

Creating a Chinese Company

At some point, international companies must begin to localise their China operations. They must create truly Chinese companies with strategies that are tailored to the China market and that empower and rely upon native managers who best understand China's culture, language, and economy. For all of its similarities to other parts of the world, China is quite a different place.

By Jack Perkowski



When international companies come to China, they encounter a culture and a language that is completely foreign to their own. They also find an economy that is developing in ways that are very different from the economies they are used to dealing with.

Under the circumstances, it's no wonder that they tend to establish their operations in China with a view towards making the unfamiliar more familiar. They do this by importing the strategies, business practices, and cultures developed by their companies over many years, and by populating their China operations with managers who speak the same language, solve

to visit, and gain the support of, the local government.

In most parts of the world, your company might have half a dozen competitors. In China, there are likely to be several hundred companies that make the same or similar products – or at least products that perform a similar function to those produced by your company.

In the world's most developed economies, being regarded as number one in quality and technology is paramount. In China, having the best quality and technology alone is not always a winning formula. More often than not, having quality and technology that is

fundamental economic drivers that are creating an economy that requires different approaches than the tried and true practices of most international companies. Adapting to these economic realities requires a different mindset.

The fact is that the Chinese look at money very differently than individuals who have grown up in more developed countries. When Americans - even one like me, who has lived in China for nearly 20 years - see a 100 Yuan bill, they automatically divide by seven (today's approximate exchange rate between the Yuan and the Dollar) and what they really see is USD 15. When Chinese look at that same bill, though, they see the equivalent of a USD 100 bill – a fundamentally different way of looking at the same object.

China's different cost perspective helps to explain how local Chinese manufacturers are able to produce goods so cheaply and why products that may seem reasonably priced to Western eyes may be much too expensive in the eyes of the Chinese. If you want your company to be successful in China over the long-run, your managers had better have the same cost perspective as your customers and competitors.

Another major difference with profound economic implications is the vast income disparity that exists in China. While incomes tend to be more uniform in the more developed economies of the world, China's uneven development has created great differences between the haves and the have-nots.

“A company's competitors and customers in China will increasingly be Chinese firms. Localising management and strategy is now taking on a greater sense of urgency than ever before”

problems in a similar way, and share the same values as those in the home office.

But the way things work in China are often too different to be ignored: In most developed economies, for example, disputes are often settled through legal proceedings or in the courts. In China, using relationships is much preferred. If your company is spending a great deal of time with government officials at home, you're probably in trouble. In China, the first step of any new Chinese manager worth his salt is

just “good enough”, but which customers can afford, is the formula that wins in the marketplace.

Differences in language and culture can, of course, be dealt with. It's possible for foreigners to learn Mandarin and to study Chinese culture; however, while many do, most do not. Moreover, trying to understand and deal with the subtle, and not so subtle, nuances of China's economy is another story altogether. China's vastly different, and lower, cost perspective, as well as the pronounced income disparities which exist among its population, are

In broad terms, approximately 400 million Chinese have per capita incomes that are the equivalent of USD 8,000, while the remaining 900 million have per capita incomes one-tenth that amount. This vast disparity creates two markets for every product: One that is characterised by high price and high technology and caters to the higher income group, and another at the low end of the price and technology spectrum. While international companies tend to focus on the higher price market, mounting evidence shows that companies able to address the needs of both will enjoy the most success.

Competition in China is heating up, and new developments are accelerating the need for international companies to localise their management teams and create Chinese companies. Here are three of the top reasons:

1. China's workforce is becoming increasingly restless

Wages are rising and workers in China are no longer content with merely receiving a paycheck. Today's workers are better educated than previous generations and aren't satisfied with assembly-line jobs that offer few transferable skills and little prospect for advancement. Companies that understand this reality and learn how to deal with the needs and aspirations of China's new breed of workers will outperform. Companies that create a Chinese culture by training their workers and promoting from within, rather than bringing in managers from home, will be able to attract and retain the best employees.

2. Growth will be the fastest in the interior as economic development evens out

Shanghai's per capita income is over eight times the per capita income of China's poorest province, and more than three and a half times that of all but a handful of the country's other provinces. By comparison, the per capita income of Connecticut, the wealthiest of America's 50 states, is less than twice that of the poorest.

Traffic is also becoming a problem in China's largest cities. Beijing officials estimate that if the vehicle population continues to increase at the same rate,

the average speed will slow to 15 miles per hour in China's capital city by 2015. With the large and coastal cities near their choking points, the inner provinces are where growth will be the fastest going forward. The government is encouraging this trend, and many companies are establishing manufacturing facilities in the interior where language and culture are even more "Chinese" than in the major cities. To take advantage of this future growth, companies will also have to become more Chinese.

3. Local companies are gaining market share

In industry after industry, local companies are gaining market share at the expense of their international rivals. China is the largest truck market in the world. Yet, 98 per cent of the trucks used in the country, and 90 per cent of the diesel engines that power them, are produced by local companies. From virtually zero when passenger cars were first introduced, local brands now account for 33 per cent of the cars being sold in China.

In construction equipment, local companies dominate the wheel loader market and have one-third of the market for excavators. Even the newest industries are increasingly being dominated by local companies. In wind turbines, local companies account for 80 per cent of the market, up from 13 per cent in 2004. And the list goes on.

In the future, a company's competitors and customers in China will increasingly be Chinese firms. By becoming more Chinese themselves, international companies will be in a better position to compete in this new environment.

As difficult as it might be, localising a company's management and strategy is an important step that international companies must ultimately take in order to ensure long-term success in China. This has always been the case, but actually doing so is now taking on an even greater sense of urgency. ■

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