

Winning in China Through Understanding Its Cultural Dynamics

by Louise Merriman, Jeff Ju and Claudia Innes

*“There is no nation which does not need
to borrow from others.”* - John Stuart Mill

All Economic Indicators Point to China

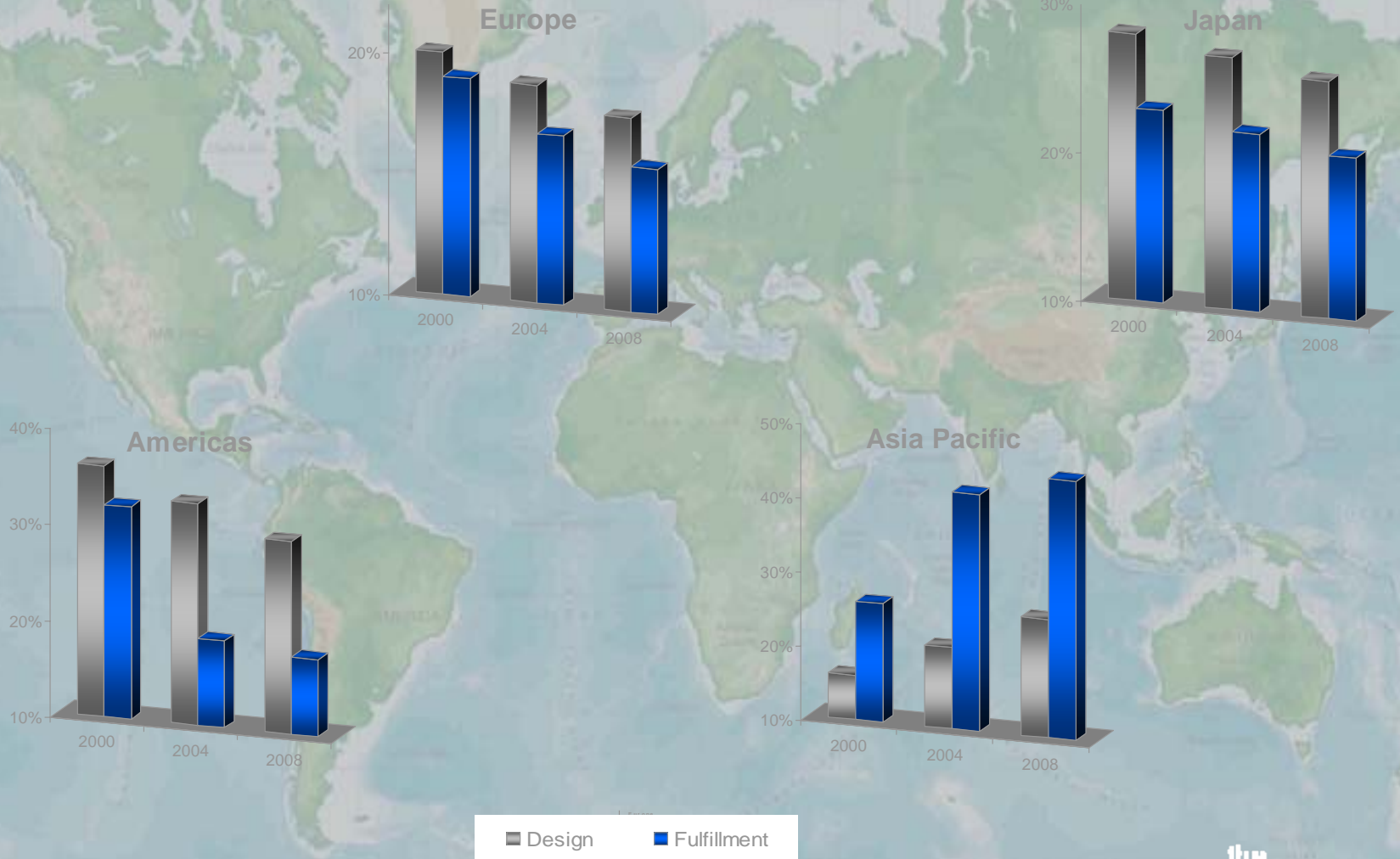
The semiconductor market in China is growing rapidly fueled by the manufacturing and design outsourcing of multi-national companies coupled with strong domestic consumption. This domestic consumption is fueled by the growth in spending power of the Chinese population.

