

Preface

When people heard I was writing *China Streetsmart*®, some people thought the book would contain information such as the “right way” to bribe officials or the “shadier side” of how to get things done. Ken Davies, the former Chief Economist and Bureau Chief for the Economist Intelligence Unit in Asia, now an executive with the Organisation for Economic Cooperation and Development (OECD) examining China’s Foreign Direct Investment (FDI) policies, based out of Paris, had a milder view. He said, “Oh I expect your book to have a lot of information on how to not get blind-eyed drunk at the next Chinese business banquet, by telling your local Chinese host you have a medical ailment or something.” Which actually works and is good advice if you are ever in this situation, but not what this book is really about. **This book is about adopting an effective approach modelled after the way China business professionals set up and run a profitable business in a complex and fast-developing political economy.** The book is not only meant for new investors, but also for executives already working in China to give them an alternative viewpoint on how to handle common challenges. One could even argue that this book could be applied to investors in other markets, since many of the challenges faced in China are similar elsewhere.

China Streetsmart is all about being practical and effective. If it’s going to be practical and easy to use, the ideas in it must be easy to understand and implement. While I respect the intellectual process of how theoreticians and academics develop theories on how to do business in China, such as trying to explain yin and yang and Daoism to the Westerner, my approach is quite different and much simpler. My analysis and recommendations are not based on regression analysis or other heavy-duty statistical processes, rather they are based on interviews and anecdotal information, coupled with what I personally know, having worked in this market for about a decade, in positions ranging from Vice President of International Strategies and Marketing, to Chief Representative, to National Marketing Director for regional Hong Kong-based companies and multi-billion-dollar multinational corporations.



I tell people whom I interviewed for this book to imagine they were sitting in an airport lounge having a drink while waiting for a connecting flight. Along comes a person who is interested in doing business in China, but doesn't really know much about the market. I tell them, "I will bet some of the information you could pass on to that person in those 15–30 minutes will probably be as useful as any high-priced market report. Why? Because your advice comes directly from on-the-ground experience and is easy to understand." Dell Smith, the International Business Development Director for Freser Refrigeration Equipment, which has a plant in Shanghai and sells coolers and dispensing equipment to major clients like Coca-Cola and Pepsi, immediately smiled when I related this scenario to him. "You know," he said, "I had this happen to me very recently. I had just run into this American selling equipment in China to this local Chinese distributor and this guy was quite happy about having made a successful sale on his first trip to China. I then asked him if he got paid, which dumbfounded him and he replied, 'Uh no ...' I smiled, and then explained the importance of getting paid versus 'making the sale'. Some people learn the hard way. I certainly have."

However, since anecdotal information is far from perfect science, how you treat and use this information is equally important. *China Streetsmart* is not meant to be a literal do's and don'ts guide in setting up a profitable business, rather you must be the judge in deciding how to interpret the situations presented relative to your own. For example, it is critical to keep in mind the information you receive within the context of time and geography. In China, things change quickly and at different paces over a huge area the size of Europe, so what was true in one location might not be applicable to another. Back in 1979, practically all Chinese businesspeople were unaccustomed to Western business practices and etiquette. Likewise, the foreign businessperson (including the Hong Konger and Taiwanese) had little understanding of the Mainland Chinese side. Often deals were lost over misunderstandings or what the other side thought were major cultural blunders. The Mainland Chinese would wonder why foreign businesspeople, if they were really looking to establish a good relationship built on mutual trust and cooperation, felt they should bring their lawyer to an introductory meeting – not an unusual practice in the West, but differently perceived in China.



Now that more than 20 years have passed since the doors to China first re-opened, Chinese businesspeople today are more familiar with Western business customs, especially in large sophisticated cities such as Shanghai. Barry Friedman, the Chief Commercial Consul for the United States Commercial Service (USCS) based in Hong Kong, has spent more than 15 years in the China market. He comments, “Today I’m amazed to go into Chinese offices on the Mainland to see their executives all decked out in \$1,000 suits. They’ve come a long way from the Mao suits I used to remember.” Vangelis Giannakaras, the former China Country Manager for the Economist Corporate Networks based in Beijing, who has more than 20 years of experience in the China market, offers a useful analogy when referring to business practices in the less developed areas of western China: “If you want to know what things were like in Beijing and Shanghai ten years ago, just go to the western interior of China today and you will see.”

Anecdotal information should really be used for reference purposes only. **The objective of *China Streetsmart* is to provide you with a framework for how your particular business objectives may be accomplished within a Chinese context by stimulating your thinking through real life examples**, and to let you judge whether these particular approaches or tactics are applicable to your own business situation. If this book has inspired you to think about an issue in a different way, it will have achieved its objectives.

Having managed departments of well over a hundred staff, I am expected to be the leader and teach. Often instead, I find myself the student, as some of the excellent staff in China I have had the privilege to work with have often taught me more than, I am humbled to say, I have given in return. For this reason, I strove to get a good cross section of experiences and differing levels of management. Hundreds of interviews have been conducted with staff ranging from CEO and Regional Managing Director levels, to line management business directors like myself, to sole proprietors and frontline local managers.

