

The Challenge for Chinese Businesses in the U.S.

A Conversation with Vince Breglio



Vince Breglio knows the business of China. Vince has held research and management positions responsible for China and has lived and worked in China for ten years. He is fluent in Mandarin and has lived in Taipei, Taiwan; Hong Kong, China; and Shanghai, China. Vince has advised businesses and governments on a range of political, business and policy issues.

Coming to America

Vince, we have talked for a number of years about the promise of Asia, particularly China, for U.S. businesses that want to grow in that region of the world. For this conversation, could we reverse that focus and talk about Chinese businesses in the U.S.. What kinds of challenges and opportunities are there for Chinese businesses that seek to grow their presence in the U.S.?

Perhaps we should start simply by commenting on the trend. Are there many Chinese businesses that might expand their presence in the U.S. over the coming years? Is this a significant trend or not?

Dave, I expect to see many businesses from China expanding into the U.S. as well as other Western countries. It is now a priority for the Chinese government to develop several flagship premium brands that can be

marketed in the West. As part of official (if unwritten) policy, this is a significant trend that we are only beginning to see.

One of the early pioneer Chinese brands in the U.S., Haier, who manufactures small appliances, took many years to become established. Now look at Lenovo, who has basically bought their way into Western markets with the purchase of IBM's laptop line of products. They have become a major player almost overnight. We'll see much more of this kind of "buy your way in" behavior on the part of Chinese businesses in the years to come.

The Committee of 100, a non-profit organization composed of Chinese American leaders, has tracked American attitudes toward China over time. Their 2005 survey of the public, business and Congress reports that a growing proportion of

Americans – both the public (59%) and business leaders (63%) – now holds favorable views of China, a modest improvement from 10 years ago. Americans and their business leaders like low-cost Chinese goods and see U.S. trade with China in a positive light, while relative minorities view China as either an economic or a military threat. But more than half of Americans view job losses to China as a "severe" problem. The Committee of 100 survey also shows that Congress is more likely than the public and business to focus on some of the concerns about China.

What's your take on this information about American attitudes? Is it an accurate reflection of how Americans feel about Chinese businesses that may consider expanding in the U.S.?



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~ Vince Breglio

Americans' Perceptions of China

I don't believe the American consumer knows what to think about China. A recent study I did for the government of Hong Kong makes this point very well. We found that among senior executives in major corporations, less than one in three had actually visited that part of the world. Most of their information came second hand. If these senior executives responsible for transactions of hundreds of millions of dollars along the Pacific Rim lack experience with the Chinese, the average consumer is almost totally in the dark.

On the one hand, we hear that China poses a threat to U.S. interests both economically and militarily. Hence, as you report about half of us think of China as unfriendly, particularly when China reacts in its most anti American way to world events. On the other hand, most of us know Chinese families who are productive U.S. citizens with kids who excel in school. We enjoy the low cost Chinese goods available to us in abundance. From this perspective, it is only natural that our attitudes toward China are improving compared to years past.

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determined by which China we are dealing with – the friendly business driven China or the anti-American propaganda China.

What is the prognosis for Chinese companies expanding in the U.S.? Are there particular kinds of companies that are likely to do better than others?

That is an interesting question. I suppose if Chinese companies followed the Wal-Mart model of low prices, low wages and high employee turnover, they could expect reasonable success, particularly in the retail arena. But that model is not the one China is focusing on. They want to establish high end flagship brands that sell at premium prices. Their standard for success is Sony, one of the most respected brands in the U.S. This is a considerably bigger challenge. As I mentioned before, the Chinese strategy seems to be buying their way into high end products by acquiring the rights to Western brands and products. If this strategy is to be successful, the Chinese companies will have to overcome the "made in China" perceptions that may dampen their success in the U.S.

What are the big risks that a Chinese company is likely to

encounter coming to the U.S.?

Several points here. First, most Chinese business organizations look like tall pyramids with narrow bases. Decisions come from the top and pass down for implementation. Often, corporate governance revolves around a single family with the family head serving as head of the business. Our approach to governance tends to produce a pyramid with a much broader base and less distance between the top and the bottom. Decisions are quicker and easier to reach and more democratic given they typically involve more people. It is not uncommon for Chinese businesses operating in the U.S. to have governance issues reflected by low morale and high management turnover.

