



How to do Business in China, India and Europe

W. Christian Buss, Ph.D.

Professor *Emeritus*

State University of New York - Albany

W. Christian Buss, Ph.D.

- *Emeritus* Professor
UAlbany Marketing Dept.
(Chair Twice)
- Founder - IMAS
- Ph.D. - Wharton
- Executive Training in
Hungary, Kuwait,
Argentina, Chile, Russia,
Switzerland, Netherlands,
US



Company Readiness Factors

- Domestic competitiveness
- International motivation
- Top-management commitment
- Product readiness
- Skill, knowledge and training
- Experience and training

What does each factor imply for us?

Researching Foreign Countries

- Stage 1 - Preliminary Screen

- Automatic eliminations/Attractive Possibilities - Based on Key Operational Requirements
- Which markets warrant detailed investigation?

- Stage 2 - Assess Industry Potential

- Demand-side and Supply-side Analysis
- What is aggregate demand in each market?
Relative Cost Structure? Factor availability?

- Stage 3 - Analyze Company Potential

- How attractive is country for our investment?
- Market Size? Match to Capabilities?

Environmental Scanning

Methods:

- Follow information gathering organizations - US Census, UN
- Review publications and INTERNET postings for content coverage and shifts in coverage
- Apply information to support the corporate planning process

Scenarios:

- Describe shift in the environments which will affect company strategy

1. Develop Foreign Market-Entry Plan

■ Countries

- Consult largest electronic data bases.
- Identify potential "matches/country".
- Take care that specification is not too tight.
- Take care that specification is not too broad.

■ Profile your ideal trade partner - carefully!

- (1) What will they be selling, and to whom?
- (2) What skills and knowledge do they need? How do they access their customers? What countries do they cover?
- (3) What resources must they have?

2. Find/Evaluate Prospects

- Use market research information from all.
- Sort ACTIVE from passive. Be tough!
- What countries do they cover?
- Who do they sell to (named customers)?
- How do they sell? How much do they sell?
- What other products do they sell?

Remember CULTURE

3. Develop Cultural Skills

- What is culture anyway?
- Identify key variables affecting your operation
- Understand the impact of culture on your business
- Build organizational cross-cultural skills
- Manage value conflicts
- Effect our and our partners' cultural adaptation

4. Negotiate Long-Term Relationships

- How does a distributor earn exclusivity?
- How much of your product can they sell?
- Can they technically support your product?
- Why is your product important to them?
- Does your product fit their long term strategy?
- Discard all who do not convince you that your product is essential to their ongoing strategy!
- Initiate detailed discussions on:
 - pricing / discounts / marketing / promotion
 - support / shipping / quantities...

CHINA MARKET BACKGROUND

- A developing country with the largest population - 1.25 billion
 - 1.3 billionth baby celebrated a few months ago.
- One of the world's fastest growing country - GDP CAGR 7% from 1978
- A socialist market economy - hybrid of the centrally planned economy and the market-oriented economy
- 70% of China's GDP is Foreign Direct Investment

China's slogan for dealing with its neighbors is: *mulin, anlin, fulin*, which translates as: be friendly, make them feel secure and help make them rich.

- Wall Street Journal (9/12/2006)

Today

- The fourth largest country in terms of size of area
- One of the world's largest domestic markets with 1.3 billion population
- The seventh largest economy in the world
- The youngest population in Asia
- The total value of goods and services has been growing with a double-digit rate for over 20 years

Today and Future

- GDP of China in 2003 was USD 1.4 trillion, with the per capita GDP reaching USD 1,090
- Information industry realized RMB 709 billion (USD 85.4 billion), 6% of the GDP In 2003
- Information industry sales realized RMB 1,880 billion (USD 226.5 billion), ranked as the third in the world
- “by the year 2025 China's economy will account for 25% of the total World Economy”
–World Bank estimates

EXAMPLE

- Weng Jiu
 - Makes 90% of the world's cigarette lighters
 - Highest per capita ownership of BMW's in the world
- Environmental Issues – A fish farm next to a tannery and a chemical plant

CHINA - PYRAMIDS OF POWER



WHERE HAS THE GOVERNMENT BEEN INVESTING?

■ Ten key industries including:

- * energy
- * environment & resource
- * information & communication
- * transportation
- * machine-building
- * pharmaceuticals
- * textile
- * construction
- * materials
- * agriculture

Export Markets

- Building Materials
- Dairy
- Recreation boats and equipment
- Foods
- Telecom
- Software
- Healthcare
- Education

How can you compete?
Consider Tide Detergent. What
would your entry strategy be?

