:** April 3, 2009  
**Where:** Kaiping

1. The employee’s name:  
   *Chen Li*

2. How long have you been working here?  
   *I have worked here for five years.*

3. Have you worked in any other paint stores before?  
   *No, I have not worked in another paint shop before I started here.*

4. What kind of training did you get when you started working in this store?  
   How often do you get updated information/training from the producers?  
   *I did not get any kind of training when I first started here in this store, but we got updates from the producers 2-3 times a month.*

5. From your own experience, do you think the customers usually have a lot of knowledge when buying paint? If yes, what kind of knowledge do they have?  
   *No, they do not have any special kind of knowledge about paint. We have to help them to find the right paint.*

6. Do many customers ask for advice when buying paint? In what areas do they need to be more informed and educated about the products?  
   *Yes, they do often ask for our advice. Usually they ask about the different functions of the paint.*

7. According to your opinion, what can Jotun do to be more successful in the Chinese market? And how can it change the product, information-material and promotions to better attract the Chinese customers?
I think that Jotun should use some kind of advertising so the Chinese customer gets to know the brand. Jotun does not need to change the look of its products, but rather do something to be more visible as a brand.

8. Do you think it is difficult to differentiate between the four “Majestic” products?
   Yes it is very hard to see the difference between the products, but our boss taught us the differences so we can tell it to the customers.

   I like Jotun’s products, but I would probably have chosen the brand from Thailand called TOA. I would choose this brand because this brand is the most familiar one to me and has been in the store since I started to work here.

10. How can Jotun arrange for education/information about its products to the customers and to the employees in the shop? Do you have any suggestions?
    Jotun should arrange some kind of training so we get to know the brand and its products. Jotun should also provide us some training so we can be better salesmen and learn how to sell Jotun’s products.
APPENDIX 2: Summaries of in-depth interviews with Jotun staff

Interview with Bjørn Naglestad – the General Manager in Jotun China

Interviewer: Amna Qureshi, Tien Nguyen, Rina Marie Abantao
Interview object: Mr. Bjørn Naglestad
When: May 5, 2009
Where: Jotun Office

1. What does Jotun want to achieve in the Chinese decorative market? How does Jotun want to be perceived?
   The most important thing is to find a position in the Chinese decorative market. Jotun strives to be a quality supplier and to be known as an international brand that provides paint of excellent quality. It will be a long process, taking one step at a time, but the dream is to become one of the best brands in the paint market.

2. Are you concerned about your market share in the Chinese decorative market?
   No, we are not concerned about our market share at this time. The first goal for us is to start earning some money and to find the right position for our brand and products. Today Jotun’s decorative paint department is losing money. The biggest concern is therefore to reduce the shortfall we have experienced the last few years. It is also important for us that the Chinese customers get to know us.

3. What are the different tasks for the employees in the decorative department?
   The main task for most of them is to maintain the relationship between Jotun and our dealers, to run campaigns and to provide feedback. In our decorative department we are focusing on the “push” strategy. We have to “push” our products out to the customers in the market since they do not know about our brand. We tried the “pull” strategy before, but it did not work. Jotun is not a well-known brand among the customers in the China market. That is why our retailers are currently in focus. They are the ones who can reach out to our customers.

4. How is the market share of your competitors?
I am not sure about the exact numbers, but I think most of them do not have a significant market share in the paint market since there are so many competitors.

5. What kind of market strategy did Jotun have in Thailand when you were the manager there? What was Jotun’s market share in Thailand?
   In Thailand we own 10 percent of the market and are one of the three biggest players in the decorative paint market. The biggest brand in Thailand is TOA. This is a local brand. The strategy when I was the manager was to build relationships with the dealers, but this strategy did not work in Thailand. Reasons for this were the high turnover of employees and managers in Jotun Thailand and also because the dealers did not have many good incentives to sell Jotun products.

6. Do you communicate with the employees in the same way in China as you did in Thailand?
   No, the system here in China is a little different than in Thailand even though both countries are in Asia. It was easier to communicate with the employees in Thailand than here in China. The system here is more hierarchical. I am more a boss here than in Norway. The employees do not come directly to me if there is some kind of problem. Also the language and culture have been problems here in China. I give employees an order in English but they understand it in the Chinese way. Furthermore Chinese people work very hard and long hours. One problem that can be a problem here in China is the corruption. Lucky for us we have some really trustful employees who have been here in Jotun China for many years. One of them is Zhou Lai Chun, our national sales director. He has several times encountered instances of bribery in business situations, and he is fully aware that this is not accepted here in Jotun China.

7. What kind of position does Jotun have today in the Chinese decorative market?
   We do not have any kind of position in the Chinese decorative market today. The market sees us as an international player who has succeed in other markets such as protective and marine.

