The Lens Journal
A journal of perspectives for young researchers

How can a Chinese Company Successfully Integrate Itself in Foreign Markets?

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Abstract
China's global influence has grown immensely in recent times. It has been propelled to the top, becoming a global superpower, much like the US. However while the latter has plenty of global household brands like Apple and Amazon, the former doesn't, highlighting the struggles most Chinese companies face on their path to global influence. While there are a few success stories, such as Lenovo, the majority of corporations have attempted and failed drastically due to lack of trust and chemistry between producer and consumer. Many Chinese firms fail to adhere to social standards in the West and struggle to adapt to and differentiate between new markets, instead thinking that each market works the same. This way of thinking is one of the main reasons why the outcome of a Chinese company going global is seldom positive.

Keywords: Western Market, Global, Chinese Company, Expansion

The last 30 years have seen a surge in China's global influence and prosperity, propelling itself to the top of command and becoming a global economic superpower. In fact, when assessing Purchasing Power Parity (PPP), China's economy is the largest worldwide. PPP is an index that compares the purchasing power of each currency, and according to a phenomenon known as the Penn effect, China's PPP is attributable to its low wages and labor costs combined with its incredibly productive and specialized industries (China didn't really pass the U.S economically.). Yet, this global superpower seems to lack household name brands such as Apple and Amazon; anyone can walk around the streets, supermarkets, malls of a western country and the chances of seeing any Chinese company is low. Even if someone is tasked to think of five different Chinese businesses, most people would likely struggle. Meanwhile, coming up with five American companies would be a rather simple task. So what are the determining factors for global success and how can China's biggest brands successfully integrate into foreign markets? Well, although there are a few exceptions, most Chinese companies that try to go global fail miserably due to the different strategies used between Occidental countries and China. Chinese business Jianlibao, is an example of a failed attempt to go global meanwhile Lenovo was one of few Chinese corporations that succeeded to go global.

Founded in 1984, Jianlibao Group emerged as a leading competitor in China's sports drink and beverage market, on par with Coca-Cola and Pepsi. Due to its national success, the company decided to expand outwards to more than a dozen international markets in the 1990s. Jianlibao, by now accustomed to its domestic success, was confident their product would be widely popular in Occidental countries as well. However the outcome was far from ideal, and Jianlibao's expansion collapsed before it even started, for a number of reasons. Jianliboa failed to allocate its funds properly; although they spent a lot of money on grand parties and expensive real estate to get on good terms with American politicians, they lacked strategic spending on marketing and broader distribution networks (J. Backelar, February 25, 2014). The firm also miscalculated the importance of adapting its name and presence to conform with client needs in diverse demographics, and refrained from changing their mother name Jianlibao even in the international markets. This proved to be a fatal flaw, as Jack Shea -former vice president of marketing and sales of North America for Jianlibao- stated, “its brand name prevented it from being able to connect with the average American consumer” (J.Backelar, May 13, 2012). While Western consumers were familiar with long-time household names such as Coca-Cola, Fanta, and Sprite, Jianlibao lacked brand-building engagement and was like any other unfamiliar drink available: it failed to connect and create a long-lasting impression on consumers abroad.

As Jianlibao’s emergence as a globally renowned company seemed to become improbable, Coca-Cola quickly exploited this as an opportunity to implement itself in the Chinese markets and adapt to fill consumer’s unmet needs. Coca Cola’s Chinese brand name Kekou-Kele was a technique to connect more with their Chinese clients while keeping a similar name to their original counterpart. It proved effective and beneficial as it became an important player in the market and expanded its worldwide influence. As for Jianlibao, after failing internationally and also losing market shares in China from the likes of Coca Cola (as can be seen from Figure 1), it became clear that their market strategies, resource allocation, and lack of flexibility had cost them dearly.

