



# Doing Business in China: How Western Companies Develop their Strategy

*Part 1 of 2*





## EXECUTIVE SUMMARY

As China's economic importance continues to grow, Western companies have come to regard the country as "the place to be." China is achieving an important milestone as its second generation of consumers arises, a target market numerically on par with all of Western Europe combined.

What do Western companies need to know about doing business in China? Where can they get reliable information? How must they accommodate their business strategies, products, and marketing to attract and retain Chinese customers?

This two-part paper is based on a December 2009 webinar presentation by Rebecca Ray, former Managing Editor for the Localization Industry Standards Association (LISA).<sup>1</sup> In this first part, we examine prominent characteristics of doing business in China. Part 2 outlines the business case for localizing Websites into Chinese, and points out the costly errors that smart companies avoid.

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### MAIN MESSAGES

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1. The second generation of Chinese consumers stands out for its rapidly growing household consumption, its rising expectations, and its diverse tastes.
  2. While the increased consumption is extremely attractive to Western companies, the high expectations and diverse tastes mean that success in China requires agility in the market.
  3. Before thinking about the look or design of a Website aimed at Chinese consumers, Western companies need a business strategy that will support success in that market.
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<sup>1</sup> In January 2010, Ms. Ray was named a senior analyst at market research firm Common Sense Advisory, Inc.



# FIVE THINGS THAT MATTER NOW IN THE CHINESE ECONOMY, AND WHY

## 1. Chinese household consumption matters

The economic boom in China has been underway for an entire generation and is now reaching easily into second- and third-tier cities and regions. An expanding middle class has finally grown large enough to cause a seismic shift in Chinese consumption. One indicative figure is the multiplier noted by Dr. Yuwa Hedrick-Wong, economic advisor with MasterCard Worldwide, in his keynote address at the Localization Industry and Standards Association (LISA) China Focus 2009 conference:

*“By 2013, the demand from Asian households will be **eight times** that from U.S. households.”<sup>2</sup>*

Also, Dr. Hedrick-Wong points out that in 2008, China and India accounted for roughly 35% of demand worldwide for the top 100 traded goods and services. He projects that this figure will rise to about 50% by 2015.

These trends and their effects on global trade will likely result in a huge difference in how Western companies do business over time.

## 2. The second generation of Chinese consumers matters

The prominence and preference of second-generation Chinese consumers will make a difference in how Western companies address the market and define their Websites over time. Estimates put their numbers at about 400 million — on par with the population of Western Europe — with the potential for an explosion in discretionary spending.

The market is heterogeneous now. There is no single, typical consumer profile anymore, so the challenge is to innovate in both products and Websites to find the right balance between the uniformity that the organization wants and the diversity that the consumer wants.

To target this generation, Western companies should not focus so much on the traditional quality-vs.-price issue (at least from a Western perspective), but rather on three steps:

1. Market segmentation
2. Figuring out which existing products and services will appeal to these consumers
3. Innovating rapidly to satisfy the market and stay ahead of competitors

In the medium term, Dr. Hedrick-Wong thinks that Asia will continue to be an export powerhouse, with approximately USD664 billion in exports per month by 2013. However, the export push will be increasingly balanced by consumer demand.

## 3. Innovation and Sanzai phones matter

Chinese consumers are ravenously seeking innovation, and industries are tirelessly innovating. Western companies must introduce their products and Websites to this whirlwind of supply, demand, and improvement.

<sup>2</sup> Source: Shanzhaji, May 2009, Karl Weaver, Newport Technologies, <http://www.shanzai.com>





A popular example is the rise of Sanzai or Shanzhai, “Bandit Cell Phones,” built on top of the ultra-efficient supply chains and business models that Asia has developed (think netbooks) and based on the convergence of software, hardware, and services. The industry produced over 250 million *shanzhaiji* handsets in 2008 alone, according to Pieter-Paul Walraven of +8\*, a cross-cultural strategic consultancy focused on Internet and mobile innovation in Asia.