8. Who do you see as the main competitors in the Chinese decorative market?
   The main competitors are the international brands like Nippon and ICI. Our focus is on the premium and medium segments and since the products in these
segments have the same price and quality as the products from Nippon and ICI, they are our main competitors. We fight for the same set of customers. Most of the local brands do not have the same quality as our products.

9. Is everyone in the decorative department informed about the new strategy? Are there any communication problems?
Since I have been injured and lying in the hospital here in Hong Kong, things have been more difficult than expected. I told the whole department in January that our focus would just be on the eight key dealers. We want to give them full feedback and service. But I feel that the employees in the department do not take this strategy seriously enough. For example, the marketing manager in the decorative department, David Shen, is in charge of this strategy, but he seems to want us to include a wider focus and more key dealers. So yes they are all aware of the strategy, but they still do not follow all the orders.

10. What kind of problems have you met as a general manager for Jotun China?
As mentioned earlier, the language barrier is a problem within the company. Most of the employees speak poor English and these results in many communication problems. Furthermore, the risk for bribery is always there. These are the main challenges I have faced here in Jotun China.

11. Was Jotun Group enthusiastic about entering the Chinese decorative paint market?
Yes they were. China is a huge potential market with many opportunities.

12. What are the exit barriers if you want to leave the Chinese decorative market?
Today we lose almost one million NOK every year in the decorative department. The cost to exit the Chinese decorative market would be around 2 million NOK. This is not a big amount, and most of it will be used to pay compensation to Jotun’s dealers. The greater problem is that if Jotun decides to leave the market, we cannot return for many years.

13. What do you see as the main substitutes to Jotun’s paint?
The main substitutes are wallpaper and tiles. However, the government recently found out that the tiles were unsafe for the customer. So tiles are no longer a very big threat to paint. Wallpaper and paint cost almost the same, but since there are
so many competitors in the paint market, wallpaper is not seen as a big threat for Jotun.

The main substitutes for paint have traditionally been wallpaper and tiles. However, the government recently found out that tiles represented a health risk to customers. As a result, demand for tiles has plummeted and they are no longer a very big threat to paint.

14. How many suppliers do you have? Do they have more power than Jotun?
   Since Jotun is an international player we have more power than our suppliers. The prices are fixed and we have both local and international suppliers. They are not a very big threat to us.

15. How is the financial situation today for Jotun China’s decorative department?
   It is not good. For decorative paints to reach breakeven, the decorative department has to double its sales volume.
Interview with Sharon Ding – the brand manager in Deco retail Jotun China

Interviewer: Tien Nguyen
Interview object: Mrs. Sharon Ding
When: March, 19 2009
Where: Jotun office

1. How long have you worked in Jotun?
   I have worked in Jotun for 10 months.

2. Do you have any prior work experience before joining the Jotun group?
   Before Jotun I worked for another American company selling cosmetics.

3. What educational background do you have?
   I have a MBA

4. What are your main tasks as a brand manager at Jotun?
   My main tasks as a brand manager are: marketing communication, brand building, brand strategy and promotional strategy.

5. Do you know how many competitors exist in the decorative market today? What brands does Jotun consider as its main competitors - the local brands, international brands, or other brands with similar market share? Or is it the largest players in the market, such as Dulux, Nippon, and Düfa?
   There are almost 10,000 paint companies in China, but we see only ten of them as our main competitors. Nippon and Dulux are too big for us. The main channels for these two brands are the big distributors and supermarkets, which are not the same channels as Jotun’s. Therefore we do not necessarily compete with these two for the same customers. International brands like Dufa and Levis and local brands like Classic and Ivy are our primary competitors.

6. What is Jotun’s positioning strategy in China?
   The positioning has been unclear for many years, but now we focus in colors.
7. A well-known brand name is a huge advantage in the China market; how strong/weak do you think the Jotun brand name is?

The Jotun brand is very popular in marine and protective coatings. But the brand is very weak in the decorative paint market. The consumers in the Chinese market like to see and touch the result they will get when buying paint. Several competitors are taking advantage of this factor and try to utilize the result in their retail stores. If you go to one of Dulux’s stores, you can see how the paint will look like on sample walls.

8. Has Jotun invested in any marketing activities in China to promote its brand name?

No we have not. So far, we have been concentrated on earning money and turning a profit. Thus we have not used any earnings on advertisement. Other brands have spent a lot of money in advertising. We also have not spent money on promotional activities for our decorative products. Besides we are only three people in the marketing department, and the focus on our decorative products has been very low until recently. The aim is to increase focus on market activities in the future.

9. Would you say that paint purchasing in the decorative market is a high-involvement product or a low involvement? Why?

It is a low involvement product since the products are not so expensive. The customers spend more money on the furniture than the paint.

