

Case study doing business in china marketing essay



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Although the times have changed, the citizens of the United States cannot help but recollect on the history of an unstable political system, corruption, environmental degradation, the lack of intellectual property protection and last, but not least, a variety of different cultures in the far East; so with that said, why would any American business organization want to pursue business in China? What was once a small-town audio store called Sounds of Music had an epiphany back in 1966 that has currently yielded pay dirt. Nearly twenty years later, Sounds of Music transformed into an electronic conglomerate known as Best Buy Inc, Co. This S & P Fortune 500 company is currently known as the largest consumer electronics retailer in the United States. Best Buy chose to pursue this “ uphill battle” due to the fact that it was near impossible for them to ignore their ever growing free market economy and the urbanization that is taking place within it.

Best Buy is sophisticated enough to distinguish between what makes them profitable within the United States and what will make them unsuccessful in other parts of the world, in particular to this study, China. In order to truly understand China and the complexities of expanding there, one must know how to do business in China. It may sound implausible to the average domestic business man/woman to think there is much of a difference in doing business in China, than what it is here in the United States, but it is indeed a credible fact. Developing a SWOT analysis could aid in the many challenges of trying to conduct business in China, but this evaluative method doesn't change intangible circumstances such as time and return on investment. Best Buy had both of these conditions present during their feasibility study. Realizing the opportunistic possibilities and competitive

advantage of the situation, Best Buy didn't hesitate to conduct thorough due diligence before doing business in China. This paper will discuss some of the important aspects of their research as it covers the basic understanding of doing business in China and how Best Buy emerged from being just a face in the crowd to achieving commendable status in Shanghai, China. This report will elaborate on Best Buy's experience as they try to tap into a foreign market for the first time ever knowing that the potential risk could be irreversibly negative. Best Buy Inc, plans to prove that it is indeed possible to enter into the Chinese Market for consumer electronics.

Best Buy announced on April 1, 2006 that they would be opening their first branded store in China. Best Buy did not just enter the market but they were wise about it as well. They wanted to hedge the risks involved in any possible way. On May 12, 2006, the company made a purchase of a majority stake in Jiangsu Five Star, which is the fourth biggest Chinese appliance and electronics retailer. By purchasing this majority stake, Best Buy saved a tremendous amount of time that is necessarily needed to create a comparable sized organization through grown. They now had their presence in China in 136 stores, as well as the close to 1, 000 stores that they have successfully opened in both the United States and Canada. The purchase of this stake also helped Best Buy get a feel of what Chinese customer's needs and wants were.

Even though the acquisition had substantial advantages, it also had a lot that worked against the company's ability to succeed as well. Best Buy's business model was not suited very well to Chinese consumers at all. " The basic business model is to grow as fast as they can to get sales volume, so they

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can get bigger discounts,” says Graham Matthews. The completion that Best Buy faced was fierce from homegrown business already in place. Best Buy focused heavily on the customer centricity, which meant that they emphasized understanding the needs of customers. In China, this may not necessarily be a positive thing because friendly service is considered suspicious. Best buy is a fairly clean organization and has very nice stores which are definitely successful in North America; however this may be a negative aspect as well, because consumers would feel as if they are spending their money in your organization just for you to keep the place nice looking. Regardless of quality, the only way China consumers would typically purchase from an American store would be if the prices within that store became significantly low.

Best buy is doing everything within its power to ensure that this expansion becomes a success. They are conducting a lot of research and development activities from both residential and business surveys. The company plans to implement the dual- branding strategy that has proven to be successful in Canada. The company learned a significant amount of information and applications from running two brands in Canada and they plan on taking what they have learned and applying it to the current strategy of China. China has been very quiet when it comes to its plans and movements within this situation, but with that, one could wonder if a successful American company could cross over into China and be just as successful in late stages of the year. The answer to this question remains to be seen, but if there is any chance for dealing to take place, Best Buy must first know the significance of the industry they wish to solicit. Doing business in Shanghai

could be very profitable if a company can build that rapport via business etiquette and embrace the culture.

When trying to do business in China there are some very important concepts that an entrepreneur must understand about Chinese culture. According to the Harvard Business Review on Doing Business in China, there are eight elements that underline Chinese negotiations. The first element is the social concept of “ personal connection” called guanxi. Personal connection is essential in Chinese business culture because it is the basis of trust and no Chinese business man/woman will do business with those they do not trust. In other words one would have to know the right people to meet the right people. The representative’s mianzi (face) must be in good standing as well. This means that the representative’s reputation must be dignified and prestigious because it is seen as a person’s most important measurement of self worth. That is where the concept of “ the intermediary,” or zhongjian ren arrives.” The zhongjian ren is the associate who connects clients to the right people and develops guanxi with them. This person is used to set up a meeting with executives since all Chinese meetings are characterized by distrust and uncertainty of strangers. The zhongjian ren is not just a translator- he/she is an interpreter of Chinese business moods, the initiator of the business proposal, and often settles differences between the two parties in order to accomplish the pursued goal.

