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A Position Paper from the Summit Global Network

Business Success in China

Everyone seems to have an opinion on how to enter and succeed in the vast China market. We've pooled our best practices and intellectual property to provide a global, pragmatic view of successful practices to efficiently and effectively establish a profitable presence.

1. Three Things Groupon (Or Anyone) Needs To Do If They Want To Succeed In China

When I saw a poster for Groupon in a Shanghai subway this summer, my first reaction was, "What a perfect match!" I love buying Groupons on my iPhone and I thought that the cost-conscious, cellphone-toting Chinese public would too.

And they do. But Groupon has proven that it's not ready for them.

The company recently announced [1] that it will be "fine tuning" its strategy in China. By that, they mean shuttering many of their 80 Chinese offices, slashing 400 jobs, and dealing with a pending lawsuit from former employees. They may be tuning, but it isn't fine.

Groupon made a number of blunders in China. Here are three things they will need to do differently to have a shot at success in the future.

A. Have a real strategy

According to a Groupon spokesman, "Groupon's approach to international expansion is to aggressively create a large presence upfront and refine our strategy as we gain deeper insight into the market." While I generally applaud smart, bold moves into new markets, this isn't one of them.

Groupon is spending millions of dollars and putting its reputation on the line on the back of a sloppy strategy. For a company that spent \$1.60 for every



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dollar it made in revenue in 2010 and whose aspirations to go public have placed it under a microscope, a throw-everything-at-the-wall-to-see-what-sticks strategy is unaffordable and potentially disastrous.

Working to understand the market you're entering and developing the cultural agility of your organization may not be as sexy as making a big splash up front. But if you want to expand internationally with any kind of sustainability, they're as necessary as learning how to swim before jumping into the middle of a lake.

B. Treat people like they're smart (because they are)

While Groupon was pouring money into its China expansion, the company ran a Super Bowl ad in the U.S. that promoted a restaurant deal with the line "The people of Tibet are in trouble. Their very culture is in jeopardy." Yes, Super Bowl ads need to be edgy to get noticed and Groupon's ad received plenty of attention [2]. But it must have come as quite a shock to their marketing department when the ad spread like wildfire through the Chinese blogosphere.

Perhaps Groupon thought that Chinese consumers wouldn't make the connection between the commercial and the company because Groupon operates in China under the name Gaopeng. But their potential customers did make the connection. Because they're smart.

Being a successful international organization means being able to function in a borderless business environment where information flows in real time. The adage that all press is good press does not apply to a foreign entity attempting to enter a very competitive and crowded market.

Instead of deeply offending their customers, Groupon should have been more culturally agile by demonstrating a heartfelt respect for potential buyers and a genuine desire to understand them in order to add value--not just take their money.

C. Localize and listen

One of the few things that Groupon did right in China was to have local partners. The company purchased a 40% stake in a joint venture with the Chinese Internet giant Tencent Holdings and the private equity firm Yunfeng



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Capital.

The goal of a localized joint venture is to work with partners that already have a deep understanding of the target market and can add valuable input to help make the venture successful.

Of course, this doesn't work if you don't actually listen to your partners. In a *Wall Street Journal* article, an unnamed manager at Gaopeng was quoted saying, "Groupon came into China and tried to expand too aggressively. That strategy just doesn't work in China." When managers are giving quotes like that to journalists, it's because they haven't been heard. Or heeded.

While I was in China, I interviewed the general manager of a large foreign retailer there. She told me that when the needs of her foreign employer and the demands of the Chinese market were at odds, the local demands always came first.

Groupon's story is one of cultural failure. It isn't that different from other companies that have attempted to jump the Great Wall only to fall flat on their faces. Best Buy, Barbie, and Marks & Spencer have all done the same, with Gap soon to join their ranks.

A culturally agile organization listens and responds to local market dynamics, customers, employees and partners. This is how companies like BMW, McDonalds, and IBM are doing so well in China.

Groupon may yet learn this lesson. They certainly won't be successful until they do.

