



# IMPACT ANALYSIS

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Dear Friends:

America is undergoing an extremely stressful period. In turn, many of us have been emotionally beaten down to the depths of the Dow Jones Industrial Average. It's time to awaken a uniquely American attribute currently lying dormant and do what we've always done—get back up! And it's vital we don't follow our fears and succumb to protectionist impulses (p1-2).

Many assumptions regarding the Chinese middle class market are false. For one, it's not as large as one may think. And its disposable income is not a sound guide to estimating sales. Instead, the focus should include culture (p3-4).

Nothing is as valuable as our reputations. Yet, we see corporate reputations squandered daily. Most companies try to do the right thing. Very few set out to do anything less. So how does it happen? (p5).

I hope you find this issue informative and, as always, we welcome your comments.

Sincerely,

Tim J. Nowak  
Executive Director  
World Trade Center Saint Louis

## Time To Put Fear Aside and Do What We Do Best

*We are not Protectionists. We are Americans.*

By John Manzella

Many hope that President-elect Barack Obama will help uplift the American spirit and inspire a new "can-do" attitude toward remedying our serious economic problems. This, of course, is no easy task. But if successful, Obama's encouragement will have awoken a uniquely American attribute currently lying dormant in the American psyche.

### We Are Americans

Recent months have been marked by gloom and doom. And when emotionally beaten down to the depths of the Dow Jones Industrial Average, uplifting attitudes are hard to come by.

In an October 17th *New York Times* op-ed, Warren Buffett, one of the world's wealthiest men and greatest investors of all time, reaffirmed that "The financial world is a mess, both

in the United States and abroad."

But in the same article, the Oracle of Omaha also said now is the time to buy U.S. equities.

What does he know that others don't?

"In the 20th century, the United States endured two world wars and other traumatic and expensive military conflicts; the Depression; a dozen or so recessions and financial panics; oil shocks; a flu epidemic; and the resignations of a disgraced president. Yet the Dow rose from 66 to 11,497," he said. What Mr. Buffett knows, Americans also know. But somewhere over the years it has been forgotten.

Deep down, we know that America always gets back on its feet, regardless of how hard it's been knocked down. And we've proven it over and over again.



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## The Land of Immigrants

America is a land of immigrants. In many cases they were young people who left their homelands with little hope of ever seeing their parents again, but with tremendous hope of securing a better future. They understood the difficulties they would incur, but possessed the necessary courage and resolve to persevere. This strength and determination continues to be reflected in all that is American.

We are an entrepreneurial and confident people, who believe anything is possible if we put our collective mind to it. We also are flexible and dynamic. And we know how to adapt to change and adjust to new challenges. As a result, America continues to be the destination of the world's hungry—as well as the world's brightest.

## A Nation of Strength

The framers of the Constitution were brilliant. They understood the importance of transparency, rule of law, separation of church and state, and balance of power. These factors—which promote political stability and opportunity regardless of individual differences—are many of the reasons why America is the most powerful nation on Earth.

Thus, it's no mystery why the United States is the world's primary destination of foreign direct investment year after year. It's also no mystery why the dollar actually strengthened during the global financial crisis. Even though our country was down, foreigners still had more faith in America than in their own countries.

## The Power of Fear

Fear immobilizes, seizes all creativity and puts us at our worst. And who would know this better than Franklin D. Roosevelt. In his first

inaugural address on March 4, 1933, when the Depression reached its depth, he said, "This great nation will endure as it has endured, will revive and will prosper. So, first of all, let me assert my firm belief that the only thing we have to fear is fear itself." Franklin Roosevelt was right then, and he's right now.

## We Are Not Protectionists

The new 111th Congress will begin in January. For very good reasons it will adopt new regulations designed to stabilize our financial sector, and perhaps establish new policies to safeguard other industries in an attempt to promote American prosperity. The problem is not with the intention, but with the execution, as well as the unintended consequences.

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As such, it is essential that fear does not dominate Congressional thinking and wrongly lead to protectionist measures as part of the solution. The last time this occurred, the results were disastrous.

In the 1930s, U.S. industrial production began to fall and American farmers felt the effects of foreign agricultural competition. European agricultural recovery after World War I resulted in overproduction. As a result, international agricultural prices fell.