China Streetsmart focuses on the valuable lessons learned from on-the-ground experience. The book is not meant to be an exposé highlighting the follies and blunders of companies and individuals. In the beer industry, for example, we certainly made our share of



mistakes and I would have to own up to my personal share. I have a high level of respect for my esteemed colleagues and their efforts. In fact, trial and error was often how we learned about the market. Recently, I was in a meeting with the former marketing director at Carlsberg where I was her counterpart when I was working at Foster's a number of years back. Although we had never met previously, we really felt like we knew each other, given the "famous" marketing battles we used to wage against one another on the streets of Shanghai. It was similar to war veterans from both sides of a conflict speaking to each other, years after the battles were fought. You cannot help but develop deep admiration and respect for each other. Often when I get nostalgic about my beer battle days, I'll give Jesper Madsen, the Managing Director for Carlsberg Greater China, or Phil Davis, the Managing Director for Anheuser-Busch Asia, a ring to go out and have a few "cold ones" to reminisce about the good old days.

My objective in speaking with these often high-level executives is to gain from their experience and be able to pass it on in a practical manner. Often, however, I am confronted with the sensitive issue of corporate confidentiality. Many corporations, often some of the most well-known and largest multinationals operating in China, have strict policies on what can and cannot be published and also who can and cannot speak on the company's behalf. It's perfectly easy to understand that companies do not want their dirty laundry being hung out for the public to see – especially if they are publicly listed. If I had to follow corporate guidelines and go through each of their public relations departments, most of the good and valuable experience would not be able to be included in this book. So for example, when I mention that there is this General Manager who works for a major multinational soft drink company, and he learned from this or that mistake, my objective is for the reader to pay attention to the lessons learned, rather than for people to try and figure out whether I am talking about Coca-Cola or Pepsi.

The book is divided into three parts: Part I is *The Approach*, which explains how to be effective in China; Part II is *The Application*, which shows how to be profitable; and Part III is *The Outlook*, which shows how to be strategic. The challenge for any business book on China is to how to summarise all that is said and known about China in a practical, easy-to-use guide. The Approach is built on an observed



pattern of action steps which some of the more successful executives follow. **The methods presented are not about getting around the regulations, but rather about how to deal with them effectively using an easy-to-understand framework, based on six action steps.** What really makes an executive or company effective in China may be contrary to some of the stories you hear, which is why it is important to demystify all the talk around much talked-about issues, such as the importance of *guanxi* (relationships) and language, which is why I deal with these topics first.

The Application profiles a detailed case study on how one particular company has effectively followed the *China Streetsmart* approach and as a result has always been profitable in China. Many case studies do not go in-depth enough to allow readers to understand how to effectively handle the specific problems one can expect to face in China. There were many excellent companies and executives I could have profiled in detail, such as Siemens Switchgear and Emil Schlumpf, its General Manager for eight years (who headed arguably Siemens's most successful joint venture in China) or Mark DeCocinis, the General Manager of the Portman Ritz-Carlton, winner of the Best Employer in Asia for 2001, the first ever for a China-based company. The company I chose to highlight is Shanghai Portola Packaging and its General Manager, Michael Colozzi. Shanghai Portola Packaging began as a joint venture, failed to work adequately with their local partner and now operates as a wholly owned foreign enterprise. The key point of Portola is they have always been profitable in China because they followed a *China Streetsmart* approach.

The Outlook takes a much broader view of China and is meant to help foreign investors understand some of the major challenges China faces with the aim of helping them set the right long-term risk and reward investment strategy. Before examining the challenges, one first needs to adopt the appropriate perspective of looking at China. Understanding the motivations of the government will also help predict how they may react to issues that affect investments in China. Furthermore, it is critical for the investors to have a degree of confidence that the data presented is reliable and if not, what is the best way to utilise the myriad of facts and figures being presented.



Not everyone has an optimistic view of China's future. In fact, there are some who predict many troubles ahead. I take a contrarian view to critics I refer to as harbingers of doom who predict scenarios such as China's entry into the World Trade Organisation ultimately bringing about the collapse of China. Nevertheless, to be Streetsmart it is important to understand their arguments to prevent forming blind optimism about China – a mistake made by many of the earlier foreign investors. To create a more balanced perspective, one should take note of the very many positive trends also emerging. How one views these positive and negative trends emerging in China is very much dependent on one's perspective of looking at the facts. **Streetsmart investors are generally cautious optimists.** While it is important to acknowledge the real risks and dangers of investing in China, within every crisis is an opportunity and it will be those who can think out of the box that will benefit most.

No one can accurately predict which direction China will ultimately take. Even the best China hands have been surprised, therefore it would not be realistic to say the contributors know better. One of my favourite sayings is “**There is no such thing as a China Expert, only people with varying degrees of ignorance ...**” But one thing for certain is that foreign investment will play a role in shaping that ultimate outcome. Following the *China Streetsmart* approach, foreign investors will ensure they profit from China and China will profit from the wealth of experience they bring – an ideal win-win scenario. The positive effects FDI has had and will continue to have on China's future generations, who are far more open-minded and adaptable than their predecessors, suggest a re-emerging China that is open to the world. This openness will not only be good for its own citizens, but also for the world.