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2. Scaling the Great Wall of China—Four Key Ingredients to Creating Lasting Success

*Is Your Product or Brand Compelling to the Chinese Market?
Overcoming Roadblocks*



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Distribution

Overcoming Cultural Differences

If you share the phrase, “It was like scaling the Great Wall of China,” without question everyone knows beyond the shadow of a doubt that you took on something arduous—probably involving courage and tenacity. U.S. exports to China increased 32%, reaching \$92 billion, and have more than quadrupled since 2000, and while our trade deficit in *goods* with China totaled \$273 billion in 2010, we had a surplus of \$6.7 billion in *services* trade in 2009. So this is definitely an opportunity to consider seriously.

Taken literally, scaling the wall of China and dominating their market will take a long list of ingredients—some obvious and some hidden, only to be discovered along the way. Identifying those ingredients can at least allow a company or individual to have as many of the proper tools necessary to begin. So let’s identify the main building blocks of entering, and hopefully dominating, the Chinese market.

Is Your Product or Brand Compelling to the Chinese Market?

It would be a mistake to assume that the product or brand in question is compelling to the Chinese market without doing the proper due diligence. Researching other products from the same vertical is an important starting point. Is there is a previous success story for a similar product? Is that success limited only to a certain age or gender, or perhaps sales are only effective in urban areas. Is there room for another successful product launch in that niche, and if so, how will you differentiate your brand? It’s likely that much of this research has already been completed, if not on your specific market or service then at least a similar vertical or niche. Starting with the research available online is a smart bet.

Once a business or brand is convinced that they are following an already-created path, and that there is room for their product line, the issues are much more tangible, and success more achievable. Piggybacking on existing brand recognition rather than carving a road through virgin territory makes much more sense.

The double edge to this sword is competition. If you are the only player, you will be forced to create brand recognition; if not, you’ll be forced to compete.



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If you don't already have a product ready, but simply see the opportunity in the Chinese market, you can find out the best market for U.S. exports with a little old fashioned detective work (currently the hottest needs are pollution control equipment, telecommunications equipment, medical equipment and, computers and peripherals).

Overcoming Roadblocks

Thomas Reemer is the CEO of 88tc88.com, an online service that, among other things, translates western song titles and artists into Chinese, creating inroads for Western music to enter the vast Chinese market. 88tc88.com has created a partnership with the Shanghai Synergy Group (a subsidiary of the China Media Group), in order to effectively bring western music into China. In a recent interview on my weekly online radio show, All Access Radio, Reemer shared that the first asset of that partnership was a letter of political support from the Minister of Culture for the approval process, which is vitally important to releasing anything in China. So having a Chinese partner or strategic alliance can create pivotal bridges for success around the administrative processes.

One might be surprised to find that the Chinese government is not as heavy handed around censorship as they might expect. But according to Reemer, who faces individual approval for each song's lyrics, most Western music will be approved by the Chinese government. Their main concern is avoiding social unrest with the Chinese people, not stifling an individual's exposure to other cultures or ideas. Surprisingly, songs about God or religion will not be regularly rejected by censors, nor will random offensive language. Worth noting is what Reemer calls the three T's – subjects that will be summarily rejected without question: Taiwan, Tiananmen and Tibet.

Reemer says that China is not the place for a blind leap by artists, or anyone – it is the place for a well thought out plan, from beginning to end. In the music industry specifically, 80% of music being purchased by download is in China, the highest percentage worldwide; this bodes extremely well for the potential of all digital sales and product avenues.

Reemer also shared that the Chinese people definitely reward an artist or band that makes the effort to visit China and who shows a serious wish to bond with their population. The U.S. State Department also states that a company serious about making inroads should visit China in order to gain a better perspective and understanding of its potential market and partners. Chinese



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companies respect “face-to-face” meetings, which can reinforce a U.S. company’s commitment to working in China.

