Four ways to succeed in selling your British brand of muesli to Beijing

Last year, the dairy producer Bright Foods, China’s second biggest food and drink conglomerate, bought a 60pc stake in Weetabix. Excited by the opportunities of the UK market, senior Chinese executives at Bright Foods stated their intention to sell their flagship brand, Guangming Milk, in Manchester, to eager Mancunians. While M&A inevitably generates enthusiastic ideas that may look good on PowerPoint slides, especially to the buyers, executives who cross the boundaries of East and West need to understand better how to approach each other’s markets and exactly what works.

Outbound China M&A is booming, but many deals are failing. Of around 300 foreign mergers and acquisitions made by Chinese companies between 2008 and 2010, around 90pc failed, losing at least 40pc of their initial purchase value, according to the US-based Brookings Institution.

Yet, despite this, Chinese acquisitions are increasing as never before. Outbound Chinese investment grew by an average annual rate of 45pc from 2002 to 2011. Chinese acquisitions surged by 50pc in the first half of 2012 and the sub-category of outbound mergers and acquisitions jumped by 29pc, according to Doshedge data. China is on track to invest up to $2 trillion (€1.3 trillion) by 2020.

Much of this investment will be led by Chinese companies already flexing their global muscle. Haier is the world’s largest manufacturer of major home appliances by volume. Huawei is the biggest telecoms equipment maker. Lenovo has overtaken HP as the largest computer maker. PetroChina is the world’s fifth biggest resource company.

So, what is the key to succeeding in Western markets?

Almost all Chinese companies that have achieved success, such as Huawei and Lenovo, derive a large share of their revenues from business-to-business operations. China’s building boom has given rise to a handful of companies that have developed the scale, capital and products to transfer business smoothly into other markets.

Sany Heavy Industry, an industrial equipment maker whose overseas sales jumped from 2pc of total revenue in 2005 to around 30pc last year, is an example. It purchased Putzmeister, a German pump manufacturer, in 2010, instantly giving it access to world markets.

Second, Chinese strategies often start with a niche approach. Haier targeted the niche US home appliance market of student dormitories and small fridges and then expanded outwards. Western companies think in terms of strategic chess moves, whereas Chinese companies avoid direct frontal attack and surround the competition over time. Despite a modest presence in Europe, Haier now seeks European sales and distribution networks.

Third, Chinese companies are learning that transparency is important. Despite a $33bn credit line, 77pc of which comes from foreign banks, and $4bn in operating cash flow last year, Huawei has promised to start disclosing more detailed financial and shareholding information to improve its global expansion prospects. Chinese companies now realise the importance of reputation and the influence of a free press in the West.

Finally, it’s about going softly. Lessons have been learnt since the disastrous acquisitions of France’s Thomson by TCL and Siemens’ mobile division by BenQ. In 2006, BenQ was forced to write off its entire $1.1bn investment in Siemens after discovering the restrictions of European labour laws. Chinese companies now often prefer to take minority equity stakes, which made up 70pc of Chinese investment in Europe in the second quarter of 2012.

If these are the lessons Chinese companies have learnt about the West, what do Western firms need to learn about doing business in China? Here are my four key tips:

- Localise your strategy. China continues to operate as a collection of jigsaw-piece provinces, municipalities and autonomous regions. Some areas exceed in GDP that of the wealthiest European countries, while others barely reach third-world status. When Jaguar Land Rover considered its distribution strategy in 2010, it created dealership clusters to maximise sales opportunities. It grouped second- and third-tier cities alongside first-tier ones because disposable income and status aspiration is increasing faster in lower-tier cities.

- Localise your language. When Coca-Cola first entered the Chinese market, its name was represented by characters that mean “Bite the wax tadpole”. The Benz of Mercedes-Benz became “Die quickly” and BMW’s acronym translated as “Don’t touch me”. Multinationals are becoming smarter in how they communicate their brand values – Carrefour, for instance, is translated into characters that mean “Happy house”.

- Localise your media. You may be fluent in Facebook but it’s no use in China. Research by CKGSB shows that 80pc of Chinese consumers research their purchases on social media sites, but these are accessed by only 6pc of Western firms operating there, compared to half of Chinese companies.

- Localise your leadership. In China, there is an established hierarchy in business – recognise and respect it. The Confucian values of virtue, order and harmony have led to prized concepts of long-term reciprocal relationships (guanxi), trusted middlemen (zhongjian ren) and holistic thinking (zheng ti guan nian). Chinese employees look to their leaders for insight (wu), moderation (zhong yong), company loyalty and the art of integrating Western best practices with Chinese wisdom. Smart European companies modify Western leadership values accordingly and aim to hire locals with these qualities.

You may not be able to sell Guangming milk in Manchester, but you can certainly sell muesli to the Chinese.

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