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CMP WORLDWIDE'S INTERNATIONAL ADVISOR NOVEMBER/DECEMBER 2003

CMP Worldwide Media Network's monthly e-newsletter on global marketing trends and tactics (www.cmpworldwide.com)

THIS ISSUE'S ARTICLES

- Your Guess Is as Good as Theirs
- I Feel the Need for Speed
- Maximizing Your Entry Into The Chinese Market
- Communication Skills Pay Dividends
- Short Takes
- Doing Business in the United States: Ten Tips
- Upcoming Opportunities

Your Guess Is as Good as Theirs

As the world's most populous nation, China figures prominently in the marketing plans of virtually every technology company. But, like companies in every other industry, those vying for a niche in the titanic Chinese market are running up against a problem: a severe lack of trustworthy market data.

Do the Chinese drink 23 billion liters of soft drinks a year, or 39 million? It depends on whether you ask research company Euromonitor or Coca-Cola's internal research department.

Is the Chinese TV ad market worth \$7.5 billion as Nielsen Media Research maintains, or is ratings agency CSM right when it pegs the figure at \$2.8 billion? No one knows for sure, because even though CSM is the country's largest TV audience-research company, it only has panels in less than half of China's provinces.

In part, the difficulty stems from the relatively recent introduction of market-research techniques into the country. Prior to 1989, the government considered consumer research to be a form of spying, and forbade foreign companies from conducting it. Even today, some topics are off-limits to the authorities who screen all questions asked in any

consumer study.

Added to that is the vast size of the country, its varied rate of economic development and myriad social/ethnic groups. Taken together, they mean that data gathered in one area are not usually projectable elsewhere. Giant agency Starcom Mediavest projects numbers from a given market to others of similar size and ethnic make-up, but even they admit less than total confidence in this tactic.

Want more headaches? Then consider that China is developing so rapidly, studies age quickly and are rarely reliable for over a year.

So, what's a confused company to do?

First of all, experts agree that you can have confidence in numbers from the major cities such as Beijing and Shanghai, which have been well studied and which still account for a large share of all sales. But as the towns and countryside develop and consume more, figures from the hinterlands may have a double-digit margin of error. Use them with a grain of salt. And in every case, make sure that you're looking at the most recent possible study for informing your plans.

Maybe most of all, you could remind yourself once again of the truth of the old cliché: You can be sure that half your advertising works, but you can't be sure which half. At least, not until the Chinese market-research industry comes of age.

I Feel the Need for Speed

Want to sell more computer products and services?

Then lobby for expanded broadband access. The more broadband, the more computers and telecom equipment bought and the greater the productivity of telecommuting employees, says the Brookings Institute, which recently estimated that universal access could add as much as \$300 billion a year to the U.S. economy. The think tank also warned of dire consequences for the technology and telecommunications sector if the country doesn't get up to speed — literally.

Speaking to *The Wall Street Journal*, telecommunications analyst Scott Cleland said, "Broadband is clearly an economic multiplier because it enables applications and uses that aren't feasible with dial-up." Consider the immediate success of Apple's iTunes, or the buzz about Infinium Lab's new Web-based Phantom game system. Not to mention Internet telephony, video on demand and video conferencing.

Other countries are far ahead of the U.S. in learning this lesson. According to the UN's International Telecommunications Agency, South Korea sets the standard, with 21% of its people enjoying high-speed Internet access. Hong Kong and Canada come next. The U.S,

with less than 7 percent, doesn't even make the Top 10.

Of course, those countries are far smaller and have far more government intervention in their economies. South Korea has spent \$850 million deploying broadband, and plans to spend as much again. In the States, it's left to the unruly marketplace to handle the job. The FCC's recent ruling that telephone companies don't have to rent fiber lines to competitors at discounted rates may provide them with the incentive and cash to invest in DSL, but they still face competition from the cable-TV industry, which today is actually signing up more broadband customers. Pricing is another lesson that American broadband could learn from overseas. Users in Japan and South Korea pay little more than half the American average fee of \$45 a month. A new federal court ruling could pave the way for that: IAPs are hailing a recent decision that could require cable companies to share their high-speed networks with competing providers.

