



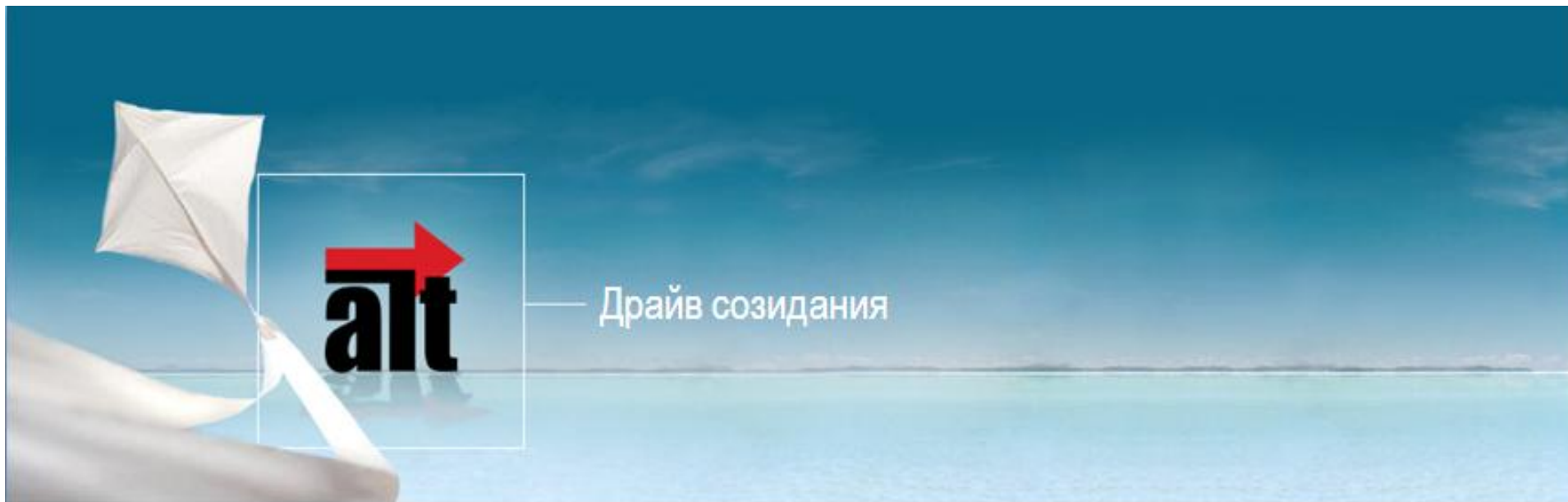
Драйв созидания

Бизнес-встреча: «Как делать бизнес в Китае»



Global Intelligence Alliance

Исследовательско-консультационная фирма «АЛТ»

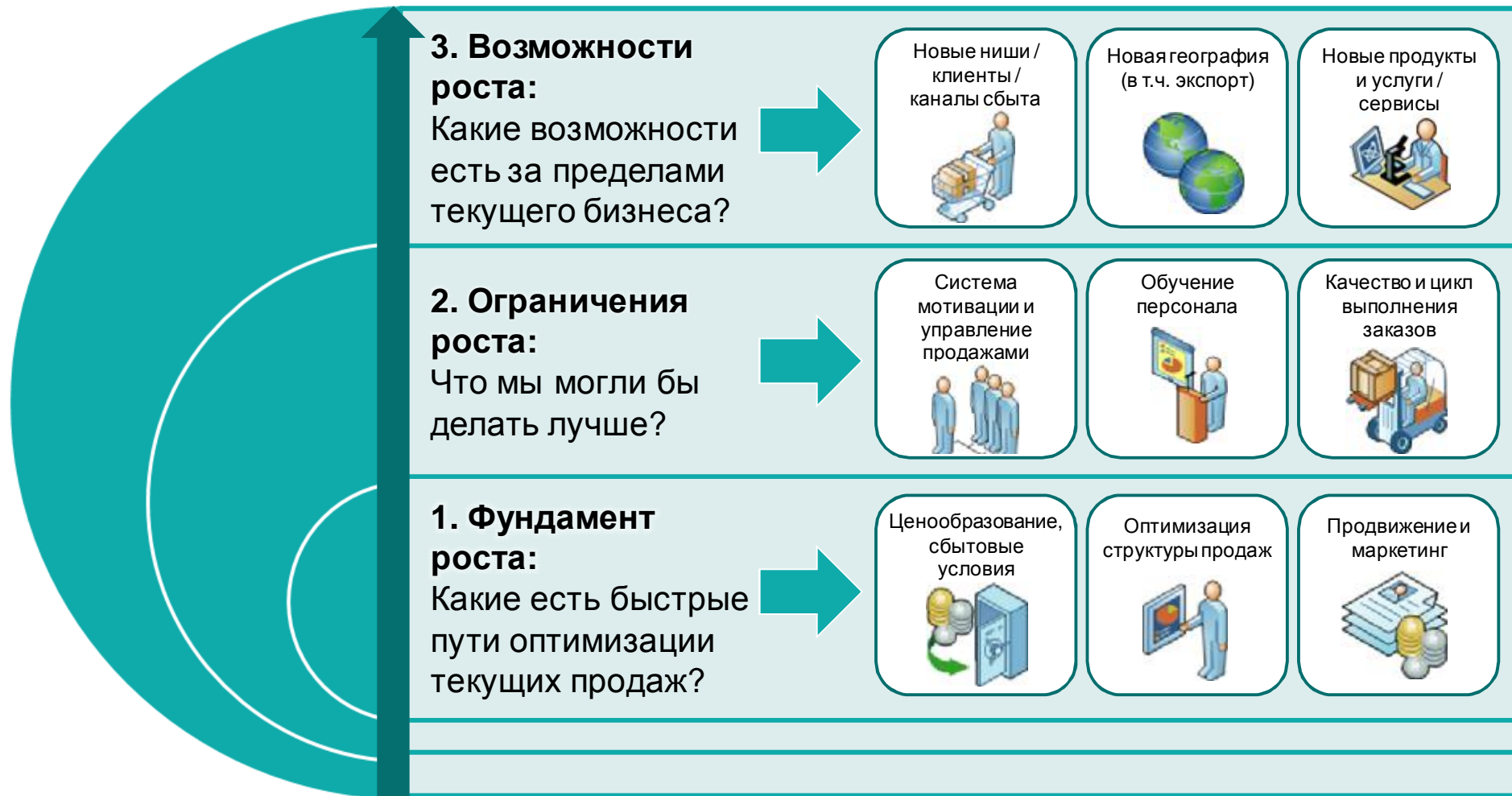


Презентация компании «АЛЪТ»

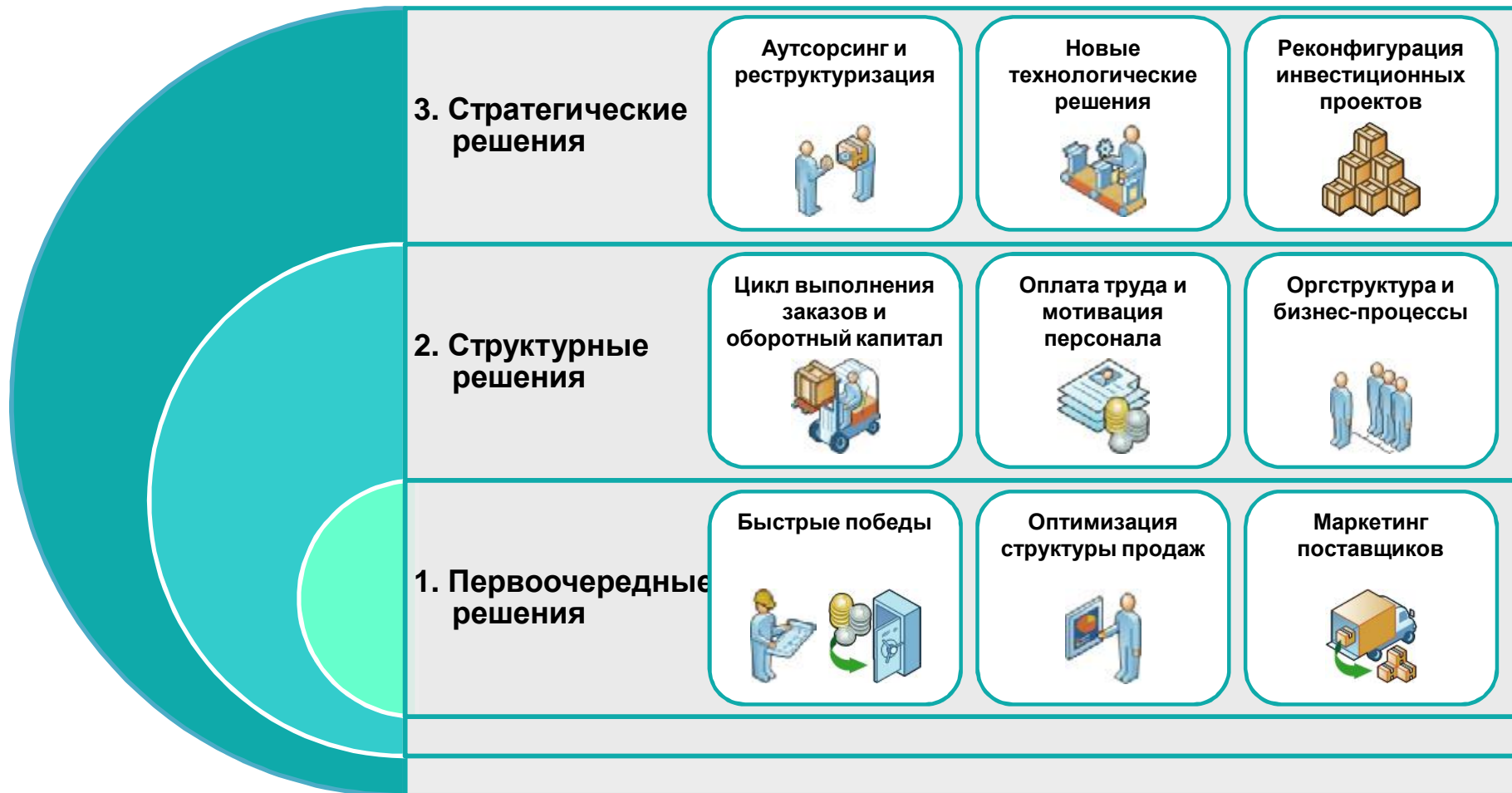
СТРАТЕГИЧЕСКИЙ АНАЛИЗ И КОНСАЛТИНГ



Продажи⁺™: как раскрыть потенциал роста



Затраты (-)™: как повысить эффективность бизнеса

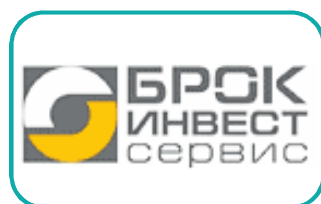


DIY-STRATEGY: как создать вдохновляющую стратегию

Каждый этап работ специалистов компании заканчивается в четко оговоренные сроки презентацией результатов и обсуждением на стратегической сессии



