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Special Report Part I: Marketing to China -- Overcoming the Top 5 Challenges

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By Correspondent Dianna Huff

With 1.3 billion people and an economic growth rate of 9.5% in 2004, China is a "literal wealth of potential for opportunistic companies," says Jay McIntosh, Ernst & Young's Consumer Products Director.

"If you look at the size of the economy in terms of purchasing power parity versus GDP, China is the world's second largest economy."

And because China has adopted market reforms that now allow foreign-owned businesses into the country, Western marketers are eagerly eyeing the opportunity. However, doing business in China isn't easy – as many companies have learned the hard way.

For this Special Report, MarketingSherpa interviewed loads of "old China hands," marketers and researchers with years of experience working in China.

Quick Backgrounder: China's Anti-Marketing History

Despite being "open" to the West, China is still a country ruled by the Chinese Communist Party. Chinese communism, while based on Marxism, also includes a number of precepts and ideologies from Confucianism– an ancient philosophy that stressed hierarchical obedience to family and government was for the greater good and a stable society.

"Confucianism was very anti-capitalistic," says George Haley, Director of the Center for International Industry Competitiveness at the University of New Haven and author 'The Chinese Tao of Business'

"Merchants were persecuted in the 19th-century and those in Canton died bankrupt due to Chinese bureaucracy. The idea that business is to be mistrusted has been in place, philosophically speaking, for thousands of years. It's one of the inherent challenges all businesses – domestic and foreign – have to overcome in order to be successful in China."

Then came Maoist communism.

"Advertising and marketing were virtually non-existent for three decades following the Chinese Communist Party's ascent to power," states Steve Marshall, President, The New Group, an agency specializing in overseas marketing and interactive media services.

"Advertising was the essence of the capitalistic culture," he adds, "and highly suspect."

However, change has been rapid since the start of Deng Ziaoping's "Open Door" business

policy in 1979, and as China has undergone a profound societal transformation from one of laborers to one of consumers.

With the "Open Door" policy came relaxed regulations. In 1979, you could find only 12 advertising agencies in all of China; today there are approximately 80,000.

The speed of change has been increasing in the past 18 months.

Foreign-owned advertising enterprises were allowed in 2005, and direct marketing, illegal since 1998, was also made legal last year. In fact, in February 2006 China gave Avon Products Inc. the "green light to resume direct sales to homes across China" after an eight year ban.

Top Five Challenges for Western Marketers in China

Doing business in China isn't easy. From building relationships (don't even consider email) to understanding the cultural differences between Shanghai and Beijing, marketers need to do extensive research before developing a plan of action.

-> Challenge #1 – Understanding the "markets" within China

The biggest mistake companies make is "approaching China as a single, huge market when in fact, China is a series of markets that vary widely by geographic location and population characteristics," states McIntosh.

According to Piset Wattanavitukul, Managing Director, P.W. Consultants, a Chinese firm specializing in investment, management, and trade in China, foreigners have a very hard time grasping the vast differences between urban and farming populations; each one he says, make up two distinctly different markets.

Don't be fooled by the hype concerning the economic wealth and infrastructure found in urban centers. Rural China is comprised of 750 million people whose per capita cash income in 2005 was RMB 967 (US\$117) versus the per capita disposable income of urban residents of RMB 2,938 (US\$355) (figures courtesy of Ernst and Young).

"In the major cities," says McIntosh, "you have high demand for the latest in electronic gadgetry and brand name products like Louis Vuitton bags. In the rural areas you have people who are considering buying their first washing machine or television."

Adds Marshall, "China is made up of 100 dialects and dozens of disparate cultures and market segments – making it particularly challenging for B2B. Each region or province has its own preferences and business needs; any company that ignores this will fail."

Generally, the urban centers are on the coast while rural areas are inland. Urban provinces include Beijing (pop: 14.3 million), Shanghai (16.3 million), Chongqing (31.1 million), and Guangzhou (9.9 million). (In comparison, the entire population of the U.S. numbered 281.4 million in 2000.)

Says David Oro, a PR consultant who spent a year and half in Hong Kong and two and half years in Beijing while working for Fleishman Hillard, "It pays to know your market because each province is different. Shanghai is fashion-forward, Beijing more cultured and the center

of activity, while Guangzhou has close ties with highly efficient Hong Kong, making this industrial region very business savvy."

-> Challenge #2: Building personal and business networks (Guanxi)

All of our experts emphasized the importance of "Guanxi" or the building of personal relationships/networks. In the West, we know networking is important and most of us do it to a greater or lesser extent (i.e. we network when we're looking for a job). In China, however, Guanxi is essential if you want to be successful – whether you're a Marketing VP closing deals or a MarCom Manager trying to get Web content and collateral translated into Chinese.

