Chinese firms are struggling to replicate their home success in a wary US market.
By Jenny Chan

China’s brands head west

The wave of Chinese firms going abroad has been slow to take off and, to date, has mostly been focused on securing raw materials and establishing new channels to sell manufactured goods. In the past decade, few Chinese brands dreamed of investing in the US, since their home market was taking off at a rapid rate. Now, as domestic competition heats up and to counter the disproportionate flow of profits to industries primarily controlled by state-owned enterprises, incentives are emerging for far-sighted Chinese brands to tap the number-one economy in the world.

This year, for the first time at the National People’s Congress (NPC) and Chinese People’s Political Consultative Committee (CPPCC) meetings, Premier Wen Jiabao elaborated on key target industries for internationalisation, namely IT, energy and mining, automotive, home appliances, financial, equipment manufacturing, agriculture, construction, internet and medicine as priorities for 2012. In the consumer goods sector, Chinese brands were given a mandate to “seek to expand market experience and build talent reserves acquiring international luxury brands in order to enter the global consumer market”.

Miles Young, global chief executive of Ogilvy & Mather says the issue of Chinese brands going global is moving into a more mature phase, but political barriers stand in the way. The market environment in the US, for example, is “more hostile then ever”. It’s not easy to root for Chinese brands if you are a US politician, not when you are burdened by long-standing Sino-American tensions. Surging Chinese investment, which increased 25 times from 2006 to 2010, has triggered anxieties among Americans. Many believe because China has so many state-owned enterprises, market forces and profit motives will not necessarily apply if a Chinese brand goes to the US.

That foresight of the Chinese leaders may be countered by the polemically-inclined US government in an election year such as this. Jason Schechter, chair of the US corporate practice at Burson-Marsteller, says issues around foreign investment will be heightened this year as politicians talk up job creation. “It’s going to be a tough year for Chinese brands as politicians may mis-portray what they are trying to do. Companies who are opening a new plant, or whose market entry will have a positive effect on job growth and the US economy at large — these will be good economic messages that will play well in an election year that’s all about jobs”.

Foreign direct investment accounts for five million jobs in the US, according to Gary Locke, the US ambassador to China. If the US becomes blind-sided by its political short-sightedness, it could potentially miss out on a large amount of foreign direct investment from China. The total Chinese outbound investment last year stood at US$60 billion, an increase of 1.8 per cent from the year before. And in the first two months of this year, China had 15 outbound M&A cases, which accounted for 13 per cent of the global tally. Being hostile to the world’s second-biggest economy is not the way forward.

Though the legally mandated screening organ for national security risks, the Committee on Foreign Investment in the United States (CFIUS), has generally operated in a fair manner towards Chinese brands buying US assets, bad publicity has been stirring up confusion, with little regard for whether there is actually any national threat entailed.

The example of Japan is indicative. Japan’s first investments in the US in the 1980s were almost as controversial as China’s. Japan then accounted for $1 billion of outbound FDI into the US, but by the early 1990s, $18 billion of investments were responsible for creating thousands of jobs and making the US economy more competitive. So why is the US giving China a hard time now?

Bill Black, co-chair of Fleishman Hillard’s global public affairs practice, points back to the timing of the US presidential campaign this year. “It’s going to get worse before it gets better, even Mitt Romney has already promised on his first day in office [if he were to be elected], he will declare China a currency manipulator”. With so much China-bashing going on, it seems hard for Chinese brands to deliver the message that they are not threatening, and come in profit-oriented goodwill. “This year will be the year that’s all about jobs”.

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through clear communications, says Justin Knapp, director of Ogilvy PR's China outbound practice based in Beijing. "One of the biggest challenges for Chinese brands is articulating their vision and strategy, and in a different language, which is not helping." The "tide wave of political backlash and negative press you see is because Chinese brands aren't prepared to communicate the benefits of their value proposition — they are still not used to going global," Knapp explains.

To that point, Daisy King, managing director of the US-China speciality group at Burson-Marsteller's corporate practice based in New York, describes how many Chinese brands do a one-way, top-down, centralised communications chain in their own country, but the US market environment does not lend itself to that kind of approach. The culture of red tape and bureaucracy associated with the Middle Kingdom is permeating through to how Chinese brands behave. "Like government, like corporation. Chinese firms want to micromanage and approve everything before anything can be done, and by that time, they have lost their initiative and end up on defense instead of offense," says Black.