Distribution

There are really three main ways to create a market for product distribution in China: brokers, retailers and direct sales. While direct sales might seem to be the most difficult, several multi-level marketing firms have created great success with exactly that model. Skin care giant Mary Kay Cosmetics is one of the most notable. By entering the Chinese market, Mary Kay not only opened a powerful new revenue stream, they also empowered thousands and thousands of small, independent businesses in rural China. Personal relationships in business are critical in China, and this type of direct sales plays heavily into this idea of “Guanxi” (as it is called in Chinese). This concept is deeply rooted in Chinese culture and can take months, perhaps even a year to establish. By moving into the Chinese market with a Chinese sales force, Mary Kay turned a potential roadblock into a springboard for success.

The issue of product acceptance is an important one to address first of course, and while Chinese women do purchase skin care and cosmetics, they traditionally do not begin to enter this market until after high school, or possibly even college. Knowing this obviously makes distribution (and even marketing) more targeted, and thus creates higher ROI.

Understanding the purchasing habits of the Chinese is also vital for any company. While “sampling” may be done in a retail location, quite often in the cosmetics industry the actual sale is made online. So while brand exposure in a mall may be vital to win a consumer’s mindset, measuring success in over the counter sales would be a mistake. These are cultural variables that corporations and brands must be aware of when implementing marketing and advertising strategies. It’s worth noting that China's online population is projected to reach 650 million in the next five years, as the internet penetrates into the interior of the country.

Teaming up with a competitor may prove to be a viable solution for distribution, believe it or not. If you are a coach entering the Chinese market for the first time, for instance, finding another coach already there and offering a percentage of your courses and sales could be the perfect solution, as long as you are differentiated enough and a good fit with the other party. With the vast array of products out there, finding someone already working in China may



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provide the best entry point. They will also have done the hard work around navigating government regulations and cultural barriers, as well as finding necessary vendors, such as translators and printers.

Just to give an example of a larger scale joint venture, it's worth observing Baidu's current partnering with Dell, Inc. Baidu was looking for the joint venture to move them forward to being more than the largest Chinese search engine, and of course Dell is looking for an every growing market share of the Chinese population. Although still unofficial, Dell's partnership with Baidu will most likely involve Baidu's new mobile platform, with Dell smartphones and tablets running apps through Baidu Yi OS.

Another way to market products and services in China is to find Chinese representatives. Guesswork can be eliminated by using established search firms. The U.S. Commercial Service offers help for American companies to find qualified representatives in China through its International Partner Search (IPS). For \$500 the IPS will help locate and screen potential overseas sales representatives, distributors, joint venture partners, licensees, franchisees or strategic partners for American products or services.

Overcoming Cultural Differences

As a cultural melting pot, Americans are adept at overcoming cultural differences. As a public society, we naturally temper our tonality and demeanor to avoid being societally or politically offensive. Having said that, we are a nation built on freedoms, and if we do not adjust those to the more reserved culture of the Chinese, we will face an uphill battle to winning their hearts (and the revenue). It is definitely recommended to have either a strong use of the local dialect where you'll be doing business, and to have a guide who can not only support you through language barriers, but who can also navigate cultural issues, such as the special significance of colors or numbers.

For instance, in Chinese culture the color red is always associated with good luck, and black signifies bad fortune and should never be worn during festivals, wedding celebrations or used in-home decoration. In fact, black symbolizes backwardness. Numbers also play a role in being "lucky" in Chinese culture, and it is believed that they can even determine a person's fate. The luckiest number in Chinese culture is eight, and conversely four is considered an unlucky number, partly because the word sounds like death.



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Another cultural subtlety worth noting is that it is Chinese etiquette to speak softly and with one's head slightly bowed. 'Answering back' to those older, or who hold a higher social or business level, is considered ill-mannered. Further, Chinese men speaking loud are not considered bad mannered, but a woman speaking loudly is. If this is not understood, a Western businesswoman can face abuse and ridicule, in addition to a lack of success.

