



## FIVE GOOD REASONS NOT TO GO IT ALONE IN CHINA

### INTRODUCTION

The Chinese market attracts the owners of many Western small- to medium-sized enterprises (SMEs) who believe it could be a quick way to grow their businesses. China is hardly “quick,” though, and unlike better-equipped multinational corporations (MNCs) who came before them, few SMEs can afford the time, money or resources required to achieve success. China is simply too unfamiliar and too obstacle-laden for any company to have an easy journey. Even large MNCs require five to ten years and huge investments to build profitable businesses in China, and not all succeed. As an SME entering China, it behooves you to be smart about China. As a start, study our five reasons why SMEs should avoid going it alone in China and then seek professional, well-qualified guidance.



**FACT:** Between 2000 and 2014, U.S. MNCs invested more than \$65 billion USD in China. This is no small sum, on a scale that will never be possible for smaller SMEs.

### OUR FIVE GOOD REASONS

#### ***REASON 1: SMEs “don’t know what they don’t know” ♣***

Too many Western SME managers believe their hard-won international experience is sufficient to navigate their way to business success in China. This naive assumption blinds them to how different China really is and to how much they don’t understand. When situations involve China, the simple question, “What am I not seeing?” never enters their minds.



Did you know many people compare China to an onion? You peel a layer back and think you understand the onion only to discover there is yet another layer below, and then yet another. When dealing with China, there is no quick and easy way to learn the ropes. Big companies invest significant time and money to do so, after which only some actually make money. What about the less fortunate? Many just bleed red and then eventually withdraw from China.



Resource-limited SMEs cannot afford such a “big company” approach to China, one involving large doses of time and money. It’s simply too risky. Rather, SMEs must act smarter, starting by accepting that there are things related to their businesses in China they do not understand, many of which could destroy any possibility for success.

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***Our advice on limited knowledge** - The single biggest step toward success in China is accepting that you don’t know what you don’t know. Always ask, “What am I not seeing?” and seek guidance from others—coaches—who have gone before you in similar ventures. Remember, in China, many things are not what they seem.*

## **REASON 2: Cultural differences always throw you off balance** ♣



In the course of our business, we have witnessed countless conversations, in English no less, between Chinese and foreign managers where each side understood the literal meaning of the words exchanged, but neither had a clue about the other’s real meaning. More simply, communication failed to occur, yet both parties were ready to act on erroneous understanding. This is a common situation when two parties with very different cultural and life contexts engage in complex business discussions. (For that matter, it often happens with two persons from the same country and culture.)

Until you have learned a great deal about China and, if possible, the language, you are sure to miss key points in your business dealings. Missing the point when doing business is not good, particularly if you are a Westerner doing business in China. China’s culture and business





practices are all very different from what you find in the U.S. and other Western countries. Without proper coaching, you will often be off balance and maybe not even know it.

By now you may be thinking we are exaggerating the difficulties of doing business in China. After all, we are a company that helps SMEs do business in China, and the more difficult it sounds... Well, the better for us. Fair enough, but there is probably a lot you don't yet know about China. In fact, test your knowledge with following questions, keeping in mind they illustrate but three of many complexities specific to China that foreign businesses must contend with.

## *Question A. Can you name the biggest cultural driver of Chinese behavior?*



In our opinion, the answer has to be the concept of “face” or *mianzi* (mee-n-zuh). Face is one's perception of how others perceive him or her. Unlike our western concept of positive self-image, face dictates that it matters far more what others believe about me (face)—even what I believe they believe—than what I believe or know about myself (self-image). This holds whether what others believe about me is true or not (e.g. “If they think I am wealthy, then I am cool”).

*Face Example 1:* Declining a Chinese General Manager's dinner invitation, especially in front of his staff, can result in him losing face. In this case, he loses face because the invitee, regardless of reason or graciousness in declining, apparently does not hold the GM in high enough esteem to attend dinner. Any form of public rejection is a knock to a person's “face” and should be avoided if possible. Though a rain check for dinner is common in the U.S., this is not the case in China.

*Face Example 2:* On the commercial side of things, Chinese will haggle over five cents on a five dollar purchase of pork to show their negotiation prowess (it gives them face), but when buying an iPhone, Rolex or Gucci bag, full “China price” (U.S. price plus 40% or so) is completely acceptable. Why? Because buying and carrying a luxury branded item is for many Chinese a seriously feel-good experience, one that gives one “face” as others surely must think, “Now there is a successful person!”

Face applies to individuals, society and the country as a whole. If China and Japan were ever to abandon diplomacy during one of





their territorial disputes, it would be more for reason of national face than the actual land at stake, I think. Face is that powerful, and it *must* be taken into account for all dealings in China.

## **Question B. Which cultural driver poses the biggest risk to foreign businesses in China?**

Our winner: the concept of “ends before means.” The means by which a result is achieved is far less important than the result itself. In simpler terms, winning is more important than how you win. During my Little League baseball days in California, we were taught, “If you can’t win fair and square, you can’t count it as a win.” It’s different in China, where the main thing is to win regardless of how fair, square or otherwise.