The solution: on June 17, 1930, President Hoover signed the Smoot-Hawley Act that raised tariffs nearly 60 percent over their existing high rate of 44 percent. Although the act seemed like a good idea at the time, it effectively killed international trade. Within two years following the act's implementation, U.S. exports decreased by nearly two-thirds.



In anticipation of Smoot-Hawley's passage, France, Italy, India and Australia passed their own protectionist legislation. Others, such as Spain, Switzerland and Canada, followed suit.

The result: export markets dried up and domestic industries slowed down. For the next eight years international trade declined. The unemployment rate in the United States rose to 25 percent in 1933. What began as a sincere attempt

to aid U.S. industry made an international crisis of the highest order more severe.

Although the Great Depression occurred generations ago, an important lesson holds: protectionism and economic isolation do not work.

America possesses tremendous strengths that make this country great. And when faced with difficult challenges, we rise to the occasion. Now is not the time to retreat and curl up in a fetal position—now is the time to reach into the depths of Americanism to recapture the confidence to remain globally engaged and overcome the obstacles ahead. ■

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# Understanding the Chinese Consumer Mindset

*Culture has a tremendous influence on buying decisions*

*By Shawn Mahoney*

American firms are entranced by China's potential market size. In fact, its size is generally one of two main criteria considered when American firms make the decision to sell there. The other is the burgeoning disposable income of the middle class. Unfortunately, only focusing on the size and disposable income of the Chinese middle class—while ignoring cultural aspects—can lead to a suboptimal outcome.

## The Influence of Culture

Many assumptions regarding the Chinese middle class market are untrue. For one, it's not as large as many think. And its disposable income is not a sound guide to estimating sales.

Instead, the focus should include culture: the key to understanding the Chinese

consumer. In China, culture has a tremendous impact on decision making patterns, buying habits and value perceptions of products.

According to the World Bank and the National Bureau of Statistics of China (NBSC), in 2006 China's population slightly exceeded 1.3 billion people. Generally, this population can be divided into three consumer categories:

### Subsistence Shoppers

The first category, subsistence shoppers, includes those who live in poverty or at the level of subsistence. This group is interested in the cheapest possible necessities—nothing



else. NBSC statistics for the year 2006 indicate there are just under one billion rurally-registered Chinese with an annual average income of approximately \$500.

**Many assumptions regarding the Chinese middle class market are untrue... The middle class consumer is complex. Surprising to many, three specific cultural areas, unrelated to disposable income, directly impact buying decisions.**

### Rich and Affluent Shoppers

The second category, rich and affluent shoppers, includes the wealthiest category, plus those who can spend without consideration of cost. These shoppers, numbering approximately 20 million, typically buy high priced, high quality brand named items. According to McKinsey and Company, in 2007 this truly rich group comprised 1.5 million people.

### The Middle Class

The third category, the Chinese middle class, is thought to number approximately 300 million people. In reality, however, the number is much smaller. In the *Business Week*

article, entitled "China's Illusory Middle Class," UBS, Goldman Sachs and McKinsey and Company defined the Chinese middle class differently. However, all three agreed that the

minimum number of Chinese middle class consumers is no less than 100 million. Thus, from a conservative perspective,

American firms interested in selling to China can comfortably estimate 100 million potential customers for their products.

### Where It Gets Tricky

This is exactly the point where selling in China gets tricky. A potential market of 100 million consumers is nothing to ignore or disdain. However, just considering size or disposable income does not reflect true market conditions.

The Chinese middle class consumer is complex. Surprising to many, three specific cultural areas, unrelated to disposable income, directly impact buying decisions.



First, the Chinese middle class is very brand conscious. And it's also "face" sensitive, indicating a purchase can validate or reinforce status and project an image or level of success necessary to impress family, friends, acquaintances and coworkers.

Second, and seemingly contradictory, the Chinese middle class typically looks for bargains. Third,

Chinese consumers view as necessities or "face" related are entirely different from those of American consumers.

### Chinese Shopping Psychology is Complex

Shoes and mobile phones are sound examples of purchases that are brand or "face" sensitive. Many American firms assume Chinese middle class consumers will buy more of a high quality brand named product if it is discounted. In most cases, the opposite is true.

