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How foreign tech companies that 'go local' survive - and thrive - in China

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Edward Tse and Matthias Hendrichs

Edward Tse and Matthias Hendrichs say intrusive rules aren't usually to blame when tech companies fail

Many foreign tech companies are taking a closer look at China again. During the recent visit of President Xi Jinping to the United States, leading tech firms such as Microsoft [1]and Facebook [2]sought discussions with the Chinese leader. Even Google, which was not invited to the events, is rumoured to be contemplating [3] a return to China.

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Over the past few years, many people have come to believe that local companies have risen to occupy leading positions in the growing, lucrative Chinese internet industry simply because foreign tech companies were blocked from the market. However, real-life examples present a different case.

In 2003, for instance, eBay entered the Chinese market by acquiring the then leading Chinese platform for consumer-to-consumer auctions, EachNet. But, by 2006, eBay decided to shut down its Chinese EachNet site. By failing to understand the local market context and choosing to migrate everything to the global eBay platform, eBay forced its Chinese customers to suffer a degrading user experience while its competitor Alibaba, with a new platform called Taobao, moved in the exact reverse direction and enabled its customers to dictate many new terms over the same period of time. Besides allowing users to exchange messages, Alibaba created Alipay, an escrow payment service that provides convenient, secure online payment, at a time when online credit or debit card payments were not common in China.

eBay's lack of success in China is not a result of a ban or government protection for local competitors. Rather, the problem was how the company ran its Chinese business. Not understanding the Chinese market made it hard to win over local customers.

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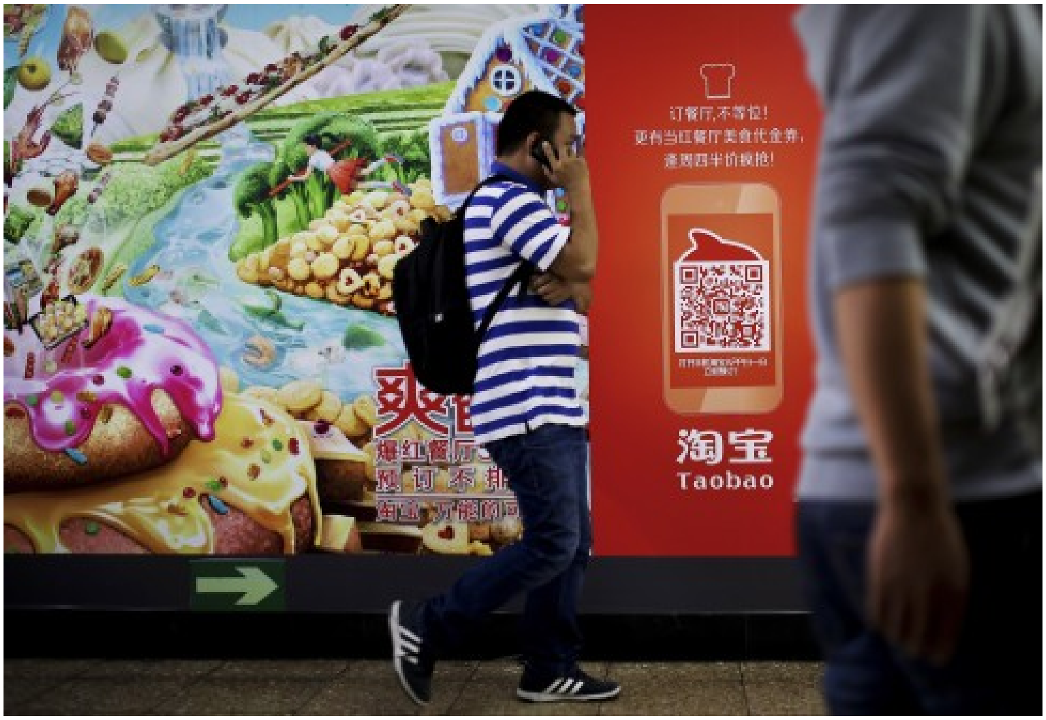


eBay forced its Chinese customers to suffer a degrading user experience while its competitor Alibaba, with a new platform called Taobao, moved in the exact reverse direction. Photo: AP

