

# Customers Are My Boss

---An interview with Mr. Jin Zhiguo

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## Profile of Mr. Jin Zhiguo

Mr. Jin Zhiguo was appointed Chairman of the Board at Tsingtao Brewery Co. Ltd. in June 2008. Mr. Jin started as a Tsingtao Brewery worker in 1975 and advanced to managerial level in the company's energy department. In 1994, he became an assistant to the factory director. Two years later, in 1996, he assumed responsibility for the Brewery's Xian subsidiary, and in August 2001, he was appointed president.

His creative philosophy in strategy, marketing, branding, and management has led to Tsingtao Brewery's impressive reform and innovation. After years of expansion, he initiated their new strategy of prioritizing "strengthening." His management philosophy on value chain and marketing models are major factors in the Brewery's competitive advantage.

He created "The Seven Elements of Competitiveness Model," which promotes each employee's ability to add value to the company.

Through Mr. Jin's leadership, Tsingtao Brewery's annual sales almost tripled to 19.6 billion yuan in 2010. Its brand value increased more than six-fold to 50.2 billion yuan in 2011 making it one of the Global Top 500 Brands.

Born in July 1956, Mr. Jin holds an EMBA degree from the China Europe International Business School and a Doctorate of Science from Qingdao University. In 2003 and 2008, he was elected as a delegate to the tenth and eleventh National People's Congress. In 2007, he was named one of China's annual top ten figures in economics, and in 2008 he was honored as one of the top 30 entrepreneurs who have contributed extraordinarily during China's reform and opening period. In 2009, he was recognized as one of the seven entrepreneurs who have outstanding brand achievement, one of the top ten Chinese CEOs, and one of the 25 most influential corporate leaders. In 2010, the State Council of China awarded him a special government allowance for his exceptional contributions to the country.

## About Tsingtao Brewery

Tsingtao Brewery was founded in 1903 by German and British merchants under the name Nordic Brewery Ltd., Tsingtao Branch. It sponsored the Beijing Olympics in 2008 and is one of the world's top 500 brands. On July 15, 1993, Tsingtao Brewery became the first Chinese company to be listed on the Hong Kong Stock Exchange (stock code 0168). On August 27, 1993, it was listed on the Shanghai Stock Exchange (stock code: 600600), making Tsingtao Brewery the first Chinese company to be listed in both Mainland China and Hong Kong. In 2010, Tsingtao Brewery sold 6.35 million kilo-liters of beer, an increase of 7.4% from the previous year. The revenue and net profit reached new record highs of RMB 19.61 billion and 1.52 billion respectively, up 10.4% and 21.6%. It is the most profitable company within its industry. Tsingtao Brewery exports to more than 70 countries and regions, including the United States, Japan, Germany, France, United Kingdom, Italy, Canada, Brazil, and Mexico. The Barth Report, an authoritative publication that assesses the global beer industry, ranked Tsingtao Brewery as the sixth-largest brewery in the world. Since 1949, Tsingtao Brewery has received numerous awards and recognitions in some of the most prestigious beer competitions held in China and around the globe.

66 On August 3, 2011, a cool summer day in Tsingtao, we interviewed Mr. Jin Zhiguo, Chairman of the Tsingtao Beer Company, a global company that originated in Tsingtao and has more than 100 years of history. Mr. Jin started washing bottles for Tsingtao Beer when he was very young. How did a worker with such humble beginnings rise to the top of a giant global Chinese company? How did he learn effective leadership? What challenges has he faced along the way? How did he transform Tsingtao Beer to allow it to achieve its current success? In this interview, Mr. Jin shared his stories behind the success of this historic company, and discussed the path he took to lead and transform Tsingtao Beer.



## Customers are My Boss

**Kite Xu & Katherine Xin: Thank you, Chairman Jin, for your time. What life experience most profoundly influenced your leadership style and philosophy?**

**Jin Zhiguo:** My family is the basis for my success. I was born in a shabby rental room in a small city in China. My parents were both orphans with limited financial resources. When I was about seven-years-old, my mother got sick. I was worried about what we would do if she passed away, so I often woke up in the middle of the night just to check her breathing to make sure she was alive.

