

About Suitable for Growth

Project Elements

News

Newsletter signup

Inspiration

Results

## The next wave of innovation starts in the China mid-market



*The Chinese midmarket is the worlds' leading laboratory for business; a hotbed of local innovation that will soon be spreading globally.*

*Edward Tse, one of China's leading management consultants, believes that the type of solutions that are developed to serve the Chinese midmarket are important indicators of a new wave of innovation from Chinese companies, and this is relevant far beyond China.*

Tse recently stepped down as chairman for greater China of Booz & Company in order to start up a new consultancy named Gao Feng Advisory Company. In books and articles, Tse has previously pointed out how the Chinese *Shanzhai* copycat manufacturers should not just be dismissed as simple pirates. Rather, they can be seen as examples of incredible drive and willingness to adapt, learn and, if necessary, steal ideas in order to come up with the best solutions to meet market demands.

Today, some of these previous *Shanzhai* manufacturers have become innovative companies in their own right. Giants like Wahaha and BYD are showing that they are able to disrupt the market with their ability to develop quickly and in radically new directions. A whole new generation of entrepreneurs are enjoying the ongoing opening of markets and the rapid economic, cultural and technological development in China. These Chinese newcomers have a number of advantages compared to the more mature, foreign companies that are trying to get a foot in the midmarket in China, says Tse, and he expects to see many of the world's up and coming cutting edge innovative companies, starting in the Chinese midmarket.

### Xiaomi - a 3 year-old giant

So far, most world-class innovation from China has come top down, from the large government research programs, such as the aerospace program, which has sent a robot to the moon, the creation of the world's fastest supercomputer, and the amazing network of high-speed trains. "When the government decides to invest in a certain area, China can make major advances in a short period of time", says Tse.

However, he believes that the real innovation is coming bottom up and examples abound.

One of these is Xiaomi, which in less than 3 years has grown to become one of China's leading producers of mobile phones. Recently, the company was valued at over ten billion dollars. Xiaomi is known for its smart product design and its service model. Its charismatic leader, Lei Jun, who in many ways mirrors the casual, yet dedicated style of the late Steve Jobs of Apple, has become somewhat of a folk hero in China. Lei Jun has millions of followers to his postings on the social network Weibo, and - contrary to Apple - Xiaomi prides itself on listening to feedback and suggestion from users. Xiaomi launches new services and releases software updates of its particular version of the Android operating system at a frantic pace, and many of these changes are in direct response to the interactions with customers via Weibo. It's a large-scale example of the "crowdsourcing" trend in product development.

See story in The Economist [here](#) or visit the Xiaomi webpage [here](#).

### NEWSLETTER #19 - June 2015

[New book on empowering the organization](#)

[Testimonials on book series](#)

[Interview in Radio24syv](#)

### NEWSLETTER #18 - June 2015

[The top concerns of Danish companies on the Chinese mid-market](#)

[New book on lowering costs to enter the Chinese mid-market](#)

[Interesting and inspiring reads](#)

[Are you looking for growth in India, Indonesia, The Philippines, or Thailand?](#)

[Our new name is Kata Foundation](#)

### NEWSLETTER #17 - December 2014

[Service makes the most of your product's value](#)

[Lessons for Desmi: Chinese companies won't pay for service](#)

[FOSS is teaching customers to appreciate service](#)

[Software will eat the world](#)

[Very successful launch of the Suitable for Growth results](#)

[The SfG handbooks are now free to download](#)

### NEWSLETTER #16 - October 2014

#### NEWSLETTER #15 - August 2014

[Online business in China is like a parallel universe](#)

[A great big following of Grundfos](#)

[Bypassing the distributor by selling online](#)

[The big four Chinese online services](#)

[Online China is a very big place](#)

[Interesting and inspiring reads](#)

[Seminars on E-commerce](#)

[Article collection from all SfG newsletters](#)

#### NEWSLETTER #14 - May 2014

[One size doesn't fit all Chinese](#)

[Danes designing for Haier](#)

[The next wave of innovation starts in the China mid-market](#)

[Listen to the experts: Take out from a seminar in Shanghai](#)

[Wonder\(ful\) things about China](#)

[Interesting and inspiring reads](#)

#### NEWSLETTER #13 - March 2014

[What's in a name?](#)

[Great Chinese name is the first for your brand in China](#)

[Re-branding JYSK in China](#)

[Branding is building a relation - it takes time](#)

["Made in Denmark" doesn't sell in China](#)

[Interesting and inspiring reads](#)

#### NEWSLETTER #12 - January 2014

[Scaling up in China - how to handle growth](#)

[Control, control, control](#)

[Everything should be documented](#)

[Scaling while staying in touch with customers](#)

[Why not hire twice as many?](#)

### Tencent's WeChat

Another company, which Tse mentions to illustrate how new type of companies are emerging in the Chinese midmarket, is WeChat. The social online service was launched in 2011, but currently has 355 million active users - mainly in China, although the service is very popular in India, as well.