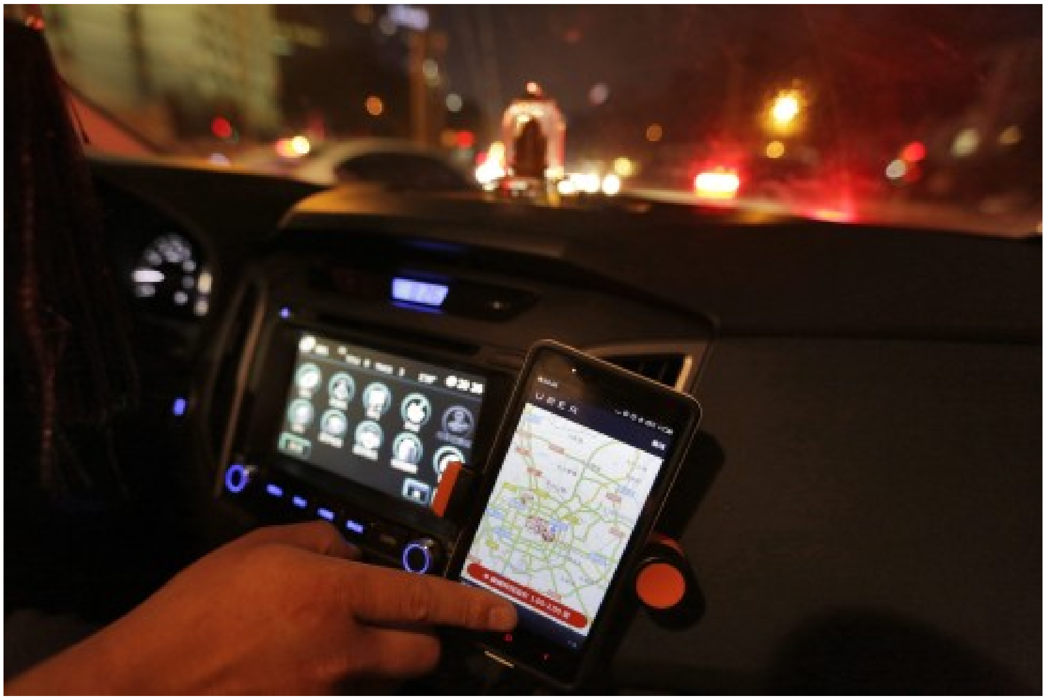
Google's retreat from the Chinese market was slightly different. Google China, formally established in 2005, at first complied with the internet censorship laws in China and imposed self-censorship on its search engine until January 2010. Due to tightening censorship and alleged cyberattacks from Chinese hackers, Google China decided to stop its self-censorship and moved its servers to Hong Kong. Eric Schmidt, Google's CEO from 2001 to 2011, said in his book *How Google Works* that senior management views on the move were divided. Schmidt argued that Google should stay in China, while co-founders Larry Page and Sergey Brin strongly favoured a withdrawal due to the censorship.

In this case, government regulation was clearly an important factor. But was it the main reason for Google's retreat? Every company will have to decide what is right for itself.

LinkedIn, the leading global professional social networking service, is a good example of how to enter the Chinese market. Linked- In officially launched a dedicated Chinese site, Lingying, in February last year, conforming to China's online censorship regulations. Sequoia China, a venture capital firm that understands the China context, helped LinkedIn navigate the local competitive dynamics and government relations. Instead of hiring a figurehead "China GM" who would merely follow orders from corporate headquarters, LinkedIn decided to hire a "China CEO" who is given a high degree of autonomy to run LinkedIn China like an independent start-up company.

This autonomy enabled LinkedIn China to cater to local needs and to take targeted action addressing those needs. "China only" innovations include the partnership with Tencent's WeChat, the predominant instant messaging app in mainland China; allowing users to link profiles across both platforms; and the launch of "Chitu" (which literally means "red rabbit"), a mobile-first business social networking app for Chinese users, which is fully independent from the global headquarters.

[READ MORE: Top car-hailing app Didi Kuaidi teams up with LinkedIn to improve user experience, give both brands a boost in China] [6]



China is one of Uber's most important markets. Despite the challenges it faces with the government, it has made China a core of its global strategy. Photo: EPA

Following the same principle, Uber, the ride-sharing service, is heavily engaged in China with a strong local organisation, competing with local rivals like Didi Kuaidi, which is backed by Alibaba and Tencent. Uber China is set to become a "Chinese" company with Chinese investors, Chinese management and decision rights to act independently from other markets.

China represents one of the most important markets for Uber. In just nine months, three Chinese cities - Chengdu , Guangzhou and Hangzhou - have each accounted for more rides than New York.

Despite the challenges that Uber faces with the local government, it is still committed to the Chinese market and has decided to make it a core of its global strategy.

It is too early to tell whether these companies can succeed over the long run, but at least they seem to be heading in the right direction. The factors that these companies adhere to in China are: understanding the local context, identifying and empowering the local decision rights, seeking local leadership talent, building collaborative ecosystems with the right partners, and building innovative business models to engage with consumers.

Obviously, the "Great Firewall" and China's censorship rules can limit foreign tech companies' activities in China, and they are unlikely to go away soon. For some, this represents merely an inconvenience while, for others, it represents a challenge on deemed values and principles.

Clearly, every company will need to judge what is acceptable and what is not. However, a generalisation that all foreign tech companies feel the same way and are "blocked" is also far from the full truth.

Edward Tse is CEO, and Matthias Hendrichs managing director, of Gao Feng Advisory Company, a global strategy and management consulting firm with roots in Greater China. Dr Tse is author of China's Disruptors. www.chinasdisruptors.com [7]

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