10. What is Jotun trying to achieve with the new strategy that emphasizes strong cooperation with its key dealers? How does Jotun plan to build relationships with the key dealers?

Implementation of the new strategy has already begun. We are trying to have meetings with the key dealers as often as we can to try developing a relationship with them. It is important for us to know the demand in the market, and help the dealers to earn money. The aim is to make the 8 dealers successful make them, and then we can spread the strategy. We do not want to push the dealers to sell Jotun; we want them to want to sell Jotun’s products. To begin building the relationships, we invited all 8 dealers to come.
to Shanghai to celebrate the new cooperation strategy. We had a party that included dinner and entertainment. We also introduced the key dealers to the staff of the decorative department. In the future we want to fly the key-dealers to Shanghai often so we can discuss progress of the new strategy with them in person. Of course we will take good care of them while they are here. They will get to meet with the general manager Mr. Bjørn Naglested each time which gives them face and shows our sincerity.

11. Do you think that the new strategy will contribute positively to Jotun’s market share in the decorative market in the near future?
   This strategy will help us to do business better and get to know the Chinese market, to get a much better market share is a long term goal, but this is a good start. It does not matter that Jotun is small. If we can stick to our strategy we can be successful. We have to help the dealers to earn money; in return they will help to sell Jotun’s products which will increase our market share.

12. What is your function in this new modified cooperation with the dealers?
   I have a very important function in this cooperation. I talk to the key dealers, phone them, have meetings with them, and design our strategic activities.

13. Do you have any suggestions on how Jotun can increase the market share in the Chinese decorative market?
   At present Jotun’s decorative department is losing money. We are not even at break-even. We have to start to earn money. Jotun should be braver. The competitors in China are so strong. We must build our own strategy and distinguish ourselves from our competitors.
Interview with Zhou Lai Chun – the national Sales Director in Jotun China

Interviewer: Tien Nguyen, Amna Qureshi, Rina Marie Abantao
Interview object: Mr. Zhou Lai Chun
When: March 31, 2009
Where: Jotun office at Zhongshan road

1. How long have you been a part of Jotun group?
   
   I joined the company on 4th of May 2001.

2. What educational background do you have?

   My educational background is in finance.

3. Do you have any prior work experience before joining Jotun?

   I have worked in COSCO as an accountant. I have also worked in a French oil company called Total, where I worked as a deputy financial manager. When I first joined Jotun, I worked as a financial manager in Guangzhou.

4. What is your current job description?

   My job description before was mainly to be a financial consultant. I worked also in the IT department. In addition I worked with legal issues and public relationships in fabrics. I worked also with logistics and some daily operations at the factories in Guangzhou and Zhangjiagang. My focus before was on finance, operations and then strategies, but now I work with sales and marketing.

5. How was the decorative paint industry when Jotun first entered this market compared to today?

   The competition in the decorative market was and still is very tough. There are 8000 paint manufactures in China. The biggest players then are still the biggest players today.
Both customer and government requirements have changed a lot. I think Jotun is a bit slow when it comes to product development to keep up with these changes, especially compared to our competitors.

We did not want to be the leader in the decorative paint market, but rather we only wanted a small part. We did not have any resources to take or cover the whole market. Our focus was thus limited, and we had to be satisfied with what we could get.

6. Did Jotun face any obstacles when entering the decorative paint market in China?
   Actually we faced a lot of problems when entering this market.

7. When Jotun first launched decorative paints, what was the strategy?
   (Target group, position strategy, market communication, etc.)
   Jotun did not have a clear strategy when entering the Chinese decorative market. Our strategy was to focus on some cities and target high end customers since they could afford a higher price, but we did not follow it. Instead Jotun tried to focus on the whole Chinese market and sold its products to low end customers.

   We did not follow our strategy because every year Jotun would set a sales goal for the decorative department, and it was felt by the employees that they only way to reach the goal was to launched Jotun products in as many cities as possible. In addition the price on the products was set very low, just so we could increase sales and reach the goal. The expansive target was prohibiting the organisation to follow the strategy.

8. What did Jotun emphasize the most, when entering the Chinese decorative market? Was it the price, product, or place?
   Jotun was more focused on the quality of the product. We cannot decide on the price of our products because the market does that.
Jotun thought it had good products when entering the Chinese decorative market, but our products were a mismatch for the Chinese customers. In other words, the products Jotun delivered did not match the Chinese customers’ needs. It could be that the Chinese customers’ knowledge about paint and their experience with paint are different with our customers in other countries. Additionally the price on our products was too high.

At this moment we are trying to come up with products that are a better match with the Chinese customers’ needs. We are also expanding our lab and R&D resources here in China. We are actually linking this up with the department in Norway, which is a country that has a similar climate as many parts of China. Our previous source of products was Southeast Asia. But as you know, Southeast Asia has a warmer climate than China. By linking Jotun China up with Norway, we will gradually approach the situation where our quality is much more in line with the Chinese customers’ needs, especially in the decorative department. For the retail side, we have a long way to go.