It's not rocket science: If broadband can enable more opportunities at a lower cost to users, more consumers and companies are apt to invest in the equipment and services it takes to capitalize on those opportunities.

Maximizing Your Entry Into the Chinese Market

One of the world's oldest civilizations, rich with thousands of years of history, China has, indeed, come a long way from its isolationist policies of the

70's and 80's. Its entry into the World Trade Organization (WTO) in 2001 and the populist platform of the new regime of President Hu Jintao and Premier Wen Jiabao have repositioned China as open for business. Foreign direct investment now pours into China, and is expected to total US\$57 billion this year. Even before China's accession to the WTO, many companies eyed China as one of the most coveted markets, with access to the world's largest consumer population estimated at 1.3 billion. With a gross domestic product (GDP) of US\$1.2 trillion in 2002, China is the world's sixth-largest economy, and is growing at approximately 8% annually and apparently unaffected by the global economic slowdown. Companies worldwide, especially global multinational companies (MNCs), are making a beeline to China, where domestic consumption is burgeoning. Among the top 500 multinational companies, over 400 have already invested in China, with over 200 investment companies and nearly 400 research and development centers already established there.

IT is one of China's most vibrant sectors, fuelling China's massive manufacturing sector valued at 54% of China's GDP with ERP and SCM solutions, as well as a myriad of process management tools. According to IDC, China's IT market grew by 18.2% in 2002 over the previous year, totaling US\$22 billion and slightly lower than 18.7% in 2001 representing the highest IT growth in the world. IT spending in 2003 is expected to reach US\$28 billion. Four key factors driving opportunities for IT players include:

- The government's informatization drive and a Chinese coined word to describe the process of spreading the use of information technologies among communities, government agencies and China's traditional industries to drive China's economy, to facilitate the government's urbanization plans and to improve the overall quality of life for Chinese citizens
- The massive infrastructure building to support fixed-line and mobile telecommunications demand
- The 'Go West' campaign to narrow the digital divide between Eastern and Western China and build the interior provinces
- The 2008 Beijing Olympic Games, with its focus on high-tech applications, to showcase China's technological prowess to the world

No doubt, China's accession to the WTO has provided a more transparent investment environment and is accelerating reforms. However, there are still significant hurdles for new-comers to overcome as China moves from a planned to a market economy. Cultural differences, language barriers, complex channel distribution systems and sudden changes in government regulations are challenges not for the faint-hearted. New entrants to China must remember that China cannot be treated as one homogeneous market. Even the primary markets of Beijing, Shanghai, Guangzhou, Shenzhen, Hong Kong, Macau, the Yangtze River Delta and the Greater Pearl River Delta encompass extremely diverse economies and cultures. China must be viewed as disparate regions, each with its own distinctive characteristics, requiring due diligence including extensive research, networking and on-site visits before embarking on any strategic market-entry planning.

In addition, China has an overly-complex legal and regulatory structure. Many laws and regulations are not recorded in any one place and some are changing in today's volatile environment, creating confusion for foreign investors. In some instances, national laws may be contravened or ignored by local and/or provincial authorities. The lack of a nationwide system for conducting background checks on individuals or companies, strict foreign exchange control measures, minimum paid-in capital requirements, and acquisition restrictions on state-owned assets add to the complexity. To overcome this, foreign investors must ensure that they secure more contractual protection in their agreements than is common elsewhere. It is highly recommended that new businesses engage a qualified counsel to review any contract or agreement before signing it.