- **In 2000 US consumed 5x the semiconductors of China.**
- **In 2005 China became #1 consumer of semiconductors in the World.**
 - 20% world consumption = \$40B
 - 30% CAGR since 2000, 34% growth last year
 - Expected to grow to \$126B by 2010
 - Only \$2.6B accounted for by local suppliers in 2005 and growth is expected to more than triple in 2006
- **Two considerations:**
 - The shift in China from an OEM to an ODM
 - Internal consumption due to growing economy

Astounding China Statistics

- Per Ted Fishman's book, "China Inc."
 - 300 million rural Chinese will move to the cities in the next 15 years. To absorb this, China must build urban infrastructure equivalent to Houston every month
 - On average, American companies make a 42% return on their China operations
 - There are 186 MBA programs in China

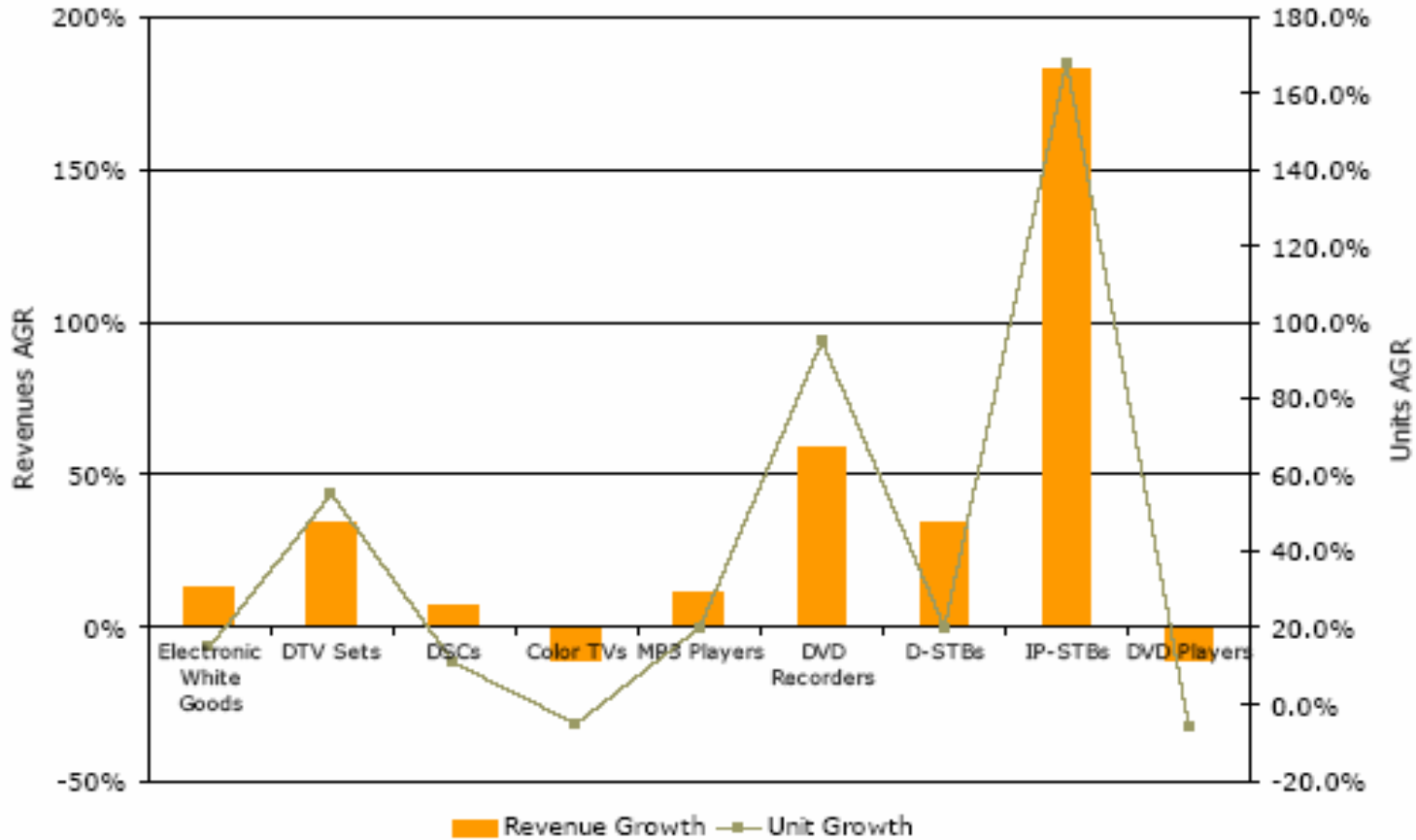
Rapidly Evolving Landscape



Growth Across Wide Range of Systems and Applications



China-made Consumer Electronics Growth by Product Types, 2006



Source: iSuppli Corp. | October 2005

Crisis