WHO ARE THE KEY PERSONS?

Doing business with Chinese managers

- Older generation group (over 55 years of age)
 - grew up during the Socialism Consolidation Era (1949 - 1966)
- Current generation group (40 to 54 years of age)
 - grew up mostly during the Great Cultural Revolution (1966 - 1976)
- New generation group (under 40 years of age)
 - grew up mostly after the Social Reform Era (1977 - present)

Critical Questions

- What type of coordination is occurring between national, regional and local authorities regarding implementation and enforcement?
- What are the major impediments to progress and how can they be overcome?
- When can the Chinese people and foreign investors expect real competition in the Chinese marketplace?

Critical Questions

- Is China prepared for the economic dislocation necessary to complete reform?
- What are the prospects for small to mid-sized companies that want to do business in China?
- Will China, at all levels, be vigilant in prosecuting corruption?
- Is greater consumer access a high priority?

Some Basic Precautions

- Ask for help. Few companies make any new mistakes in China
- Beware of Sino-narcosis: Universal business principles still apply
- Do your homework: market research, due diligence, etc.
- Take responsibility for government affairs (vs. relying on a trading or investment partner)
- Perform "Due Diligence" on local government agencies
- Practice multi level and multi agency networking
- There is safety in numbers--build business coalitions
- Resisting corruption vs. bona-fide entertainment or contributions
- Practice accurate documentation and record keeping
- Get International Arbitration clauses in all agreements
- Get paid in advance when you can

What are cultural values?

- shared symbolic system which people consider as a criterion or a standard in different occasions.
- govern people's everyday actions.
- Govern our policy making, allocation of decisions and co-ordination of actions are strictly related to our cultural values. (Parsons 1951, 1956.)

Characterization of American and Chinese people

	Chinese	North American
■ Uncertainty avoidance	High	Low
■ Power distance	High	Low
■ Collectivism I	High	Low
■ Collectivism II	High	Low
■ Gender equality	Low	High
■ Assertiveness	High	High
■ Future orientation	High	Low
■ Performance orientation	Medium	High
■ Humane orientation	Low	High

Short Case

P&G Strategy 4: Drive growth among lower-income consumers in developing markets

- Lower-income strategy has delivered mid-teens volume growth, on average, in developing markets (2005 Annual Report)

- **You are the Group Product Manager for Tide Detergent.**
- **You have been reassigned to expand their Chinese business.**
- **Outline a preliminary strategic approach for expanding detergent sales in China.**
- **Make assumptions and information needs clear.**



Major elements shaping the Chinese society today

- Traditional Chinese culture,
- Communist ideology, and
- Western values

Cultural Considerations

- China is trying to become a power in the world economy
 - Still difficult for foreign MNCs to do business in China or to make a profit
- Technical competence is the primary criterion for doing business in China
- Time is the major cultural difference between many Western countries and China
- *Guanxi*
 - Good connections that result in lower costs, increased business, greater prospecting opportunities, and facilitation of future transactions

MNC – Multi-national Company

The Importance of “Guan xi”

- **Guan xi = Personal Relationship**
- **A formidable concept in Chinese culture and business**
- **To succeed in China, you must earn the trust and respect of your business partner**



When dealing with the Chinese, one must:

- **Be a good listener**
- **Realize that China is a collective society**
- **Understand that the Chinese are less animated than Westerners**
- **Understand that the Chinese place values and principles above money and expediency**
- **Allow Chinese host to signal the beginning of a meeting**
- **Understand that Chinese are slow to decide on a course of action, but stick to the decision once made**
- **Understand that reciprocity is important in negotiations**
- **Not display emotions during negotiations**
- **Rely on a long-term perspective to view negotiations**

Guanxi

- Guanxi means the relationships and social networks that Chinese people have
- The formation of guanxi derives from:
 - the family in which one is born,
 - social network where he grows up,
 - group memberships that are formed in education or occupation and
 - the residential area one lives in
- Expands from day to day throughout the life of a Chinese person
- Unlike western social networks, these relationships last longer than a single work assignment. Chinese usually form lifelong relations with reciprocal obligations

Developing “Guanxi”



- The first step to developing “Guanxi” is making the right connections.
- Enlist the help of government export agencies, suppliers, customers or business partners that have experience in China.
- Two words: time and patience
- Even when you’ve found a suitable business partner, expect more than one trip to China to solidify “Guan xi”
- Return the favor: extend invitations to visit you

India, Europe, USA

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India, Europe, USA

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Discussion