"Building a network of personal connections in China is complex," states Haley, "because you have to build relationships with the central, municipal and provincial governments, suppliers and distributors and the influential people who have these connections." If you're in marketing and PR, you'll also need to build relationships with people who have connections to the media.

Why connections with the government? First, the Chinese Central Government owns much of the land and it regulates many industries, such as media and banking.

Second, Chinese laws and regulations, especially in the provinces, are difficult to understand and often times aren't written down. You'll need a local advisor/interpreter you trust who can speak the dialect, explain the rules and customs, and ensure you have the government's support. And, this point cannot be over-emphasized, you need to build networks with people who have government contacts and who in turn can introduce you to the local ministry and other authority figures.

According to our experts, the Chinese style of communication is indirect and non-confrontational. In the U.S., for example, if you ask the local government, "Can I build here?" you'll be told "yes" or "no." In China, however, you'll be told, "How about if you put your building here instead?" In effect, you've just been told "no."

"Establishing these networks takes time – a lot of time," says Haley. "You need to do extensive research before establishing a connection with someone. In China, reputation is very important. If you choose a person who isn't viewed as upright or honest, you're absorbing that person's reputation – and hence, jeopardizing your reputation and future network building opportunities."

Martin Roll, CEO of VentureRepublic, a firm specializing in Asian branding, and author of the book, "Asian Brand Strategy," adds that western companies mistakenly think they can market a product "quick and dirty" to Beijing and/or Shanghai. "If you're serious about marketing to China," he states, "you have to be in it for the long haul. The Chinese value commitment; you have to gain their trust and build Guanxi with face-to-face meetings. Guanxi does not happen remotely through email and you cannot sit around waiting for someone to call you. It won't happen."

-> Challenge #3: Infrastructure not fully developed

Infrastructure in the US was built up over time – consider the decades it took to go from telephone to high-speed Internet. And, US infrastructure is pretty much the same whether

you're in the Iowa or New York.

Urban centers in China, on the other hand, have gone from crawling to running – and have bypassed hardwiring altogether. Mobile phones and other wireless devices are huge with young urbanites.

Reports Ernst & Young's McIntosh, "One day I walked into a phone store in China and couldn't understand why there were twenty sales people in a department when in the U.S. you would have maybe two or three. It's because the affluent urban Chinese are buying everything electronic – but they may be buying it for the first time and do not know how to use the devices. Hence, the sales people are there to educate them."

However, while China may boast 100 million Internet users and 300 million using wireless, its developing network hasn't extended to the rural provinces. And, if you're in manufacturing and need to worry about supply chain logistics, it pays to ensure the right warehouses, trucks, railcars, etc. are available (or even exist) and that government regulations allow you to transport your materials. (In other words, don't assume anything.)

According to Piset, the rugged terrain in many parts of China that bogged down the imperial armies remains a significant challenge for foreign companies who think they can open markets in the rural provinces. He advises companies look at a map and plan accordingly.

-> Challenge #4: Finding the right partner and/or distributors

According to advice from the US Commercial Service, Beijing, "Finding the right partner or distributor and employing prudent payment practices are particularly critical in China, where the judicial process is slow, expensive, and plagued by corruption."

The Commercial Service emphasizes companies ensure "partners are reliable, have the right motivation, can perform everything specified in the contract, and are allowed by law to fulfill the promises in the contract" by checking the reliability of partners via independent third-party sources.

"Finding the right local partner is key," confirms Kris Bondi, Principal of CNW Worldwide, and a marketing consultant who travels to China frequently. Bondi has aligned herself with a Chinese National who has become her local representative – "I definitely have better relationships due to his contacts and network," she states. Her partner, for example, helped her find a former journalist who had a solid media network. "Because of this person, I was able to get interviewed for several publications which in turn has lead to discussions with the government concerning joint cultural work."

Local partners you trust absolutely are also invaluable when it comes to obtaining access to distribution networks. Haley relates a story of Cerestar (now owned by Cargill) had a very large investment in China marketing food starches. However, the company's joint partner "neglected" to tell them that there wasn't a market for food starches and that the heated railcars needed to carry the product were non-existent.

The U.S. Commercial Service recommends locating distributors and sales agents through trade shows, business connections and via the U.S. Department of Commerce's Gold Key Service.

-> Challenge #5: Protecting your brand

Brand piracy, counterfeit products and the black market are major concerns for foreign and domestic companies – whether they do business in China or not.

Toshiba, for example, reached a 10% market share in China for its laptop batteries. The funny thing is, at the time Toshiba didn't make batteries for China – the 10% market share was for Toshiba knock-offs.