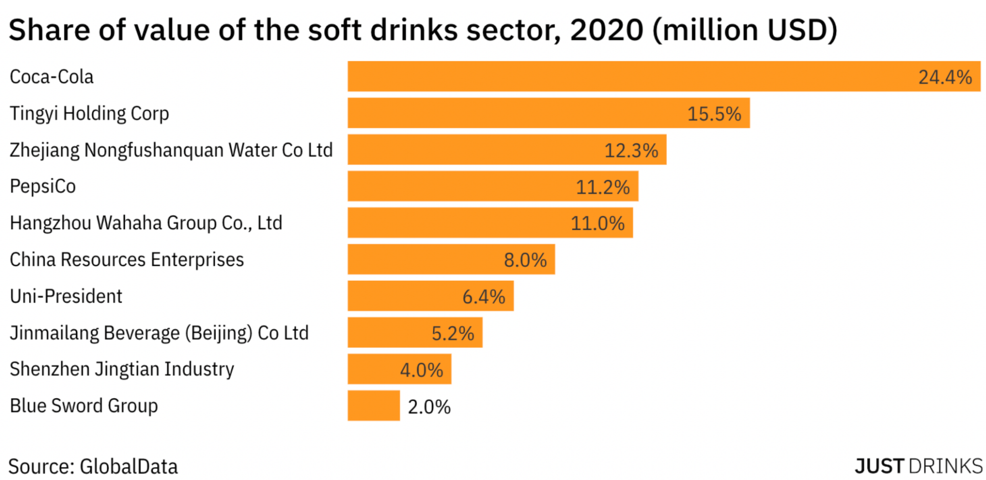

Figure 1. *Percentage shares of the soft drink sector in China as of 2020 (China's Soft Drinks Category, February 25, 2014)*

Coca Cola went on to become the biggest soft drink company in China, having 24.4% of the soft drink sector in China as of 2020. Jianlibao ultimately abandoned the international markets in the late 1990s and was sold to a state owned enterprise called Zhejiang SDIC for 339 million Yuan. However their business continued deteriorating until Jianlibao was sold to the Unification Group for 100 million Yuan (Laitimes, October 26, 2021). Jianlibao's tragic downfall from a top beverage company to one that is a distant memory to the Chinese population marks a recurring pattern among many large Chinese companies, but not all.

Lenovo is one such example: it seems to have overcome barriers that their Chinese counterparts have stumbled upon, and its emergence as a globally recognised company is a case to understand. Also founded in 1984, this tech corporation experienced a different reception to its product and has become incredibly popular around the globe, as its cameras, computers, and TVs are a staple of technology in many households. The company's revenue amounted to over $71 billion in 2021, and has spurred the company's market cap to be listed at over $66 billion. Lenovo's net profits in 2021 aggregated to over $2.1 billion and have enabled the company to employ roughly 75000 employees. In the 4th Quarter of 2021 alone, Lenovo shipped more than 22 million computers worldwide, and is competing against tech giants like Microsoft and Apple (T. Alsop, August 8 2022).

