

## Learning the Hard Way: Why Foreign Companies That Fail in China Haven't Really Failed

Chris Marquis and Zoe Yang  
Harvard Business School

As Chinese companies increasingly seek to expand their businesses internationally and prominent American retailers look toward new opportunities in China as the American economy continues to waver, the concept of adaptation has never been more relevant. It's a familiar adage that businesses must adapt to local market conditions, but it seems that for every company that succeeds, there's a new theory on the secret to success. And conversely, for every business that fails, there's a different explanation as to why.

An oft-cited statistic is that 48% of foreign corporations fail and withdraw from China within two years of starting operations. A quick survey of the commonly cited reasons for failure reveals a multitude of contradictions: where one company failed to hire enough local managers, another may be blamed for not leveraging foreign expertise. Where one company fails for not introducing a product for the local market, another may be criticized for passing off "inferior" products to Chinese consumers. It's almost impossible to generate applicable lessons from any one company's failure. To do so leads many so-called experts into the trap of vaguely citing "guanxi" or "cultural differences."

In researching this piece, we took a look at some of the most famous multinational "failures" in China: Mattel, Ebay and Google. Each company was an industry leader in the USA with bright prospects in China. Rather than trying to answer the question of where they went wrong, we ask, did they really fail? We conclude that determining whether market entry in China (or conversely the USA for Chinese firms) is a success or failure is a function of time horizon. These cases may be examples of spectacular initial losses, but from their early experiences, all companies appear to have learned deeper lessons that are shaping their long-term success.

### **Mattel: Learning by Doing**

For example, in 2009 Mattel opened a flagship Barbie store in Shanghai but was forced to close it a mere two years later. The store was "too big, too expensive, and too confusing."<sup>2</sup> Mattel had assumed consumers would want a diverse range of Barbie-themed clothing and goods, but the brand is not a cultural icon in China, and customers weren't compelled to buy the expensive dolls. Yet the closure, an estimated \$30 million loss for Mattel, was not all that significant in the grand scheme of things, and the company has since rebounded. Since 2010,

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<sup>1</sup>孟睿思, 杨一婧。 "那些在中国失败的跨国公司。" 《中国经济报告》2014年第10期, 80-81。

<sup>2</sup> <http://www.globalpost.com/dispatch/news/regions/asia-pacific/china/130918/why-big-american-businesses-fail-china>

Mattel's sales in China have tripled, and it has reintroduced Barbie dolls at a much more palatable price point.<sup>3</sup>

Most interestingly, Mattel's first foray into China was certainly not uninformed and unprepared. The company came with all the best intentions of adapting to the local market, developing a doll with Asian features named Ling. However, the company's market researchers couldn't have predicted that Chinese girls would prefer blonde Barbie to the doll that looked like them. Upon re-entry to China, Mattel instead introduced a "Violin Soloist" (blonde) Barbie. "This time, Mattel has gotten at least two things right," writes Wall Street Journal China columnist Helen Wang, "First, instead of projecting Barbie as a fashion-forward brand, Mattel began to understand that Chinese parents want their children well-educated and well-groomed."<sup>4</sup> Mattel's experience demonstrates that one venture that failed to take does not mean a company has failed in a new market. It would perhaps be more helpful to think of these initial failures as necessary marketing studies – while companies can prepare as best they can for a new culture, developing new products and conducting market research, sometimes the only way to know for sure is to jump right in, even if it means stumbling.

### **EBay: Pivoting To Adjacent Opportunities**

Other foreign companies have been able to pivot initial losses into entirely new strategies. The popular narrative holds that Ebay lost out to Taobao in 2006 because it had "no mechanism for simulating guanxi" the way Taobao does (i.e. no instant messaging function between buyers and sellers).<sup>5</sup> Moreover, EBay required purchasers to pay online using a credit card as is standard in the west. Taobao, understanding that many Chinese do not like to use credit cards online either because of not owning one or because of security concerns, allows customers to pay with cash on delivery. Yet Ebay itself does not think it failed in China, despite giving up the online retail auction space. "From our perspective, we now have a very successful, large, and continuing to grow export business," says Daniel Feiler, Ebay spokesman.<sup>6</sup>

The company has been using its vast trove of data to revolutionize its business. EBay has connected with Chinese manufacturers, sharing users' most popular search terms to create goods that often satisfy a hunger for vintage aesthetics. "Exporters in China have found a huge opportunity to cater to U.S. buyers on the site, especially those shopping for clothing and accessories, cell phones, jewelry, computers, and other consumer electronics," reports the Atlantic. "China does the most eBay business exporting to the United States—then to United Kingdom, Australia, and Germany."<sup>7</sup>

### **Google: Keeping An Eye on the Bigger Picture**

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<sup>3</sup> <http://www.forbes.com/sites/helenwang/2013/11/17/can-mattel-make-a-comeback-in-china/>

<sup>4</sup> *ibid*

<sup>5</sup> <http://www.psmag.com/navigation/business-economics/why-ebay-failed-in-china-taobao-swift-guanxi-60072/>

<sup>6</sup> <https://www.linkedin.com/today/post/article/20130605230952-18448-why-ebay-failed-in-china>