I can give you an example: before we imported decorative products from our manufacture in Malaysia. These products were customized for the Malaysian climate, and consequently we could only sell these products in Guangzhou where the climate was similar. We could not sell the products in Beijing for example because the climate in northern and southern China is so different.

9. How many times has Jotun changed the strategy in decorative paint?
Jotun has changed its strategy every year. We started with a very big and unclear strategy, so every year we have tried to make it more focused and more concrete.

Actually Jotun did not have a strategy for the decorative market during the first two years of operations. After that we tried to prepare a strategy, but as mentioned before we did not manage to follow it. After many years with an unclear strategy, we now know what we should focus on.
10. What went wrong with the previous strategies?

There are several key points for why Jotun did not succeed in the decorative market in China. First is that Jotun did not do a lot of preparation before entering this market, such as researching customer needs and requirements. Second, we had little knowledge about which product characteristics and features were important in China. Third, we knew very little about the local markets.

Actually, Jotun did not do any preparation at all. We knew that the customers in China needed decorative paint, so we shipped Jotun paints from other Asian countries where we had manufactures and sold them in China. Moreover, the market here was and still is so big, so we thought it would be easy to sell paint.

Another point is that Jotun hired Norwegian sales managers. The Norwegian sales managers were of course good managers, however the decorative market in China was and still is a very local business. This creates some problems if the sales managers do not know how to speak Chinese. It is important for the sales managers to meet the customers, so if a sales manager was supposed to speak with some of the customers it would be a problem. Of course someone could translate for them, but then the Norwegian sales managers could only understand what the customers were saying but not truly understand what they were thinking.

Moreover, having Norwegian sales managers created communication problems between them and the sales force, since the sales force was composed of Chinese people.

After three or four years we replaced the Norwegian sales managers with Chinese sales managers. Even though we changed the sales managers, Jotun still had a lot of problems in the decorative market. Jotun was not patient at all and had a high turnover rate within the company. This of course resulted in a negative effect in the market.
That Jotun had little knowledge about the Chinese customers’ needs is another key point. Jotun knew that it had good quality products, but never thought about what the Chinese customer’s needs were. Jotun thought its products would do well here in China, because it had previously succeeded in other Asian countries.

To summarize it all, we had no knowledge about the Chinese decorative paint market.

11. What do you know about the new strategy?

I know that in retail, Jotun wants to focus on select cities and target high end customers. This is the same strategy for the decorative department. Moreover, we have a new concept that focuses only on specific key dealers. If some of the key dealers succeed, we can promote this concept to a wider group of other dealers.

12. Do you have any suggestions on how Jotun decorative paint can do better in China?

If you want to succeed in China, you need to use a lot of resources, such as advertisement. However I think the most important thing for us is to educate the customers. They need to know the differences between our paint and that of our competitors, such as what kind of features our products have. It is therefore necessary that the dealers receive training from us about our paints. In addition I think it is important for us to be patient.
Interview with David Shen – the sales and marketing manager in Deco retail in Jotun China

Interviewer: Amna Qureshi and Rina Marie Abantao
Interview object: Mr. David Shen
When: April 22 2009
Place: Jotun office

1. How long have you worked in Jotun?
   I started in Jotun in August 2006, so I have worked here for 2 ½ years.

2. Do have any prior work experience before joining the Jotun group?
   I worked in Phillips and Schneider before I started here in Jotun.

3. What educational background do you have?
   I have a master in business management.

4. What are your main tasks as a sales and marketing manager for Jotun decorative China?
   My main task is to build up the sales team in the decorative department.
   Second I also have the responsibility to develop the multi colour machines.
   I also help with developing new products.

5. How does Jotun China operate in the Chinese decorative retail market? Do you have retailers and/or own stores? How many salesmen does Jotun China have?
   No, we do not have any Jotun stores in China, only retailers. We have two focus areas – Guangzhou and Shanghai. We put more resources in these areas. We have recruited salesmen from our competitors like Nippon and ICI, so our sales team has a lot of knowledge about the paint market.

6. Can you describe the decorative industry in China? Are the entry barriers high or low? What about the market’s exit barriers?
The entry costs are not high, but it is not easy to succeed in the Chinese market. When Jotun entered the Chinese market, it could not consider its multi colour machines an advantage since big players like Nippon and ICI already had very good multi colour machines as well. The decorative paint market is big and most of the dealers want to have many brands in their stores. Since Jotun is a foreign brand with good quality it is very attractive.

7. Describe the competitive situation in the Chinese decorative market today? 
The decorative market in China is huge, but so is the competition. It resists having too many brands in the market.