Мы выполнили более 300 комплексных проектов. Ключевые клиенты



КОНСАЛТИНГ, НАЦЕЛЕННЫЙ НА РЕЗУЛЬТАТ

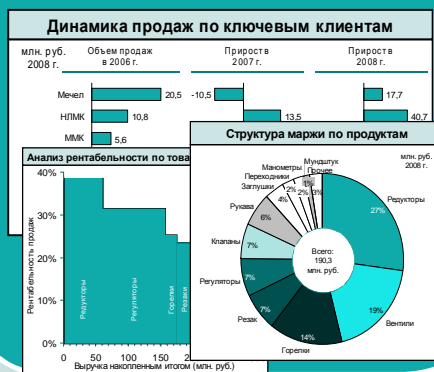
DIY-ТЕХНОЛОГИЯ

ВОПРОСЫ ДЛЯ ПРОРАБОТКИ УЧАСТНИКАМИ РАБОЧЕЙ ГРУППЫ	Ответственный	06-10 июля	13-17 июля
Развитие рынка фитнес-услуг	Чайкина	До 09.07	
Прогноз продаж локеров в розничные сети	Чайкина		До 17.07
Прогноз продаж локеров на спортивные объекты	Чайкина		

ПЛАН-ГРАФИК ВСТРЕЧ С РАБОЧЕЙ ГРУППОЙ	1 неделя				2 неделя			5.07
	Пн	Вт	Ср	Чт	Пн	Вт	...	
Индивидуальные встречи с участниками рабочей группы								
Встреча рабочей группы								
Удаленная методическая поддержка участников рабочей группы								
Экспертиза материалов, наработанных участниками рабочей группы								

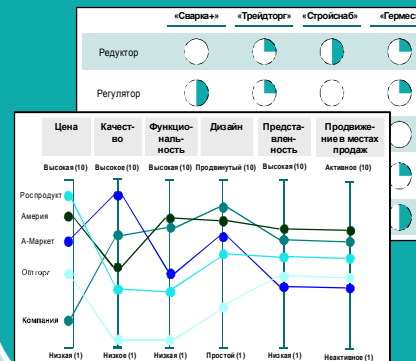
Наша авторская методика работы с командой даст Вам возможность задействовать опыт и знания команды и обеспечить её заряд на результат

ТЕХНОЛОГИИ АНАЛИЗА



Наши навыки структурирования и обобщения, накопленные в рамках 300 выполненных проектов, помогут Вам по-новому взглянуть на ситуацию

МЕЖДУНАРОДНАЯ ЭКСПЕРТИЗА



Наша экспертиза в бенчмаркинге и сеть зарубежных партнеров позволит Вам изучить конкурентов и лучшие мировые практики, а также станет источником новых идей для роста

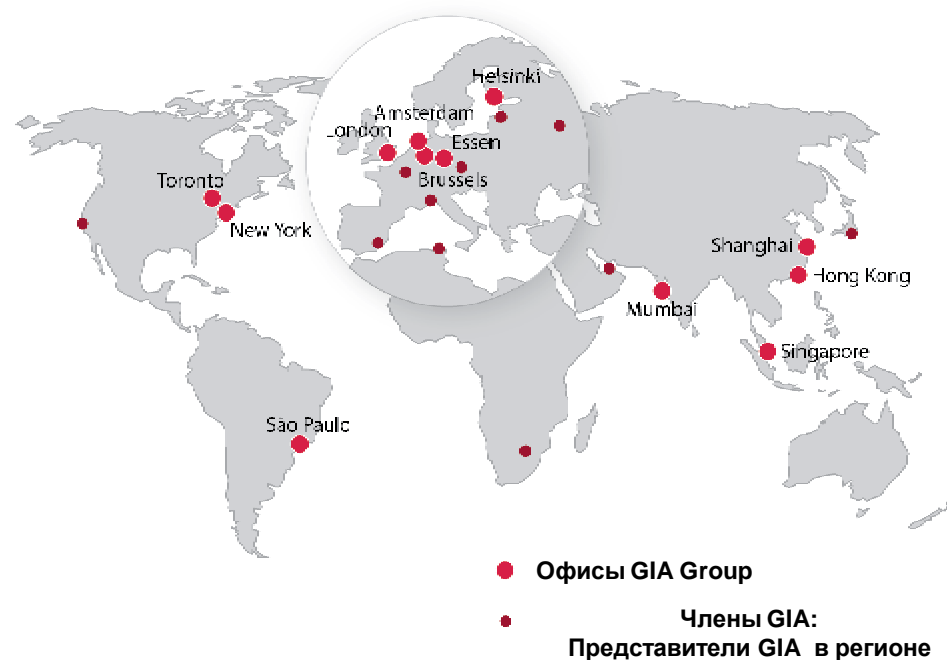
Global Intelligence Alliance



Получите доступ к локальной экспертизе в более чем 100 странах мира

GIA Group имеет 12 офисов на 4 континентах. С учетом ассоциированных членов и сертифицированных исследовательских партнеров, GIA предоставляет доступ к локальной экспертизе в более чем 100 странах мира.

Все компании, входящие в сеть GIA, придерживаются как Системы Качества Исследований и Анализа GIA (GIA Research and Analysis Quality System), так и Этического Кодекса SCIP.



Мы понимаем Ваш бизнес

Благодаря опыту выполненных проектов для тысяч клиентов по всему миру, мы располагаем как практической экспертизой на Вашем рынке, так и знанием из наших других практик, охватывающих 11 отраслей и все ключевые бизнес-функции.

Примеры кросс-влияния отраслевых практик



Отраслевая практика

Автомобилестроение
Химия
Строительство и девелопмент
Потребительские товары и ритейл
Энергетика, ресурсы и окружающая среда
Финансовые услуги
Private Equity
Логистика и транспорт
Промышленное производство
Фармацевтика и медицина
Телекоммуникации, технологии и СМИ

Функциональная практика

Маркетинговые исследования (МИ) мирового уровня
МИ для стратегического планирования
МИ для маркетинга и продаж
МИ для продукт-менеджмента и управления инновациями
МИ для управления цепочками поставок
M&A и партнерства

GIА стала надежным бизнес-партнером для многих международных компаний, ориентированных на рост

Автомобилестроение



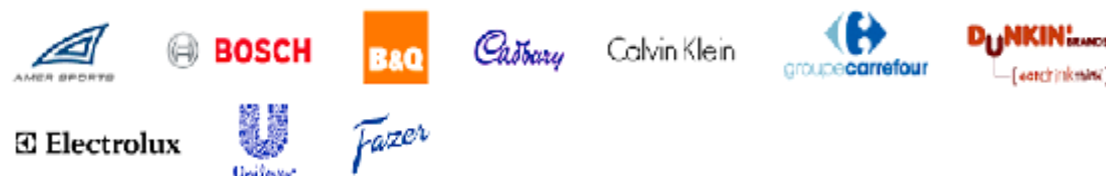
Химия



Строительство и девелопмент



Потребительские товары и ритейл



Энергетика, ресурсы и окружающая среда



Финансовые услуги



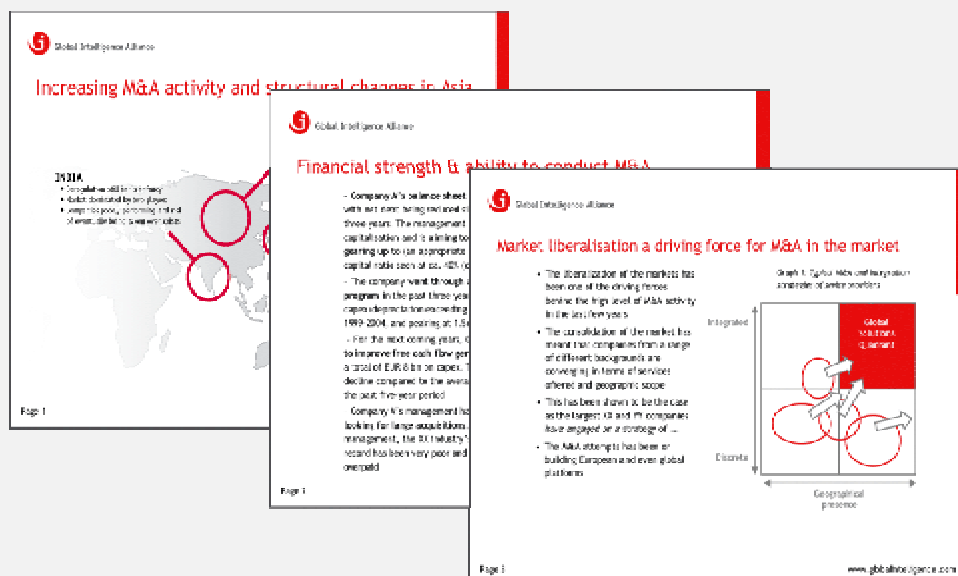
GIА стала надежным бизнес-партнером для многих международных компаний, ориентированных на рост

Private Equity									
Логистика и транспорт									
Промышленное производство									
									
Фармацевтика и медицина									
Телекоммуникации, технологии, медиа									
									

Станьте нашим партнером, чтобы конкурировать и расти на международных рынках



Intelligence Strategic Analysis and Benchmarking



В качестве Вашего партнера мы можем помочь Вам в решении следующих задач:

- Анализ конкурентного окружения
- Анализ привлекательности рынка
- Оценка емкости рынка, сегментация и прогноз спроса
- Глубинный анализ конкурентов
- Составление перечня и оценка объектов для M&A

МОНИТОРИНГ РЫНОЧНОЙ ИНФОРМАЦИИ, РЕГУЛЯРНО ПРЕДОСТАВЛЯЕМЫЙ ЛИЦАМ, ПРИНИМАЮЩИМ РЕШЕНИЯ, В КАСТОМИЗИРОВАННОМ ПРОГРАММНОМ ОБЕСПЕЧЕНИИ



Ранние предупреждающие сигналы и информация о возможностях по широкому спектру тем:

- Новости, бюллетени и комментарии
- Мониторинг, включая отслеживание новостей на местном языке
- Мониторинг тендеров и косвенных намеков на возможные продажи
- Мониторинг M&A
- Профили стран, компаний, продуктов и поставщиков
- Мониторинг отчетов и многое другое...