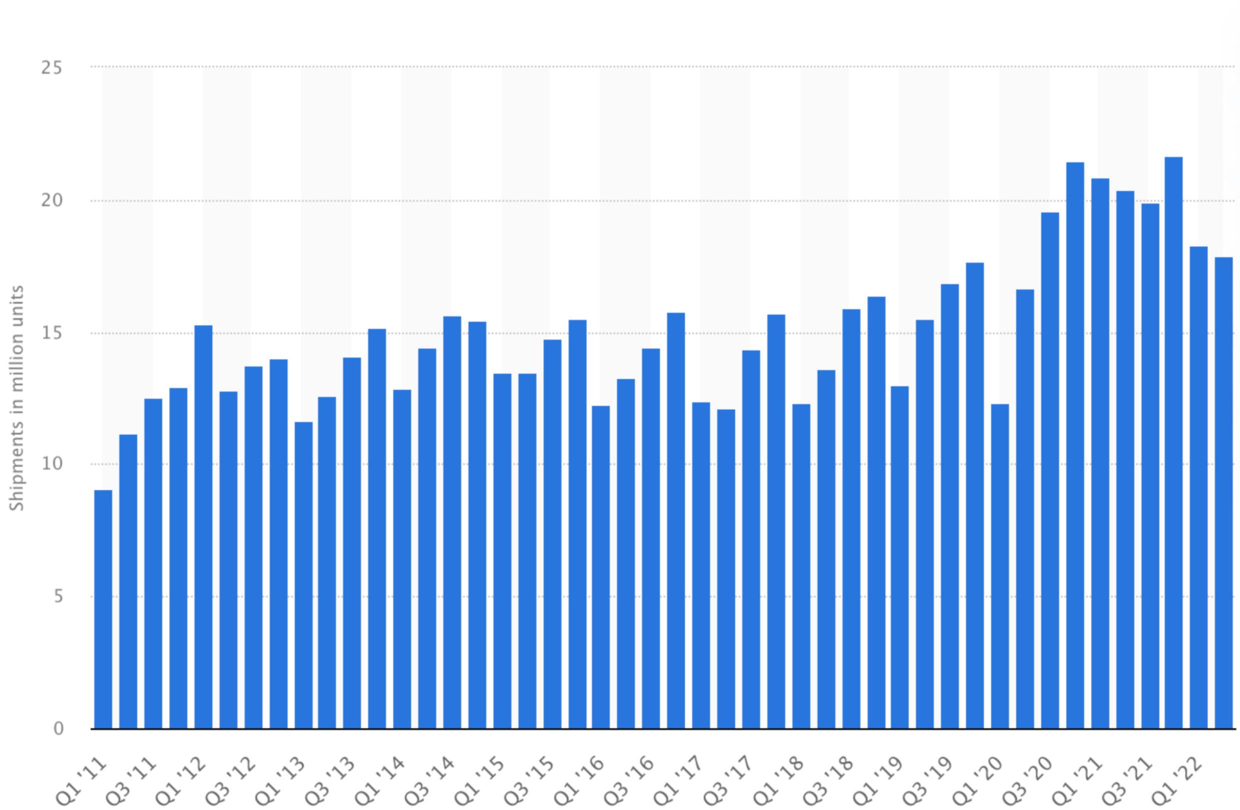

Figure 2. *Lenovo PC Unit Shipments Worldwide 2011 to 2022 by Quarter (T. Alsop, August 8 2022)*

Lenovo's success story easily overshadows Jianlibao's failed global emergence, but why has the former's success far exceeded the latter's? Perhaps the most influential reason for Lenovo's emergence was its acquisition strategy: buying and partnering with competitors to grasp market demographics, gain useful insight on customer needs, and adapt to local consumers and customs (J. Fernando, July 18, 2022). Notably, Lenovo acquired IBM and its PC sector, which as Yang Yuanqing- the Chairman and CEO of Lenovo- mentions, "transformed Lenovo overnight into a truly global company, changing not only [the company] but [the] industry," (Lenovo Marks Decade of Success, May 24, 2019). However, it quickly became apparent that language barriers and cultural differences could impede the company from taking the next step and reaching the top of the industry. Specifically, miscommunications, misunderstandings, and different approaches were clashing and leading to less productivity and efficiency (W.J. Holstein, August 8, 2014).

Lenovo solved this by making English the official language at Lenovo and hiring western executives, transforming the original mother company from a Chinese-led corporation to a Chinese-bred corporation led by diversity but uniformity. The result: an executive board with multiple international members, and a diverse set of global perspectives that work in symphony to decrease miscommunications and disagreements between the Chinese and western managers. As Yolanda Conners, the chief diversity officer states, "Both YY (Yang Yuanqing) and Gina (Qiao Jian) are global leaders. They have a genuine curiosity for learning about other cultures, new experiences, and getting out of their comfort zones." (Goldkern et al). In turn, Lenovo benefits from its expansive array of cultures and values, and combines perspectives to address company challenges and exacerbate growth and expansion. In recent years Lenovo has used such perspectives to implement a key driver of success: the Protect and Attack Strategy. As a combination of both defensive and offensive business actions, this strategy employs a protective approach focused on defending the dominant market shares and supremacy held in China, and exercising a more aggressive approach to attack international markets and continue the upwards trend of influence in Western markets. In China alone, Lenovo controls roughly a third of shares of PC shipments, holding 37% of the 1st quarter of 2022 PC shares in China (Michail., May 26, 2022). They aim to reach a similar magnitude of influence outside their domestic sphere, currently claiming around 25% of global PC market shares, as per the 4th quarter of 2020 (J. Fernando, July 18, 2022).

Why Companies Succeed in China and Fail Abroad

While many Chinese organizations struggle expanding their reach to Western Markets, the same does not apply to their domestic market; they seem to thrive in China. This can be attributed to their protectionist policies as China's economic legislations protect domestic companies against their Western counterparts by taxing imports and incentivizing local consumers to purchase Chinese. These policies are not full-proof as can be seen by Coca-Cola's expansion, yet the high tariffs -Chinese tariff rates are at 2.47% while U.K. tariff rates are 1.28% (China Tariff Rates)- increase barriers to entry and disincentive Western producers from penetrating the Chinese markets. The high tariff rates along with subsidies given to the Chinese companies has made it very difficult for western competitors to gain market shares in the Chinese market. While this helps Chinese organizations domestically, it lacks the foundational support and adaptability needed to succeed in foreign markets, and affects the reputation of Chinese brands leading to decreased levels of trust abroad. As can be seen in figure 3, the three smartphone brands with the least amount of trust are Huawei, Xiaomi, and Oneplus which are all Chinese companies. The margin of trust between the three Chinese smartphone brands and the other four brands is substantial, and heavily influences consumer choices: western consumers would most likely opt out of Chinese products if their Western counterparts provide a similar yet more trusted and established product (S.Reporters, October 24, 2019).

