

Chinese companies face uphill path for profit in India

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India shines like a lure for Chinese companies seeking to expand abroad, and on first glance the Indian market looks like a natural fit.

Who better than the Chinese, after all, to provide computers and air-conditioners at bargain prices?

But Chinese companies have found that profits in India are hard to find. Tax barriers are everywhere, eroding cost advantages. Corruption is rampant, adding another layer of difficulty. And Chinese goods have a low-quality image that is very hard to shake.

Chinese companies, whose success so far has been largely built on their home-court advantage and low costs, are not well prepared to tackle those issues.

Chinese companies, for example, lack technological expertise, marketing skills and managers with international experience.

Winning over Indian consumers is much harder than wooing the Americans or Europeans, who treat televisions and DVD players almost as disposable items. Indians want to make sure that their hard-earned savings go to products that will last. Branding and marketing are important strategies in India, but they are Chinese companies' weak points.

"People here think the Chinese goods are cheap but of poor quality," said V. Balakrishnan, chief financial officer of Infosys, the Indian software company. "Chinese firms need to spend some time to change the perception."

Unlike Western companies that are more willing to invest for the long term, many Chinese companies are under pressure to turn a profit quickly. TCL, a Chinese television maker, is not willing to invest in expensive marketing because it hopes to make a profit in India this year after three years of losses.

Instead, TCL took a group of distributors to its factories in China last year, making a favorable impression on them. But TCL has 4,000 partners in India, and winning their allegiance through such tours could be slow and costly.

Cost advantages also evaporate in India. After shipping and taxes, TCL's products are already 30 percent more expensive when they reach India.

Moving goods from one state to another can incur taxes of 12.5 percent. Labor costs, meanwhile, are rising at 20 percent in the technology industry in India.

"Frankly, it is much harder to strike it rich out here," said Warren Wang, who is managing director of TCL's operations in India and has worked for the company in Europe and North America.

Still, India is a market that companies including TCL, the world's largest producer of tube televisions, cannot afford to lose. Sales of tube television are falling almost everywhere in the world except in India.

For Chinese companies whose domestic market is becoming saturated, India represents the biggest prize. It is also a test for Chinese companies with multinational ambitions: If they can't make it in India, how can they expect to conquer the developed markets?

That is why Lenovo, the Chinese personal computer maker, sees India as an important test market for it to try to replicate the success it had in China before taking the strategy to other markets.

Thanks to heavy television advertising and the recruiting of two Bollywood stars as brand ambassadors, Lenovo in India has achieved its highest brand awareness outside China. Lenovo sales still trail those of Hewlett-Packard and the Indian company HCL, but its marketing is seen as stronger than HCL's.

"We talk less about price, more about our competitive products," said Amar Badu, managing director for Lenovo in India. "We strive to be the No. 1 in the market."

Early arrivals from China, like the telecommunications equipment maker Huawei and the refrigerator maker Haier, have become quite successful in India, proving that the Indian market is a prize worth the battle. Huawei has said it expects \$1 billion in sales this year there, almost doubling what it did last year, as result of high demand.

The Indian market is not for the weak hearted, and Chinese companies that invest a lot and invest early will be rewarded, just as Koreans were rewarded after going to India 10 years ago, and as Americans who went to China 20 years ago have finally arrived at their payday.

"I have felt very deeply how thorny the road is to become a multinational, but we have to do it," said Wang, the TCL managing director. "India is a very tempting cake for us."

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