8. Who do you consider as Jotun’s main competitors, is it local brands, international brands, or brands with similar market share? Or is it the biggest players, such as Dulux, Nippon, and DuFa?
I think Nippon and ICI are the main competitors. These are two of the biggest brands in the decorative paint market with products in the premium and mid-range segments. Jotun’s products also target the premium and medium segment, so therefore it competes with Nippon and ICI directly.

9. What position does Jotun have in the Chinese decorative market today?
Jotun does not have any strong position in the market today, but since it is a foreign brand from Europe, Jotun gives an impression of high quality. Second, Jotun is a very successful brand in China’s marine and protective segment. This has the effect of making the overall Jotun brand look good.

10. What are Jotun’s competitive advantages in the decorative retail market in China?
Here in China, Jotun does not have any special kind of competitive advantage in the decorative retail market.

11. Has Jotun made any product adjustments to meet the customers’ needs? If so, what kind of adjustments?
Yes it has. In 2008 Jotun launched a new and improved product called Majestic Matt. This product was better adjusted to meet the Chinese customers’ needs, because Jotun did some research before developing this product. Jotun has also launched some less expensive products targeting the lower-end segment as well.

12. What is Jotun’s new strategy? What is your function in this new strategy?

This new strategy is to focus on 8 key dealers. The goal is to make them successful and earn money from selling Jotun’s products. Jotun is committed to meeting the needs of the key dealers. I helped to choose the eight dealers, and I also have to continuously follow-up with them and help them. I have conferences with them very often, and I help develop action plans.

13. Who are the chosen key dealers? On what criteria did you choose the key dealers?

The eight key dealers are:
1) Nanjing Huiduo Trade Company
2) Shanghai Hongshun Industry
3) Yangzhou Banmei Decoration Material Concourse
4) Shanghai Minhang Area Jiangchuayangguang Construction Material Dealer
5) Kaipin Far-east Paints Company
6) Shenzhen Baoan Area Xinanshengsheng Chemical Plant
7) Zhanjiang Jotun coatings Franchised Store
8) Guangzhou Huadu Area Xinhua Paints Decoration Material Store

We chose these key dealers based on factors like sales, motivation and the segment they focus on. We want to focus on the medium and premium segments. Young dealers were more attractive than the old ones because they were more positive about this strategy.

14. Can you describe the relationship between Jotun and the retailers before this new strategy was implemented? How is the relationship between Jotun and the retailers today?
The relationship and communication between Jotun and the retailers is much better than before. Before we started this strategy we had close relationship with some of the dealers, but not in the same way as now.

15. What does Jotun do to build a better relationship with the key dealers?
   We have meetings with them, arrange conferences with them and try to satisfy their needs. We also try to meet with them one-on-one.

16. What are your expectations for this new strategy?
   I have two expectations for this strategy. First of all, it will make these eight dealers successful. Secondly, Jotun will expand this new “concept” to include a larger selection of dealers here in China.
Interview with Eric Li, salesman in decorative department in Jotun China

Interviewer: Koy He
Interview object: sales representative of Shanghai, Eric Li
When: May 1, 2009
Where: Jotun office

1. How long have you worked in Jotun?
   I have worked here in Jotun for 6 months.

2. Do have any prior work experience before joining the Jotun group?
   Yes, I used to work for a construction company as a salesman for Bibcock.

3. What educational background do you have?
   I have a bachelor degree in programming from Nanjing science and Technology University.

4. What are your main tasks as a salesman at Jotun decorative paint?
   I have to regularly visit the retail stores and maintain the relationship with the dealers, give those updates, and help them if they need anything.

5. As you may know, Jotun is now implementing a new strategy for Jotun decorative paint. Can you tell us about this strategy?
   We are supposed to pay more attention to specific key dealers. We have to take care of our relationship with them and adjust our market strategy. We do also want to gradually upgrade Jotun decorative products in the retail market and enhance our competitiveness.

6. How many key dealers do you manage? How often do you visit them?
   I manage one key dealer and visit him two times a week.

7. What do you do on your visits?
   We ask them if they need any help, review their sales figures, and provide them with updated and necessary information.
8. Do you have a good relationship with your dealers?
   
   Yes, the relationship is very good.

9. Do you think that Guanxi is important? Why?

   Guanxi is very important here in China. If the dealers like us, they will probably recommend our products to the customers.

10. Do you have any recommendations on how Jotun can do better in the decorative market in China?

   Jotun should create cheaper exterior products and improve the product quality.
Interview with Lie Tie Guo, salesman in decorative department in Jotun China

Interviewer: Koy He
Interview object: sales manager of east China, Li Tie Guo
When: May 1, 2009
Where: Jotun office

1. How long have you worked in Jotun?
   I have worked here for 1 year

2. Do have any prior work experience before joining the Jotun group?
   Yes. I used to work as a sales manager for construction material for 8 years in a foreign company.