Similar to other international markets, it is best to thoroughly understand the local market and fine-tune market-entry strategies. Alliances with local Chinese firms prove to be an attractive option for many companies. In 2002, according to McKinsey & Co., alliances attracted approximately half of China's new foreign direct investment of US\$55 billion. There are a number of market-entry options for foreign investors ranging from using agents and distributors to setting up representative offices or establishing foreign-owned enterprises. Prior to entering any agreement, all companies are advised to consider how the Chinese partner will add value to the business and to clearly define roles and responsibilities for all parties. Once the venture commences, foreign investors should keep a close eye on the financial and operational progress, and be prepared to restructure as necessary.

Unfortunately, most foreign investors in China naively judge their success by their short-term profitability, instead of by longer-term, more strategic measures such as placing value on learning how to operate in China, gaining access to local regulators, building market share or brand awareness, and developing an export manufacturing base. Keeping an eye on the longer-term benefits, as well as adopting a flexible attitude, will help foreign companies to maximize their investments and build more strategic partnerships.

Before jumping into the Chinese market, foreigners need to understand the concept of *yguanxi*, the Chinese word for relationship. This is a very complex concept that goes beyond the simple definition of connections using one's connections to get things done. Though relationships are important in every business venture, in China, the role of *yguanxi* is probably more pronounced than in other markets. The key is building the right *yguanxi* with a number of people at various levels, spanning government and industry entities. Building strong contacts among key constituents is necessary for cutting through red tape and obtaining requisite approvals. Though it takes years to master *yguanxi*, good manners, due diligence, patience and goodwill all of which are Chinese virtues go a long way in building the foundation required to support the complex web of relationships required to be successful in China.

There are certainly many challenges in building a business in China a unique market and one of the largest and most dynamic in the world. However, innovative foreign IT companies with an open mind, focus, commitment, strong managerial skills and good connections stand a reasonable chance of breaking into this market where technology is lauded, guts tempered with loyalty and patience are rewarded, and sound business relationships, built on trust and mutual value, can be leveraged time and time again.

This article was written by Cindy Payne, Managing Director of Asia-Pacific Connections Pte Ltd (cindy@apconnections.com). For a more detailed analysis of the

effects of the USSFTA on Singapore's Information and Communication Industry,
please visit: <http://www.apconnections.com/perspective.html>

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Communication Skills Pay Dividends

Although worldwide storage-management-software revenues are projected to grow only 2.9 percent this year, it's still an area in which most vendors continue to invest much research and development. To find out why, read Sonia R. Lelii's story in VARBusiness at <http://crn.channelsupersearch.com/news/var/44894.asp>

Short Takes

Deja vu: Niklas Zennstrom and Janus Frus, the creators of Kazaa, may unleash an even larger firestorm with their new company Skype, whose program enables free phone service over the Internet
Place Your Bets: Venture capitalists took a shine to enterprise software in the year's third quarter, according to Venturewire. Over 50 companies raised a total of \$325 million. Semiconductor start-ups also had a strong quarter, with 26 companies raising \$323 million... Erecting Barriers: Watch for anti-free trade rhetoric to figure in next year's U.S. elections as the effects of globalization and offshore outsourcing spreads to white-collar, skilled workers. Joining the chorus is Intel Chairman Andy Grove, who recently warned that the country could lose the bulk of its information-technology jobs in the next decade, largely to India and China.

Doing Business in the United States: Ten Tips

1. Oh, You Meant November: Visitors, especially those from Europe and South America, should remember that Americans write calendar dates with month/day/year instead of day/month/year. So, 11/12/03 is November 12th, not December 11th.

2. Bring Your Running Shoes: Business is conducted much faster in the States than in most other countries. Be prepared for quick decisions and quick deadlines.

3. Have a Good Attorney: It's the unfortunate case that the U.S. is possibly the world's most

litigious society. So, while recognizing that things go quickly, take the time to read the fine print of any contract you're signing.

4. Where There's Smoke: There's probably a law against it. Smoking in offices, restaurants and other public facilities is banned now in much of the United States. It's best to ask if smoking is allowed, and it's considered polite to ask if anyone minds when you're the first one in a group lighting up.