#### The Farmer

- 7 speakers to hear the phone ring while working in the field



#### The Smoker

- Cigarettes and phone all-in-one



#### The Cautious

- Money authentication reader



#### The Spy

- Watch phone with a hidden 0.3 megapixel camera

*Examples of Sanzai phones (Source: Jake Hsu, Symbio)*

Sanzai began as Nokia knock-off devices, but the whole industry has quietly transformed itself over the last few years into a legitimate enterprise of “cool and cheap destructive innovation,” in which small (3-5 person) shops actually ship 20 million or more phones per month.

Designs have morphed to iPhone- and Android-based phones, but the community and business model is deeply rooted in innovation. Members of these small groups must share their innovation or risk ostracism.

*“Though Shanzhai started out as ‘creatively imitating the famous,’ the copycats have evolved into a phenomenon that is at the edge of Chinese creative culture.*

*Many Chinese feel that creative minds have been slowed down by international copyright regulations. They are tired of the Western companies that are constantly charging for royalties and asking for money.”<sup>3</sup>*

<sup>3</sup> Scully Meng, Journalist and Editorial Assistant at Chinadialogue, as quoted at Mobile Monday Beijing #28, May 2009, <http://www.mobinode.com/2009/05/14/cool-cheap-destructive-innovation/>





#### 4. The projected growth in Internet usage matters

By 2013, Asia will account for approximately 43% of the world's projected 2.17 billion Internet users, with most of them in China.<sup>4</sup> North America's share of worldwide Internet users will grow by only about 6%, and Europe's share by about 14%, but Asia's share will grow by almost 53%.

The rates of penetration are also indicative of growth to come. In North America, approximately 73% of the population has Internet access, and in Japan, the figure is 70%. But in China the figure is only 24%. This represents vast, untapped potential.

In 2009, according to the China Internet Network Information Center, over 87 million Chinese made online purchases, up 24 million from 2008, a 38% increase in one year. The Center estimates that Chinese consumers spent USD36.6 billion in 2009.

#### 5. Predominantly mobile Internet usage matters

China has 640 million mobile subscribers, projected to go up to 720mn in 2010, and 330 million Internet users. Thus, the mobile Web is an important consideration for Website design.

From a technical perspective, then, platform (desktop vs. mobile) no longer matters. The technology accommodates the need for content to be available all the time on any platform. From the Chinese consumer's perspective, smartphones and *shanzhaiji* are simply another interface to online products and services.

## FOUR STEPS TO GLOBALIZING YOUR BUSINESS STRATEGY IN CHINA

How do these factors influence business strategy? Before discussing the look or design of a Website aimed at Chinese consumers, Western companies need a business strategy that will support success in that market.

### 1. Make millions, a few pennies at a time

The first task is to figure out how to attract the small wallets in China.

Chinese consumers have, on average, lower spending power than Western consumers have, and this is one of the reasons that micropayments have become so popular in China. But these smaller wallets and purses add up to bigger markets than in the West. The ideal strategy, regardless of company and industry, consists of handling many more, smaller transactions than usual. This change in strategy will probably affect the way in which most Western companies offer, sell, and support their products.

### 2. Move from thinking product-centrally to market-centrally

According to Dr. Hedrick-Wong and many consultants, as the shift in consumption from the West to Asia gathers speed, Western companies will have to switch from a product-centric to a market-centric strategy.

<sup>4</sup> Source: Forrester Research Internet Population Forecast, April 2009, Forrester Research, Inc.





Product-centric companies ask, “How can we **adapt** our products/services/Website for China?” and this line of inquiry has worked in the first generation of Chinese consumers. But companies who take China seriously are already taking worldwide revenue seriously, and they now need to ask, “What innovative products/services/Websites do we need to **build** for China?”

Successful companies have adopted this change in perspective. Porsche, for example, chose the 2009 Shanghai Auto Show for the launch of its four-door sports sedan.<sup>5</sup> The Panamera is the company’s first sedan, with a back seat large enough for an adult to sit comfortably. This is an important, market-opening innovation in a country where many people who can afford Porsche need front and back seats because they prefer to have a chauffeur drive them.