3. What educational background do you have?
   I have a bachelor degree in marketing from Hunan financial college.

4. What are your main tasks as a salesman at Jotun decorative paint?
   I have to visit the stores, and try to maintain the relationships between the dealers and Jotun.

5. As you may know, Jotun is now implementing a new strategy for Jotun decorative paint. Can you tell us about this strategy?
   This is a new strategy where our focus is supposed to be on eight key dealers. We have to work closely with them and keep them in mind when making internal decisions. We have to help them earn money from selling Jotun's products.

6. How many key dealers do you manage? How often do you visit them?
   I manage one key dealer and visit him twice in a week.

7. What do you do on your visits?
I try to get some feedback about our products and provide them with updated information. I also use these visits to find out about the sales condition for our products and discuss marketing campaigns with the dealers.

8. Do you have a good relationship with your dealers?
   The relationship is great; however it can always be better.

9. Do you think that Guanxi is important? Why?
   Yes it is very important. Guanxi means relationship in Chinese. And relationships are essential in China, not only in social settings but also in business. If the dealers like us, they will translate that to liking Jotun’s products as well.

10. Do you have any recommendations on how Jotun can do better in the decorative market in China?
    Yes, Jotun can provide better service to the dealers. And we must always be available if the dealers need any help. Jotun can also consider advertising to increase brand awareness among the Chinese customers.
Interview with Mo Yie Jun, salesman in decorative department in Jotun China

Interviewer: Koy He
Interview object: sales executive of Wenzhou, Mo Tie Jun
When: May 1, 2009
Where: Jotun office

1. How long have you worked in Jotun?
   *I have worked for 1 year.*

2. Do have any prior work experience before joining the Jotun group?
   *Yes, I used to work for Cayman-paints for 6 years.*

3. What educational background do you have?
   *I have a bachelor degree in chemistry from Hunan technical college*

4. What are your main tasks as a salesman at Jotun decorative paint?
   *I have to take care of decorative retail sales in Wenzhou.*

5. As you may know, Jotun is now implementing a new strategy for Jotun decorative paint. Can you tell us about this strategy?
   *This new strategy is supposed to help our key dealers to earn money. We have to cooperate tightly with them and together increase the sale of Jotun’s products.*

6. How many key dealers do you manage? How often do you visit them?
   *I do not manage any key dealers because my focus is Wenzhou, but I am still very aware of this new strategy.*

7. What do you do on your visits?
   *When I visit retail stores I usually get the update on the sales figures. I ask them if they need anything and provide them with brochures and product information.*

8. Do you have a good relationship with your dealers?
   *Yes I do. My goal is to treat the dealers like close friends.*

9. Do you think that Guanxi is important? Why?
   *Yes it is very important. Having good relationships with the dealers makes them favour our products.*

10. Do you have any recommendations on how Jotun can do better in the decorative market in China?
Jotun should consider using some kind of advertising. This is very important to improve its brand awareness.
Email conversation with Sharon Ding - the brand manager in Deco Retail in Jotun China

Interviewer: Rina Marie Abantao
Interview object: Mrs. Sharon Ding
When: May 4, 2009

1. Are Jotun’s decorative paint products water based or oil based?
   Jotun’s interior paint products are water based, while the exterior products are both water based and oil based. Oil based paint is highly recommended these days, since it is more environmentally friendly.

3. Has the“One Child Policy” affected the buyers of paint?
   Yes it has. Parents are very careful when it comes to their “little emperors” and their needs. Paint should not smell and not contain any kind of chemical that can affect the health of their child.
Email conversation with Bjørn Naglestad - the General manager in Jotun China

Interviewer: Rina Marie Abantao
Interview object: Bjørn Naglestad
When: May 24, 2009

1. What was the reason for establishing R&D facilities in Shanghai?

Reason for establishing a Regional R&D unit in China was to get closer to the rapidly growing market in Marine and Protective Coatings. China has a lot of special regulations and certificates. Hiring and developing qualified technical expertise into our company is a good investment for the future. The R&D unit is fully owned by Jotun A/S in Norway. All R&D expenses are fully paid by the Norwegian company. This is to avoid any discussions with Chinese authorities regarding ownership of any developed technology. It will always belong to Jotun A/S.

Our Decorative R&D was established to do minor test and adjustments to products already developed in our Regional R&D in Malaysia. From this year in our new strategy - we will and have started to develop products for the Chinese market from scratch. We have realized that the climate and the special Chinese building standard and application methods call for an individual development.
Email conversation with Fredrik Berge-trainee in the finance department in Jotun China

Interviewer: Rina Marie Abantao
Interview object: Fredrik Berge
When: May 15, 2009

1. How would you describe Jotun’s financial situation in Deco retail today?
   - Deco is divided into two parts: 'Deco retail & marketing' and 'Deco Project'
   - Deco retail is not doing well in the market; Jotun is today losing money which is the reason why Jotun has implemented the new strategy with eight chosen key dealers.
   - Deco project on the other hand is doing very well in the Chinese market and has a positive EBIT.