If available, Chinese consumers are likely to buy gray market unlocked iPhones even though the cost exceeds \$800, and is a large percentage of annual income. If they can't obtain the cash or do not have the necessary connections to obtain an iPhone, middle class Chinese consumers typically will purchase the best

Motorola or Samsung mobile phone for \$500 or at a higher price point.

When shoe shopping, this consumer group may not be able to obtain a \$1,000 pair. Instead, they may prefer to purchase a \$110 shoe over a \$70 pair of seemingly equal popularity or similar status.

Unfortunately, this type of shopping pattern—where consumers pre-

bargains: products that are not brand or "face" sensitive (where many products may meet the consumer's threshold), and the occasional bargain on brand named goods with "face" value.

### Perform Culturally Nuanced Research

The Chinese market offers a wide variety of opportunities to American firms considering expanding there. It

is critical, however, for these firms to understand that while the Chinese market is large, it has

a limited number of potential customers, and it is not a market for all products.

Firms considering entering the Chinese market must perform due diligence and sound market research. And most importantly, this research must be culturally nuanced and consider more than disposable income. Focusing on and understanding which categories of products are brand and "face" sensitive—then learning how to establish your brand in the Chinese marketplace—is the key to successful selling in China. ■

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fer to pay high-end prices for status symbols—is not consistent across the board. If it were, American companies would be thrilled.

The reason: many products have no discernible brand or "face" value. These include toiletries and toothpaste, home phones and furniture, where style may be more important.

### The Bargain Quest

Chinese consumers have a seemingly undeniable quest for bargains. In fact, they often spend hours searching for one or two items. Does this behavior contradict "face" sensitive purchase patterns?

Surprisingly, bargain shopping actually complements "face" sensitive purchases. The middle class consumer is typically looking for two types of

# Guarding Reputation: Our Most Valuable Asset

*An ethical business model is the best choice*

*By William T. McKibben*

Nothing is as valuable as reputation. And yet we see corporate reputations squandered daily. In truth, most companies and people spend every day trying to do the right thing and protect their reputation. Very few set out to do anything less. So how does it happen?

## The Complexity of Cognitive Dissidence

Reputation can become damaged in a variety of ways, but mostly, a little bit at a time. I call it the “Paper Clip Slip.” Anyone who hasn’t walked off with a company-owned paper clip hasn’t ever worked with paper clips. The problem comes when the theft grows to a box of paper clips, or pencils or something else.

The process we use to justify this petty larceny is called *Cognitive Dissidence*. It’s a very valuable human trait that we would be whimpering wrecks without.

After we choose between the alternatives, we need to move on. We all know people who agonize over every choice and are filled with doubts, sometimes for days. *Cognitive Dissidence* is the mental function that tells us we made the right choice and lets us become more convinced every hour that other options would not have been as good.

The problem comes when we have too much of this trait. We begin to justify our actions no matter how outrageous. Actually, excessive *Cognitive Dissidence* is often admired in the C-Suite.



A decisive executive can be a real asset to any organization. However, the same strong leader can steer the ship into treacherous waters, sure they are on course to success. When things don’t look too good, it is easy for them to justify actions that threaten the reputation of the company. And when it goes sour they say, “I did what I had to do.”

**Companies that put the best interest of their stakeholders first—customers, employees, suppliers, communities, environment, and finally, shareholders and lenders—win in every way.**

## The “Do What It Takes” Mentality

Others come into corporate life with a distorted view of what needs to be done. They believe you have to do what it takes to win in a dog-eat-dog climate.

Where do these people—some of the best and brightest youngsters—get this idea? That’s easy! Good news is not news, so almost everything they see and hear in the media involves the baddies. And it’s not just the news media. Books, movies, TV shows—it’s all about the interesting nasty stuff, in business and in life.

## Putting Stakeholders First

Doing the right thing is not always easy. Sometimes it’s not even clear what the right thing is to do. We face hard choices everyday. What is clear: an ethical business model is the best choice.

Research shows that companies that put the best interest of their stakeholders first—customers, employees, suppliers, communities, environment, and finally, shareholders and lenders—win in every way. Why put shareholders last?

Because if you take care of the others, profits will take care of themselves.

Do ethics driven businesses always win? Of course not. But if all things are equal, these companies will do better every time. And they are a lot more fun to work for, and a lot more fun to run. ■

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