Now, combine “ends before means” with the need for “face,” and you have a toxic combination of cultural drivers that puts “American Little Leaguers” at a dangerous disadvantage. Following is an example to illustrate the point.

*One of our US-based clients requested that we investigate why their strategic partner, a Chinese precision lens manufacturer, kept delaying shipments critical to their production.*



*Looking closer, we determined the so-called strategic partner was not even a manufacturer but operating from a private residence. This was in spite of a very impressive website. The real situation? An insider at the actual manufacturer was providing rejected lenses out the back door to our client’s “strategic partner” who was then selling them to our client as top quality product. Delays were due to the unpredictable supply of rejected lenses. The ends in this case? Money, while the means was a zero-cost, unethical supply line. To top it off, you can bet this creative entrepreneur’s friends thought of him as a “clever fellow,” giving him “face” in the process.*

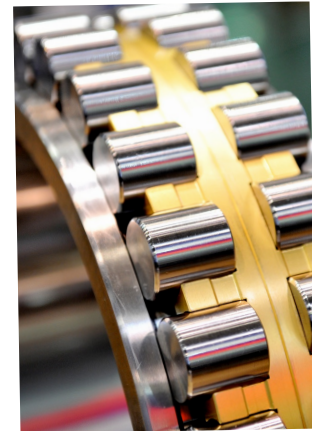
## **Question C. What do many claim you need to do business China?**

The answer is relationships or in Chinese, *guanxi* (gwan-shee). In the west we sometimes say, “It’s not what but who you know,” but in no other place is this as true as in China. Despite your level of confidence, one cannot charge into China as a confident (but in reality blundering) foreigner and expect Chinese to trust and engage you in win-win business. Lacking a time-proven relationship network, you’ll either never get started or worse be seen as a sitting duck to unscrupulous local businesspeople.

***Our advice on culture** - Team up with a partner or coach who can teach you the cultural aspects of doing business in China. Thoroughly vet your partner or coach, however, since the wrong one can be as bad or worse than having no partner at all.*

### ***REASON 3: The majority of foreign products and services have no fit in China ♣***

Though a product may sell well in some geographies, there is no guarantee China is one of them. Do not make sales assumptions based on your experience in Western markets. Furthermore, the calculus “If I could sell just one of my widgets to each of China’s 1.3 billion people...” is a sure road to failure. Instead, seek professional help to carefully assess how your offering fits in the Chinese market before you overcommit. Know that price is always an issue. China is non-homogeneous, and the market is ultra-competitive, especially for most B2B products. But don’t lose faith just yet. With the right approach, your high-end, high-value product could have a good opportunity in China.



To increase your chances in China, do your homework and make sure your product or service fits the market. Use the following questions as a guide:

- A. ***In the eyes of Chinese customers, does your product or service offer tangible advantages that offset a higher price?*** Chinese buy (and don’t buy) for reasons far different than you might imagine. Understand the reasons specific to your offering, and never make assumptions based on success in other markets. Ensure your target Chinese customers have a real interest in your offering and are not just giving “face” when you’re talking with them. Try to understand your offering through their eyes.
- B. ***Are there comparable Chinese alternatives with which you’ll have to compete?*** If



yes, it will be difficult to compete. If not, then you might have a chance. Chinese alternatives are bound to carry a price tag that’s at least 40% lower and will be the choice of many buyers. Remember, price is always an issue, even when it’s not really an issue. The exception: consumer products appealing to conspicuous consumption “face”-oriented buyers can do well—especially prestigious brands, often because of a higher price.



- C. *Is your product likely to be duplicated by Chinese competitors?* Recall the cultural trait, “ends before means”? Driven by a profit motive, many Chinese companies will copy a product (both design and branding) before creating their own if they believe an opportunity is good. For this reason, products with high proprietary content and/or bundled specialized services that are difficult to replicate have the greatest chance for sustainable success. Regardless of your product, always protect your intellectual property through internal strategies and controls; the legal system will generally not do it for you, at least not yet.

China offers abundant opportunities but only for the right products and services. Ensure your product offering is one that your target Chinese customers will actually buy and that your Chinese competitors cannot copy—unless of course you have ample time and money to waste.

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***Our advice on product fit** - Seek out professional advice to help assess the potential for your product in China. For most cases, this does not require full-blown market research. Rather, the right China expert with experience in the same or similar market as yours should be able to give you a 70% confidence level for success. With slightly more effort, an 80% plus confidence level is possible. Of course, you'll never really know how well your product or service will sell and what issues there are until you start selling.*

## ***REASON 4: Having no Chinese relationship network (guanxi) hinders success ♣***

As Westerners, our primary focus is the business at hand. We just need to agree on objectives, designs and contractual terms to do a deal. Personally liking our counterpart is not required to engage them in business, so long as a basic mutual trust and professional respect exist between us. Professional reputation helps, as well. China is different, and relationship, good or bad, often override the specifics of a deal. The Chinese want to do business with people they know and like, ones they can depend on, who will not cheat them and who can help them achieve their ends.



