Why big American businesses fail in China


By Benjamin Carlson, GlobalPost contributor

HONG KONG - If Tolstoy had written a history of foreign corporations in China, it might have started something like this: "Companies that succeed in China do so for similar reasons; every company that fails, fails in its own way."

Since China opened up to foreign investment in the late 1970s, some of America's most powerful corporations have gone confidently into the People's Republic, only to stagger out a few years later, battered, confused, and defeated.

It's not because the businesses were incompetent. Many of the biggest failures belong to the Fortune 500: Mattel, eBay, Google, Home Depot. All of these have thrived in markets around the world, but not China.

Why?

Some suffered from a lack of flexibility, or a failure to localize. Others fell because of bad timing, or a superior local competitor. While the causes are as varied as the industries themselves, a
pattern can be discerned among the biggest failures in China: an inability to grasp just how different — and cutthroat — the Chinese market can be.

"It’s a lack of understanding of the legal and cultural environment that leads to most failures," says Shawn Mahoney, managing director of the EP China consulting group. "The only different between a success and failure in my experience is that people who are successful are more willing to talk and learn about how things work on the ground."

Here we look at four of the biggest companies that lost their way in China.

**Home Depot: China’s not the land of DIY**

America’s suburbs are full of tinkerers and home-improvement hobbyists, and Home Depot exists to serve them. With aisles upon aisles of power tools, building materials, and hardware supplies, its big-box stores are a testimony to US homeowners’ do-it-yourself ethic.

On the surface, it seems like things might be similar in China. The country has a growing middle-class, millions of new homeowners, and a culture of everyday ingenuity and thrift.

Wouldn’t Home Depot do perfectly there?

That’s what the company thought when it bought into China in 2006. The Atlanta-based firm acquired a local firm, stocked its 12 stores with tools and materials, and waited for the money to roll in.

It never did.

After six years of struggle, Home Depot shut its seven remaining stores and fired 850 workers in China.

There are several factors behind the failure. First was simply timing: Home Depot came late to China, after its competitors already had a foothold. By the time it arrived China’s growth was slowing down.

Second was the nature of China’s housing market. Many people buy homes for investment and speculation, not to improve. Third was the store format. As Best Buy and other American retailers have found, Chinese consumers don't like big, boxy warehouses far away from a city center.

Finally, and most fatally, Home Depot tried to bring American notions of DIY to a market where labor was so cheap that most people simply hired a handyman.

"Home Depot, Barbie, Best Buy — they came and tried to sell the American vision, thinking people wanted to buy that," says Mahoney. "That’s not what Chinese want to buy."

The company admitted as much when it left China. As the company spokeswoman said at the time, "China is a do-it-for-me market, not a do-it-yourself market, so we have to adjust."

**Mattel: Nobody wants $100 Barbie jeans**
The irony of Barbie's failure in China is that Barbie, the doll, was actually fairly popular. The problem was that Barbie, the brand, was not. Mattel's foray began in 2009, when it opened the world's largest "House of Barbie" in a prime Shanghai location. The toymaker spent $30 million making the six-story shop a temple to all things Barbie. It included a restaurant, a hair and nail salon, a cocktail bar, and a spa.

Mattel even launched a localized doll, Ling, to appeal to Chinese consumers.

So what went wrong?

Partly, it was a failure of planning. The store was too big, too expensive, and too confusing in its mixture of adult pleasures (Barbie martinis, bust-firming treatments) and children's toys.

More fundamentally, Mattel seems to have misread the market. Instead of focusing on children's dolls, Mattel assumed that Chinese consumers would want a whole range of pricey Barbie-themed clothing, foods, and goods.

But, as author and business consultant Helen Wang points out, "Since Barbie is not a cultural icon in China as she is in America, Chinese consumers couldn't care less about Barbie-branded products."

By the time Mattel realized its mistake, the store was bleeding money. In 2011, the House of Barbie closed.

If there's a lesson, it's this: before you go in big in China, do your homework. Companies need to be flexible, adaptable, and responsive to Chinese tastes. That means experimenting before dropping $30 million on a mega-store.

**eBay: Don't neglect 'guanxi**

Spend any time in China, and you quickly learn the power of guanxi, or social connections. Guanxi drives business deals and government contracts. It's the invisible glue that ties people together. It's the sense of connection and mutual obligation that Chinese society prizes in personal relationships.

This may seem like a trivial detail for a powerful corporation. It's not.

Take the case of eBay.

In 2004, the San Jose online auctioning giant decided to enter the Chinese market. EBay bought a local company, Eachnet, switched it to the eBay platform, and expected to sweep China in short order. After all, they had dominated other countries’ markets. Why not China?

Two years later, they shut down their portal, leaving the Chinese auction market. A local competitor, Taobao, went on to take over 95 percent of the local market share.

The problem was that eBay had no mechanism for simulating guanxi. According to a study conducted by researchers in the United States and Hong Kong, this was a crucial error. While Taobao allowed buyers and sellers to chat over instant-messaging, giving them a chance to establish a personal connection, eBay did not.
"Those buyers really want to get to know the sellers," Paul A. Pavlou, a professor at Temple University’s Fox School of Business, told Pacific Standard.

In China, business is not just business. It’s social.