Ключевые преимущества использования Intelligence Desk™ для наших клиентов:

- Значительная экономия времени на поиск релевантной бизнес-информации
- Больше времени для того, чтобы сконцентрироваться на принятии решений, благодаря увеличению доли полезной информации в общем потоке
- Сокращение издержек от излишней информации – благодаря использованию единого инструмента для хранения и распространения всей бизнес-информации, созданной как внутри Компании, так и вне её, что позволяет избежать дублирования контента и процессов
- Постоянный доступ к глобальной best practice при развитии корпоративных маркетинговых исследований



ISV/Software Solutions



СОВРЕМЕННОЕ ПРОГРАММНОЕ ОБЕСПЕЧЕНИЕ ДЛЯ УПРАВЛЕНИЯ МАРКЕТИНГОВОЙ ИНФОРМАЦИЕЙ И КОНТРОЛЯ НАД ВСЕМ ПРОЦЕССОМ ИССЛЕДОВАНИЯ РЫНКОВ

Веб-интерфейс с функциями совместной работы, поиска и e-mail оповещения –

Повысьте значимость маркетингового анализа для всех функций компании, начав использовать наше программное обеспечение с дружелюбным интерфейсом, которое поможет лицам, принимающим решения, быть осведомленными на должном уровне и действовать в соответствии с изменениями рынка.

Intelligence Plaza™ - это маркетинговое программное обеспечение на основе веб-интерфейса с легкими в использовании функциями совместной работы, поиска и e-mail оповещения.



Business Opportunities in Greater China

Nicolas Pechet

Nicolas.pechet@globalintelligence.com

GIA Group, Shanghai



Market characteristics in China

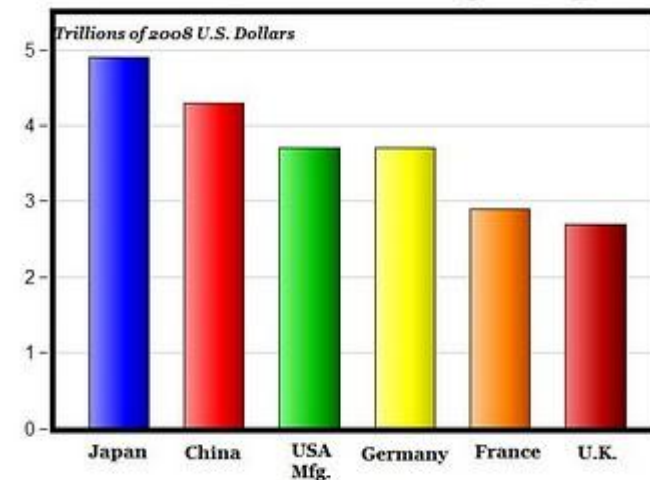
China fast facts



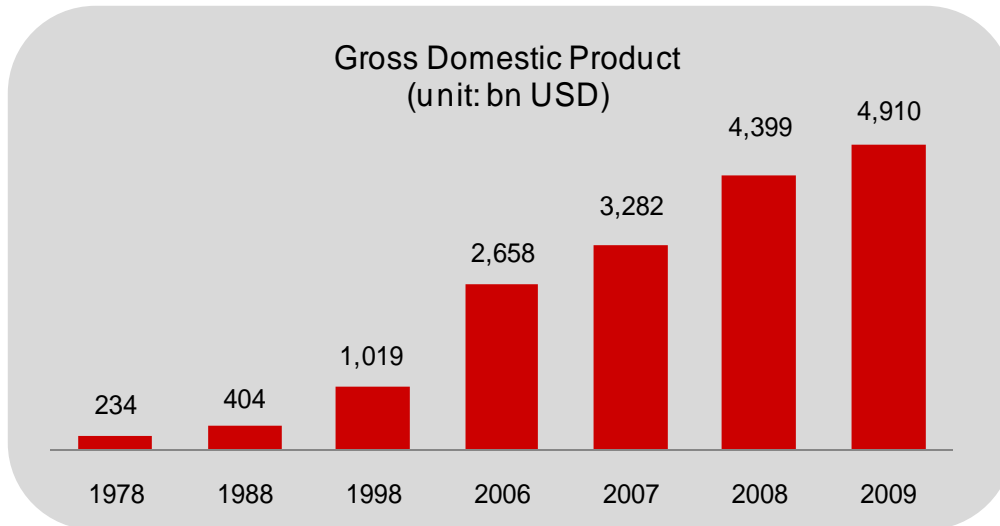
Total Population: 1.32 billion

- Largest city?
 - Chongqing – 28
 - Shanghai – 18.6
 - Beijing – 16.3
 - Guangzhou – 10.2
-
- 120 cities with population over 1 million
 - 32 provinces, 5 of which have a population over 100 million
 - Total urban population: 540 million (total population 1.32 billion)
 - 3rd largest country in the world
 - China has more English speakers than any other country
 - 2nd largest manufacturer in the world
 - 450,000 millionaires (ranked 1st in the world)

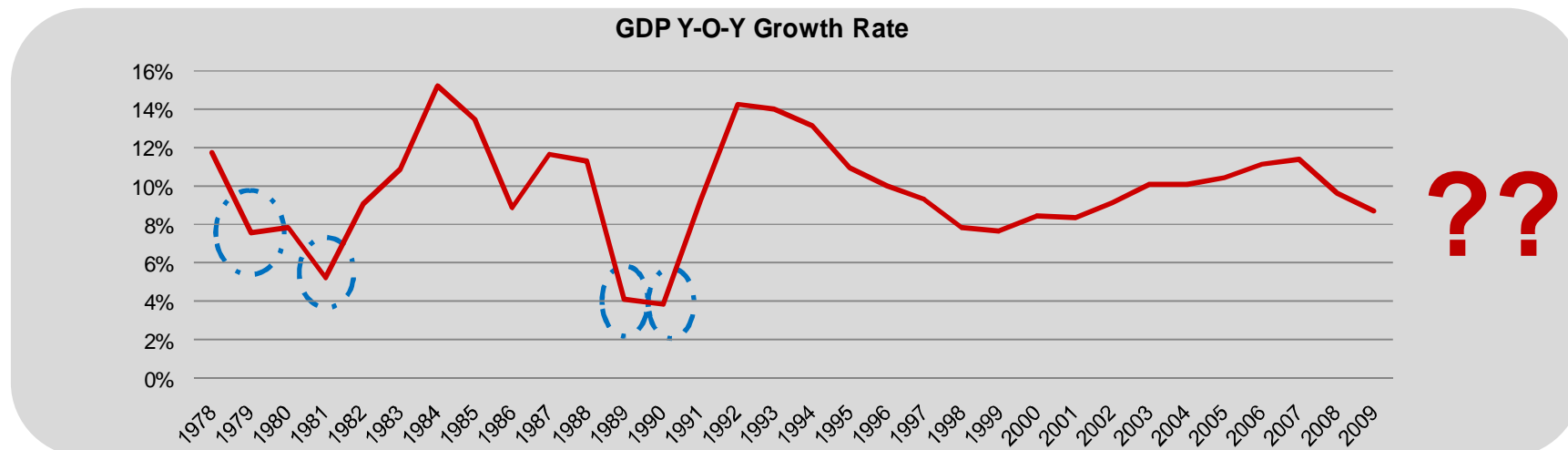
GDP of Top 5 Countries (2008) vs. U.S. Manufacturing Output



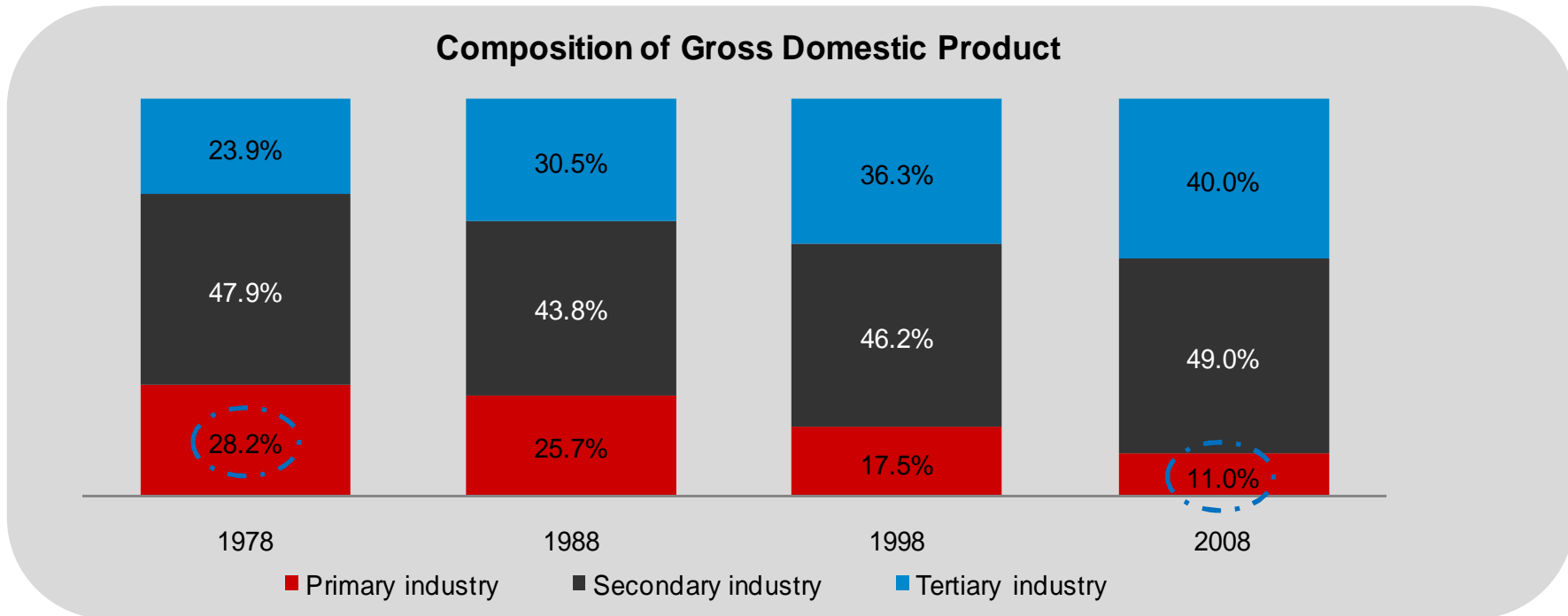
Strong GDP growth



- China achieved USD 4,910 bn in 2009, and in 2010 became 2nd largest economy following US
- In the past 30 years, Chinese economy has remained high growth rate. Even in the global economic downturn, China has struggled to achieve 9.6% and 8% annual growth in 2008 and 2009, much faster than other developed countries



China is under transition: from an agricultural into manufacturing and service economy



- **Primary industry has shrunk significantly in the past 30 years.** Major businesses in the primary industry includes agriculture, agribusiness, fishing, forestry and all mining and quarrying industries
- Second industry, including construction and manufacturing, is the largest sector in China
- **Tertiary industry, enjoys the fastest growth.** Chinese government highly encourage the development of tertiary industry as it helps create employment. According to the government plan, by the end of 2020, half of the **total GDP** will be in the tertiary industry.