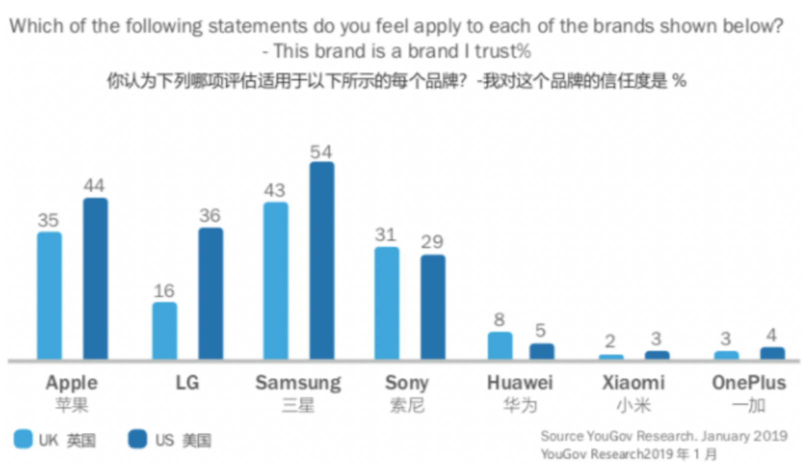

Figure 3. *Trust in Smartphone brands in UK and US (S.Reporters, October 24, 2019)*

How Chinese Companies Can Sustain Growth and Emerge as Global Leaders

Chinese companies have employed a myriad of strategies in the attempt to reach global recognition, many of which have resulted in unsuccessful efforts. However, when combining anecdotal evidence of Lenovo and Jianlibao, and distinguishing successful ventures' characteristics from failed ventures, much can be learnt from past errors and experiences.

As a basis, Chinese firms looking to expand their reach abroad must be sustainable and successful in their domestic market (Harvard Business Review [HBR], August 1, 2014) in order to make sure they dont lose their market shares back in China while risking going global. Such is the case of Jianlibao, which failed internationally while also losing in the Chinese market shares (British Broadcasting Corporation [BBC], May 13, 2012). Chinese companies must also learn to adapt to the change in markets. Western markets vary vastly from their Chinese counterparts due to differences in customs, culture, and mannerisms, thus hiring people with local expertise is crucial for success and diversity (D. Harris, June 19, 2021). Such is the case with Lenovo's successful business strategy of gaining knowledge through acquisition of global incorporations (J. Fernando, July 18, 2022). In addition, Chinese organizations must realize that they have to prioritize their western consumer, not the Chinese ones, as they need to meet their needs to grasp market share abroad. Chinese and western customers are widely different, from tastes and preferences to cultures and reactions; a marketing technique widely renowned in China may not adhere to Occidental customers, and a commercial in the US may offend or confuse Oriental customers (D. Harris, August 9, 2021). Failing to recognize the difference in customer needs based on the region and not adapting to client needs and wants, will segregate foreign companies and defeat any chance of grasping market power abroad, as was the case with Jianlibao.

Many Chinese companies try to branch out to western countries in an attempt to go global, failing to recognize or perhaps misinterpreting the extent to which foreign markets are different. For many such companies, going global may not be the best solution. So perhaps Chinese companies need to shift their thinking; India has a population of 1.38 billion people, second only to China, and presents an appealing opportunity for Chinese companies to explore untapped potential. Chinese smartphone manufacturers like Xiaomi, Vivo, Oppo, and Honor are currently all employing this strategy with huge success and collectively they have amassed more than a quarter of the Indian Smartphone market share (Management Study Guide [MSG]). This highlights that Chinese businesses in the horizon may not be dependent on Western markets to increase their global presence, and instead expanding their businesses to nearby regions can work as well if not better to cater to their wants.