As the only boy, I was the pillar of the family. According to Chinese tradition, I could not shirk responsibility to my family. I had to support them and that was it. To surprise my mother, one day I went home immediately after school and steamed buns with leavened dough before she returned from work. She was so delighted and so proud that she told everyone in the neighborhood, "my son made buns for me."

Mother's delight made me feel so proud. Even today, I like to give people happy surprises. I'm driven by a sense of accomplishment.

In those difficult days, I told myself that I had to succeed. This determination drove me to do the best in every venture throughout life. As the big brother at home, I cared for my younger sisters; as a group leader at work, I united my team to strive for the best performance; and as a general manager, I was determined to lead my company to industry leadership.

**Xu & Xin: What was the biggest challenge you met in your early career? How did you deal with it?**

**Jin:** I became general manager of Hans Beer in 1996. In November 1995, when I was the assistant to the general manager of Tsingtao Brewery's first plant, I took my team to Laoshan for team-building activities to celebrate our accomplishing production ahead of schedule. During that trip, my boss told me to come back as soon as possible. When I returned, my boss told me that I was being transferred to Hans Beer and that I had three days to prepare. He told me to first go to Xi'an and then I would be able to discuss any difficulties with those instructions.

**Xu & Xin: Didn't they even discuss the assignment with you?**

**Jin:** They never did. Knowing that I have a very strong personality, maybe my boss did not want me to refuse. When I was 23, I refused when my boss appointed me to be secretary of the Youth League Committee of Tsingtao Brewery. Everyone thought that the appointment was an honor for an ordinary worker like me and a good opportunity to rise to middle-level administration. But I believed that the position would not teach me much so, without hesitation, I declined.

**Xu & Xin: It is really surprising that you refused the position of secretary of the Youth League at that time! So how did you feel**

**when your boss assigned you to Xi'an without any notice?**

**Jin:** I had but one single thought—I would leave Tsingtao if I failed. I must succeed, even though managers of state-owned enterprises (SOEs) often returned to their former positions even if they failed in new assignments. But for me, I allowed no plan B. I moved my family to Xi'an, including my daughter who was in middle school.

**Xu & Xin: How was Hans Beer doing in Xi'an then?**

**Jin:** On my first day on the job, I read their financial report. The first figure I saw was 1,000, which I first thought meant 1,000 packs. A closer look at the unit revealed that it meant 1,000 bottles. Yes, unbelievably, the company had more than a thousand employees, but produced just one bottle of beer per person per day. I started my new career with great disbelief.

In my first few days in Xi'an, I wondered why Hans Beer, a SOE, with money and technology at its disposal, had failed so miserably in competition against privately owned Yellow River Beer and a township enterprise, Baoji Beer. What had gone wrong?

Several days later I learned the answer: SOE leaders were appointed, while the leaders of privately owned or township companies had to work hard to win their titles and positions. This difference explained why SOE leaders spent most of their time knocking at the doors of their superiors rather than researching the local beer market. They had no idea about which beer flavor consumers preferred, but they had a profound knowledge of their superiors' personal tastes. With this realization, I laid out a clear road map. In my previous job as workshop manager, I had focused on product quality, firmly believing that "good wine needs no push"; but now, it was time to shift the focus to market research to understand consumer needs. It was time to reach out to consumers, to make a beer that they loved.

**Xu & Xin: So how did you come to understand the needs of consumers?**

**Jin:** Even today, I still believe that customers are my boss. You must get your feet into the water, be out there, get yourself wet, know and feel it, by yourself. I don't know of any other way to get first-hand information about the beer market.

During the day, I looked into every detail to ensure product quality. After work, I went out and mingled with Xi'an citizens, eating barbecue and drinking beer at food stands or restaurants. After people left, I stayed behind and counted empty beer bottles. I talked to consumers to understand why they disliked Hans Beer and to restaurant owners to know why they didn't put Hans Beer on their menu. These actions gave me critical information about the local beer business. I also encouraged my sales team to do the same by giving each salesman a three yuan beer allowance.

By dining and drinking with ordinary Xi'an citizens, my colleagues and I learned that the locals had a popular saying about beer brands: "Hans is bitter, Yellow River is light, and Baoji has lots of sediment." So I thought "No brand is perfect, is it? Let Hans be the one that's not bitter, not light, and has no sediment. Won't people love it?"