Continued influx of foreign investments

**BUT OPPORTUNITIES ARE TREMENDOUS FOR
MEDIUM SIZE COMPANIES AS WELL!!**

China regional overview



China is often divided into 4 regions

Whole country includes:

- 4 municipalities directly under central gov't administration: Shanghai, Beijing, Tianjin and Chongqing
- 32 provinces
- 5 autonomous regions
- 2 special administrative regions: Macao and Hong Kong

China's Eastern Region

Most developed and prosperous region in China and all **3** main economic zones are located in this region

Eastern region makes up 10% of the country's size but home to **30%** of total population, and generates **55%** of the country's GDP.

Bohai Rim (around Beijing)

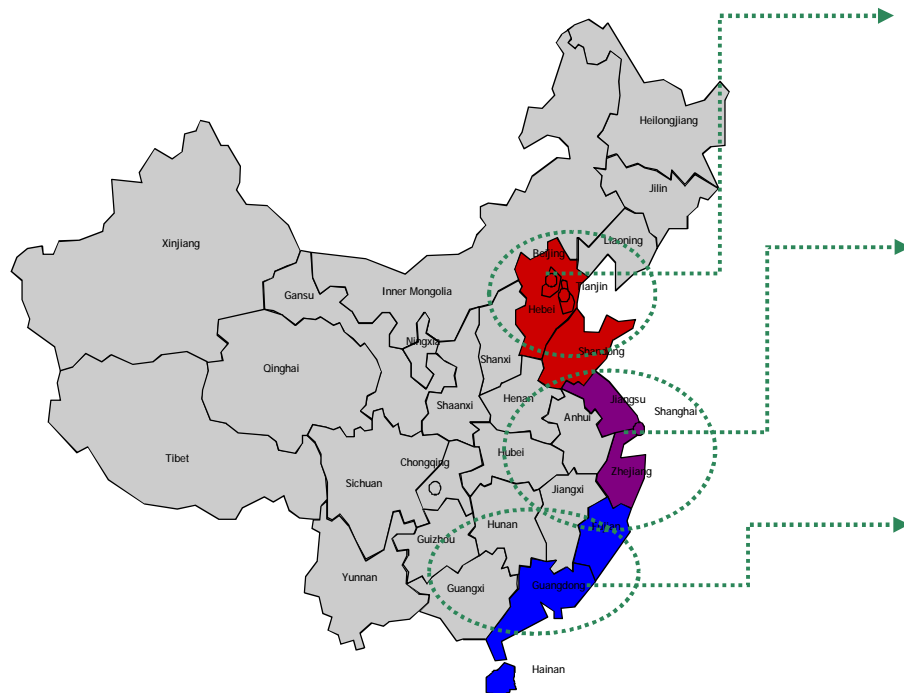
- Strong in aviation, logistics and shipping
- Significant growth cluster for automobile, electronics, petrochemical sectors.

Yangtze River Delta

- Largest and most sophisticated consumer market
- Strong in services (e.g., software development, financial services) and light industry (e.g., textile and footwear)

Pearl River Delta

- World leader in production of electronic and electrical products and components, textile and other light products
- Seek industry upgrade from labor-intensive to more hi-tech industries of telecom, equipment manufacturing, auto and petrochemicals.



Average GDP per capita of 3 areas is US\$5,213

China's Northeast Region

Economic region under development



- China's heavy industrial center
- Government launched “Northeast Region Revitalization Policy” in 2003, with 10-15 year goal of developing the region into center of equipment manufacturing, new materials and new energy manufacturing, agricultural products production.

Main industries

- Steel, energy, automotive, shipbuilding, airplane manufacturing and military equipment manufacturing
- Important production base of agriculture, forestry and livestock-breeding.

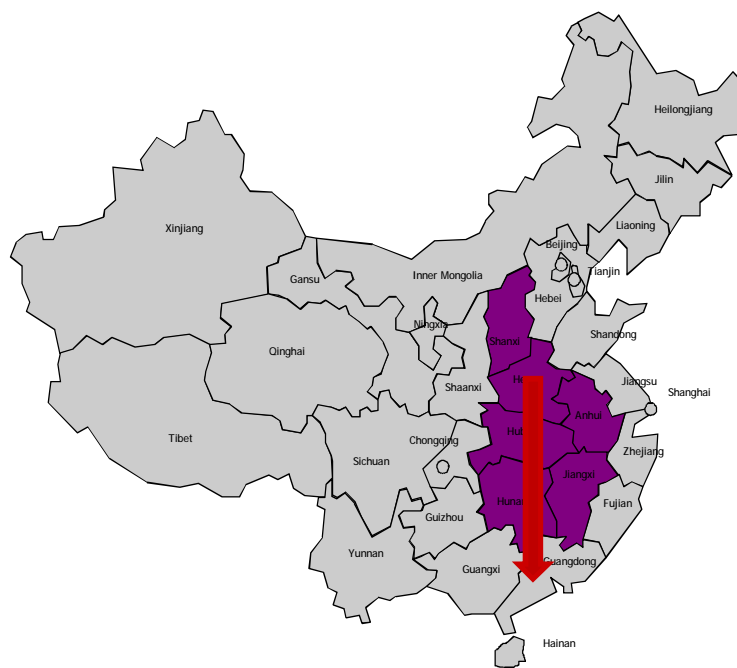
Future opportunities

- China's window to the Northeast Asia (Russia, the two Koreas and Mongolia)
 - Extension of the Bohai Rim
- Rich natural resources and relatively cheap labor and land cost.

Average GDP per capita of the region is US\$ 2,788

China's Central Region

Heart of China, between booming Eastern China and less developed Western regions



- Compared to other regions, Central China drew much less attention before 2006
- Government issued “Rise of Center China plan” in 2006
- Wuhan is most important city in Central China and acts as the economic and transportation center .

Main industries

- Agriculture, mining and raw materials.

Future opportunities

- Extension of Eastern China
- The newly built high-speed railway has successfully narrowed the distance between Wuhan and Guangzhou from 12 hours to 3 hours.

Average GDP per capita of the region is US\$ 1,936

China's Western Region

- Makes up 70% of the country's size but home to only 27% of population and generates around 14% of total GDP

Least developed region



- Sichuan province is the largest in terms of population
- Government launched “Go to West” policy in 1999 and key strategies include the development of infrastructure (transport, hydropower plants, energy, and telecommunications), attracting foreign investment and talents by offering preferential policy, and promoting education.

Main industries

- Automobile and motorcycle manufacturing, mining, energy and tourism
- Important base of agriculture and livestock breeding.

Future opportunities

- Rich land resources
- Attracting a lot of PE investment
- Local government offer preferential policy to attract foreign investment.

Average GDP per capita of the region is US\$ 1,734

Understanding the Chinese consumer

The world's most intriguing consumer market ...

- China offers today the **world's most rapidly growing** and one of the most attractive **consumer markets**.
- Although only accounting for approximately **4% of global retail sales**, China accounts for approximately **20% of global growth**.
- **Consumer spending** accounts for ~70% of U.S. GDP, 60% of Indian GDP but only ~35% of the Chinese GDP in 2007.



