3 Tips for Foreign Tech Firms to Win in China's Internet Market

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> *Is there hope for foreign tech firms with aspirations to succeed in China?*

Is China's internet market the next frontier, or a graveyard, for outsiders? While its seemingly vast opportunities continue to hold allure for foreign tech firms, it has been notoriously difficult to crack for non-Chinese players. Iconic names from the US such as eBay, Google, Groupon, Uber and Yahoo have failed to attain success in China where a unique internet environment exists, dominated by giants such as Alibaba, Baidu and Tencent that have their tentacles in a range of online sectors.

So is there hope for foreign tech firms with aspirations to succeed in China? One tech company that appears to have made inroads into the China internet market as a niche player – and therefore suggests that it is not a lost cause – is InMobi. It is not a Silicon Valley giant but rather a young Bangalore-based software product company focusing on the mobile digital marketing space. InMobi, which commenced operations in China in 2011, describes itself today as the largest independent iOS mobile platform in China. While it is premature to say InMobi has "cracked" the Chinese market, this is not a trivial accomplishment. Success in China doesn't come easily. To illustrate, Vizury, another software product company from Bangalore exited the market in 2015 after four years of operations.

InMobi's success (thus far) and Vizury's failure in China point to three important success factors.

#1: Understanding the market

InMobi has succeeded in gaining a deep understanding of the China market in a relatively short period of time. Key to the company's learning was appointing local subsidiary leaders with deep market knowledge and commitment to the organisation. In early 2012, a few months after commencing its China operations, InMobi hired Jessie Yang, a former McKinsey consultant. Yang, in turn, attracted other high-calibre people with strong local roots (rather than China-origin managers from the West who have fluent English but sometimes lack deep local knowledge and networks), including a former McKinsey colleague to head business development. Importantly, she has remained with InMobi for five years, thereby ensuring that learning gets accumulated within the firm. By contrast, while Vizury also attracted well-qualified people to lead their China operations there wasn't the continuity of leadership seen in InMobi. Such disruptions are counterproductive to building experiential knowledge in a market that is as dynamic and relationship-based as China's.

#2: Adapting technological innovation

While both InMobi and Vizury are highly innovative firms, they appear to differ in their efforts to align their innovations with the peculiarities of the Chinese market. Vizury, according to some former managers I spoke with, spent much greater effort on optimising their offerings on Google's and Facebook's platforms to gain traction in Western markets. By comparison, they neglected the Baidu and Tencent platforms that are so crucial in the Chinese market. In contrast, InMobi has doggedly pursued new market trends in China, seeking to identify sweet spots ahead of the curve. They started by tapping the wave of Chinese online firms – including Tencent, the company behind WeChat – that were seeking customers in international markets. In the next wave InMobi worked with these firms as they started to target the home market (China) which had begun to emerge. Next, InMobi turned its attention to the rise of Apple in the

Chinese market. And through all of these developments, InMobi's R&D team in Bangalore engaged deeply with the China operations, both onsite and remotely, even if it meant sacrificing Diwali holidays in order to ensure their innovations worked in China. A logical next step might be to establish R&D capability within the China subsidiary as well.

#3: Cultivating local partners

To get started in the early stages of internationalising to China, both firms utilised "bonding" ties with people with whom there was a natural affinity – such as co-ethnicity. In its early days in China, InMobi worked with FuguMobile (a fascinating rare instance of two Indians founding a China-based digital advertising agency) which provided logistical support and worked with them on a few projects. As for Vizury, according to a teaching case written by my CEIBS colleague, Prof Rama Velamuri, its first break in China – a contract with the Nasdaq-listed online travel agent, Ctrip – resulted from the Vizury CEO's brother tapping his Chinese business school's alumni network. These connections were all the more remarkable since the Indian community in China is tiny compared to its size in markets such as the US and UK. But thereafter, InMobi seems to have been more successful at building "bridging" ties with local players that are crucial for post-entry growth. Building such connections is costly in time and effort, not to mention tricky, as it might mean working with prospective competitors such as Tencent. While InMobi continued a steadfast focus on cultivating partners in the China market, Vizury's engagement with partners appears to have lessened over time in tandem with its apparently greater focus on other foreign markets.

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Conclusion: Prioritising China

Synthesising the three factors above, InMobi and Vizury's contrasting fortunes in China suggests that the extent to which a foreign company prioritises that market has an impact on the effort that goes into coopting the right partners (factor #3), which in turn matters greatly for accomplishing market learning (factor #1) and adapting technological innovation (factor #2). Moreover, the greater the progress in these dimensions (factors #1 and #2), greater is the scope to attract good partners (factor #3). So there is the prospect of a virtuous – or vicious – cycle.

That being said, prioritising China is not a decision to be made lightly; it may even entail letting go of other markets. Capillary Technologies, a more recent entrant to China, eventually significantly reduced its presence in US and UK markets to avoid diluting its China-related efforts. After gaining business in China in 2014 from Western multinational retail clients, such as Pizza Hut, that it served in other markets including India (its original base) and Singapore (where its headquarters are now located), Capillary set up a Shanghai office in mid-2015, headed by Amit Haralalka, who had previously worked in Capillary's San Francisco and London offices. Despite being funded by the likes of well-known VC firm Sequoia, Capillary quite sensibly wants to avoid spreading its resources too thin while taking on the Chinese market, and has therefore scaled back its efforts in the West.

It remains to be seen whether InMobi's half-decade of success in the Chinese market will endure the threat posed by giants such as Tencent and its challenges at home, or if Capillary's bet on China will pay off. But one thing is certain: for companies with aspirations to win in China's internet market, there is no room for half-hearted efforts. China is a commitment, not a side project.

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