It's likely that most Western visitors will know to offer a slight bow with a handshake and that a deeper bow will indicate that more respect is being offered to the person, for example to an elderly person or someone of high social status. But it's more subtle to know that the Chinese do not offer greetings that may bear a negative connotation, such as 'you look tired' – this is highly inappropriate. Also, never argue or voice a difference of opinion with anyone in public, even a member of your own team. And unlike Western culture, where directness is valued, in Chinese culture, being respectful is ranked above being direct every time. Even saying "no" directly is considered rude and arrogant.

Finally, it's considered rude to address a person of higher stature or older age by their first name. They should always be addressed according to their designation, such as Mr., Mrs., Doctor, Chairman, etc. This holds true even when you've been in someone's circle for a length of time – remaining formal and respectful is an important part of creating Guanxi.

Conclusion

Although the Chinese society has existed for thousands of years, exponentially longer than American society, which is only in its third century, it is only in the last decade that China has opened the door and entered the economic world stage. With fifty percent of its population under 44 years old, China is facing a huge urbanization as that young population becomes more and more urbanized. And an urbanized society is a *funded* society. With more money to spend, China has found direction, keenly focused on creating a future in the modern world – and this can mean vast opportunity for savvy Western businesses, coaches, authors and artists. Take your time, make a business plan specific for the Chinese market, find and create the best partnerships and Guanxi, and enjoy this brave new world of opportunity.

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3. Eight keys for dominating market share in China.

In a nutshell, you will never dominate market share in China as a foreign company. You may in the early years grow quite dramatically and create a sizeable presence before the Chinese create something similar and begin competing directly with you. The Chinese are experts at copying and replicating.

Be aware that it is extremely difficult to protect IP in China.

The traditional view was that China was the cheap option for manufacturing but the new Chinese era is to actually build world class Chinese brands and dominate the market place. This is starting to be seen in financial services, computer hardware, white goods and more recently automotive. Nevertheless, the Chinese do favour joint ventures. If you choose to proceed in that manner, then a few considerations are below.

Thinking styles - Western thinking tends to be analytical while Eastern thinking is holistic (Nisbett 2003; Hofstede & Bond 1998). The West tends to favour 'orthodoxy' – finding the 'right' idea, thought or solution whereas the East leans towards 'orthopraxy' – doing the right thing (Kakabadse & Kakabadse 2010).

Relationships are vital and it is critical to establish these relationships with individuals who will be able to help you navigate the Chinese landscape in terms of politics, finance, branding etc. Relationships take time to develop trust, common purpose and mutual interests. The Chinese have a long term view on business and life in general you have to be demonstrating that you are in for the long haul. You need to be thinking long term. It is going to be difficult to make a profit in the short term in China.

Hierarchy is important in China so getting endorsed by someone 'senior' who is well connected is very useful especially if they had links into the political system in China as well. The global Chinese business diaspora is extremely well connected. It would be useful to get an introduction from Chinese connections in other parts of the world to the local scene.

It is useful to have a Chinese face at the head of your company if you want to be working with Chinese but this is not so important if you are working



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primarily with foreign companies. Have people on your team who are mature, experienced, seasoned and culturally intelligent will help in establishing credibility. Speaking the language or at least having a basic grasp of Mandarin goes a long way.

Your product or service needs to be seen as new, innovative, leading edge, sexy and desirable, the Chinese love brands. All the major global retail brands have a presence in China and are experiencing huge growth. Pick a price point cheap enough to reach the masses or exclusive enough to be high end.

Be aware of cultural constructs and worldviews e.g. when Disneyland opened in Shanghai they were conscious that iconic American characters such as Mickey Mouse and Donald Duck did not easily translate across into Chinese characters. There was no historical association for these stories so additional new ones that had local connections had to be created in the theme park.

Lastly, China is for the Chinese therefore you will always be a foreigner. The Chinese are very proud of their history and of their heritage so please show some respect for them. At the same time, they are keen to show the world their 'modern' aspect and that they are determined not to be the 'factory' of the world for decades to come.

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Our intent was to provide a cross-section of ideas about the creation, management, and sustaining of positive change. We hope you've been able to identify some immediate application for your organizations. Please see other



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