Chinese consumers are in transition



Past

Confucius Values

Communism

Closed economy

Current and future

Chinese Consumers

- Sophisticated
- Segmented
- Heterogeneous

Blend of Chinese and Western values

Thirst for Western lifestyles and luxuries

Economically minded and driven



What the Chinese consumers are buying

1970's

1980's

Since 1990's



RMB100 each



RMB1000 each

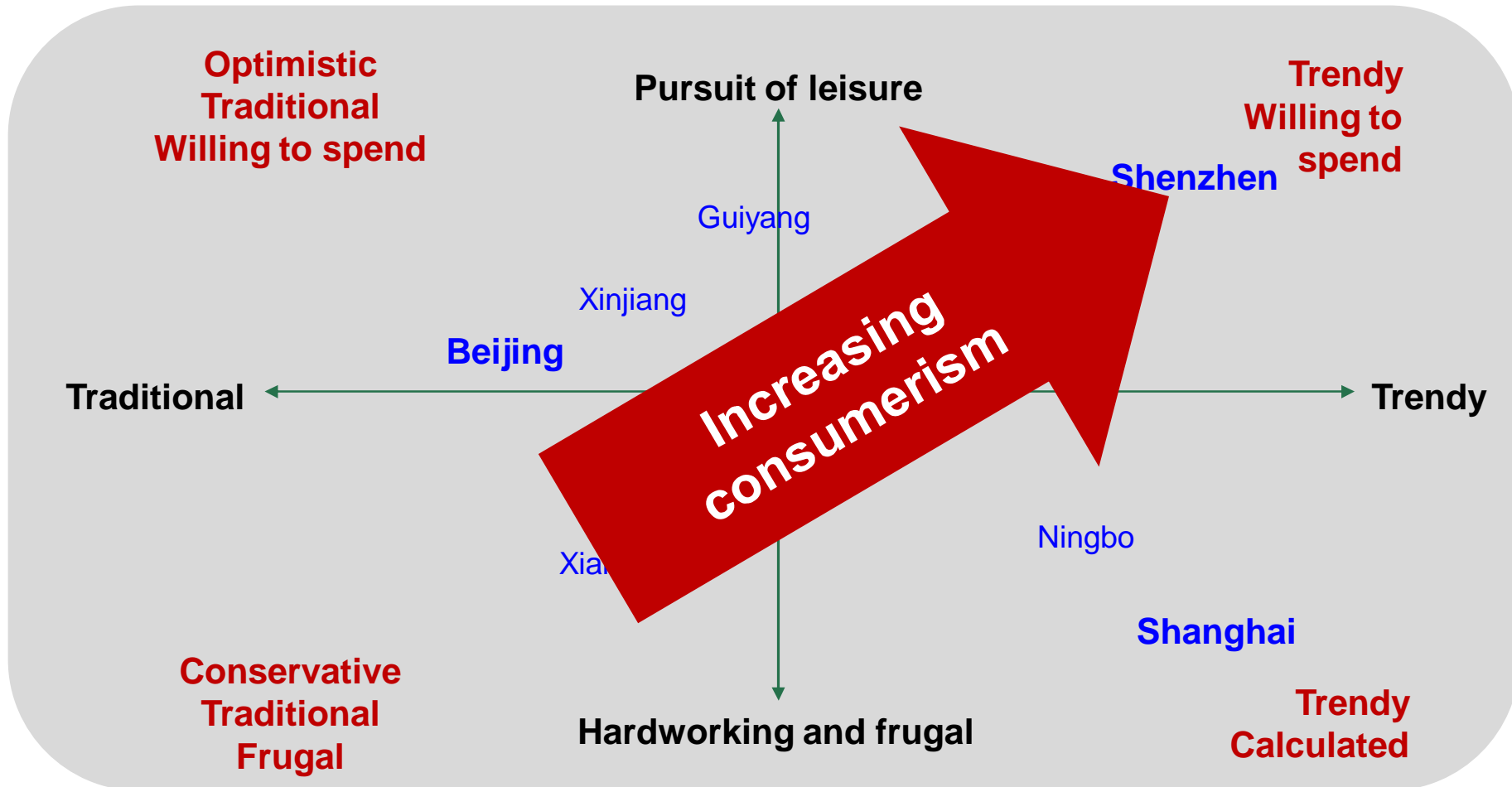


RMB10,000+++
each

China is a vast country with many “markets”

- **Big differences** among consumers in different regions because
 - Economic factors
 - Income level
 - Level of local economic development
 - Non-economic factors
 - Culture
 - Climate
 - Custom
 - Psychology
 - Government policies

Not all Chinese consumers are alike



Shanghai people

- “Paris of the far east”
 - Fashionable
 - Westernized
 - Brand conscious
 - Face conscious
- Sophisticated and progressive thinking



Beijing people

- Politically and culturally conscious
- Influenced by Confucius teaching, emphasis on home and family
- Patriotic – very proud of Chinese culture and skeptical about western culture
 - Concerned about the environment
- Optimistic and humorous



Guangzhou people

- Influenced by Hong Kong
 - Career-minded
 - Materialistic
 - Pragmatic
- Westernized corporate culture



Chinese cities are at different economic development levels

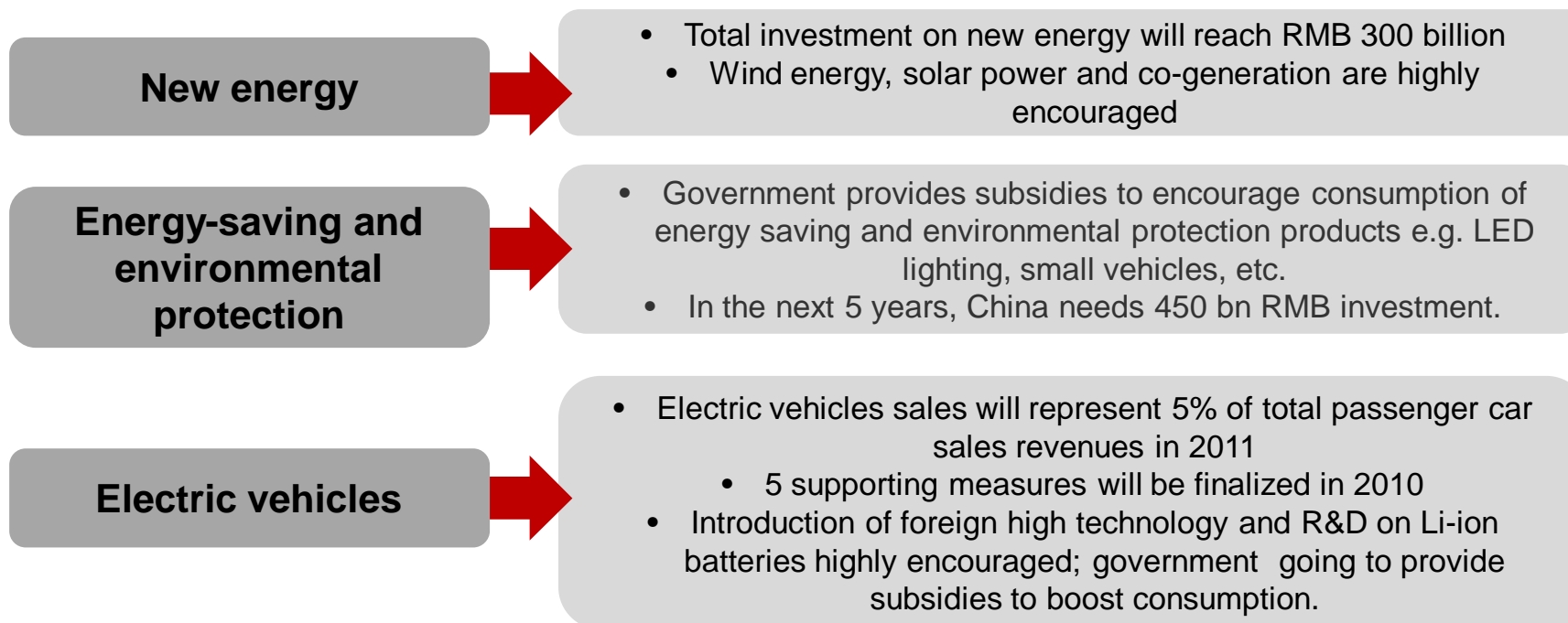
Monthly household income

(EUR)	1 st tier	2 nd tier	3 rd tier	4 th tier	5 th tier
Less than 42	Avg GDP per capita of EUR 4,378				
42-62					
63-83					
84-104					
105-156					
157-208					
209-312					
313-521					
522 or more					

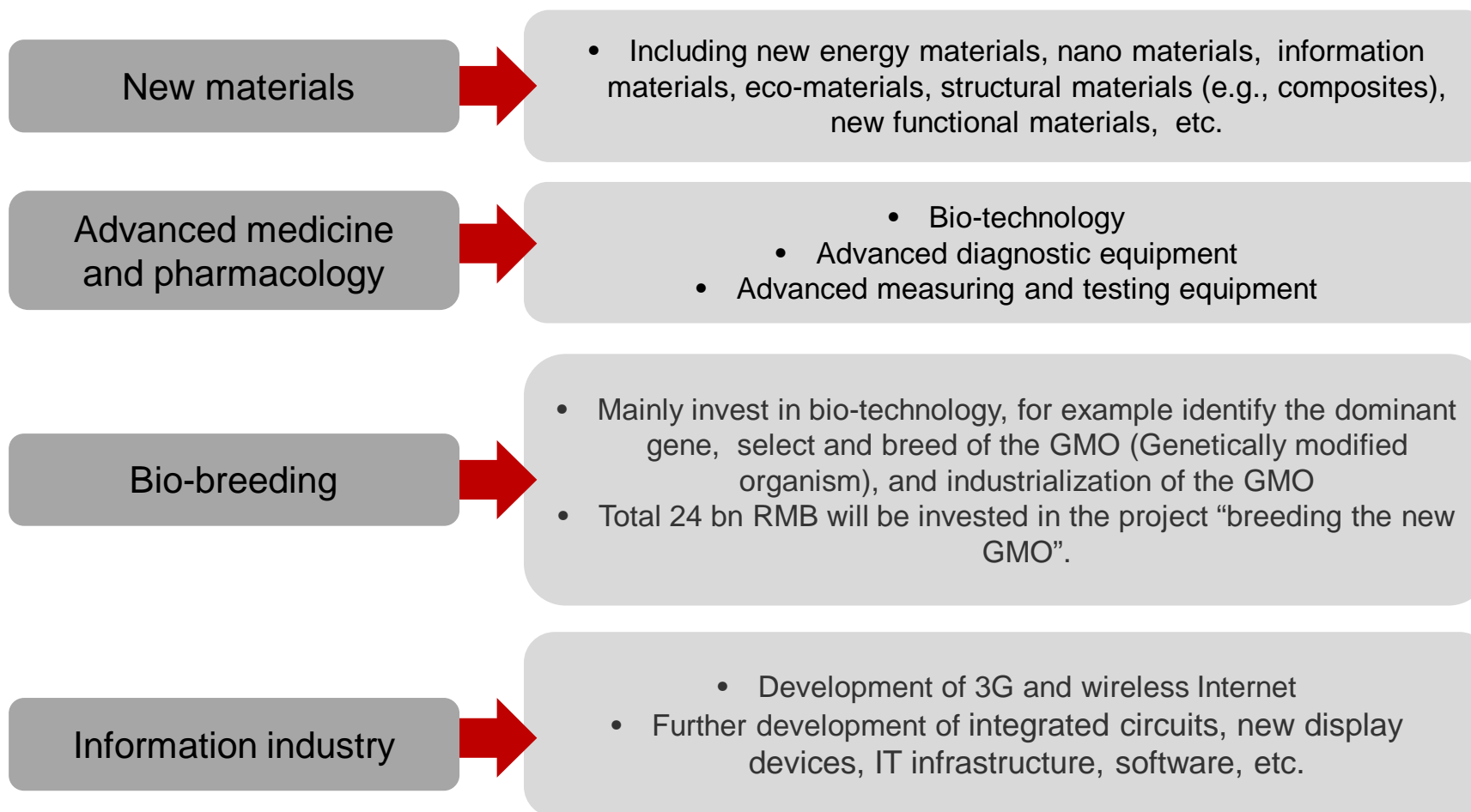
Business Opportunities in Selected Industries in China