It is important to understand that the Chinese culture is a Confucian culture. They lay huge importance on obedience and respectful submission to one’s superiors. Therefore the idea of shehui dengji (social status) is crucial when trying to do business in China. If one wants an important business deal to go <https://assignbuster.com/case-study-doing-business-in-china-marketing-essay/>

through with a Chinese company then he/she will have to send someone in his/her company that has “ weight” or status in the company. Not just an errand boy. Whoever is sent represent the company to Chinese businesspeople better have great renji hexie (interpersonal harmony).

Although, social status is important, if the representatives affairs are not in order the Chinese see that as a symbol of how they do business. That representative also needs to know a lot of information about the deal at hand because he will be interrogated about the proposal and its benefits. This is when the concept of chiku nailao (endurance) comes into play. The Chinese place a lot of value in hard work, so endurance is very honorable to them. As pertaining to a business meeting they see endurance in the amount of questions asked, the amount of research one has conducted, and the patience one displays in their decision making process. American people are more about individualism and sequencing but the Chinese have always been about zhengti guannian, or “ holistic thinking.” They are concerned with the deal as a whole, not just the pricing part, then the quantity part, and so on, and so forth. They discuss all of those topics all at one time. Not to say that these topics are not very important to the Chinese. They will still be very concerned with those matters and take pricing very seriously. This can be seen in their concept of jeijian (thrift). They will ask questions like, “ How did you come up with that amount?” or negotiate a seemingly reasonably low price. No matter the level of evaluation and examination, being honest and firm is the key.

Maintaining management consistency, being able to adapt, having patience, developing respect, having a great attitude, and being clear are all relevant
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characteristics any foreign company must adhere to collaborate with China. Relationships cannot be stressed enough when dealing with China. The importance of the guanxi is also very important and maybe the most vital tool one would need to acquire. The guanxi is built upon respect, and also it means to build healthy relationships within one's affiliations. Basically, the guanxi means in street terms is that "you scratch my back and I'll scratch your back." By using the guanxi efficiently a company can minimize risks and frustrations when doing business in China. The guanxi can hurt business relations also if not managed right. "Often what happens is the senior local Chinese managers cultivate strong relationships with their direct reports and should that the senior local managers leave, he or she is likely to take a large portion of their staff with them on to their next assignment, suddenly leaving huge gaps of employees to fulfill." So basically, relationships with others play a major role (indirectly) in conducting business in China.

Relationships are not just before deals take place but an ongoing process.

The holistic picture of business transactions and contracts hold more weight than the actual contract. "For the Chinese, contracts are nothing more than a formalized piece of paper to document what we have agreed upon within the principles of mutual benefit and cooperation." If these implied principles were violated, the contract basically isn't worth anything. If the Chinese feel they have been tricked into taking a bad deal, the contract will not prevail as in the West. A person must have respect and trust basically before any negotiations. Chinese negotiate tough contracts but a person must know when to walk away. In the case of Best Buy's joint venture into Shanghai, there was no need to walk away from negotiations.

In conclusion, we can see why Best Buy, the world's largest electronic retailer, decided to integrate their quality products into China's most prominent and commercial hub, Shanghai. Best Buy took all of the correct measures to execute the transaction in a way that wasn't cocky, confident in its yield for both parties. Understanding the importance of the negotiation within the ranks of China can be complex to a foreigner. Despite the odds, Best Buy utilized their business savvy and competitive edge to embark on this overseas project and has succeeded as projected. They strategized their entrance into the Chinese industry mainly by minimizing their risk by purchasing stake in Five Star Appliances. This acquisition helped its effort of shaving a decade off the time Best Buy would have needed to develop a comparably sized business through organic growth. The investment also helped Best Buy figure out what Chinese customers want and boost its foreign sourced, private label initiatives for U. S. stores.

This was a high risk, high reward negotiation for Best Buy and today, it is apparent that the rewards are prevailing. The business aptitude of the Western based company, Best Buy, was able to digest the eastern culture in which they embarked upon. The practicality of knowing and utilizing the for C's of China has yielded satisfactory results. The Continuity was established via acquisitions of the majority stake in Jiangsu Five Star; a brand people knew and trust. The Context was displayed in the way the store was set up and how top executives handled what they specialized in- regardless of which cultural background led the project; in this case, products were set up on shelves in order of best to worst. The Confucianism theory helped the humbled Best Buy quickly adapt and learn the perspectives of the typical

eastern consumers and their behaviors. The last C represented Change and as it is all too obvious, that this entire experience was new to both parties and the profits will ultimately dictate its overall success. Only the future holds how GDP and how GNP will pan out with this venture, but experiment couldn't take place without China and Best Buy opening up to the concept of globalization- and since they both have accepted the keen possibilities of this merger.