And then there is the case of Microsoft who is fighting the widespread use of pirated versions of its software – with little apparent success.

According to Roll, counterfeiting is 4-6% worldwide and estimated at about \$450 billion dollars, with 80% of counterfeit goods coming from China. "The Chinese have no respect for intellectual property or trademarks at this time," states Roll. "This is a real problem not just for Western companies but for Chinese companies, too. It is changing, though, as Chinese brands themselves are now getting counterfeited, adding lots of pressure on Chinese authorities to do something serious about the problem."

Protecting one's brand is difficult. Companies have learned – the hard way – that all molds, drawings, etc. have to be destroyed once they are no longer needed. Why? Because these items are routinely stolen from the trash and then sold on the black market to Chinese companies who then reproduce realistic knock-offs of lower quality.

The Chinese government is cracking down and municipal governments like Beijing have issued regulations stating government offices must use licensed software. However, IP and brand stealing remain a huge issue for many companies.

East meets West: Basic tactical tips on marketing in China

Marketing to the Chinese is nothing like marketing in the US – for example, it is a complete waste of money to send out direct mail, and email that compels people to purchase something online will bomb because it's only recently that the Chinese have had access to credit cards.

Because the various provinces are so different, and because it depends on what type of product or service you are selling, it is difficult to give concrete marketing tactics. What follows are general strategies that have been proven to work well.

One last caveat: when working with your Chinese counterparts on any type of marketing-related project, be patient. They know where they need to go but lack the expertise, the creativity (which was suppressed), and the years of historical marketing knowledge U.S.-based professionals take for granted.

-> Advertising

According to Marshall, the Chinese have their own unique creative approach. Print, billboard, and television advertising should be emotion-inspired and filled with bold, colorful photographs and imagery and employ heavy use of animation. The Chinese like to see passion in their advertising rather than specifications. Images from the West also work very well.

Every city and province has TV, radio, newspapers and magazines. According to figures provided by Oro, the Chinese media landscape includes 200 TV stations (CCTV claims an audience of one billion), 1,000 radio stations with 700 million listeners, 2,000+ newspapers, 9,000 magazines, and 568 publishing houses.

And yes, you can find trade magazines. "It's not like the U.S." says Marshall, "but if you're looking for a trade publication that covers heavy machinery, you can find it."

When developing ads for the local markets/provinces, you must have the copy translated by Chinese locals or a National living stateside. These people can properly translate the sense and meaning of your copy and can alert you if it has a serious cultural error.

For example, Kaiser Permanente opened a Chinese language call center in the San Francisco Bay Area some years ago and couldn't figure out why no one was using it. The prefix was 446 – a huge no-no because the number "4" signifies bad luck in China. "Basically," says Bondi, "Kaiser was having Chinese people call 'death, death, 6.' They changed the number."

Also be aware that important symbols in the US may have no bearing in China. Piset relates the example of De Beers who learned that its slogan, "A diamond is a symbol of commitment," meant nothing to the Chinese. According to Piset, 58% of diamonds sold in Shanghai are bought by married women buying for themselves and are considered status symbols.

-> Public Relations

All media in China, according to Oro, has government oversight, which gives journalist less freedom over the stories they write, particularly when it's with regard to government news or policies. And, unlike their Western counterparts, Chinese journalists are not as motivated to develop individual story angles and are not as inquisitive and investigative. (This is slowly changing, however, particularly in the Guangzhou region of China.)

Forget about blasting press releases to local media.

Says Oro, "Chinese wire services aren't worth the time and rarely result in coverage." He advises you work with a local agency with strong media relations capabilities and that you build relationships with reporters over several months via face-to-face meetings. (And, don't forget to build relationships with others who have these and other important connections.)

Media "roundtables" are one of the major tactics for "pushing" news. "It helps to deliver the CEO or other top executives to your briefings," Oro states, "and then let country managers and local experts conduct follow-up. You also want to set aside time for one-on-ones or small media roundtables with three to five key media."

You should also be aware you must pay a "media transportation fee" of RMB 200 (US \$26) to journalists in order to get them to attend your conference or interviews. This is because Chinese journalists are not reimbursed for their travel expenses; the fee covers their transportation costs and meal fare. Westerners may see this as pay-for-play, but keep in mind that the fee does not guarantee coverage.

Oro also advises that you align your messages with key government initiatives in order to

get more press – for example, the Olympics, China’s “Go West” campaign, rising standard of living, trade, etc.

-> Collateral and Web Content

At first glance, it seems pretty easy to take existing sales and marketing collateral and/or Web content and simply translate it to Chinese. Clara Ng, a marketing specialist for Waters China Ltd, (Waters is a life science company based in the U.S.), and Bondi both advise against this. Says Ng, “In China, we want to know how a company does business worldwide. We are swayed by emotion, and we want to know that you understand how we think.”