### 3. Go where the government’s money is going

The rate of government spending in China holds a lot of sway in the economy. The shock from the global recession has become a powerful catalyst for change in many countries and has enabled a profound transformation in China. As of the end of 2009, the Chinese government had invested about \$1 trillion, or one-third of total gross domestic product (GDP), in infrastructure, such as subways, airports, and other public works.

Western companies must take this into account and find out from subsidiaries or partners where the money is going in their industries, so that they are in a position to take advantage of it.

They must also keep an eye on the advantages Chinese companies enjoy as a result of this investment. Companies like Huawei and ZTE have gone global at an accelerated pace, through Africa to the Middle East, then onto Europe and the U.S. These companies have become very aggressive in customizing their products to meet market needs. Western companies will face not only subsidized, local competition inside of China, but also global competition from Chinese companies.

### 4. Keep in mind the business, political, legal and ethical issues

As in all countries, the importance of knowing local business practices in China is crucial to success. Western companies should note two differences, however:

- ➔ These business practices tend to be less transparent in China than in many other countries.
- ➔ The sheer size of the market often requires a response to these practices that may affect the entire organization, such as the number of employees and quantity of corporate resources devoted to the response.

Sources such as local chambers of commerce, local communities of expatriate managers, and managers/mentors in respected multinational companies are valuable in keeping Western companies abreast of business, political, legal, and ethical issues. Local information abounds, and contacts among these groups can help compensate for lack of transparency.

In the enduring matter of intellectual property (IP) and brands, even among the highest ranks in the largest research and development centers in China, there is consensus that companies must protect themselves at every opportunity. Any popular brand, service or Website should expect to be copied, and plan on innovating as a way of protecting IP and brand. This level of vigilance is still important in spite of the shift in attitude toward IP protection and the perceived increase in enforcement over the last few years in China.

<sup>5</sup> “Porsche Panamera Officially Unveiled in Shanghai,” April 2009, <http://www.autoguide.com/auto-news/2009/04/porsche-panamera-officially-unveiled-in-shanghai.html>





In fact, the pace of innovation has prompted calls among Chinese companies themselves for increased protection from unauthorized copying by Western and Asian competitors alike. In 2008, China led the world in the number of patents filed (over 800,000), of which approximately 300,000 were patent applications for original inventions. Thus, China, no longer content with imitation, has discovered the benefits of innovation and the need to protect its own IP and brands.

Read Part 2. *“Doing Business in China: Designing and Localizing Websites for the Chinese Market”*

## OTHER RESOURCES

- “Website Globalization and E-Business China” (Globalization Partners International White Paper)
- Byte Level Research (“The Art of the Global Gateway”), [www.bytelevel.com](http://www.bytelevel.com)
- “The Culturally Customized Website,” Dr. Nitish Singh
- “7 Steps to Successfully Managing Partners: East and West,” [www.lisa.org/7-Steps.976.0.html](http://www.lisa.org/7-Steps.976.0.html)
- “Ten Best International Web Sites Book,” [www.lisa.org/Best-International-W.513.0.html](http://www.lisa.org/Best-International-W.513.0.html)
- “China as a Global Development Center” includes detail and background material from Dr. Yuwa Hedrick-Wong’s presentation at LISA Beijing 2009. LISA members may visit [www.lisa.org/Beijing2009.1331.0.html](http://www.lisa.org/Beijing2009.1331.0.html).
- “Building a Global Web Strategy,” [www.lionbridge.com/lionbridge/en-US/kc/globalization/building-a-global-web-strategy.htm](http://www.lionbridge.com/lionbridge/en-US/kc/globalization/building-a-global-web-strategy.htm)





## CONTACT INFORMATION

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### About Lionbridge

Lionbridge Technologies, Inc. (Nasdaq: LIOX) is a leading provider of translation, localization, and testing services. Lionbridge combines global language resources with proven program management methodologies to serve as an outsource partner throughout a client's product and content lifecycle. Organizations in all industries rely on Lionbridge language and testing services to increase international market share, speed adoption of products and content, and ensure the integrity of their global brands. Based in Waltham, Mass., Lionbridge operates across 26 countries, and provides services under the Lionbridge and VeriTest® brands.

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