

## Discard the localization strategy and try to 'localize management'!



Based on economic growth, Chinese people are becoming the most influential consumers in the world market. In the past, the poverty-stricken social hierarchy was a poverty-stricken society, but the middle class was gradually shifting to a jar-shaped structure with more than 50%.

The Engel index, which was close to 60% in 1978 when the reform and opening up began, fell to below the 30% mark for Chinese urban residents in 2017, which is the standard for developing countries and developing countries. In 2017, the urbanization rate reached 57.6%, and over 700 million people live in the city. In particular, the upper 15% of respondents are opening the "China 3.0 era" with the consumption propensity and characteristics of '3 high ( High consumption, High education, High sensitivity)'.

The formula that the first in the Chinese market is the first in the world market is gradually becoming a reality. Chinese innovators who have a "fast follower" strategy based on the power of the mighty Chinese market have already become a strong player in the global market, and are also attempting to transform themselves as "leading innovators" .

In the future, Chinese companies will attack the global market through 'innovation with commercialization' strategy based on strong market power. Global corporations cannot stand still for the rapidly growing Chinese market. In the past, their labor-intensive type of Chinese labor force utilizing low labor costs has been gradually turning into market and technology-intensive type.

However, the footsteps of normal foreign companies seem to be still heavy. Most stories in the Chinese market are failures. Even the case of successful entry into China has become a failure case in 10 years. Why are these things happening? Is the Chinese market a grave or an opportunity for foreign companies ?

Let us find answers to these questions. Today, let us analyze the contradiction of 'localization strategy' that everyone can easily understand as a first content, and talk about the necessity of 'localization management' as a countermeasure.

Most companies tend to think more strategically about how they can sell a lot of products and less worry about how to run a business locally. In other words, it is not about how to succeed in the Chinese market (localization strategy), but about how to operate sustainably in the uncertain Chinese market (localization management). Since China currently has a special market structure with a mix of four characteristics, from the domestic market to the global market and from the planned economy to the market economy. It is very important how to systematize and respond to these systemic risks.

A representative example of China's failure to achieve its localization strategy would be 'E-Mart'. In fact, E-Mart has been recognized as a successful example of China's entry into China in the past. In 1997, E-Mart established a local subsidiary in Shanghai. When it first entered China, it had 10 subsidiaries and 27 stores. But now, almost all of the stores have been withdrawn. Most media reports say that E-Mart failed because of the retaliation for military policy of Korean government. Is it true?

Shanghai is a place where the number of large discount stores is fiercely competitive, including about 300 local companies and foreign companies. If you include small and medium retail stores, the number is well over 2,000. According to a report released by the Shanghai Chain Management Institute, one can be seen every two minutes on foot. In other words, there is a mart within 1.5km radius in any area of Shanghai.

Three basic principles must be followed to survive in this intense battlefield.

First, establishing a firm brand identity.

Second, optimizing the input ( cost of rent, distribution, and logistics) against competitors as much as possible. In the past, even if E-Mart had similar output (sales) to other large discount stores, the input cost was higher than its competitors.

Third, meeting the trend of smart new distribution that goes online and offline, and enhancing competitiveness through strategic alliances.

Carrefour of France is also making various attempts to survive by introducing a smart distribution logistics system through a strategic alliance with local Mart Hui and Tencent. The global alliance has been spreading in order to prevail in the huge Chinese distribution and consumption market.

If any company is alienated here for this, it is time to change.

Lotte Mart has also withdrawn from the Chinese market, and consumer goods from Samsung and LG and Hyundai Motor appear to be out of the Chinese market and distribution innovation. It seems that there is a lack of logic to comfort that it is merely the retaliation from military policy.

The word 'success' is a consequence. We have to face the fact that the success stories in China, which are being talked about, may turn into failure cases in the next 5-10 years. The Chinese business should now approach localization management rather than localization strategy.

If so, what criteria should be used for localization management?

Lessons can be learned from Law 1 on the Sun-Tzu's Art of War. You can learn how to survive in the chaotic Chinese market, the localization management standard of the crisis era.

1. 道 (Road) : Does the business direction of products and services match the Chinese market? Is there any chance of success in the future?

2. 天 (Heaven) : How is the Chinese market environment changed? Is it the right time to expand the business?

3. 地 (Land) : What is the understanding of local markets and policies to enter China, and what is the understanding of them? Is it appropriate for the direction of the business?

4. 將 (Commander) : Are there any countermeasures against the upcoming risks? What is my core competitiveness and is it possible to optimize the market through this?

5. 法 (Law) : Can it be integrated with Chinese employees? Is it the most optimized organization for the Chinese market?

Now, it is time to abandon the short-term idea of selling products in China and to be in charge of localization management in China. It is necessary to shift from localization strategy of survival management with short-term management performance perspective to localization of value-centered management that is developed in the long-term perspective. I got to think a lot by seeing Himma Sensei (盒馬鮮生) of Alibaba in the very spot where Emart withdrew.

Source : Seung Chan Park ( Head of Chinese management laboratory )