5. Bring Fewer Business Cards: The ritual exchange of business cards upon meeting is rarely observed here. Often, people only give or take a card if they're specifically planning a later communication. Don't be offended if someone takes your card and puts it in his pocket without giving you one of his.

6. The Working Lunch: Business is often conducted over lunch, but the meal is not the leisurely event of some other cultures. Frequently, lunch is a quick break taken before immediately resuming work.

7. What They're Not Talking About: On the job, you'll rarely hear conversation about politics, war or religion. In a country devoted to individualism and free expression, opinions vary so widely, such subjects can generate intense controversy. Sports and entertainment are always safe bets.

8. How Are You?: It's not that Americans are insincere, but if someone greets you with that question, she doesn't really want to know. It's simply a standard phrase upon meeting, and the usual response is, "Fine, thanks. And you?"

9. When in Doubt: Use the title "Ms." for a woman whose marital status you don't know. While married men and women usually wear wedding rings on their left hands, that's not always the case. It's considered impolite to ask; if a woman wants to be addressed as something other than Ms., she'll tell you.

10. While You're There: The fourth Thursday in November is Thanksgiving, the holiday that commemorates the Pilgrims' first harvest in this country. It's Americans' favorite feast day, so don't say "no" if you're invited to a Thanksgiving meal. In December, enjoy the lights and other decorations that every city and town and many families put up in anticipation of Christmas.

UPCOMING OPPORTUNITIES

Nikkei BP Japan's Networking Product & Service Directory 2003

Nikkei BP is creating a comprehensive product guide insert to be distributed to **160,000 readers** of Nikkei Communications, Nikkei Network and Nikkei Computer with a **20,000 Bonus Distribution** at the NET&COM 2004 Exhibition.

The Networking Product & Service Directory will be hosted on Nikkei BP's portal site "IT Pro" for ONE YEAR.

The directory is divided into the following categories:

- **Networking Equipment:** Switch, Router, VoIP Products, Security Products, Network Management Equipment, Server/Web Server & Wireless LAN products.
- **Software:** Server/Web Server, Network Management, Security & other related software.
- **Communication/Networking Services:** WAN, VoIP, Access, IDC Hosting, Integration/Management, Security Training/Education & other related services.

Advertising Opportunities: Ads in Japanese Only (Gross Rates)

- | | | | |
|------------------|--------------------|---------------|-----------|
| 1. *Full Page 4C | 8-3/16" X 11-1/16" | 208mm X 280mm | US\$6,364 |
| 2. **1/2 Page 4C | 7-1/16" X 4-15/16" | 180mm X 125mm | US\$3,182 |

* Full page includes B/W listing of product 1/10 page in 10 separate directory categories

*1/2 page includes B/W listing of product 1/10 page in 5 separate directory categories

Space Close: November 7, 2003

Material Due: November 26, 2003

Product Listing Frames: In Japanese or *English

B/W, 1/10 Page Contains: Product Service Name, Product Outline (150 characters in Japanese or 250 words in English), Price, Developer & Contact

Information.

Per Frame US\$275 Gross *Translation

Fee US\$182 net/frame

Order/Material Due in English October 31, 2003

Order/Material Due in

Japanese November 4, 2003

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Dr. Dobb's Journal China, the newest addition to our Developer Network is published monthly in Simplified Chinese. The content is a combination of Dr. Dobb's Journal, C/C++ Users Journal, Software Development Magazine and Windows Developer Journal with articles from the leading experts in the China software industry.

Circulation: 10,000

Target: Professional Software Developers, System Administrators, IT Department Managers, IT Professionals and Programmers, College Teachers and Students, and IT Researchers

Editorial Coverage: Provides serious software developers and technical managers of China with the cutting-edge information on technology and management practices. Also includes articles on the news and reviews about the latest in software development, programming tools and the latest updates on technologies and industry standards.

For more information please go to

<http://www.cmpworldwide.com/intfiles/ddjchinafacts.htm> Or Contact Your Sales Rep Today

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