In its earlier versions, WeChat can be described as a mix of the American messaging services WhatsApp and Twitter. It was developed and launched by Tencent, which also operates QQ, another immensely popular Chinese internet microblog.

WeChat has some functionalities that were not offered by WhatsApp or Twitter, such as voice applications. Later, WeChat included the ability to use it for payments. It can be used to scan items in stores and transfer payments via the phone, which is turning out to be a real killer application

WeChat is currently the 6th largest online community in the world. It is positioned just behind WhatsApp, which was recently acquired by Facebook for a mindboggling 19 billion dollars.

In Tse's opinion, the business case for WeChat is actually better. WhatsApp currently has 1 dollar of revenue per user - whereas WeChat's users spend an average of 7 dollars annually through the service.

Read more in Tech In Asia [here](#) or visit the WeChat homepage [here](#).

### Core competence thinking is a mental block

In Tse's observation, Chinese companies have an approach to business development, which is very well suited to economies that are rapidly changing and growing. In contrast, Western companies are often limited by the logic that they have been taught in business school and by consultants.

"For the past thirty years, since Gary Hamel and C.K. Prahalad, businesses have been urged to focus on their core competences and to have so-called capability-driven strategies. It's the idea that you should stick to what you are good at. But that is a static and linear way of thinking, and for many companies, it's outright wrong - in particular, when it comes to places like China" says Tse:

"Today many of the most successful companies in China were merely start-ups 10, 15 or 20 years ago. They are here today because some entrepreneurs decided it was the right time to start a business. Mostly, they had some idea about what they wanted to do, but they certainly didn't know precisely what they would be doing. As a start-up, you are not born with a particular capability, you have to learn first. So the notion that you should focus on what you know already, is inherently flawed", says Tse. Instead, he argues, you have to stretch yourself and try to learn as quickly as possible.

Another example illustrating this is how Jack Ma, the founder of Alibaba, has repeatedly been able to expand his company into new business areas and services, by stretching beyond what the company was familiar with - and this is for someone who started out as an English teacher.

Alibaba started as an online platform to connect Chinese manufacturers to customers around the world. Its focus was purely business-to-business. However, when E-bay launched in China, Jack Ma, decided to counter by launching Taobao - although the company had no experience in the consumer-to-consumer segment. If Jack Ma had stuck to his original so-called core competence, he would have passed the opportunity to create what is today an online service rivaling Amazon and E-bay in size and valuation.

Jack Ma has since continued to take Alibaba in very bold new directions, introducing a payment service, taking the company global, and positioning it as a general platform for exchange of data. Tse describes this process of specifically moving beyond one's core as "triple-jumping".

"Of course, Jack Ma didn't just randomly jump", says Tse: "When he saw the arrival of a new, emerging opportunity, he would make a conscious trade-off between stretching from its current strengths to capture the new opportunities versus staying put. So, in a way, you can say that he was still relying a lot on his current capabilities. The difference is that unlike the traditional capabilities-driven strategy concept that requires companies to "stick to its core", the triple jumping concept allows and in fact encourages companies to stretch beyond the core."

### There's no static strategy anymore

There are historical and cultural reasons why Chinese managers are more accepting of change. The last 20 odd years of China's economic reform has provided the backdrop for this behaviour. Most private companies are still led by the founder/ owner, and generally these tend to be very hands-on managers, who have close personal contacts to the customers. Feedback loops are shorter, there's less time spent analyzing through internal processes. In many cases, there's a fundamental attitude and preference for getting new products "almost perfect", rather than 100% perfect, before launch. This allows companies to broadly meet customers' needs and yet in most cases, will also allow for a much quicker time to market.