2. How was the economical situation for Jotun China in Deco in 2008? (sales)
   - Deco total for 2008, per month and total

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<td>3 600</td>
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<td>6 626</td>
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Deco total includes Deco retail and Deco Project. Keep in mind that you need to add three more zeros in the numbers above. So 53 365 is 53 356 000.

   - 'Deco retail and marketing' part for 2008, per month and total

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Jotun China calls this “deco retail and marketing” since the decorative department’s marketing costs are kept under deco retail.
APPENDIX 3: Summaries of in-depth interviews with WCA and Lai Fung

Interview with Adrian Wall, the CEO of Wall Capital Advisors (WCA)

Interviewer: Tien Nguyen
Interview object: Adrian Wall
When: May 13, 2009
Where: Hong Kong Plaza, Huai huai Rd

1. Your name, the name of the company and your job title
   Adrian Wall, co-founder and CEO of Wall Capital Advisors (WCA).

2. How long has the company been in China?

   WCA was formed in 2006, but some of our executives have been working together in China as early as 2003.

3. What is the company’s expertise?

   WCA is a boutique merchant bank with a regional focus on cross-border transactions between Greater China and Latin America. WCA has three divisions: strategic advisory, fund management, and trading. Our website breaks it all down in detail, but I think for the purposes of this interview, our advisory group is most relevant. Our strategic advisory group provides a range of services to companies and institutional investors. Services range from providing market research and competitive intelligence to establishing China operations to acquisitions and formation of joint ventures. WCA markets itself as experts in doing business in China and Latin America, as opposed to experts in any specific industry. Of course we are stronger in certain industries due to the experience of our team and experience we have gained through working with clients. In China, we are particularly strong in the financial services, manufacturing, real estate, media, energy, mining, and natural resources sectors.
4. How important are relationships and Guanxi to doing business in China?

*I often hear foreigners say that the importance of Guanxi is overestimated and not necessary for success. Unfortunately for them, this is very wrong. Contrary to their belief, the importance of Guanxi is more often underestimated. The concept of relationships is so ingrained in China's business culture, especially outside of China's top-tier cities. Guanxi can open doors, speed up processes, and make the impossible possible. For example, having Guanxi with the business registration bureau can shorten the time it takes to set up a representative office from 2 months to 2 weeks. Having Guanxi with a company can immediately put you in front of the decision maker, rather than having to spend valuable time working your way up from meetings with low level people and no guarantee of success. For Jotun's purposes, having Guanxi with its distributors is crucial, especially in a market that is probably highly competitive and where sales margins are similar between different brands in a similar price range. Having a solid relationship with distributors will give them motivation beyond profit. In other words, if a distributor has a choice between pushing two competing but similar paints at comparable margins for himself, he is going to push the one belonging to the brand that he has a better relationship with. It is what any of us would do.*

*Let me give you a real-world example that I went through. WCA has been trading in various metal commodities since 2008. For the first 6 months, we could not get any buyers in China to sign contracts, despite high demand for our products. We even lowered our margins to the point of break-even, just so we could begin to establish a track record for ourselves and trust within the market. However, we were still unsuccessful. Simultaneously, we were identifying the key buyers in the industry, and the key people within the organizations. We would take them out, entertain, wine-and-dine, etc, and never bring up contracts or business. After 3 months of this, we had established a strong foundation of Guanxi with several buyers. Then when we revisited the opportunity to sell our products to them, contracts were signed within days. And our prices were now above market rather than at break-even points for us. To be honest, this was not even our idea, but rather*
our buyers simply offered to buy at such high prices, presumably because they felt the obligation to take care of us because of our Guanxi. Not only that, but we are now meeting other buyers within the industry who are aware of our existing Guanxi, and signing contracts with them. All this is because of our Guanxi.

5. Have you ever heard of Jotun before?

Actually, I have. I remember reading that Jotun was awarded the contract to repaint or recoat the Eiffel Tower. But I must admit that I have never heard of Jotun’s presence in China.