<sup>7</sup> <http://www.theatlantic.com/technology/archive/2014/08/why-ebay-tells-chinese-manufacturers-what-youre-searching-for/375624/>

Perhaps the most notable recent example of multinational “failure” in China is Google. On the surface, Google appears to be a classic victim of a foreign business not knowing how to handle government relations in China. Dan Harris of the China Law Blog presents a compelling contrarian viewpoint: Google is still operating in China and doing fine – the business certainly does not have the presence that it does in the US, but to call the venture a failure would be to ignore the bigger picture. Google’s exit from China made good sense with its broader global strategy, which demanded a consistency in ethics and business practices.<sup>8</sup>

Importantly, Google’s example reminds us to look at the bigger picture when assessing so-called successes and failures: does a withdrawal from China necessarily mean failure? Can we instead understand them as shifts in strategy or simply the end of an experiment? For large corporations such as Google and our other examples, initial forays into China are usually a drop in the bucket, cost-wise. Moreover, even if they don’t result in profits, they generate valuable information that informs later decisions.

### **Embrace the Long Term**

Whenever a multinational corporation begins operations in China, the breathlessly excited media stories are only matched by the overly pessimistic stories that come later when such companies inevitably meet with obstacles. Of course, some failures are real, and there are many reasons for them: committing too little or too few resources, adapting too little or too much to the local cultural conditions, relying too little or too much on foreign management, engaging too little or too much with Chinese government bureaucracy, scaling too quickly or too slowly.

All these various reasons are equally applicable to Chinese companies seeking to do business abroad, and we could perform a similar analysis on cases going the other direction. For example, contrasting Huawei’s difficulty entering the USA with their success in Europe, it is clear that determining success and failure may just be a question of time horizon. While they have thus far been blocked by the US government, their European success has been built on a true long-term perspective, over many years building a foundation of university partnerships and industry-based networks.<sup>9</sup> So perhaps it is just that their entry into the USA market is just at a different point on the timeline than their work in Europe.

Thus, perhaps it’s no surprise that some of the most successful foreign companies operating in China are also those that have been there the longest: Procter and Gamble, Yum Brands, Starbucks. Such companies committed to a long-term strategy early on, knowing that stumbles would come and that successfully introducing cultural products requires incremental cultural change. Such companies have outlasted outside critics eagerly watching for failure.

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<sup>8</sup> <http://www.chinalawblog.com/2014/03/why-american-companies-fail-in-china-a-contrarian-view.html>

<sup>9</sup> Zhang, Y. (2013). *Entrepreneurship Development in China: A Multilevel Approach*. Eindhoven University of Technology.

### **An Example of A Long Term Perspective: The NBA in China**

We conclude with one more example, a company that is currently embracing the long view in China. The NBA, which opened a Hong Kong office in 1990 to handle all Asia business, now has over 100 staff members across offices in Hong Kong, Taiwan, South Korea, and India, in addition to a massive NBA Center in Beijing and “Yao Schools” operating in schools all over China. Indisputably, the NBA is the most popular foreign sports brand in China, with over 70 million weibo followers.<sup>10</sup> Despite such successes, the company recognizes that sustained success in China isn’t about immediate profits. “We are in the interest of growing the game globally,” said Associate Vice President of China Operations Greg Stolt in an interview with us. “Our time horizon is longer than most – China is a generational project. Because we’re a foreign entity, it’ll take time. Relationship development takes time, positive case studies take time.” Stolt points out that China is still considered poor by the standards of many MNCs. The middle class has only emerged within the last 30 years, and many cultural practices and values – such as a sports lifestyle – are still new. Despite the immense popularity of basketball as a spectator sport (thanks in large part to Yao Ming), the game isn’t played at the grassroots level. “You see them on the court but they’re not really playing,” Stolt says. “It’s going to take time for people to understand why they should go play basketball without someone telling them to.” Thus, the NBA is investing vast resources into developing basketball via ventures that have no immediate payoff: Yao’s afterschool programs for kids, coaching and referee training clinics with the CBA, and liaising with the education bureau to support free afterschool programming on an even larger scale.

Such a patient, quiet strategy did not come about overnight. The NBA once had grand plans for blazing into China and quickly establishing a league, but quickly encountered political resistance. The company has since learned how to tread lightly and be a partner rather than a competitor to the CBA and its government supporters.<sup>11</sup>

When it comes to doing business in a completely new cultural environment – be it US firms entering China, or Chinese firms entering the USA – rare are companies that get it right the first time. Rather than calling a mistake a failure, perhaps it is much more useful to watch how successful companies adjust, regroup, and reformulate. For markets as big, segmented, and important as China and the USA, giving up entirely may be much more costly than taking an initial loss.

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<sup>10</sup> [http://www.nytimes.com/2014/03/15/business/international/nba-looks-to-asia-for-next-growth-spurt.html?\\_r=0](http://www.nytimes.com/2014/03/15/business/international/nba-looks-to-asia-for-next-growth-spurt.html?_r=0)

<sup>11</sup> <http://www.nytimes.com/2012/02/05/magazine/NBA-in-China.html?pagewanted=all>