The second point is understanding of the consumer. Listening to consumer feedback has not been a part of the management style in most Chinese businesses. This is beginning to change but they are still light years behind us in understanding the consumer. The use of market research in Chinese businesses is very limited. Most Chinese senior managers turn pale at the costs associated with top notch market research.



Success Factors

This reflects an attitude that must change if Chinese businesses are going to make a mark in Western markets.

Lastly, most Chinese companies do not understand branding. Historically, products in China have sold well when heavy advertising pressure and low price pushes them in the marketplace.

While that is changing, brand loyalty is only slowly developing inside Chinese markets. Western consumers are often brand sensitive; loyal brand users contribute the lion's share of profits. Chinese companies must develop the skills needed to build brands in U.S. markets.

What about Hong Kong? Does it matter if Chinese companies are Hong Kong based?

Less and less so as time passes. In my opinion, Hong Kong is well on its way to becoming just another big city in China. Hong Kong no longer has clout in the manufacturing area. All their manufacturing is outsourced to the mainland. What keeps Hong Kong going is the rule of law under the old British system and the relatively corruption free banking system. While very important and certain to keep Hong Kong a key in dealing with mainland China, this isn't enough to make businesses based in Hong Kong

sufficiently differentiated from those based in the mainland when they enter U.S. markets. And, the Chinese government is working very hard to build Shanghai into a competitive business city with world class services and more convenient access to the important manufacturing sites located in China.

On the other hand, Hong Kong based firms do enjoy one advantage over mainland based companies because their management model is closer to that of Western firms.

Vince, you have done a great deal of work on the importance of corporate social responsibility. We have seen from a variety of sources (for example the ConeInc. Corporate Citizenship Study series; www.coneinc.com) that Americans have high expectations of the corporate sector. How does that apply to Chinese companies?

I have been involved with tracking attitudes toward corporate social responsibility (CSR) over time among key business stakeholders in China. Five years ago, CSR wasn't even on the radar among the vast majority of stakeholders. Today, it can be found on the radar but still lags far behind "quality of product" and "trusted senior management" as predictors of overall corporate reputation.

This is interesting because the Chinese hold foreign companies to very high standards of corporate responsibility. It remains to be seen if Chinese companies operating in the U.S. can match our high expectations of responsible corporate behavior.

What are the keys to success for a Chinese company coming to the U.S.?

If I could predict what makes for a successful company, Chinese or otherwise, I'd be spending my time fishing and playing golf instead of talking with you. I can't and won't try. I do believe there are some hurdles for Chinese companies coming to U.S. that must be cleared.

1. They must offer a product that can meet Western standards of quality (not hard to do since they already manufacture many of our high end products under Western brand names). And, they must stand behind those products once sold (This is a much more challenging task since product service and customer relations have not been a strong suit for Chinese companies.)

2. They must adapt their management style by broadening the base of their management pyramid and shortening the distance between decision maker and managers.

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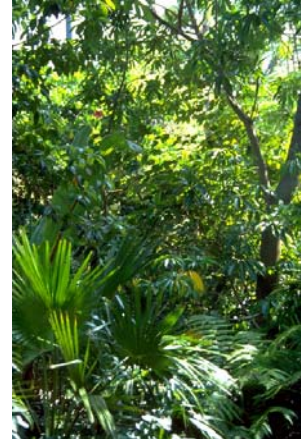
Success Factors



Each of us in Artemis Strategy Group has turned to Vince Breglio for years to gain greater insight on the China market. We thought it would be interesting in this Perspectives discussion to turn the spotlight around and to ask an expert to focus on Chinese businesses growing their presence in the U.S. Vince currently heads Breglio and Associates Consulting and focuses on international business consulting.

3. They must respect the importance and power of a strong brand.
4. They must accept Western reliance on market research to assist with understanding the consumer.
5. And, like Western firms operating in China, they must meet the demands of high standards for corporate social responsibility by giving something back to the community in which they operate.

Thanks Vince. It's always good to get your perspective on issues related to China and Chinese businesses. We'll talk again soon about issues for U.S. businesses in China.



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