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Understanding markets key to globalisation

Even as some multinationals are still mulling over their China strategy, others like Siemens had been laying the groundwork in China a long time ago.

"Few people know that we have been active in China since the 1870s. That was when we delivered our first pointer telegraph to China. We had our first office, our first permanent office in 1904," says Norbert Luetke-Entrup, vice president and partner of Siemens Management Consulting in Beijing.

Today, Siemens is still on track with its China strategy, due in no small part to its early entry. The time invested has also helped the company better appreciate the complexities of the Chinese market.

"We still go for platform synergies with our main product line in Germany. But increasingly we are coming to realise that the more we tailor it to the specific need, the better it works."

For example, when a customer in China wanted a large screen for his machine to clearly display Chinese characters, he did not want the additional features that came with a higher-end, larger screen. Siemens then designed something to fit the market requirement: a large screen with basic features.

And China could well be a springboard to other Asian markets. "Obviously something that sells well in China could sell well in India and other low-end or emerging markets as well."

In 2008, 30 per cent of Siemens' sales of more than 77 billion euros came from emerging markets, with China and India forming the largest component, so clearly the potential is there.

But Luetke-Entrup says the idea is not to have what he calls 'local' R&D but to conduct research and development in the lead market for the corresponding market segments. This, he reveals, is how Siemens operates, with its regional units acting as an "entrepreneur", as a driver of the Siemens business in the region. They are also the driving force when it comes to convincing headquarters which products to develop and manage locally. "You cannot take just orders from headquarters and try to sell something that is simply not sellable in the market."

"We have a strong regional power base in our corporate structure. And I would say right now it's well balanced between what headquarters still must decide, and what the regions can drive in terms of their own business," he adds.

Although Siemens estimates a 100 billion euro market potential for low-end products within emerging countries, again half of that coming from China and India, Luetke-Entrup cannot say for sure if the company will pursue a joint China+India strategy.

"These markets are very close together, so we definitely want to realise synergies between them. Something that sells well in China is obviously a good candidate to sell well in India."

He cautions, however, that China and India - despite numerous similarities - should not be perceived as one market, as there are distinct differences.

An extreme example, he says, is the railway sector. "Now in China you have a central government; they take a very quick decision to build a thousand kilometre rail line, no problem. In India you have a democracy, a very federalist system. And it can take years and a lot of convincing to actually come to the decision to build such a rail line. So that's a very big difference in how the market works. And if you don't realise these differences, you won't do well."

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