Seven emerging industries bring new business opportunities for foreign investment

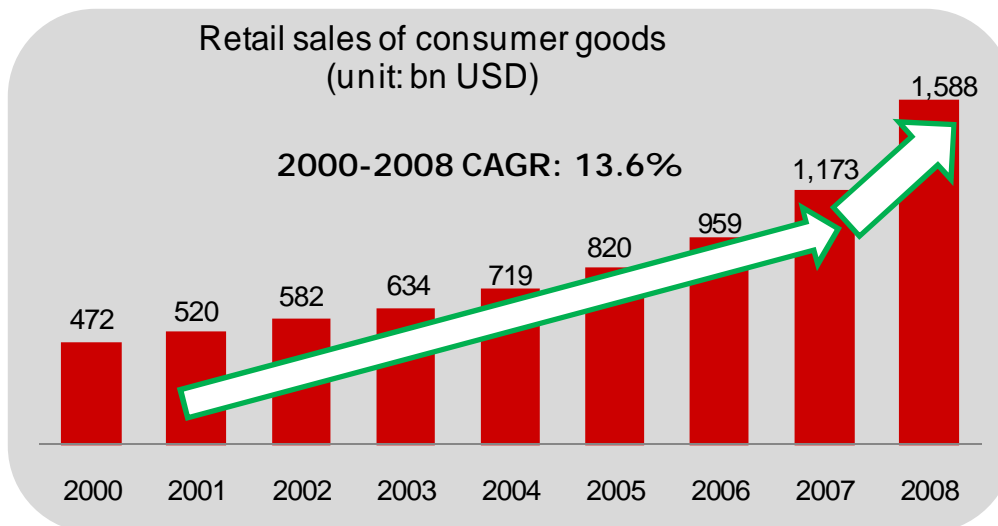
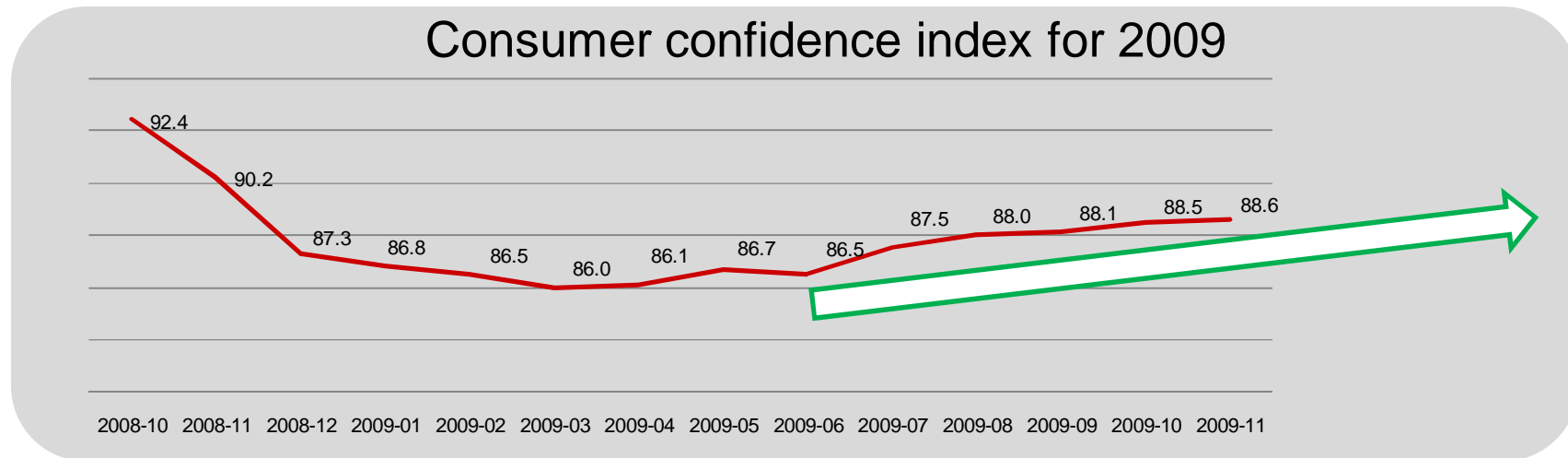
- Central government announced special support for **7 high-tech industries** in Dec. 2009, which will involve favorable economic policies followed by the **EUR 300 billion government investment**.
 - Among the 7 emerging industries, the 3 below were on gov't priority list
- Besides encouraging independent innovation, attracting foreign investment is the other key solution to achieve the goal.



Seven emerging industries bring new business opportunities for foreign investment (cont'd)



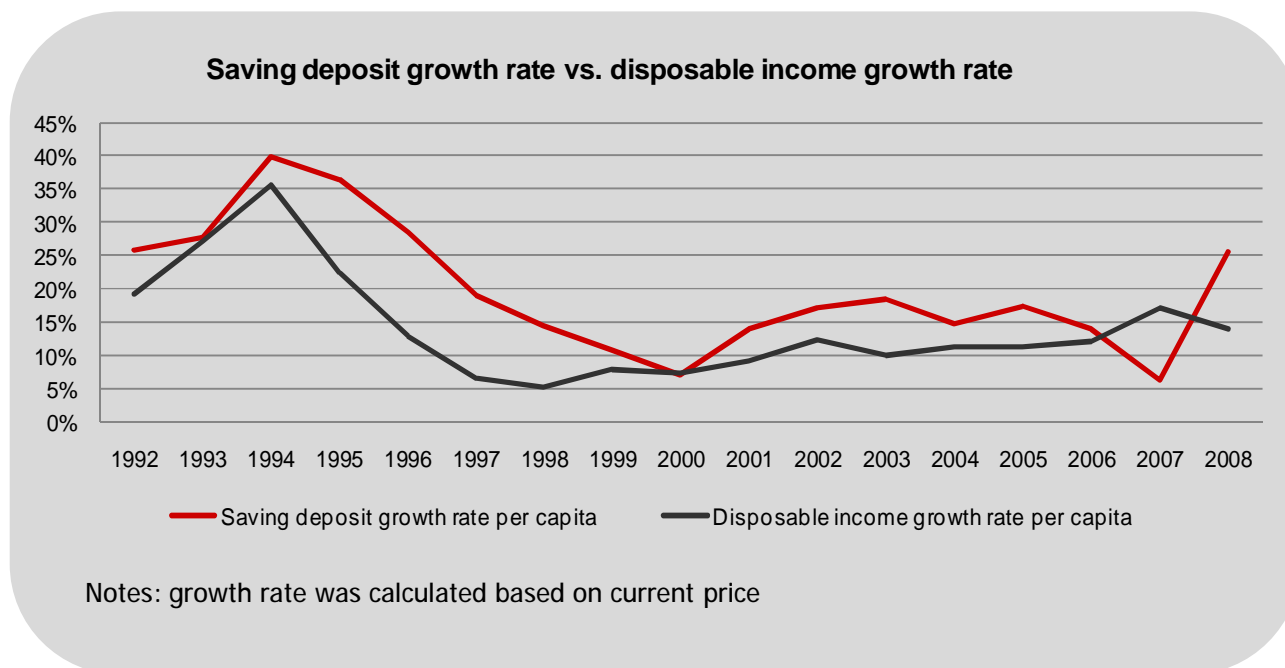
Accelerating retail sales growth in recent years



- Retail sales:
- 13.6% CAGR over '00 to '08
- 21.6% 2008 vs. 2007
- **23.2% 2008 vs. 2009**

However, China's saving rate remains the highest in the world

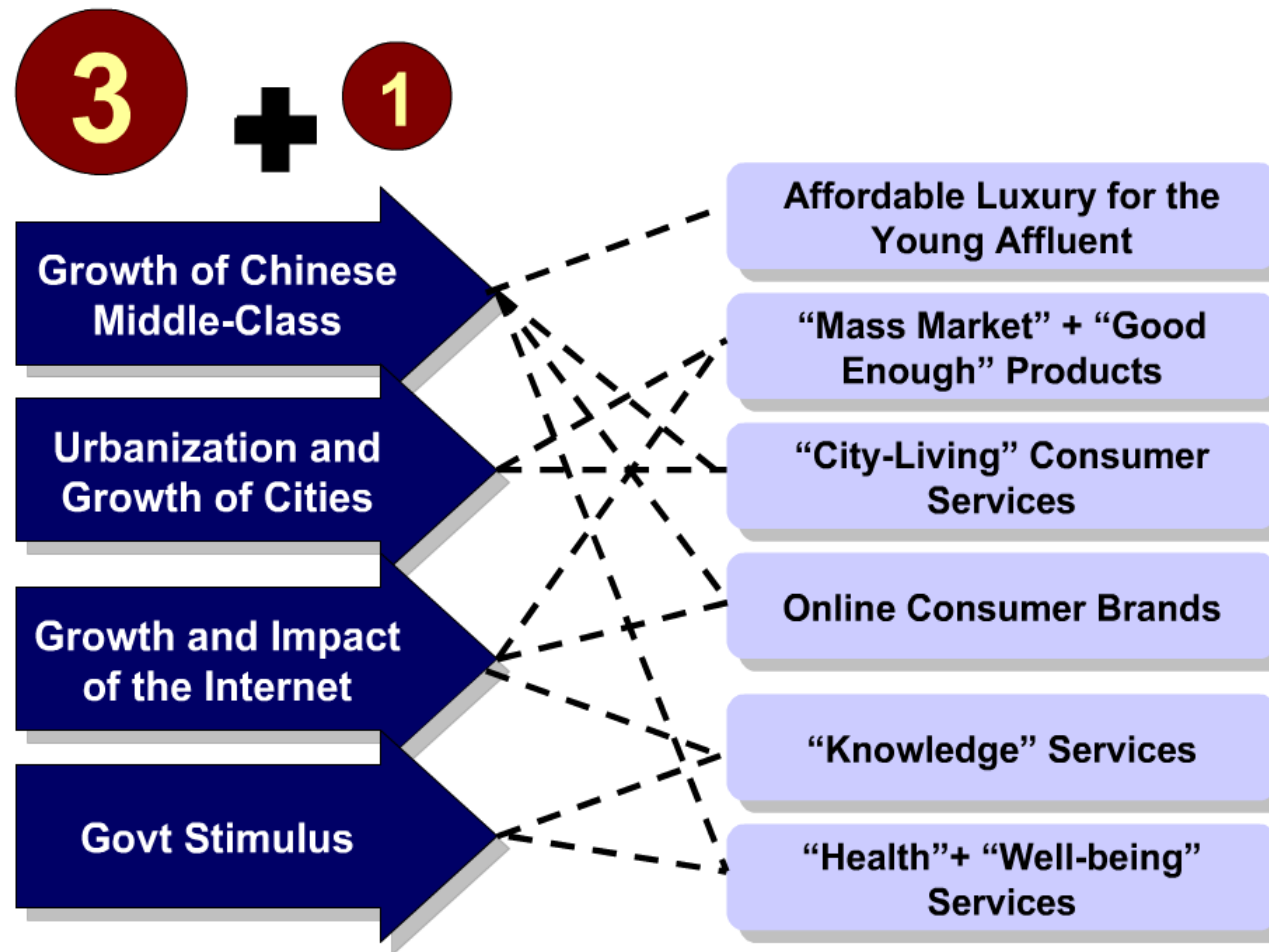
- Chinese household saving deposits was ~72% of GDP at end of 2008
- And growth rates of savings since 1992 is almost always higher than growth rates of disposable income



