Supplementary Readings for
Chapter 1
The Long March

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Chinese Companies Establish Brand Awareness in Overseas Markets

Top Band Weekly

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By Lynn Furrow, General Manager of The Hoffman Agency Beijing Office

China exports a dizzying array of personal computers, DVD players, refrigerators, and consumer electronic goods… yet most people outside of China can't name even one Chinese brand. As more and more Chinese enterprises push their goods into overseas markets, companies are now trying to change this.

Legend Group, the largest computer manufacturer and a household name in China, is shooting to increase overseas sales from seven to 25 percent of its total revenue. In expanding overseas, however, it encountered a branding dilemma: because other companies in many countries around the world have already registered "Legend", the Chinese company was forced to devise a new English name that could be used unrestrictedly in markets worldwide. Thus on April 28th, Legend Group's new English name "Lenovo" was born. Although it may offer a fresh start, the new name erases two decades of brand building in China and must stand up to the stigma that Chinese companies face overseas: "'The biggest challenge is to build up people's confidence about the product,' says Annie Chung, and analyst with Gartner Inc. in Hong Kong. 'They need to get away from the China-made, low-quality image.'"

Netease.com, for example, had a bumpy entrance into the U.S. market. After listing on Nasdaq just as the Internet bubble was bursting in 2000, the company then faced an accounting scandal, a class action suit, and an order from Nasdaq to suspend trading. When Ted Sun took over as acting CEO, he brought sweeping changes to upper management and restated earnings in an effort to restore investor and customer confidence. A couple of years later, investors seem to have regained faith after the management shake-up: the company is trading again at a handsome $31 per share -- triple what they were just three months ago.

In recent years Singapore Exhibition Services, the organizer of well-known telecom events CommunicAsia and BroadcastAsia, has seen a steady rise of Chinese participants. In the months leading up to this year’s event, SES reported a 20 per cent jump in the number of Chinese companies signed up to exhibit, including famous companies such as Huawei and Putian. Although the June event was cancelled due to the SARS outbreak, the rise in Chinese participation is evidence that more and more Chinese companies are realizing the importance of overseas industry events as an effective way to build brand recognition outside their home markets.

In one interesting twist for a Chinese company, China’s popular domestic beer maker Yanjing Brewing Company uses the US market as a means to reach audiences at home: when basketball player Yao Ming joined the Houston Rockets, the company signed a sponsorship/advertising deal that would place the company’s name on billboards in the Rockets’ stadium. The primary purpose was not to attract American beer-drinkers, but to grab the attention of avid basketball fans in China that watch live TV broadcasts of the games played by the Chinese basketball superstar.

Creating, communicating and managing brand image is a relatively new concept for Chinese companies whose main experience with branding to date involves devising a logo and a catchy slogan. In order to build a positive brand image overseas, particularly because Chinese products are often perceived as low-tech and poor quality, Chinese companies need to be more transparent about their business practices and financials, establish positive points of differentiation, and communicate these effectively with their audiences.

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Are Chinese Companies a Threat to *Your* Small Business?

A closer look at how our free trade policies with China and the Chinese business environment may impact the future of your company

September 16, 2003

By Joshua Kurlantzick

In recent months, as the U.S. economic slowdown has continued, American companies, and many legislators representing districts hit hard economically, have begun to lash out at China. Touring the South, Democratic presidential candidates Richard Gephardt and John Edwards stopped at textile factories across the region that were on the verge of bankruptcy. There, they condemned American free trade agreements with China for allowing Chinese companies, which pay much less for labor, to undercut U.S. manufacturers and drive blue-collar jobs overseas.

Meanwhile, Cabinet members of the Bush administration, touring the country to promote the president's economic packages, received many angry complaints from businesspeople concerned about the China threat. And U.S. textile makers last month filed a petition with Congress asking legislators to cap textile imports from China, using World Trade Organization (WTO) provisions in force since China joined the WTO in 2001 and charging that China unfairly undervalues its currency and underpays its labor force. (In response, the General Accounting Office has agreed to investigate the valuation of China's currency.)

Some of these fears are real. Last year, China received the most foreign capital inflows of any nation, surpassing the United States as the world's favorite locale for investment. Meanwhile, Chinese wages, which average around 60 cents in manufacturing jobs, aren't rising in most fields. Ming-jer Chen, a China business expert at the University of Virginia, says the country's burgeoning labor pool, the result of increased migration from poor interior areas to richer coastal regions, seems likely to guarantee low-wage labor in most industries, at least for the near future.

Increased Chinese production by low-wage workers, combined with the undervalued Chinese currency, does allow China to undercut competitors, triggering a kind of deflation that may push some U.S. firms out of business. As *The Economist* has noted, the cost of a mountain bike has plummeted around the world, largely because China has come to dominate bicycle production. For some U.S. textile manufacturers, it's very difficult to compete now, says Chip Coker, CFO of Coker International, a South Carolina textile company.

And, critics of free trade with China say, now it's not only blue-collar jobs that are leaving for the Middle Kingdom. Though a decade ago China was known mostly for manufacturing low-value, labor-intensive goods, in the past ten years, it's become a leading producer of low-end electronics, and has begun to develop domestic automobile, telecommunications and white goods firms. One Chinese white goods company, Haier, has even opened factories in the United States.

In China itself, the situation is more complex. China may be an increasingly powerful competitor for U.S. firms, and in many respects, Shanghai looks like a modern equivalent of any U.S. capital. At ubertrendy coffee houses around Shanghai, smartly dressed young men and women chew over business on their trilling mobile phones. The city's high-rise skyline is dotted with cranes and construction equipment, and in brokerage houses near the Bund, Shanghai's waterfront, investors study market tickers intensely.

