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BY JOHN JULLENS

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It's no secret that China is, or soon will be, the world's largest market for numerous products—from luxury goods such as Gucci handbags and Mercedes sedans to more mundane industrial products such as hydraulic excavators and combine harvesters. But for many multinationals, the must-win market in China is the country's often much larger and faster-growing segment of mid-market business customers and middle class consumers who have just crossed the disposable income threshold and can now afford to purchase manufactured goods and services. And the Chinese mid-market is not just where the money is, it's also an indispensable source of sales volume and associated scale advantages. Moreover, this market is rapidly becoming a springboard for sales to other emerging markets and, in some cases, is even beginning to tap into latent demand for low-cost consumer products in developed markets.

Conventional wisdom has held that Chinese customers demand merely "good enough" products that offer acceptable performance and quality at price points that can be as much as 60 percent or more below their world-class equivalents. Unfortunately, the good enough moniker, although not incorrect and certainly catchy, is a bit misleading. It implies inferior, lower-quality products; thus, many MNC executives thus mistakenly believe that they can succeed in the Chinese mid-market simply by "dumbing down" the consumer products they sell elsewhere. But in reality, selling to China's mid-market often requires products that have been significantly adapted, or even specifically designed from the ground up, to meet these customers' unique needs. And such products will likely have to be supported by completely different business models and specialized capabilities.

In other words, good enough often isn't good enough at all. Many MNCs will find it quite challenging to compete in the Chinese mid-market, especially against the numerous ambitious domestic competitors that may not yet have developed world-class technology and brands, but whose own capabilities to design, manufacture, and sell mid-market products are actually "world class" in their own right. These Chinese mid-market innovators are beginning to shake up the global competitive landscape, and increasingly represent a major threat to well-established global manufacturers everywhere.

Precisely what a winning mid-market strategy will look like is, of course, different for each firm. But the following seven principles apply to most multinationals in most industries, and they can help you compete to win.

1. Develop distinctive mid-market products. It is important to make a clear distinction between low-cost

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versions of existing products that were originally designed for customers in developed markets and low-priced products that were specifically developed for the often unique requirements of Chinese customers—because the former may not be sufficient. Either way, multinationals must consider when and how to reduce noncritical functionality while simultaneously adding other locally required product features, substitute simplified off-the-shelf components and cheaper materials, and redesign products for ease of manufacturing and serviceability.

2. Design a mid-market business model. Many multinationals will have to completely rethink their existing business models to support mid-market products. They'll need to focus on acquisition price and near-term operating costs versus productivity and lifetime cost of ownership, will-fit instead of proprietary replacement parts, and after-sales service through independent distributors instead of company-owned stores, as well as developing a truly local supply base and finding ways of offering creative financing options to cash-strapped mid-market customers.

3. Pursue value chain migration. It will almost always prove necessary to transfer core value chain activities to China to narrow the cost gap with domestic mid-market competitors to acceptable levels through local manufacturing, sourcing, and supply chain management. In addition, many multinationals will have to develop significant local innovation capabilities, as Western engineers are seldom capable of the ultra-low-cost engineering required in China.

4. Seek out selective partnerships. Due to China's complexity and size, most multinationals will need to acquire, or partner with, one or more local players to fill gaps in their product portfolios; to gain complementary mid-market product development and manufacturing capabilities; to develop the optimal channel footprint; to negotiate with regulators at the local, regional, and national levels; and, in some sectors, merely to gain market access.

5. Craft a multi-brand strategy. Some multinationals resist adopting a multi-brand strategy on the grounds that mid-market customers will, over time, become premium customers. Aside from the fact that this may not always be true, it is difficult to stretch a brand over too many price points without diluting the value proposition and brand equity over time, especially when there are different business models involved.

6. Establish a strong local organization. In addition to localizing the firm's operations, it will likely be necessary to localize management, which can be challenging when the firm is organized around global product divisions. Multinationals have to clarify decision rights and put in place a strong governance structure. Many multinationals should also consider treating their nascent China business as a standalone entity with its own P&L to make sure it gets the resources it needs, at least during the incubation and initial growth stages.

7. Adopt a global mind-set. A firm's success in China is tied directly to the mind-set of its top managers elsewhere. At a minimum, it will be important to ensure that headquarters has a basic understanding of China's opaque, and often misunderstood, business and regulatory context.

Many multinationals will find it exceptionally difficult to win in the Chinese mid-market, especially smaller- and medium-sized firms that lack the financial and managerial resources to develop and implement a comprehensive China strategy, as well as those firms that produce basic industrial goods sold primarily on the basis of their relative price and value position. However, the vast majority of MNCs will have no choice but to find a way to win in China's mid-market—or risk giving their rivals a crucial competitive advantage. +

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