Last year, roughly 30 Chinese companies were delisted from the New York Stock Exchange and Nasdaq — versus none in 2010 — for accounting frauds. That is one step forward and 10 steps back, says Black, because initial public offerings, as with mergers and acquisitions and to a lesser extent, partnerships, can be viewed as accelerated tactics for going global. "Once you get listed (and stay listed), you do gain a lot of credibility, but it's a strategy appropriate for some sectors and not others, especially for infrastructure or natural resources. An IPO is one way to diminish the lack of transparency and gain market awareness quickly, but ultimately, it is about whether people are receptive to you or not; it's about neutralising the opposition and encouraging the supporters of your brand."

Most Chinese brands today are developed for the local market as the domestic prowess of its 1.3-billion-strong population is hard to ignore. Irwin Gotlieb, the global chief executive of GroupM, points out the Chinese can learn from the Japanese. "Look at Sony — it had two very significant breakthroughs that defined who they were: the first was the Trinitron TV, the second was the Walkman. Those products made Sony a global brand. Since it can be established that the inferiority of goods with the made-in-China label is "old reality", as Black puts it, it boils down to a tenacious change in branding approach. "The difference between a domestic brand and a global brand is simple: the global brand is developed from a global perspective, and then adapted at the local level. It is only a difference in approach and not difficult to do," says Gotlieb. However, Chinese brands should still ask themselves the basic question of whether they are truly ready to expand globally — preferably from a position of strength rather than weakness, and "not having a presence in the US just for the sake of it", according to King.

In order to instil global thinking, Chinese brands have to do more formal research. Otherwise, the risk is that "you export the products that you have, instead of selling the products that end-consumers want," according to Young. Chinese brands must understand the critical importance of research before even starting to plan for globalisation.

Black explains why Chinese brands are not doing enough research: "They are reluctant to, because it can be very expensive and the return may not be apparent right away."

Key messages from the just-concluded NPC and CPPCC meetings from Wen more or less says it all (and again): the time for Chinese brands to go global
is now. As China cuts GDP targets and economic growth moderates, Chinese companies need to diversify their revenue streams and promote themselves on the world’s billboards.

Only a few Chinese brands have gone global in the past 10 years. These include: Lenovo, ZTE, Haier, Tsingtao, Air China, Li Ning, Huawei, Geely, TCL, Meida and Chery. Food companies Cofo, Bright Food Group and Wahaha have also recently shown an appetite for international growth.

China’s ambitious global goal is only in its infancy. Although China has in the past pushed national champions to globalise, greater emphasis was put on industry restructuring in the country’s transition to a socialist market economy. Currently, lawmakers are still developing the legal framework to help local brands go global. In fact, the government is only now drafting a law on overseas investment projects, which is likely to take effect in the first half of this year.

Chinese brands generally feel they are getting mixed messages from the US. On one hand, various Washington representatives speak in broad terms and positive tones about China firms entering the US; on the other hand, the reality is the firms find themselves running an obstacle course. Understanding of contract drafting, labour laws, dispute settlements and anti-bribery controls are some obstacles to start with. Cross-cultural differences in management style, decision-making dynamics and language are not helping either. The multiple federal-level programmes and different economic development agendas at the state level further compound the puzzle. At the federal level, national security worries often trump the economic and bilateral trade benefits favoured by state and local governments, who see Chinese companies as great sources of jobs and investment.

CASE STUDY Haier

Haier started its operations in China in 1984 as a refrigerator manufacturer using borrowed technology and in the 1990s it started exporting its products to the United States, Europe, the Middle East, Africa and Japan.

What is significant is that the company knew it could remain competitive based solely on cost. Haier set out to elevate its product quality. It set even higher quality standards than the stringent industrial standards applied in Japan.

Its strategy for going global followed a “first difficult, then easy” principle.

In 1992, Haier first entered the developed economies of Europe, Japan and the US to establish its brand image, which enabled the company to move into developing parts of the world more quickly. When Haier entered the US in 1999, those managers who had been trained in the Philippines in 1997, were sent to the American plant imparting transferrable management skills.

Haier’s biggest steps forward in internationalisation were from 2000 onwards with greenfield ventures, creating global R&D centres and localised design, procurement, production, distribution and after-sale approaches.

In the US, the company earned its stripes by identifying a niche in the consumer durables sector — compact refrigerators that other manufacturers did not make — thus responding to an unmet consumer need and naturally gaining market share.

Unconventionally, Haier did not compete head-to-head with its rivals. Instead, the company played a win-win strategy by forming technological alliances with players in the same and other industries. These included, General Electric, Whirlpool, Toshiba, and Microsoft.

To make the case for its products being environmentally and energy friendly home appliances, Haier participated in initiatives such as the World Wildlife Fund’s Earth Hour climate change awareness campaign.

In 2008, Haier was appointed as the Beijing Olympic Games’ official white goods sponsor that expedited its globalised branding process.

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