

ONE BILLION CUSTOMERS

Lessons From the Front Lines of Doing Business in China

JAMES McGREGOR

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The Web site for this book is at www.onebillioncustomers.com.

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MAIN IDEA

It's difficult to exaggerate just how important the Chinese economy will end up becoming to the global economy in the future. China has already surpassed Britain as the world's fourth-largest economy and is now well on its way to becoming the world's largest market – catering to 1.3 billion consumers. To put that in context, the Chinese domestic market has the potential to be larger than the U.S. and the European Union economies combined. It's little wonder, therefore, foreign companies are flocking to get a foothold in China before the market really becomes well established.

Doing business in China, however, is not as easy as it may appear at first glance. There are no simple cookie cutter formulas which guarantee success. Instead, there are a few insights into how the Chinese do business which may be of use in understanding and working with them. Keep these lessons in mind and you just may be able to put together deals that work.

“Demographers may quibble with the title: China’s current population is 1.3 billion. But it is the round ‘billion’ that matters, that threshold number that symbolizes the vast and untapped continental-size market, the teeming Chinese masses waiting to be turned into customers, the dream of staggering profits for those who get here first, the hype and the hope which has mesmerized foreign merchants and traders for centuries.”

– James McGregor

Insight #1 – China simultaneously has one foot firmly in the past and the other stepping into the future. Page 2

If China were a business, it would be described as both the world's largest startup and a turnaround. It is progressing rapidly because of its ability to draw on two-thousand-years of tradition at the same time as it embraces Western know-how and technology. That creates a unique mix of challenges and opportunities.

Insight #2 – To do business with the Chinese, understand they have good reason to be suspicious. Pages 2 - 3

The Chinese business environment is always set against an ingrained distrust of foreigners. They have been burned in the past by dealing with foreigners, and therefore they expect to be again. To succeed, take the time to build relationships rather than focusing on just doing deals.

Insight #3 – Avoid joint ventures with the Chinese government. They just don't work out. Pages 3 - 4

Today, most foreign companies avoid joint ventures with Chinese government entities. It's just too difficult to marry the two cultures together to create a workable firm. You're far better off doing your own thing.

Insight #4 – China has a relationship-driven system. For better or worse, it is incompatible with honesty. Page 4

China's pattern of business relationships is different from that found in Western countries. You build a network of personal relationships and then use that network to get things done. The law is considered as malleable rather than absolute in China.

Insight #5 – The only way to offset Chinese bureaucrats is to show you have China's best interests at heart. Page 5

If your business is doing what's right for China, you can win a battle against a government agency. You just have to be tough, persistent, patient and able to work the political system creatively.

Insight #6 – Plan on making government lobbying an integral part of your business plan. Pages 5 - 6

In most industries, the voracious Chinese marketplace determines which companies win globally and which are also-rans. To position your company for success, plan on taking the time and effort required to lobby the Chinese government.

Insight #7 – Always remember the Communist Party believes it has to control information to stay in power. Page 6

State censorship of the media is a fact of life in China, for better or for worse. If China is to compete in the global marketplace, however, its citizens need to be well informed. This creates an interesting market dynamic you need to be aware of and adjusting to all the time.

Insight #8 – Government planning is a reality, so work to avoid forcing a government decision to be made. Page 7

Every five years, Chinese government planners update their plan for transforming China into a global economic powerhouse. You need to keep this in mind, but don't sit and wait for approvals from Beijing to get into business. The best strategy of all is to go about developing your business at the same time as you're doing your politics. Structure everything so you avoid forcing the need for a government decision on your business plan.

Insight #9 – Expect your local managers to be good at memorizing but weak at innovating. Page 8

The key business challenge facing the China of today is learning how to manage large and complex organizations. Those are not skills which come easily to the Chinese but which will be required if China is to succeed in building efficient and responsive world-class companies. Expect them to keep at it until they succeed, however. If there is one quality most Chinese have in abundance, it is tenacity. They have already mastered manufacturing and infrastructure building. Management proficiency will come. It's just a matter of time.

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