But appearances can be deceiving. Despite the First World veneer of Shanghai, most Chinese companies remain far behind the United States in terms of application of technology and in overall productivity. What's more, many Chinese entrepreneurs remain stifled by a bewildering and often corrupt legal system, a bureaucracy still staffed by Communist officials with little knowledge of market economics, poor physical infrastructure and other major problems. Because of these obstacles, in many sectors, China is still years from competing with U.S. firms making expensive, higher-value goods. Most of what China does well is produce low-value items that aren't economically feasible to make in America anyway, since these lower-wage jobs left America decades ago anyway.

U.S. businesses often complain about the health care, safety and pension regulations they have to deal with, but red tape in the United States pales in comparison to Chinese entrepreneurs' hassles. Howard Li, co-founder of Newtone, a Shanghai-based telecommunications company, says his company has to focus much of its energy on courting government officials, since the government in China essentially retains a monopoly over telecoms.

Meanwhile, Chinese businesspeople in other sectors say that because Communist Party officials still have so much leverage over where companies can incorporate and who they can do business with, they often spend large sums of money feting Party leaders at lavish dinners and even take on excess workers who have ties to the Party. Worse, many small businesspeople are unable to obtain loans from banks when they're in direct competition with larger companies that are still linked to the state and, by extension, to the Communist Party. Jun Zhao, the Beijing representative for ChinaVest, a venture capital firm focusing on China, says Chinese entrepreneurs turn to VCs precisely because it is so hard for them to get a loan.

Chinese entrepreneurs also don't have any semblance of a legal system to support them. One lawyer who worked in Shanghai for nearly two decades says that, despite laws passed in recent years designed to modernize the judiciary, most cases are still adjudicated in back rooms by Party leaders. "One case I had, there was a three-judge panel that was supposed to decide it. One of the judges read the newspaper throughout the case and never even looked at the lawyers during the trial," he says. "Later I found out that those judges merely wrote up a summary of the case, gave it to a Party official, and the official made the decision."

Meanwhile, in the past three months, a series of successful Chinese entrepreneurs, from agriculture businessman Sun Dawu to flower magnate Yang Bin, have been arrested by the police, often for crimes that the government hasn't clearly defined. Some Chinese businesspeople say that the entrepreneurs were arrested merely because they challenged established businesses with Party links. "Yang Bin didn't do anything that other businesspeople don't do," says one Chinese academic familiar with his case.

Partly because of the lack of a functioning legal system, intellectual property piracy continues to be an enormous problem for Chinese entrepreneurs. Though the Beijing government has pledged to crack down on piracy, copies of the latest Hollywood movies, Microsoft software and hottest video games are widely available in Shanghai street markets.

And even those Chinese entrepreneurs who do successfully wade through the red tape, prevent their goods from being pirated, avoid being arrested, handle infrastructure problems, cater to Party officials and get funding still may not match U.S. competitors. Indeed, several experts on Chinese business say China still doesn't have many business leaders who understand how to run and market a company effectively.

Given all these problems, there are actually few Chinese companies in anything other than low-end industries that are truly prepared to challenge American firms. Despite the influx of foreign capital into China, which mostly goes only into a few sectors located near Shanghai and Hong Kong, Chinese businesses' rankings of the World Competitiveness Scoreboard, a global rank of business productivity, has actually fallen in the past five years.

But what does the situation in China mean for U.S. entrepreneurs? First, it means that U.S. small businesses can still make up for the advantages China enjoys in cheaper labor and lower worker benefits. In fact, Chinese high-tech companies still spend less than one-twentieth as much on research as their American counterparts, and the Chinese education system's rigid curricula still does not encourage ground-breaking thinkers with new ideas. Not surprisingly, the few Chinese companies that have tried to expand outside their home market have yet to prove breakthrough successes. Haier, the most successful, remains a minor player in America.

To make up for China's advantages, U.S. entrepreneurs will have to invest more heavily in research and development. One U.S. executive of a small high-tech company that does business in both China and the U.S. says that his company is able to maintain its central office in the United States by concentrating the highest-value research in America. Several leading textile companies in South Carolina and North Carolina have revived their fortunes by going into industrial textiles and the high-end textiles used in medicine, both of which require considerable research and development to perfect. Similarly, savvy small American manufacturers have been able to remain competitive by exiting low-value fields like basic machine tooling and moving into specialty manufacturing.

What's more, China's continued weaknesses in high-value products and in marketing mean that U.S. entrepreneurs willing to plunge into China will have a window of opportunity to sell their high-value goods and services in China, before Chinese companies become savvy marketers. In fact, U.S. companies making high-tech products in a range of industries have made enormous profits in China selling cutting-edge machine tools, hospital equipment and wireless technology. "If you look around at what technology Chinese executives use, even executives of high-tech companies, they're using Nokia phones, Dell computers," says one Chinese-American executive based in Beijing. "They know foreign higher-end things are better quality."

And American entrepreneurs in the retail and services sectors, which have been hit hard by the slowdown in the US economy, have a huge opportunity in China. As Mark Clifford, Hong Kong bureau chief for *Business Week*, has noted, Hong Kong has managed to survive even as nearly all its manufacturing jobs have migrated to China, because it's become the most service-centered economy in the world, with nearly 85 percent of its gross domestic product coming from services. Similarly small U.S. firms in several key white-collar services fields--for example, shipping, business consulting, advertising and architecture, for example--have already made headway into China, becoming major players on the Mainland and, by marketing their foreign expertise, already gotten a leg up on potential Chinese competitors.