[Amazing scaling facts about China](#)  
[Interesting and inspiring reads](#)

### NEWSLETTER #11 - December 2013

[Finding the right distributors](#)  
[The dilemmas of building a strong sales organization](#)  
[Divide and conquer in China: The Nilfisk Advance case on multiple brands and distribution channels](#)  
[Good advice from 30 Danish companies in China](#)  
[Suitable for Growth moving into a new phase](#)  
[The Smart-project: Seeking affordable methods to create value that matters](#)  
[Interesting and inspiring reads](#)

### NEWSLETTER #10 - October 2013

[Facts or understanding?](#)  
[How Haier listens to the market](#)  
[Brilliant failures in China](#)  
[It's obvious - if you can see it](#)  
[What do you see?](#)  
[Interesting and inspiring reads](#)

### NEWSLETTER #9 - September 2013

[Total autonomy is not the solution](#)  
[Independence is a two-way learning process](#)  
[Making the headquarter trust and understand](#)  
[Clear directions - and the freedom to get there](#)  
[The Maverick and the Boy Scout](#)  
[Balancing creative freedom and risk management](#)  
[Room for improvisation](#)  
[Interesting and inspiring reads](#)

### NEWSLETTER #8 - July 2013

[Costs are crucial](#)  
[Bottom-up tweaking - or top-down defeating?](#)  
[You need to tell exactly what you want](#)  
[Relationships are crucial when outsourcing](#)  
[It's not just about low cost labor](#)  
[Poorly Made in China](#)  
[Interesting and inspiring reads](#)

### NEWSLETTER #7 - May 2013

[NEWSLETTER #6 - May 2013](#)  
[The road to success in China begins at home](#)  
[Moving ahead in China - the fifth round of bootcamps is underway](#)  
[Chinese for beginners](#)  
[Take-aways from two presentations on China](#)

### NEWSLETTER #5 - January 2013

[Local competition and copying](#)  
[Danish management style looks weak in the eyes of the Chinese](#)  
[Understand the mid-market in China](#)  
[Focus on differentiation if you want success in China](#)  
[Guanxi - it's "who you know" and not "what you know"](#)  
[Focus on your customer - and your sales people](#)

### NEWSLETTER #4 - July 2012

[Profitable in China from day one](#)  
[Proximity to the customers leads to better innovation](#)  
[Lower cost and better benefits](#)  
[Understand and adapt to differences in the market](#)  
[Next step in the project](#)  
[The Partners behind the project](#)

### NEWSLETTER #3 - February 2012

[Understand the competitive situation](#)  
[Localization as key to success in China](#)  
["Second home" strategy in China](#)  
[Adjusting to China](#)  
[Customer bonding at Haier](#)

“Strategy in China is about making the right tradeoffs across multiple dimensions in a dynamic manner”, says Tse: “Trying to make sure that everything is 100% correct before you act may not be the best strategy. Sometimes it is better to be 80% right than 100% wrong because of the quickly evolving and often ambiguous and complicated market in China. MNCs are typically good at making sure every piece of the picture is precise because that’s what they are used to doing in the rest of the world. However, often when they try to put all the pieces together, the landscape has moved on and the pieces are either incorrect or no longer relevant

Chinese companies will choose the alternative way, take a product to market as quickly as possible, and if something is wrong, fix it and learn from that. That’s something which a lot of multinationals are very uncomfortable with. How can the Chinese be so rough and tough, they ask? And their products are always substandard... You may choose not to do operate on those grounds as a well-established multinational, but you need to know that your competition in China will oftentimes compete in such a manner”, says Tse:

”These guys can turn around with a new product in terms of weeks, even days in some cases, if they need to. When change is so fast, there is no static strategy anymore; it’s needs to be fully dynamic.

For foreign companies to compete in China, the question is, can they actually have the right kind of speed, pace and rhythm of operations versus Chinese companies who operate in a very different manner?” asks Tse. “The China market is driving some of the MNCs to their limits. And many of them have to fundamentally re-examine not only their strategy, but also their organization, operating model, culture, and eventually mindset. Increasingly, the leading MNCs are finding that China is not only a market, or for that matter, a source of products for other markets in the world. It is becoming a source of learning and often inspirations for organizational building for other parts of the world.”

[FOSS second brand strategy for the China mid-market](#)

[NEWSLETTER #2 - November 2011](#)

[Next stop: Shanghai](#)

[Project Outcome - what are the desires?](#)

[Chinese SfG researcher in Shanghai](#)

[The final Company participations](#)

[NEWSLETTER #1 - May 2011 \(in Danish\)](#)

[To fonde vil styrke konkurrenceevnen](#)