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# Ten Best Practices for US Companies Doing Business in China

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Joann Song

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# Ten Best Practices for US Companies Doing Business in China

**By Joann Song**

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Over the decades, China has been the fastest growing economy in the world. As of 2011, China is the world 2<sup>nd</sup> largest economy entity. With a population exceeding 1.3 billion and an average GDP growth of 8% every year, no doubt China is and will continue to be one of the largest markets for foreign products, services and investments.



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However, to many westerners, China is still considered a mysterious ancient oriental country and an emerging market. Many US companies are unsure about whether their products or services are needed in China, how to expand their businesses and sell their products to China, what kind of market message they should send to China potential customers, and which marketing channels are most effective to them. Basically, they are troubled that why their winning strategies and best business practices in home country do not work well in China.

From many cases we studied for our clients, we summarized the 10 best practices for foreign companies to succeed in China:

## **1. Reposition your company and product towards high end, premium, or unique in Chinese market**

China has millions of small and medium-sized businesses in almost all the industries. They respond quickly to market and price aggressively due to the low costs. For foreign companies to enter Chinese market, it is not wise to start price wars with Chinese competitors, instead, it works better if you introduce your products and services as high end, healthy and patented products. For example, Wal-Mart never claims “Always Low Prices” in China, instead it positioned itself as a high end shopping place for middle class or even rich people. Naturally, Wal-Mart stores in China tend to carry high-priced premium products to catering for the needs and lifestyle of Chinese middle class.

As a US company, when you market your products or services to China market, you are recommended to label your products as designed in USA and put your products or services in high end category to sell for high profit margin; while you sell the same products to the US market, you can price more competitively than your competitors do since the products are made in China.

## **2. Understand Chinese consumers and the consumer behavior affected by Chinese culture; customize your product and service if needed; treat your customers and business partners with cultural respect**



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Due to the cultural differences, the popular car models in the US such as pickup, hatchback and minivan are often found not welcome by Chinese customers. Chinese respect intellectuals. They considered people in sedans intellectuals or those with high social status, while blue collars drive pickups and hatchbacks and taxi or bus drivers drive minivans.

In western countries, people prefer tanned skin, however, in East Asia, fair skin is considered beautiful. Women are crazy about whitening beauty products. Olay and L'Oreal sell many whitening products in China unavailable in the western markets.

Chinese also have different tastes for food and fashion. McDonald's and KFC revise their recipes to catering for Chinese stomachs. Designers often make special collections with China Themes.

When pricing, try to avoid certain number considered unlucky in Chinese culture, such as 4 (means dead), instead use 8 (means get rich) and 9 (means longevity).

Chinese are not used to talking business with lawyers sitting next to them because this is considered distrust or even disrespect. We have a case, the VP could not close the deal after many trips to China until we told him to meet the client without his lawyer. He closed the deal because he won trust of his Chinese partner by giving trust and showing respect first.

### **3. When In Rome, Do as the Romans do-How to promote your product**

Google is limited in China, whereas Baidu is the No. 1 search engine in China with 535 million users. Rather than using Google Adwords and Adsense, you should start Baidu Keywords and Banner Ads campaign to reach Chinese customers.

Social media marketing is a popular and cost effective way for overall marketing strategy and product promotion. Facebook and twitter can't be accessed in China, whereas Weibo is the No. 1 Twitter-like social media in China with 300 million users; Renren is similar to Facebook with 150 million users; QQ is similar to MSN with 711.7 million users.

YouTube also can't be accessed in China, but you can launch your promotion video on the equivalence of YouTube, Youku.

Chinese like online shopping. They frequent Tmall, Taobao and 360buy instead of Amazon and Ebay.

Foreign companies may promote products and services via various channels, however, certain ads are prohibited in China, including gambling, prescription drugs, stock trading, and multi-level marketing.

Many foreign companies spent time and resources on creating Chinese website, but later they found out that such advertisements were forbidden on any Chinese online media. Please consult us to find out which industries and products are allowed to advertise before building Chinese website.

Don't assume that your company is well known in China even though your company is a famous public company in US or Europe. You still need complete marketing strategy and plan to enter China. Local Chinese companies, especially high tech companies, tend to claim that they are leaders in the industry and often launch massive digital marketing campaigns. Digital marketing is crucial for US companies to enter China because the majority of Chinese rich and middle class, who are in their 40s or even younger, prefer internet and mobile to traditional media. If you plan to advertise to China rich and middle class, digital marketing is far more effective than traditional media.

**Figure 1. US CHINA digital marketing landscape**

| US  | CHINA  |
|---|--|
|  |   |
|  |   |
|  |   |
|  |   |
|  |  |



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## 4. Choose the right location, form of business, and business partners

### a. Choose the right business location

When looking for location, foreign companies are recommended to thoroughly study the business and investment environment of the candidate locations and compare among them the factors such as government support and efficiency, tax incentives, infrastructure, market, distribution channels, logistics, talents, labor cost, etc.

Generally speaking, coastal areas and big cities have better business and investment environment, well-established market and distribution system, more talents, but higher labor cost compared to inland cities and rural areas.