6. What are some recent trends in China that Jotun should be aware of with regards to the decorative paints market?

By no means am I an expert on the paint industry in China, nor am I familiar with Jotun’s strategy in China, but the first thing that comes to mind is the residential real estate market in China, and the trend of urbanization. The numbers vary, but something like 400 million Chinese will be moving from Western and Central China to the East over the next 10 years. All of those people will need to be housed, clothed, and fed. Just think about the growth this means for the energy sector, for infrastructure projects, and for residential construction. The real estate market may be in a slump now, but anyone who has confidence in China’s future understands that it will rebound. I definitely see the demand for decorative paint increasing with the increasing demand and supply of housing. The other thing that comes to mind is the emerging and rapidly growing middle class in China. The average annual income per capita in China is rising exponentially, and the government is trying to narrow the gap between the very poor and the very rich. The government is also encouraging banks to finance mortgages and new businesses, and the middle class stands to benefit the most from this. Presumably, the majority of the new housing construction will be aimed at servicing this new middle class. And hopefully the middle class represents a target market for Jotun. Also, increased financing and low interest rates present opportunities for manufacturing companies to upgrade or purchase
new capital equipment and stockpile production inputs assuming prices have not increased. Of course, need should be the driving force behind plans for expansion, and so other factors need to be considered, including Jotun’s current production as a percentage of total capacity. But all things being equal, now is an ideal time to take advantage of low asset values and low interest rates.

I’d also want to investigate trends in consumer choices of decorative paint. It can be as general as paint vs. wallpaper, and as specific as quality and color preferences.

7. How would you advise Jotun to gain market share in China?

Again, I know comparatively little about the paint industry in China, and also about Jotun and its competitors here, so it’s hard for me to give specific recommendations. I’d need to get myself up to speed on all three things if I were to properly give you an answer. However in general, the key is to understand the market, understand your targeted customers, and understand your competitors, understand yourself, and understand China. Understanding the market is rather straightforward, and we already talked about some of the trends Jotun should be aware of. Understanding the customer is also something I mentioned before – trends and preferences. Understanding competitors is about understanding what it is that makes others in your industry succeed and fail. Who are the market leaders? How did they get there? What do they do differently than you do? How are their products superior/inferior to yours? Understanding yourself is ultimately about having goals. A company needs to honestly evaluate where it stands now, how it got to this point, where it wants to go, and how to get there. Understanding China is about looking outside the paint industry and considering the political, legal, economic, social, cultural, and basically all the aspects that make China a unique and challenging place to do business, regardless of what industry you are in.
Interview with Lester Lam, the CEO of Lai Fung Holdings

Interviewer: Tien Nguyen
Interview object: Lester Lam
When: May 13, 2009
Where: Hong Kong Plaza, Huai huai Rd

1. Your name, the name of the company and your job title
   
   Lester Lam, CEO of Lai Fung Holdings.

2. How long has the company been in China?
   Lai Fung Holdings is the China real estate development arm of Lai Sun Group and we’ve been listed on the Hong Kong Stock Exchange since 1997.

3. What is the company’s expertise?
   
   We focus on the development of residential, office, commercial, and mixed-use properties in prime locations of China’s top-tier cities. We are very strong in Shanghai and Guangzhou. We also manage many of our projects, including expertise in hotels, service apartments, residential, and mixed-use properties.

4. What factors are currently affecting China’s real estate market?
   
   Before the global economic crisis, land was very expensive in China, particularly the top-tier cities, because high consumption of land caused a relative scarcity and consequent price increase. The government was worried about real estate speculation, and so had many laws to stop this. For example, a new law created a very high capital gains tax if landlords flipped properties within 5 years after buying them. So suddenly people can’t just buy a property, wait a few months, and then flip as the market keeps going up. The government was also telling banks to make it more difficult for people to get a mortgage. But this isn’t true anymore. Because of the financial crisis, the government is actually telling banks to lend more to boost investment and spending.
Other factors we are seeing today are more government reform to improve market transparency and stabilize housing prices for mid to low class people, as well as a maturing securities market. Also, it is easier today to bring in foreign currency, mostly US Dollars, to invest in Chinese real estate than it was before the crisis.

5. How is the market for residential development projects in China?

Of course, the market for all real estate projects is down in China because of the financial crisis. But it seems very clear that China will recover quicker than most of the developed countries like the US, UK, and European countries. China is not in a recession, in fact GDP growth is positive and estimated at 6-8% this year. So the long term is very good for real estate in China. And now is a unique opportunity because real estate prices have come down 20-30% is some cases in top-tier cities. But we believe there will be a very strong growth in demand for residential projects over the next 10 years. 200-400 million people are going to move from west and central China to the major cities in the east – Beijing, Shanghai, Guangzhou – over the next ten years. To meet this demand, real estate development companies are going to invest in residential projects. Plus residential projects have a quicker turnaround time than other real estate projects such as office and retail. For residential, you buy, develop, and then sell – usually within 5 years. Office and retail are about renting and managing over a longer period of time.

The residential sector has typically been the best performer in terms of percentage increase in investment transaction value. I remember in 2006, the total value of residential properties sold en-bloc was US$ 591 million which 5 or 6 times more than 2005. For sure, the future market for residential property development is very bright in China.