

CHINA BUSINESS REVIEW

THE MAGAZINE OF THE US-CHINA BUSINESS COUNCIL



July 21, 2015



Photo by Islandjoe via Flickr

CATEGORIES: AGRICULTURE BUSINESS ECOMMERCE MARKETS TECHNOLOGY

TAGS: ALIBABA B2B BUSINESS BUSINESS TO BUSINESS ECOMMERCE MARKETS TAobao TECHNOLOGY TENCENT XIAOMI

Competing on the Edge: Chinese Conglomerates and Changes in Business Strategy

In the following excerpt from Edward Tse's book *China's Disruptors: How Alibaba, Xiaomi, Tencent, and Other Companies Are Changing the Rules of Business*, the founder and CEO of Gao Feng Advisory Company discusses current changes in the Chinese business environment:

Writing about the fast-changing computing and information-technology industries of the 1990s, Shona L. Brown, a consultant and ex-Google executive, and Kathleen M. Eisenhardt, a professor at Stanford University, coined the phrase "competing on the edge." That phrase, and much of the behavior associated with it, can be applied to China's business environment of today. Brown and Eisenhardt saw the information and communication technology industries of the 1990s as occupying an intermediate state between order and chaos, with change occurring in unprecedented and unpredictable ways, boundaries between previously separate industries erased, and hypercompetition leading to the fast rise and fall of companies. They argued that under these conditions, business strategy had three principal characteristics.

Back to Top ↑

EMAIL SIGNUP

Email Address

US China Business Council Email Types

- China Business Review
- China Deals

Subscribe

EVENTS

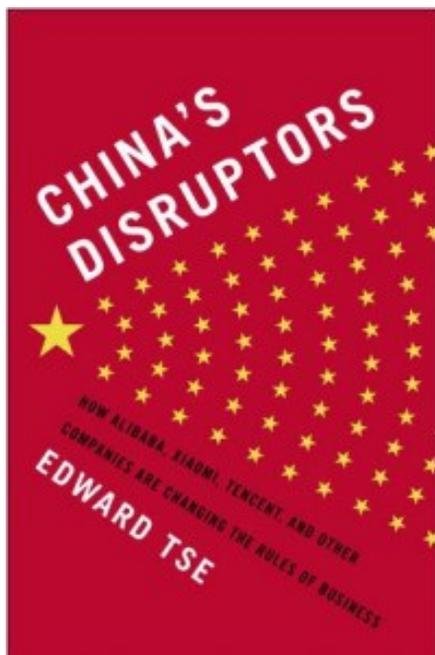
- DEC 10 The 7th China International Biomass Energy Exhibition

RECENT POSTS

-  **The Perfect Time For a Visit**
September 21, 2015
-  **Where Does China Rank in the World?**
July 24, 2015
-  **Competing on the Edge: Chinese Conglomerates and Changes in Business Strategy**
July 21, 2015
-  **Sparking New Business: US Innovation, with Chinese Funding**
July 6, 2015
-  **State by State: China and Illinois Trade**
July 1, 2015

First, advantage can only be temporary. For companies to succeed, they must continuously generate new sources of advantage. Change, rather than being viewed as a threat to their existing business, should instead be treated as the key source of new opportunities for growth.

Second, as a result of advantage being temporary, strategy will have to be diverse and emergent, and defy simple generalization. Companies must always consider a broad array of options, with resulting actions likely to involve a diverse collection of loosely linked moves whose overall direction is at best only semi-coherent. Goals and plans will always be shifting in accordance with the opportunities and constraints of the business environment. And third, reinvention will lie at the heart of all of a company's activities. In its constant search for new ways to create value, innovation of processes as well as products will be crucial, meaning that organizations will have to constantly change how they operate as well as what they make. Efficiency will count for less than the ability to generate and test new ideas, though companies will also have to make sure they don't waste resources, especially because reliable long-term sources of profit will be rare.



In an environment of hyper-competition and change, companies can never settle into a stable equilibrium. At the same time, however, they should be aware of the dangers of being too fixated on the future. Indeed, Brown and Eisenhardt suggest they should avoid envisioning a future and then trying to move toward that vision, but rather remain rooted in the present, making sure they gain maximum benefit from their existing products by extending offerings to new market segments and developing and exploiting derivative products. Brown and Eisenhardt call this process “stretching out the past.” They argue that companies should use their existing strengths to launch experimental products and services to test the market or move into new business areas while paying enough

attention to their existing business and its ability to generate the resources necessary to support new products and directions.