Economic Zones have more open and favorable policies to attract foreign investments.

- Hi-Tech Industry Park
- State level Economic and Technological Development Area
- 15 Free Trade Zones (below refer to FTZ)
  - Dalian FTZ
  - Fuzhou FTZ
  - Guangzhou FTZ
  - Haikou FTZ
  - Ningbo FTZ
  - Qingdao FTZ
  - Shanghai Waigaoqiao FTZ
  - Shantou FTZ
  - Shenzhen Futian FTZ
  - Shenzhen Shantou FTZ
  - Shenzhen Yantian Port FTZ
  - Tianjin Port FTZ
  - Xiamen Xiangyu FTZ
  - Zhangjiagang FTZ
  - Zhuhai FTZ
- Export Processing Zone



b. Determine the form of business

Either offshore operations or onshore operations, always ask which plan fits into your overall business strategy.

The common used business forms of onshore operations:

- Representative Office used to be the simplest and least expensive way to create a physical presence in China. It serves only as a liaison office, not allowed to do business, cannot directly hire Chinese employees but via employment agent. Since 2010, local Industry and commerce bureaus have stopped register Representative Offices for foreign companies, however, the existing Rep Offices can continue exist as long as they are not involved in any kind of business activities.
- Wholly foreign-owned enterprise (WFOE) is the most popular way for foreign companies to do business in China. WFOE can directly employ local Chinese staff, but most WFOEs use Foreign Enterprise Service Company (FESCO) hiring local staff to avoid complicated labor regulations and potential labor disputes.
- Equity joint-venture is a good option for foreign companies to enter some economic sectors closed to WFOEs
- Cooperative joint-ventures
- Assembling and processing contracts (APC) –the foreign party actually does not own any subsidiary or office in China, but provides technology, machinery, parts and raw materials, and pays Chinese party a subcontracting fee for manufacturing facilities and services.

c. Partner with Chinese companies including manufacturers, distributors, PR firms, etc.

With right Chinese business partners, your China business will be less frustrated and even much easier. Chinese companies have more resources and better connections in China than you do. With partners' connections, customer profile, sales network or distribution channels, foreign companies can save much more time and energy to reach customers and increase market share.

Relationship plays a very important role in China business environment. It takes longer time to build business relationship with China partners. In Asia culture, people generally tend to talk indirectly and saving face is very important. They



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don't reject directly or speak bluntly. Make sure people in different levels all give you green lights.

## 5. Learn policies and regulations at all levels

- a. Central government makes policies and regulations for industries and businesses, while local governments interpret and implement those high level policies and regulations, and come up with more specific regulations under the central government's policy.
- b. Before planning a foreign investment in China, first you need to find out how your investment project is classified as in the industry. Is it "permitted," "encouraged," "restricted," or "prohibited" by central government?

For "encouraged" project, central and local authorities often have favorable policies such as incentive tax policies to attract foreign investments and set "Express Channel" to expedite the authorization and minimize the paper work.

Chinese are not short of money, what they really need is technology. Chinese government has money aside to invest in high tech industry. If your project needs funding to start with, you need to convince China government that your project is high tech related. China government does not care too much on short term ROI compared to US investors. You need to prove that you have the latest technology, the US patents, etc., and you also need to find out what you want from the technology transfer, these include market share guarantee, distribution territories, etc.

For "permitted" project, foreign companies need to go through the normal procedures. Basically local governments in coastal cities and big cities are more open-minded and efficient compared to their inland counterparts.

The "restricted" project is permitted only under certain conditions. Foreign companies need to prepare additional information, submit more specific project plan and agree to comply with certain requirements.

Don't touch the "prohibited" project until policy changes, but be prepared that the "prohibited" project this year may be the "restricted" or even "encouraged" next





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year, vice versa. The industry polices change constantly with the fast growing economy.

- c. Understand the investment policies and industrial policies set by the following supervisory authorities directly under State Council of China:

There are 28 ministries, 18 administrations and 14 institutions directly under State Council of China. Among them, Ministry of Commerce is responsible for the policies and regulations regarding foreign investment. People's Bank of China sets Exchange-control rules.

The following ministries make Government Departmental Policies and regulations regarding economic and social development:

- Ministry of Education of the People's Republic of China
- Ministry of Science and Technology of the People's Republic of China
- Ministry of Labor and Social Security of the People's Republic of China
- Ministry of Land and Resources of the People's Republic of China
- Ministry of Construction of the People's Republic of China
- Ministry of Railways of the People's Republic of China
- Ministry of Communications of the People's Republic of China
- Ministry of information Industry of the People's Republic of China
- Ministry of Water Resources of the People's Republic of China
- Ministry of Agriculture of the People's Republic of China
- Ministry of Commerce of the People's Republic of China
- Ministry of Culture of the People's Republic of China
- Ministry of Health of the People's Republic of China
- People's Bank of China

The following Administrations make business and industry regulations:

- General Administration of Customs of the People's Republic of China
- State Administration of Taxation
- State Administration for Industry and commerce
- General Administration of Quality Supervision, Inspection and Quarantine
- State Environmental Protection Administration
- General Administration of Civil Aviation of China
- State Administration of Radio, Film and Television



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- General Administration of Press and Publication (National Copyright Administration)
- State Forestry Administration
- State Food and Drug Administration
- State Administration of Work Safety
- State Intellectual Property Office
- National Tourism Administration

The following Institutions audit and regulate the key areas in economy and society:

- Xinhua News Agency
- China Banking Regulatory Commission
- China Securities Regulatory Commission
- China Insurance Regulatory Commission
- State Electricity Regulatory Commission
- National Council for Social Security Fund

## **6. You can't run a credit check in China, how do you conduct Due Diligence?**

- a. Always ask for business license, and check the business ID from official government website. For example, to conduct due diligence on the companies located in Shenzhen, you can check business license information from Shenzhen government website.

All the relevant information is in Chinese. Please contact us if you need help for due diligence on business license.

- b. To make sure Chinese companies have ISO 9001, UL, ETL, please ask them for identification number and go to the official websites of ISO 9001, UL and ETL to verify the authentication and effectiveness.
- c. To make sure Chinese companies manufacture Energy Star products, please check DOE website.
- d. To make sure the products of Chinese companies meet energy efficiency standard such as lumen output per watt, please ask them to deliver the lab results from DOE authorized labs.



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- e. Conduct background checks not only on the companies but also on people you are dealing with. Different persons in the same company may have opposite approaches to doing business. Talk to the right person who is the decision maker and can get things done.

Make sure that the answers you got are from an independent resource, or you pay third party to conduct due diligence. Contact us for help.

## **7. Protect Intellectual Property Right**

- a. Register Trademarks, Patents, and Copyright
- b. Protect business secrets

When you design products, which you plan to manufacture in China and distribute worldwide, you need to break the products design into pieces and assign to different manufacturers. Don't let left hand know what right hand doing.

- c. Sign Non-disclosure agreement with employees; each outgoing email needs to be from company's email account rather than private email accounts; send notification emails to all your customers about employee changes ASAP.

## **8. Be a leader, be innovative, and be the best**

In China, Foreign companies have to continually update products and services not just because consumer needs change in the fast growing economy, but mainly because competitors constantly introduce similar products with much lower price.

It is not wise to start the price war with Chinese companies. To maintain and increase market share, foreign companies need to be the market leader and need to introduce new model, new design and new technology to compete with local companies and keep the loyalty of customers.

Quality and brand are the main reasons why Chinese choose foreign products and services. They will pay premium price for the brand and quality. Therefore, the competitive edge of foreign companies should be brand, quality and technology.



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## **9. Don't sell your products, but sell the lifestyle**

While China is abundant in opportunities everywhere, there are some business areas foreign investors and companies should not miss. There is one common thing among consumers in these areas—they don't just buy products and services, but the lifestyle the products and services represent. For example, IKEA stores in China are introducing the trendy lifestyle and DIY concept to middle class and young family. IKEA furniture is anything but inexpensive assembled furniture.

-- Target Chinese Rich and Middle class in the areas of education, travel, luxury goods, cosmetics, real estate, EB5 visa investment, etc.

--Target Chinese children and youth on infant formula, food, toys, ESL education, books, electronic products, etc.

## **10. Consult with or hire Chinese professionals – the critical link in your business**

It is important that you consult with or hire Chinese professionals with cross-border experience for legal advices, business research, marketing and sales, and operations. Ideally in your team you should at least have one member who studied and worked in both China and the US, speaks fluent Mandarin and English and has cross-cultural business experience.

Never assume that a westerner who speaks Chinese or a second generation Chinese who grew up, studied and worked in the US can understand the Chinese way of thinking and doing things, not to mention the nuances between the two systems and cultures.

We cannot summarize all the best practices of doing business in China in this article but highlight some key areas foreign companies may frequently encounter. For more questions and help, please feel free to contact [www.glogou.com](http://www.glogou.com).



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## Appendix

About Glogou Inc.

**Glogou™**, a leading high tech digital marketing solution provider, a Silicon Valley based firm with offices in Beijing, Boston, Washington DC, Santa Clara, is committed to help you reach your global customers digitally, pin-point your target customers accurately, monitor your marketing efforts instantly. Glogou™ has developed advanced technologies to achieve your goal to be successful. Our technologies include

- **Market Signal Processing (**MSP**): Identify True Market Potential vs. **Noise (or Fake Signals)**.**
- **Addaptive Targeted Marketing (**ATM**): Reach your potential customers effectively.**
- **Web Accessibility & Visibility Evaluator (**WAVE**): Is your business visible abroad?**

For the companies which want to get into China market, Glogou can answer your questions:

- Is your business visible in China?
- Is your website blocked in China?
- Is it slow to access your website from China?
- Is your website indexed by major China search engine?
- Do people in China talk about your business on social media?
- Who might be potential partners, competitors for you in China?

More information can be found at

[www.glogou.com](http://www.glogou.com)

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