A commonly employed business strategy, especially amongst aspiring Chinese companies, is branching out and offering a variety of services, as can be seen in figure 4 (McKinsey & Company, n.d.). For example Bytedance is the owner of the social media app TikTok. Tiktok has had a huge surge in popularity within the last few years. Having more than 1 billion users and being the sixth most popular social media platform in the world, behind Facebook, Youtube, Whatsapp, Instagram and WeChat, TikTok has helped boost Bytedance's global influence and reach massively (D. Ruby, August 19, 2022).

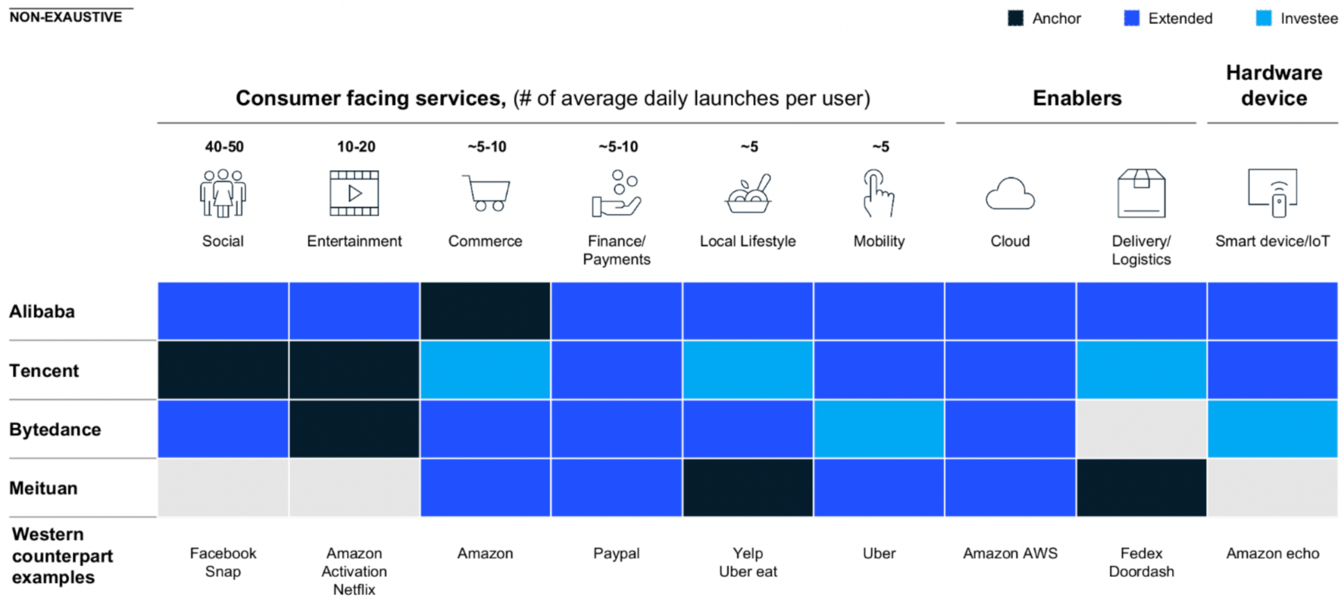

Figure 4. *Some of China's biggest Companies and What they do (McKinsey & Company, n.d.)*

After the failure of many Chinese companies to emerge as global superpowers, many of their counterparts may be skeptical to shift their attention and business strategy to pursue western markets. They may think the risks outweigh the benefits; going global is especially difficult for companies who need to adapt to western consumers and diversify company operations and management. However, this feat is far from unachievable, as Lenovo- the Chinese technology titan- has shown. Implementing smart business decisions that allowed their firm to adapt to the western customer and cater their needs, Lenovo was ahead of the curve and dominated its Chinese counterparts. Now a recognized name in many households around the world thanks to its adaptable approach, Lenovo's rise to stardom has been cemented firmly in Western markets. Chinese companies seeking to emerge from their domestic market, must carefully consider their business prominence in China and look to maintain its Chinese dominance domestically, while shifting to a more diverse and western-focused approach abroad. If they can adapt to new markets and gain consumer confidence, then there is no reason why Chinese companies should fail to go global.

Limitations

A limitation that this research essay encountered was how the vast amount of research was on only two Chinese companies. In this research essay a form of extrapolation is used, as patterns from mostly two companies are assumed to be applicable in other Chinese companies that weren't mentioned in this research essay.

Acknowledgement

This work was supervised by Mr. Composto at Benjamin Franklin International School in Barcelona, and peer-reviewed by Vittorio Nazzi.

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