With regard to the Web, the Chinese prefer Web pages that are busy and packed with information – which can cause problems with U.S. designers who believe in minimal text and lots of white space or corporate communication departments’ formatting rules and standards.

Although millions of people are online, don’t assume your Chinese counterparts understand Web design or other “backend” technical issues. As with marketing in general, the Chinese know where they want to go but don’t have the technical expertise on how to get there (yet).

Ng also points out that few business people are ordering consumables or other products online. Until recently, the Chinese did not use credit cards. A prospect will go online to research a company and/or products, but transactions always take place face-to-face.

-> Road shows, public promotions, tradeshow

Consider increasing your normal road show budget substantially as a percent of overall marketing spend for China.

The best way to get to know your prospects and customers, meet distributors and suppliers, and promote your company is via large events such road shows, public promotions, and tradeshow. Both consumer and B2B companies use these events to promote everything from products to the CEO.

-> Branding

As noted above, protecting and building your brand in China can be tough. If you’re a brand expert, Roll advises you use the same tactics as you would anywhere else but with the following caveats:

- o Never under-estimate the power of local competition. Local marketing, branding capabilities, and resources are challenging business issues.

- o Effective distribution and sales networks are crucial for success but very difficult to build and maintain. Remember that all procedures in China take time, patience and money. Keep your integrity and build Guanxi.

- o If you choose the wrong partner and the deal is heading south fast, it’s better to abandon ship rather than try and make it work.

Sums up Oro about doing business in China: "Business is tough everywhere, even more so in a dynamic country like China. To be successful you need to do your homework, get local help, be patient, respect the Chinese and their way of doing business, and keep an open mind. Once you figure out how things work, you'll have a much easier time achieving your objectives."

Your first business trip to China – Quick Dos and Don'ts

According to our experts, nothing can prepare you for your first experience with China. The culture, language, and sheer number of people can quickly overwhelm the uninitiated.

Bondi recommends you find an interpreter who can translate language and local customs for you. It also pays to learn a few words like "hello," "thank-you," and common phrases like "gumbay" – which means "bottoms up."

Presenting yourself well is important in China and knowing the proper protocols and correct behavior for specific situations will go far in showing your Chinese hosts that you take them seriously.

Definite business no-no's include talking about politics, discussing issues of morality, and declining a meal with your hosts. All of our experts emphasized the importance of business meals – and that you understand you may be served food considerably "exotic" to the Western palate. Bondi recommends sampling anything served to you – otherwise your host (s) will lose face.

When visiting, be sure to bring materials written in Chinese, including business cards (one card, with English on one side and Chinese on the other, is fine). If you're doing any type of tradeshow, media roundtable, or presentation, go over your materials with your interpreter beforehand so that there are no slipups or miscommunication issues.

Oro recommends you devise a translation for your name, otherwise the Chinese will do it for you. When he first arrived in China, his name – David Oro – was phonetically translated to "O Dik Why." For obvious reasons, he quickly changed it to "Jin Dai Wei." "Oro," he says, "means 'gold' in Spanish. 'Jin' is Chinese for 'gold' and 'Dai Wei' stands for 'David.'"

Companies, too, should consider a Chinese name. Ikea, for example, isn't Ikea in China, but "Yi Jia," which means "One Home."

Know, too, when and how to give gifts. Large expensive gifts will be interpreted as bribery, especially in a business setting, but smaller, non-personal gifts are acceptable and welcome. Always give your gifts at the conclusion of business, ensure the recipients know it is given on behalf of your company, and wrap the gifts preferably in red paper (the Chinese are very sensitive to color: white and black symbolize death; red is for good luck). Buy your gifts in advance of your trip and keep them unwrapped in your suitcase – otherwise, they will be torn open by Customs.

Also note that China is different from other Asian countries in that women are fully equal under the law, are held in very high regard, and are extremely well-educated. In fact, according to news articles, many U.S. companies doing business in China, including Wal-Mart, are hiring Chinese women for top management positions.

And finally, do your homework before you visit so that you feel comfortable and up-to-speed when you arrive. States Marshall, "China is a more of a rogue society. They don't have the cultural taboos the way Japan does. The Chinese are very, very smart business people. They are savvy and are able to quickly read you and your ability to be a good partner. It's an aggressive society and you have to know how to play back."

Coming in Part II

Look for Part II of this Special Report in Mid-April. We'll focus specifically on interactive marketing in China, particularly mobile marketing, search marketing, and Internet ads.

Got feedback or input? The editorial team look forward to hearing from you at feedback@marketingsherpa.com.

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