Several factors may contribute to the high saving rate in China

- Less developed social insurance program make people save for retirement
- Saving for housing, education, medical care and other big expenses
- Saving for kids
- Less developed financial markets

Tapping into some other key mega trends



Auto industry in 2009

a) USA > Japan > China > Germany

b) USA > China > Japan > Germany

c) China > Japan > USA > Germany

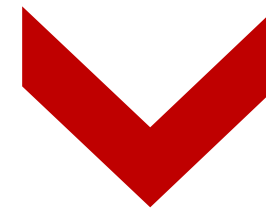
d) USA > Japan > Germany > China

China is now the world's largest auto market, with auto consumption in 2009 rising 48% over 2008

**Auto
penetration in
China in 2008
was 7.2 per
100 urban
households
vs. USA's 75!!**

In 2009, China surpassed US to become the largest passenger car consumption country

Total consumption of passenger cars hit 13.79 mn units in 2009



5.7 mn units in the US in 2009

**Though
12.62 mn units in the US in 2008**

Other hot items

- **International travel**

- As many as **100 million** Chinese mainland citizens are expected to travel overseas in 2010 according to the World Tourism Organization
- Chinese tourists are the biggest shoppers, as one-third of their tourism spending went to **shopping**.

- **Luxury items**

- Chinese consumers now spend US\$4.2 billion on **luxury goods** including fine jewelry, expensive watches, luxury sedans and other luxury goods that's **>12% of global sales**
- **China is the world's third-largest consumer of luxury goods**, next only to Japan and the United States
- Sales of luxury goods will exceed US\$11.5 billion or **29% of the world's total by 2015.**

Market entry strategies & key success factors

?

8 Critical Factors for a successful China Strategy

1. Determine China's value for your business
2. Asses the real 'relevant' market
3. Accept a paradigm shift : Volume versus Value
4. Choose the right legal framework
5. The power of dual strategies: Back-up plan !
6. The power of converging info: No 'WYSWYG'
7. Getting the right people for the job
8. Change is the only constant



1. China's Value for my business?



What is the ultimate value expectation ?

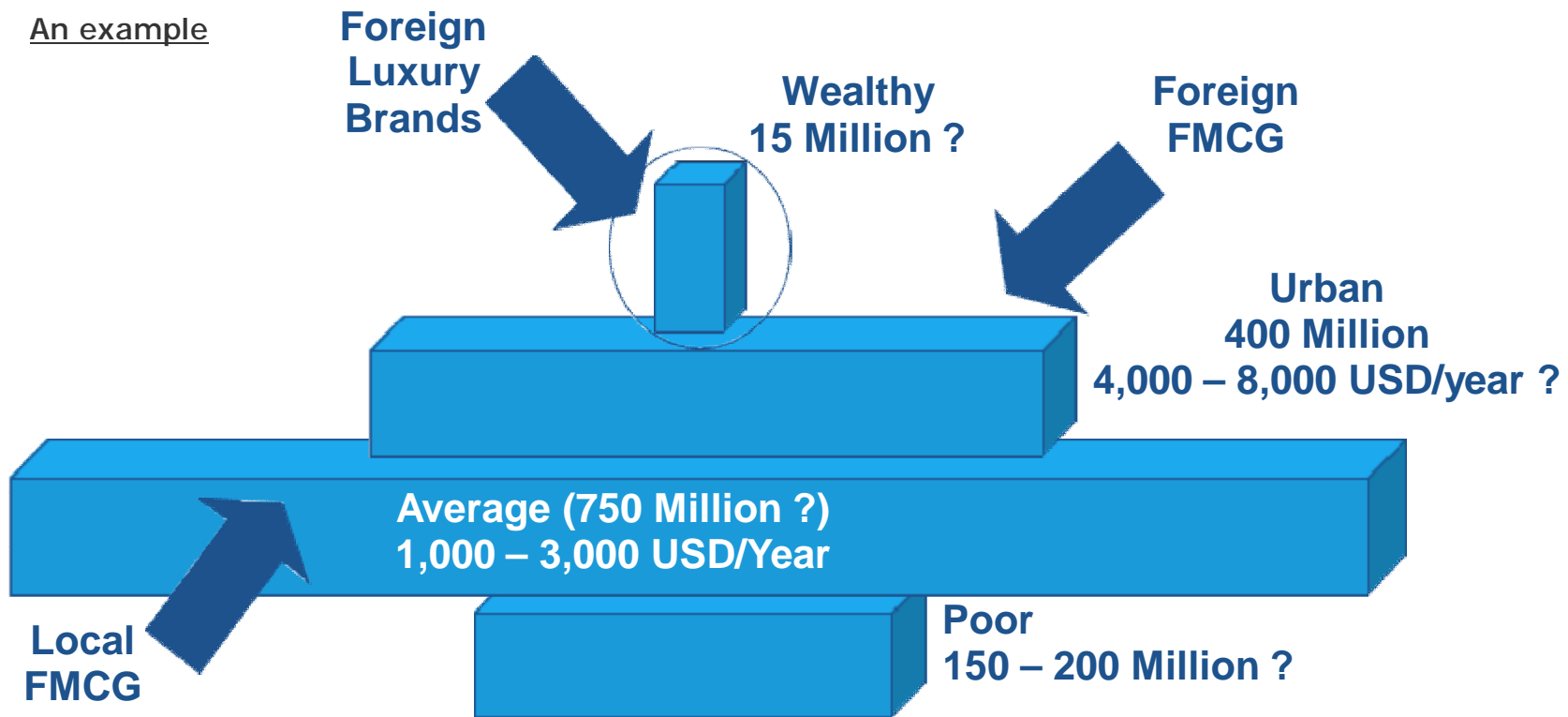
- Technology breeding & sensing ?
- International cost optimization, off-shoring
 - Outsourcing ?
 - Market expansion ?
- China market or export ?

What is the unique value proposition of China for your business ?
Align your headquarter and local resources around the same objectives !

2. Assess China's Relevant Market

- Is your market China, Asia, World ?
- In China : first or second tier ?
- Do I need to be present in China or Shanghai, Beijing, ... ?
- Where do you position your products and solutions ?
- How accessible is this market ?
- Assess the "hidden" competition !

An example



3. Accept a Paradigm Shift : Volume versus Value

“Reset” your brain and beliefs of “what works”

- The Western ‘Value’ approach - focusing on margin optimization – needs re-thinking in China where ‘Volume’ drives profitability
- Unexpected Competition can arise in the speed of light, substantially expanding the market’s supply capacity and driving down prices (Capacity Trap !)
- Local entrepreneurial players deal with ‘pricing’ from a “cash in the bank” perspective rather than EBIT ratios

4. The Right Legal Framework

Get solid legal advice on all contractual obligations and business structures

- Dealer contracts
- Business licenses
- Tax (New Enterprise Income Tax Law)
- Labor contracts (New Labor Contract Law)
 - Property rights

Rep office, WOFE or JV ? Understand clearly the impact on cost/benefits and scope of business activities

5. The Power of Dual Strategies

- Non – exclusivity (product versus geography)
 - Private label versus brand
 - Dealer and direct
- Direct representation to 'support' the distribution network



Remain **flexible**
Have back-up plans
Retain insights and control of markets

6. The Power of Converging Info

“WysWyg” – What You See is not necessarily What You Get !

The complexity of China market and its rapid developments make it difficult for newcomers to find and validate information. We have a golden rule that all info should be checked 3 ways and if there is ‘converging’ info, it is probably correct.