Those evenings also showed that Xi'an consumers like spicy food, such as hot pots and barbecue, which go better with lighter beer. I decided to weaken Hans Beer by reducing the alcoholic content from 12% to 10%. Also, the spicy diet meant that iced beer was more popular. We could spare restaurants the trouble of icing the beer themselves if we delivered it to them already iced. I asked the brewery to empty the hop house and turn it into a large fridge for storing beer during the day. At night, we delivered the cold beer to distributors and consumers. We had no refrigerated trucks in those days, so I arranged a fleet of three-wheeled carts to transport the iced beer, covered by thick

quilts, to every outlet.

**Xu & Xin: Respect for consumers is easier said than done. What else did you do in Xi'an?**

**Jin:** In business every stakeholder shares a piece of the cake. For success you must assure people who work with you that they will benefit too. Otherwise, why should they work with you at all?

My first meeting with distributors in Xi'an drew fewer than 20 people. Nevertheless, I promised those few attending that they would not lose a dime. I could make such a bold promise because the company had already arranged to reimburse distributor for losses.

A year later, the meeting drew more than 200 distributors, partly because Hans Beer had become more popular, and its profitability had grown from a loss of 24 million in the previous year to a gain of more than 10 million RMB. In addition, I knew that the distributors wanted to test whether I would continue to keep my promise to compensate them for losses.

Before the meeting, I had studied the performance of distributors in that year through a market survey: about 10% were suffering minor losses, 80% were breaking even, and 10% were making a profit equal to that of rival brands. In the meeting, I asked those who had losses to raise their hands. Half did. Unsurprised, I said, "Actually, fewer of you lost money last year. But I understand. When you are in a business, breaking even means losing money." I declared Hans would take 8 million out of our 10 million RMB profit to make up for their losses.

**Xu & Xin: How did the distributors respond?**

**Jin:** The meeting room exploded. I had convinced them that they could count on me, and they could count on Hans. My word ignited their enthusiasm and led Hans to surge in market

share. In 1999, Hans reached its target: an annual profit of 50 million RMB.

But our staff was strongly opposed when I first proposed the 8 million RMB subsidy. They did not understand the logic, although it was simple. Hans had been in the red for years. After all our hard work, we were finally seeing a modest profit. Why throw it away? I explained that if you give people something good, they will give you something better in return. I also promised that our staff would get a pay raise and more bonuses if we performed better next year.

For years, suppliers had followed the practice of buying dinners for beer producers or giving them gifts. I changed the rule. When I have to ask someone for a favor from time to time, the last thing I want is a cold shoulder. So why in the world would I want to give my suppliers a cold shoulder? Respect is the best business practice. If you show suppliers respect, they'll support you with the best materials and products. To respect them is to respect consumers, and yourself.

### Respect for market principle

**Xu & Xin: Please describe your management philosophy.**

**Jin:** My management philosophy is simple and plain: respect. How much you respect others determines how much they will respect you in return.

We should respect not only consumers, but also distributors, suppliers, and employees. They are the boss, not the person who sits in the office and gives you the job. If they buy into you, your company will grow. And only when the stakeholders and partners—distributors, suppliers, and employees—get their piece of cake, will they be motivated to work hard.

I believe that your respect for others will determine how much they will respect you; how much responsibility you take for others will determine how much they will take for

you. Those who make money because of you will make money for you; those who become successful because of you will make you successful.

**Xu & Xin: Your management philosophy is plain but practical. Could you please describe the situation of Hans Beer when you left?**

**Jin:** When I left after five years, Hans was a big name in the beer industry, with 78 million RMB in yearly profits. Although Tsingtao Brewery acquired many breweries, Hans was the most profitable and offset losses of other breweries.

**Xu & Xin: In 2001, Peng Zuoyi, then General Manager of Tsingtao, died of a terrible heart attack while swimming and left the company needing a new leader. What were your expectations?**

**Jin:** I was the one, the only one. In the entire Tsingtao Brewery company, I was the best candidate. More than 70% of survey participants named me in a company-wide survey that asked who should be the future CEO and in a secret ballot among middle and top management. When I learned these results, I felt happiness and gratitude, but I also realized the weight of the responsibility. After all, I was just a middle manager, and at least 11 candidates held higher positions than I.