The Chinese character for crisis or transformation is comprised of the characters for danger and opportunity. In order to transform this interaction with China into an opportunity, we must first understand the mindset.

Semiconductor Suppliers Need to Understand the Chinese Worldview

Relevance of a Worldview to Semiconductor Suppliers

“Opportunity is often defined as the meeting of preparation and favorable circumstances, whereas disaster results from the collision of an unprepared company and an unforeseen result.” - Donald Sull, Made in China

“The works of Sun Tzu, Confucius, Lao Tzu and other thinkers are more than simply texts to the Chinese; they represent an integrated worldview. To do business with the Chinese, it is therefore essential to acquaint oneself with this worldview.” - Ming-Jer Chen, Inside Chinese Business

“Know yourself and know your opponent and you will win 100 battles.” - Sun Tzu, The Art of War

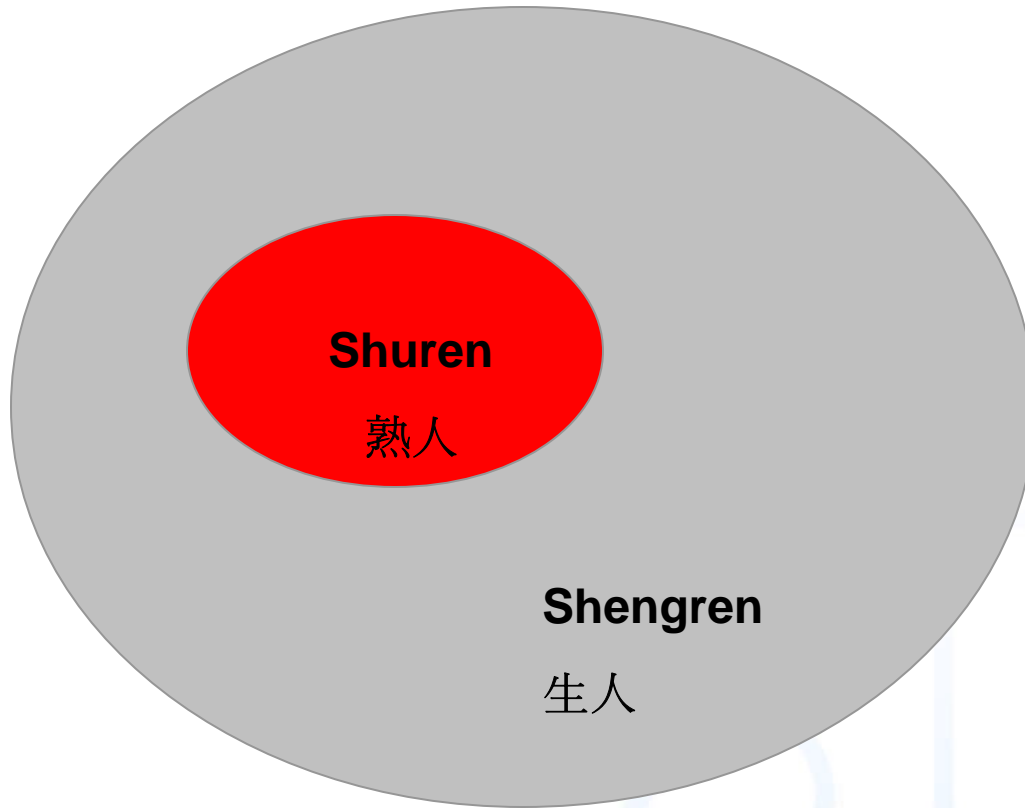
To understand China, let us explore into Confucianism and its Relevance to Business