A Westerner's tendency to drop the formalities and “get on with the business” puts Chinese off. If you want to do business in China, be prepared to do it differently. You have to be





patient, adjust your style and spend time building relationships with your Chinese counterparts (e.g. eating, drinking, sightseeing, etc.) You must show honest respect and avoid preaching.

## 关系 guānxi

With relevant relationships, connecting with the right players and getting things done is much easier, though in reality it's not that easy. As Westerners, we can never achieve the level of *guanxi* that exists between two or more Chinese. Almost from birth onward, Chinese work hard to build and maintain their relationship networks. Developing *guanxi* seems inherent in their DNA and occupies a significant portion of their time. In the West we network, but this is very different than the Chinese approach.

Chinese believe in developing a kind of eternal mutual dependence: "We may benefit from knowing each other someday, so let's connect, say, forever". I've seen cases where a 40-something year-old businessperson calls on a long-lost fifth grade classmate for a business favor and gets it.

When it comes to *guanxi*, Chinese have advantages: They live and breathe it—their culture supports it, and they start very early in life building *guanxi*. Even Westerners who've lived in China many years and speak excellent Chinese can never achieve more than a surface level of *guanxi* since, after all, Westerners can never be a real Chinese.

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***Our advice on relationships** - There is a workaround to a Westerner's limits on building *guanxi*. Try building close relationships with a few key Chinese friends or partners. With time, these relatively close "relationships" may afford you access to their own networks. By knowing a few key people, you can have access to many. The darker side of *guanxi* involves requests for financial payouts. Manage these situations carefully since they can be illegal under Chinese or Western laws, and payouts are not always your smartest option anyway.*

### ***REASON 5: China is unpredictable, irrational and in constant flux ... it's a real "wild west" of a market ♣***

Mark Twain once quipped, "Confidence—it's that feeling you have before you fully understand the situation." Mr. Twain's quote too often describes how many Western SME's approach China. Though a bit nervous to start, the SME's newly assigned China Manager



begins thinking “slam dunk” after only one trip to the mainland. This is in no small part due to the very alluring “I am your best buddy” and “anything is possible” attitude exuded by smart Chinese hosts.

China is different. It has yet to mature fully in ways specific to its economic, social and geopolitical development. Sure, *China has come a long way* since its reopening in 1978, but *still has a long way to go*. China changes almost daily, limiting the ability of businesses to plan much into the future. The people, the government and the conditions are unpredictable and sometimes irrational, at least from a Western business perspective.



I compare doing business in China to floating down a wild, uncharted whitewater river. It seems easy enough—only you, water and a raft. Once on the water, however, you quickly realize there is far more to manage than you imagined and not long before you end up in the water. To be clear, if you are not a river expert, you will end up in the water. Even the best preparation, athletic skill and common sense cannot get you very far. As for China business ... well, I believe you can see the analogy.

As an SME new to China, you will encounter a slew of obstacles requiring nothing less than expert skill to navigate. Unfortunately, the context, expertise and understanding needed for success require years of engagement with China to develop. A skilled guide may be able to help you reach your destination; if you choose to venture without one, hold your breath going in. Splash!

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***Our advice on China's market** - Enlist expert support to help you with your China venture. We have shown time and again that it's far more effective for the right expert to learn your business and help you navigate China than for you to attempt learning China and try navigating to success alone.*

## SUMMARY

Herein, we've offered five reasons why you shouldn't go it alone in China. With more time and paper, we could easily elaborate on these five reasons and even give you five more. The bottom line: China is very different, and unless you are somehow different than most





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Western SMEs, then you really don't know what you don't know, and it is going to be very difficult for you to achieve the results in China you aspire to.

As an SME, you cannot afford the time, money and headache required to enter and successfully overcome China's challenges. You have to play it smarter and move more nimbly than most of the companies that have gone before you. We propose that the best way to do this is by engaging support from people, experts, who have already done what you are seeking to do.

(END)

# CHINA SAGE CONSULTANTS

Dear Reader:

While managing a US enviro-products business in China from 1997 to 2002, I personally experienced the difficulties and disconnects between our US team and what was happening on the ground in China and it wasn't pretty. So in 2003, I started China Sage Consultants and our China Sales Incubator program to provide a better way for US companies to sell and build up their businesses in China. Since then, we've helped secure millions of dollars in sales for our U.S. and also European clients, all the while ensuring they weren't taken for a ride.

Our foundation of direct B2B engineered product sales has evolved to include distribution development, educational programs and university student recruiting, as well as Chinese outbound investment initiatives and more. Though diverse, our unique model adapts to support whatever business we may be working with. Whether a company needs help with ongoing sales management, distribution development or just help solving tough business issues, our capable team of experts can help.

If you are considering or possibly struggling with a business in China, you should contact us and learn why so many SMEs have chosen us to support their sales and business development in China, and why even the U.S. Commercial Service has enlisted our support. I assure you, our American roots and hard-won China experience afford us a unique ability to understand both you and any situation you may be facing. We can and will help you determine your best path forward.



To your smooth selling in China!

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