

Case Study *by Dr Bob March*

Overview

Rod Zemanek, the principal negotiator, designer and Project Manager of an Australian chemical engineering consultancy, (Predict Pty Ltd) has a warning for those wanting to do business in China: "Many Chinese see it as their patriotic duty to shoot down foreigners, so you can be like a clay pigeon at target practice." Despite this, Rod Zemanek has been successful in China and is responsible for the design of many of the country's modern breweries. He was invited to submit a proposal for a huge Guangdong brewery by Dr. Pasteur Lai, the son of a former Chinese minister of health and now an Australian citizen. Lai had many connections deep within the Chinese government, had done his homework on Rod Zemanek, and was able to report to the Chinese that Rod Zemanek was the premier brewery designer and builder in Australia.

The Scene

Rod Zemanek was initially cynical. "We get a lot of 'tire kickers' in this business—people who aren't serious about a project but just want to test the waters," he explained.

Rod Zemanek sent the Chinese a questionnaire, asking for information about specifications, resources, brewery capacity, products they planned to produce, budget, and business plans. The response he received convinced him to head to China to discuss a potential deal to build Guangdong province's largest brewery—a \$20 million project. But, having heard from others about their China experiences, he decided to pitch only for the business in which his company had special technology to offer. "One of the first things you need to understand about China is that you can't compete against cheap, local rivals," he advises. "The Chinese only want foreigners involved if we can offer special technology they can't get at home. We knew if the Chinese could have got locally what we offered, they would not have approached us."

Preparing to Negotiate

In the lead up to the negotiations, Rod Zemanek knew his business could provide strengths the Chinese business lacked. He had access to technology that could increase the capacity of the planned brewery while also reducing waste. He specialized in understanding and predicting market trends and had access to sophisticated, international market data the Chinese company lacked.

The Chinese party had no experience in designing breweries whereas, since 1983, Rod Zemanek had built or redesigned all Australia's major breweries and most of its boutique breweries. Before starting negotiations, he did extensive research on the Chinese market, including its beer industry and the Guangzhou company. He found that, despite the company's listing on the Shanghai Stock Exchange, it had direct links to the Chinese government.

"If you're working with a brewery in China, you're working with the government, because the industry is so tightly regulated. I also found that the government

department in charge of the alcohol industry is run by ex-Red Guards, so I knew I was dealing with people who had to report back to important government figures. I thought that, if I could find ways to make them look good in the eyes of their bosses, it would help in developing a beneficial business relationship," he said.

When Rod Zemanek arrived in China, he discovered that the Chinese were also talking to German, French, and Belgian companies, and that the Chinese company's plans for the brewery were not as well defined as had initially appeared.

"I decided my job was to be the expert, and I knew I should tell them what they needed, rather than let them tell me. It was clear they knew nothing about designing breweries."

Rod Zemanek also understood the sensitivities in pointing out the shortcomings of the Chinese plans. He had spoken with Chinese Australians (including two on his staff who had become the key members of his team in China) and read widely on Chinese culture, so he recognized the risk of causing the Chinese to lose face. To avoid doing so, he offered to work with the Chinese on developing the competitive brief using the latest technology.

This would allow him to begin building relationships with the Chinese before the tendering process had begun. It would also give the Chinese lead negotiator face with his bosses (and the Chinese government officials), as he would be able to develop a better business brief using foreign technology. It also gave Rod Zemanek's business a head start in the tender competition.

Uncommon Tactics

"Before tendering began, we were working with the client to develop the brief while the other companies were sitting around," he said. The Chinese arranged the accommodation for the tendering companies. Each foreign team—the French, Germans, Belgians, and Australians—was lodged by the Guangdong government at the same hotel. "We would go and have a meeting with the Chinese. When we got back to the hotel, the other businesses would always be waiting in the lobby to be picked up for their meetings. It was made pretty clear that we were competing against each other," Rod Zemanek said. Working in such a specialized field—brewery design—meant that the foreign negotiating teams knew each other, and they used this to their advantage.

"We knew the Chinese were trying to pit us against each other, so we turned their tactic around. We met every afternoon in the hotel bar and compared notes. We could then work out together whether this negotiation was about price, technology, reputation, or some other driver. Of course it was about price and technology—it always is," he said.

The negotiations took place over several weeks, during which each of the foreign companies met with the Chinese team almost daily. "We talked about the price and technology constantly. We were always discussing the scope of the project, to fit it in with a budget with which they were happy, but which still delivered excellent technology. There were perhaps thirty Chinese, and every time we met, there would

be different people talking. You'd think you had an agreement, and then one of the Chinese would suddenly pull you aside and tell you the complete opposite. It was very confusing."

Shoring Up Advantage

To ensure he was not misunderstanding the negotiations, which were being conducted through an interpreter with the Chinese team, Rod Zemanek had brought from Australia two of his China-born staff—a chemical engineer and an accountant.

"I decided I needed to use my two Chinese team members as my interpreters, because the Chinese language is often not explicit: The meaning of what they were saying was often only implied. It was the best decision I made, because I got the chance to log onto real feedback."

Rod Zemanek also began to see the language barrier as an advantage. "Not knowing the language gave me carte blanche to completely change my mind on things I already had said, because I could use the excuse that I had not properly understood. They kept changing the negotiations on me, so it gave me the chance to do the same back and get away with it."