- **Despite the political upheavals and the close interaction with the West, China is still heavily influenced by Confucianism and other thinkers such as Sun-Tzu, Lao-Tzu and Mencius**
- **K'ung Fu-tzu or Confucius gave social relationships moral significance**
- **There are five basic relationships and one must conduct oneself properly in the context of these relationships**
- **For, relationships provide us with the opportunity to develop ren (仁) or human-heartedness to become as Confucius has said a chun-tzu or superior man-someone who has achieved a certain level of ethical or intellectual cultivation**
- **Even the Chinese word for ren is comprised of the word two and people. We can only be understood in relation**

Cultural and Marketing Differences

	Western	Chinese
Customer Relationships	Transaction-based	Relationship-based
Relationship Criteria	None specifically	Shuren (close relationship) with Xinren (trust)
Product Market Characteristics	Relatively long design cycle with reference design focus	Relatively shorter design cycles, lower BOM costs and highly competitive market with EMS migrating to ODM
Customer ecology	Key accounts with relatively larger production volumes	Broad customer base with limited volume with each customer
New product design win acceptance	Fast acceptance for high performance products	Slower acceptance than other regions, but volume grows rapidly after acceptance

The Importance of Guanxi (系) for Business Success



A semiconductor supplier starts out as shengren (生人) or a stranger and moves to shuren (熟人) .
Xinren (信任) develops as a result of strong guanxi (系) or trust

How Can Semiconductor Suppliers Develop Guanxi (系) ?

First Step- Understand the philosophical underpinnings of the culture

- **Cultural differences need to be understood**

- Shuren-based business in China versus transaction-based business in the West
- Shuren “opens the gate” (熟人), but xinren (信任) is the goal to be achieved
- Mianzi (面子) is the perfect reflection of your “people Network”, which is the social format of Xinren

- **Work with customers to develop a long-term cooperative commitments**

- Don't develop a superficial “meat and wine” relationship with your customers
- Don't look at the present situation as a deal, but part of a connection that you wish to foster

How Can Semiconductor Suppliers Develop Guanxi (系) ?

Second Step-Bring Technology closer to your customers' applications

- **Don't think globally (in the West) and act locally (in China)**
- **Think locally and act locally**
- **Foster a close connection and communication with your customer to understand the design challenges and offer solutions with the best performance to price ratio**
- **Let your customer understand your product's value in terms of the customer's applications**

How Can Semiconductor Suppliers Develop Guanxi?

Third Step-Work towards developing xinren (信任 : mutual trust)

- Since the time-to-market cycle is short in China, it is critical semiconductor suppliers deliver their product on time
- Host regular seminars at key customer's site to achieve xinren in the technology
- Never conduct business purely for sales. Sales are a natural extension of xinren
- Secure local partnership with a market leader in product development
- Joint labs and research with key customers via dedicated resources in the region enhances xinren
- System level support with customers builds xinren

Product Market Characteristics

- In the West, we have relatively long design cycles with reference designs being the focus
- In China, the design cycles are short and customers want production ready boards, not reference designs
- To accommodate for this, semiconductor suppliers need to provide products on time and understand the momentum of this quick turns design cycle

Understanding the Customer Base

- In the West, there are a few key accounts with large volumes
- In China, there are many companies with small volume of business. They are all striving to be #1.
- Western semiconductor suppliers need to move within these networks and establish strong affiliations with many customers. No one knows who could be the next Haire or Legend!

- The famous anthropologist Margaret Mead has said that we in the West worship the new thing. Western companies are quick to adopt new products. Westerners are less circumspect.
- In China, there is a hunger for information, but a hesitation to make a quick decision. They will not choose anyone, but those that they have forged a strong relationship with and people that they have trust in.
- Knowing this, we must cultivate patience and understand that the emphasis on business in China is more on process than outcome. Sales are important, but they are a natural extension of the trust that has been forged.

The Future Will Bring a Confluence of Eastern and Western Business Practices

- Kipling said, “ Oh, East is East and West is West and Never the Twain Will Meet.”
- With the emergence of China as a superpower, the twain are meeting today and it is an opportunity for all of us

Let Us Heed the Words of Sun Tzu

- 2000 years ago, Sun Tzu said: “There are not more than five musical notes, but the various combinations of the five notes bring about more melodies than can ever be heard. There are not more than five basic pigments, yet in blending them together it is possible to produce more colors than can ever be seen. There are not more than five cardinal tastes, but the mixture of the five yields more flavors than can ever be tasted.”