Almost all of China's leading entrepreneurial companies exemplify these three trends. Because China's markets are at multiple stages of development, they know that while in one market a product may soon need to have its features overhauled and upgraded as consumers there become richer, there are certainly other markets the product should be “stretched” to. White-goods maker Haier, for example, has constantly found new niches for its products by adding features—making washing machines that could rinse vegetables, aimed at rural markets, or shrinking its fridges to make them appeal to students living in cramped accommodations. Telecoms equipment maker Huawei and IT giant Lenovo operate similarly, constantly iterating and launching new models of their smartphones, tablets, and other

POPULAR POSTS



Designing for China

123,097 views | posted on January 21, 2015



Understanding China's Retail Market

57,065 views | posted on May 1, 2010



Understanding Chinese Consumers

54,482 views | posted on July 1, 2011



The Pros and Cons of Franchising in China

41,852 views | posted on July 1, 2011



IKEA with Chinese Characteristics

36,752 views | posted on July 1, 2004

OUR SPONSORS

ARCHIVES

September 2015

August 2015

July 2015

June 2015

May 2015

April 2015

March 2015

February 2015

January 2015

December 2014

November 2014

October 2014

September 2014

August 2014

July 2014

June 2014

May 2014

products. All these companies want to be around for the long haul, but they also know that tests and products must be aimed at the immediate future because the period beyond that is unknowable. Alibaba continues to jump into new areas of business where its current capabilities have to be extended. Examples include adapting the model of its B2B business, Alibaba.com, to create the C2C enterprise Taobao; bringing together its business and consumer models from Alibaba.com and Taobao to launch Tmall; using the knowledge of its business customers to start a business lending money to small companies; and moving into consumer finance with Alipay.

Given the rate of market change, companies have to set a rhythm and tempo around the number of new products and services they offer, refreshing and launching them in accordance with the tempo and rhythm of the market. They must pay close attention to the order and timing in which they do things. While moving too slowly will almost inevitably mean allowing a competitor to steal a march, moving too fast can also create problems, especially if a market has yet to reach the right stage of development for a product or service.

In terms of organization, to guard against being locked into outdated competitive models, businesses must continuously realign how they operate and what they produce with emerging opportunities. They need just enough structure to keep things from flying apart. Since success will come from being able to move nimbly and fast, strategy cannot be driven from the top down. Instead, it should be driven from the business unit level up.

All these companies combine reiteration and reinvention. Tencent has moved from computer-based messaging to online games and then to mobile messaging. But WeChat's roots also clearly extend back to its original hit, the QQ instant-messaging program; its stream of new features taps into the need for constant iteration to keep consumers in search of novelty happy. The giveaway model with paid-for add-ons, developed for QQ, was extended to online games; that same model, complete with games, is now a core part of Tencent's mobile strategy.

Overall, the outcome is that strategy is diverse—obviously so at Alibaba and Tencent, but also at businesses such as Geely, China's leading private car maker, where Li Shufu is simultaneously maintaining the separation between Volvo's global and Chinese businesses, keeping a gap between those two businesses and his Geely operations, and preparing for a possibly very different future with his electric-vehicle acquisitions. This approach is well described by Haier's CEO, Zhang Ruimin: "The CEO of a company should seek balance between systems, rules, and chaos. On the one hand, he should change with the world. But on the other, he should avoid chaotic changes and build an inner rule of changing."

*Reprinted from **China's Disruptors: How Alibaba, Xiaomi, Tencent, and Other Companies Are Changing the Rules of Business** by Edward Tse with permission of Portfolio, an imprint of Penguin Publishing Group, a division of Penguin Random House LLC. Copyright (c) Edward Tse, 2015.*

ABOUT THE AUTHOR

Edward Tse is the founder and CEO of Gao Feng Advisory Company, a global strategy consulting firm with roots in China, and the former chairman for Greater China of Booz & Company. He has helped hundreds of multinational and Chinese companies develop and apply their strategies and has worked with the World Bank, the Asian Development Bank, and the Chinese government on issues related to state-owned enterprise reform. He is the author of *The China Strategy*, and articles in *Harvard Business Review*, *strategy+business*,

April 2014

March 2014

February 2014

January 2014

December 2013

November 2013

October 2013

September 2013

August 2013

July 2013

June 2013

May 2013

April 2013

March 2013

January 2013

October 2012

July 2012

April 2012

January 2012

October 2011

July 2011

April 2011

January 2011

November 2010

September 2010

July 2010

May 2010

March 2010

January 2010

November 2009

September 2009

South China Morning Post, and China Entrepreneur and has appeared on Bloomberg TV and the Fox Business Network.

(Photo by [China's Disruptors](#) and [Islandjoe](#) via Flickr)

CATEGORIES: AGRICULTURE BUSINESS ECOMMERCE MARKETS TECHNOLOGY

TAGS: ALIBABA B2B BUSINESS BUSINESS TO BUSINESS ECOMMERCE MARKETS TAobao TECHNOLOGY TENCENT XIAOMI



RELATED POSTS



Didi Kuaidi Pressures Uber by Investing in Competitor Lyft →



\$4.6 Billion Investment to Ally Alibaba with Suning Electronics Retailer →



\$19 Billion Fund Set to Stabilize Chinese Stocks →



Sparking New Business: US Innovation, with Chinese Funding →

完

July 2009

May 2009

March 2009

January 2009

July 2008

July 2007

November 2006

May 2006

January 2005

September 2004

July 2004

March 2004

CATEGORIES

Categories

Select Category