My wife was unhappy about the new role, however, and strongly resisted out of concerns for my health. She feared that I was committing suicide by taking over this whole mess. I countered that Tsingtao had given me the skills I had gained in our last three decades together. Now the company was in a life-or-death situation, and I had to step forward.

**Xu & Xin: What was the biggest challenge at the time?**

**Jin:** Tsingtao Brewery had been expanding massively in the years before I took over. Pressed by the capital market, from 1996 to 2001 it acquired 47 breweries, two within a

single week at the peak of its expansion spree. But the increased number of breweries brought no real benefits to us. On the contrary, except for Hans in Xi'an, all acquired breweries were losing money.

I thought very hard about how to confront this dilemma: should we base our M&A decision on market demand rather than capacity growth? Tsingtao, in its expansionary quest, gave top priority to capacity increase in the belief that acquiring breweries equaled easy market access. Therefore the company paid little attention to the market until they acquired the breweries. I reversed that concept: first I looked at the market, then at the breweries. I thought we should deploy our production in line with market demand, which in turn, was determined by economics.

In 2002, Tsingtao Brewery bought only two more breweries. Simultaneously, I shut down several smaller ones. Those decisions were easy; the breweries were dead and could not be revived. Their financials made no sense.

**Xu & Xin: How did you derive the concept of using market demand as the basis for M&A decisions?**

**Jin:** On the street one day, I saw a woman making pancakes and steaming buns. She made both from dough of similar size, but the pancakes were light and thin and the buns were thick and fat. Watching her work made me realize that Tsingtao was making mistakes in its M&A. It was “planting seeds widely but harvesting little” when it equaled buying capacity with buying market. The company had purchased many breweries that had no market at all. Similar to making pancakes, Tsingtao saw a rapid growth of capacity scattering in a large number of locations, but no meaningful market share anywhere.

Now we would make steamed buns rather than pancakes. We would emphasize taking and increasing market share in each existing location to boost sales, rather than penetrating new locations.

Take Wenzhou, one of China's most developed cities, as an example. In 2004, Tsingtao had only one distributor with annual sales of 2,000 kl. We initiated reform that year, focusing on market development. First, we established an office in Wenzhou to manage distributors and open the market. Second, we launched a process to divide the region into three or four territories with each in the hand of one distributor. The change had sweeping effects: sales surged to 22,000 kl the same year and to 30,000 kl the next. It was still the city of Wenzhou, but the steamed buns strategy caused sales to soar.

**Xu & Xin: That is a vivid metaphor. You seem to favor using metaphors to express profound meanings simply and colorfully.**

**Jin:** Yes, my approach is easy to understand. I used to say that Tsingtao Brewery bought a lot of potatoes and just put them into a sack. I wanted to turn many potatoes into one big spud.

Tsingtao Brewery's strategy had been to “be bigger and stronger.” I reversed the order and made strength our priority. Before 2001 the strategy emphasized production capacity and economies of scale; my new strategy focused on stronger branding and bigger market shares. It was not about correct strategy. It was about matching strategy to the growth stage of the company. The strategy of “be bigger and stronger” before 2001 laid a foundation for my strategy of “be stronger and bigger.”

**Xu & Xin: What kind of internal changes did you make while adjusting external strategies?**

**Jin:** I introduced a market mechanism into the internal culture of Tsingtao. I decided to introduce the “culture of the wolf.”

In the era of the command economy, enterprises were like dogs: the government determined what and how much they ate. No other options. Tsingtao was like a watchdog, looking after state-owned assets on behalf of the

government. The company could expect a warm meal as long as it obeyed orders. But when the market economy was introduced, government and enterprises were separated. The watchdog was kicked out and forced to win its own bread in the market. To avoid starving, it had to act like a wolf.

Wolves survive by fierce competition, by bloody fights. Winners command the highest authority. I advocated competition: “competent on and incompetent off.” In the first half of my term, I replaced seven general managers of eight business departments. The only one who kept her job was Yan Xu, who came to Tsingtao in 1998 from Perl River Beer. She survived the competition not because of her strong connection in Tsingtao, or because of a personal relationship with me, but because her performance was outstanding enough to stand the tests. Moreover, more than 20 general managers out of 47 breweries also lost their jobs. Many were my former coworkers.