Rod Zemanek had great respect for his competitors. They were professional managers, corporate people. But they also had superior attitudes toward the Chinese, and indeed also toward Rod Zemanek and Australia. They refused to believe that a world-class brewery designer could be found in Australia.

After several weeks, the French and Belgian businesses pulled out, frustrated at the drawn-out negotiating process. They had offered their best price when first challenged and had left themselves no room to maneuver. Between them, the French and Belgian negotiators had two other problems. First, they were both professional managers involved in a number of projects, so it was easy for them to give up and go home to take up other projects waiting on their desks. Second, no one on the French team liked Chinese cuisine, so returning home looked very attractive to them.

Rod Zemanek, however, was a specialist chemical engineer who owned his own business, had already invested \$350,000 in preparation, and was not inclined to walk away.

Patience Pays

"I went in suspecting we were going to spend ninety percent of the time arguing price, particularly since the Chinese started negotiating by crying poor. They kept saying they had a limited budget, so I started high and kept shaving off the smallest amount, but never near my limit. I knew from my initial questionnaire and research they could afford to pay what the technology and I were worth. Even though this represented a great opportunity to enter the Chinese market, I also needed to get properly rewarded," he explained.

"When I first got to China I was told of a Chinese saying—'China has 5,000 years of history, so what's an extra hundred years?' This basically means that they are patient

and will wait for the right deal. We had invested a lot of money to go to China, and we were not about to turn around and come home just because it was taking longer than we wanted.”

The Chinese team tried to use Rod Zemanek’s planned return date as leverage, in a bid to pressure him into agreeing to their price terms on the basis that he was leaving the country. But he recognized the ploy. “I realized they were dragging negotiations out until my departure, so I told them my date was flexible and I’d just stay until we finished. I acted as though I no longer had a deadline, and politely pointed out they were the ones who had to build a brewery within a certain time frame.”

Rod Zemanek spent every evening with his Chinese negotiating team, analyzing each day and trying to figure out the Chinese strategy. They would probe and explain to him Chinese cultural perceptions, which Rod Zemanek found invaluable for understanding the Chinese tactics.

Being Tested

“There was one meeting in which one of the Chinese team became very angry and distressed. That night one of my interpreters told me that the individual had probably been testing my reaction. He explained that Chinese don’t do business with people they don’t know, and that sometimes they will use different emotions to see how the other party reacts under pressure.

“Chinese culture is so different that you need that local Chinese input. You can never have intuitive understanding of everything that influences and drives them—that would take fifty lifetimes. The next best thing is to have local contacts to guide you.”

Rod Zemanek found other confusing elements about the negotiating process. “We would have in-principle agreement on issues, and then they would just change their mind. We have since learned this is standard. Even if you have something in writing, it is only ever a ‘discussion document.’ The Chinese expect you to ‘be like bamboo and bend with the wind.’

With the negotiations down to just two companies, Rod Zemanek tried a new tactic. He pitched the environmental benefits of his brewery design, explaining how his technology could make the Chinese brewery a world leader in waste management. His technological solution would diminish environmental waste while ensuring maximum capacity and building up the Chinese company’s reputation as a world leader.

Meanwhile, the Chinese team had also done its homework and was secretly favoring Rod Zemanek’s company based on its reputation for delivering on time and to specifications. In the end, the specialist technology Rod Zemanek could offer ostensibly won him the contract.

But Rod Zemanek believes it was more about relationships and face. “I put effort into helping them look good. I designed the brief with them using the latest technology. I helped solve other problems they had not considered, such as environment management that would save them money. I suggested my solutions would make their business a world leader. It was about giving them an opportunity to shine.”

The Last Round of Negotiations

Before agreement was reached, and after the last of three proposals had been delivered and considered, nine separate negotiations were held to discuss:

- Payment terms and advance payments
- Currency decisions
- Inspections policy
- Warranties
- Delivery of overseas and local components
- Commissioning and training of the Guangzhou company's personnel
- Penalties
- Performance requirements
- Capacity to deliver

By this time, the Chinese team was reduced to twelve people. While Rod Zemanek and his team were in China on the last occasion, the Chinese team split in half and each went abroad—to Europe and Australia—to evaluate Rod Zemanek's suppliers (and through them, him) of pump valves, electronic equipment, stainless steel, and laser welding. His suppliers all appear to have given him a pass mark, but one subjective problem remained.

While Rod Zemanek's team was well ahead of the other teams on all criteria, some members of the Chinese team remained opposed to the Australian team—because it was Australian—saying they wanted, on the basis of image and reputation, a brewery designer and builder from Europe. The vice governor of Guangdong province finally stepped in, we understand, and made the decision in favor of Rod Zemanek's company. Within forty-five minutes of his decision, the negotiation leader was on the phone to Rod Zemanek at his hotel.

"We want you to sign the contract," he said out of the blue and with no preamble. "Come to the office now. Also bring \$2,000 to pay for the celebration banquet at lunchtime."

Rod Zemanek and his team went directly to the provincial office. Before he signed the contract, he said to the team leader, "Thank you very much for your agreement to commission us to build your brewery. In consideration of that, we wish to present you with a five percent discount."

The step was artful. Bringing the project in five percent under budget gave face to everyone on the Chinese team, including the vice governor. They would not forget this.