**Xu & Xin: The firing process was not easy, right?**

**Jin:** It was extremely difficult. Having been with Tsingtao for more than three decades, I know everyone, literally, and everyone knows me. You may even say many of us grew up together since we were wearing diapers...but I believed in, and only in, the market rules. Only those with good performance were allowed to stay. I stuck to this rule, and found that it helped me immensely.

I adhered to the “competent on” guideline. Even stubborn people, those with strong personalities, were assigned important positions if they were highly capable, such as Yan Xu, now senior sales advisor, and Fan Wei, deputy managing director. All of them talked back to me on occasion, but I saw them as capable, courageous, and vigorous. I promoted them to the team of wolves that could bring real meat back home.

## From Market driven to Strategy driven

**Xu & Xin: You were appointed chairman of Tsingtao Brewery in 2008. Did you make any changes after that?**

**Jin:** My biggest change was to turn from a forward to a goalkeeper. I’d been acting as a forward for years. I often told my subordinates that everyone felt happy when I scored. Now as chairman, I am not supposed to be the shooter on the front lines. I couldn’t adapt to the change for a while, but I knew I had to.

I knew that one superman would not be able to save the world. Neither would several supermen. But a good operation system would.

The marriage between Tsingtao Brewery and Anheuser-Busch (AB) helped me to realize the importance of systems. In October 2002, when AB invested in Tsingtao Brewery, I stipulated only one requirement, that we exchange our know-how, which meant exchanging employees to learn from each other. Under the program, I worked as shadow CEO of AB for half a month every year, and attended their board and management meetings. I was impressed by their strict adherence to rules and schedules. They scheduled almost all appointments or visits in advance. They made every decision on the basis of numbers and figures. They never used ambiguous words like “maybe” or “approximately.”

In the United States, I found that CEO’s were not responsible for day-to-day operations. Instead, their duty was to plan strategies, and therefore they allowed few unscheduled visits or meeting requests. In contrast, Chinese CEOs took much of their time just signing documents.

After that experience, I strove to build a system at Tsingtao Brewery. When I was away from Tsingtao for some time, I avoided answering company phone calls to test whether the system worked. During a meeting with

Tsingtao's mayor, I talked about my trip to Europe. The mayor was surprised that my job did not keep me fully occupied and that I had time to travel so far away. "It proves that the system works well," I told myself.

**Xu & Xin: Did you meet any large challenges after you became chairman of Tsingtao Brewery?**

**Jin:** In July 2008, we met an even fiercer wolf. InBev bought AB for US\$5.2 million. With 27% stake of Tsingtao Brewery, AB agreed with the State Assets Administration Committee of Tsingtao to relinquish the right to buy more stakes in Tsingtao Brewery. But what would happen if InBev ignored the agreement? This "if" concerned me a great deal.

**Xu & Xin: How did you fight the wolf?**

**Jin:** I decided to play four cards. The first was to rely on feelings: China's emotional connection to a national century-old brand. The second was the law: Tsingtao Brewery was prepared to sue InBev if it broke the strategic-frame agreement between Tsingtao Brewery and AB. Third was government decree: the government would disapprove InBev's takeover of Tsingtao Brewery's stake on the grounds of the Anti-Monopoly Law of PRC issued in August 2008. Fourth, the whole management team would resign if InBev took control.

The fight was tough, but Tsingtao Brewery finally won the battle, leveraging the capital market and Anti-Monopoly Law. Asahi Breweries bought 19.99% of the 27% stake, and New Hua Du, a Fujian company, bought the remaining 7.01%. That increased the Chinese shareholders' stake to 37% and reduced the second-largest shareholder's stake to less than 20%.

**Xu & Xin: Tsingtao Brewery was the symbol of a Chinese brand in overseas markets. You must be very proud that you managed to protect the brand from being gobbled by a**

**foreign competitor.**

**Jin:** I think I was a good goal keeper in keeping the ball out of the gate of Tsingtao Brewery.

Recent years have allowed me to increasingly see that a good system is especially important. My ultimate goal was to build a platform that would allow the system to run steadily and sustainably, so that the company would continue to function properly after I retire. No matter whether I am here, no matter who takes charge in the future, the company will work well as long as the system is in place.