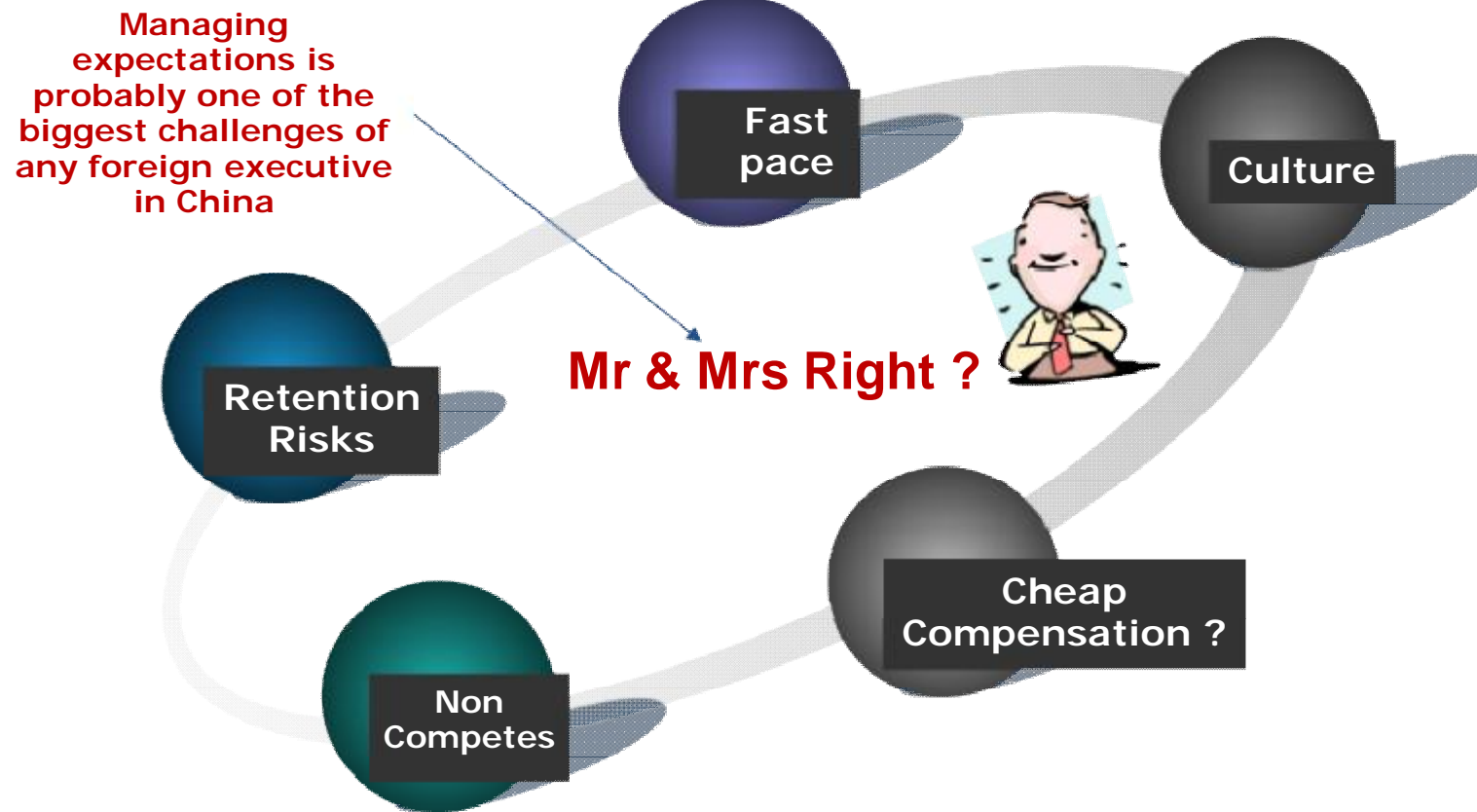
Solutions ?

- Consult all stakeholders (bank, supplier, customer, owner, employee, Government, ...)
 - Use all data sources and look for “converging” info
 - “Waste” time on coffee breaks, socializing, lunch, ...
 - Build a powerful information network
 - Prepare for crisis
 - Get business and market insights
 - Keep track of policy changes
 - Build on multitude of experiences
 - get introduced to the real decision makers

“When you hear the same story 3 times out of 4, you are probably walking in the right direction”

7. The Right People for the Job

Some specific “China” HR challenges ...



8. Change is the only constant



**Be vigilant
Be flexible
6 months reviews !**

**Scenarios but no 3
year plans !**

4 strategic requirements for success in China market (1/2)

- **Do your homework on the market, and hire good local managers!**
 - Start by hiring a good international business consultant to design and develop a foreign market entry plan starting with market research, market analysis, market intelligence. He will be your reliable contact representing your interests in the J/V and monitoring your local partner will comply with the J/V agreement.
 - Then hire and train good local managers, instilling a sense of long term involvement. You need them to be loyal!
This is a MUST condition for success!!
 - **Plan to invest for the long term.**
 - Do not expect quick picks.
- Success does not happen overnight, and you will need to integrate your culture into the local culture and business environment.

4 strategic requirements for success in China market (2/2)

- **Create a relevant, customized and focused marketing mix!**
 - Acknowledge, accept, recognize that China is a diverse country, and not a single national market
 - Adapt to the unique “local” values and cultural differences by developing distribution, and designing marketing strategies and advertising messages according to the needs of local markets
 - Adjust the mix and attributes of your products to the needs of the local markets, and take into account all differences when designing your marketing strategy
- **Focus on your core competences!**

“Simply” ask yourself the following questions:

 - What do we offer customers that will attract them?
 - How are we different from potential competitors?
- What can we do well in China, and what can Chinese companies do better?

Beware of these risks (1/2)

Intellectual Property

- Three forms of intellectual property problems can arise in some ventures in China:
- a successful entrepreneur or employee wants to split off,
- employee(s) come to the organization and use the proprietary intellectual property of their previous firm,
- competitors may counterfeit your products.

Regulatory

- Regulations in China are complex and licensing requirements can vary across national, provincial and city levels.
- The Chinese legal and regulatory environment is constantly changing – permitting and enabling certain businesses and then disabling them as well.

Beware of these risks (2/2)

Commitment

- Choose the right teams.
- Young people prefer MNC or large corporate careers.
- Maturity of fresh graduates is on average not adequate for start-up endeavours.

Exit

- Acquisition activity is still low in China.
- Large local corporates prefer to develop new technologies in-house.
- Early stage (angel and VC) investors are still few and immature, compared to the U.S.

To JV or not?

- In a nutshell, this depends on:
- Regulations in industry segment in question
 - Nature of your business
 - Resources at your disposal to go it alone
 - But...

Key Lessons Learned: check-list (1/4)

Establishment of Strategy in China		
1	Strategic Alignment	Need to have a clear and articulated view of strategy for China and able to identify partner(s) that is able to align fully with this strategy.
2	Cultural Alignment	Need to identify and articulate culture; align with culture of proposed partner; ensure personal alignment/relationship between Group CEO/Chairman and local partner.
3	Long Term Commitment to China	Need to have clear, articulated China strategy. Should have Board-level sign-off and appear regularly in published material. Seek to demonstrate in practical ways targeted at China's political and business elite.
4	Senior Management Commitment to China	Chairman and CEO need to personally commit to regular China visits.
5	United Voice From Foreign Shareholder	Should be seen and act as one company. There should be only one group strategy for China; one point of contact; one focus for China regulators and bureaucrats to focus on.
6	Early Mover Advantage	Care should be taken to ensure that if early mover advantage is seen as adding value, that this value is real and not illusory versus a more measured approach.
7	Personal Agendas Among Local Management	Extra care should be taken to ensure local managers on well aligned with company. Risks abound in this area given wild west mentality and culture.

Key Lessons Learned: check-list (2/4)

Establishment of Strategy in China (cont'd)		
8	Differentiation Points	Company must decide if it wishes to have a point of differentiation and if so, what it is. Simply being foreign will not have any particular resonance in the market by itself.
9	JV / Rep Office / WOFE / Strategic Investment	Company must make a clear choice between optimal business structures – and this base decision will guide future strategic choices.
10	Leverage Foreign Market / Partner / JV Experience Within Your Company	Company should seek to leverage any experience within the group in running foreign JVs. Should this experience not be in existence, the group should consider recruiting or contracting such experience and ensuring that the institutional knowledge is embedded within the group in the future.

Key Lessons Learned: check-list (3/4)

Establishing a Joint Venture in China		
1	National Distribution Capability	Company should ideally seek to form a partnership with a company that is able to leverage national distribution at a future point.
2	The Negotiating Team	Company should have a negotiating team that consists of both local and foreign members, of appropriate seniority.
3	Seniority of Chief Negotiator	Company's most senior hands-on negotiator must be as senior as possible. <u>The level of seniority of the negotiator will be reciprocated by the local party.</u>
4	Reluctant Local Partner	Company should decline to proceed with any partner who appears to be going through the process with any form of duress or reluctance.
5	Address All Issues At The Beginning	Perhaps <u>allow 2-3 times longer for the negotiation process than in any other culture</u> , to ensure that there is complete and detailed agreement on every point. Should not move ahead if any doubts remain
6	Local Reputation of Partner	Company should very carefully research the local reputation of the proposed partner as much as its international reputation . <u>If you don't have ability to do in-house, outsource it. Well worth it!</u>

Key Lessons Learned: check-list (4/4)

Operating a Joint Venture in China		
1	Development of Local Management Capacity	Company must develop a viable strategy for the identification and development of appropriate local management talent. <u>Again, working with the right partner (in this case headhunter) can make or break you!!</u>
2	Do Not Underestimate the Regulator	Company should not underestimate the importance to develop and maintain a positive ongoing relationship with the regulators.
3	Multiple Levels of Relationships Within JV Partner	Company must build a relationship with the local partner at various levels that insulates the relationship from personnel changes.

Case of a mid-size company entering China

Häfele mini-case study

KEY BENEFITS: Häfele overcame competition by offering a new variety of products tailored and made specifically for the various segments of China market in which opportunity was greatest.

Company Profile

- Name: Häfele
- Country of origin: Germany
 - Value: \$112 million
- Industry: Furniture producer. The company partners with wood processing companies, designers, and trade specialists to have the most extensive product listings in the world.

Entry into China

- Date of entry: 1996
- Purpose of entering China: Produce furniture fittings and develop a customer base to sell in China.
- **Obstacles to overcome: Develop a brand image in China. Compete with a wide variety of Chinese competition which offers cheaper product selections.**

Success

- Häfele Holding GmbH formed a wholly owned company in China.
- In 2002, established Häfele Hardware Technology Co., Ltd. The registered capital of the company amounts to \$7.7 million.
- To better serve the Chinese market, Häfele initiated and promoted hardware packages for residential areas including various types of doors, hinges, sliding doors and others.

Regulatory Challenges in China

The right legal framework

Get solid legal advice on all contractual obligations and business structures

- Rep office, WOFE or JV? Understand clearly the impact on cost/benefits and scope of business activities
 - Dealer contracts
 - Business licenses
- Tax (New Enterprise Income Tax Laws, etc., etc.)
- Labor contracts (New Labor Contract Law, etc., etc.)
 - Property rights
- Regulatory compliance

Applying for licensing in China

Starting a business in China can be a complicated procedure

- When applying for a business license a company must apply to the Administration of Industry and Commerce (AIC)
 - To apply for a business license in China a company **must complete ~14 steps**.
- The application process **officially takes around 30-40 days to complete**, however, if certain applications are not completed well then the **process could take much longer**.
- Depending on the type of industry the company will need to register products with the appropriate industry.
 - Pharmaceutical products: the Ministry of Health legislates laws, SFDA registers products and enforces the laws
 - Many provincial areas have independent regulations and registration procedures.

Intellectual property protection

Protecting you intellectual property will not be easy!!!

- China's IP protection system was developed at a comparatively later date than many other places in the world, so the system still has not been perfected.
 - **China** only began seriously working on intellectual property protection in the **1970's**
 - **Britain** has been improving their **IP protection system since 1662**
- Seek patent protection not only in the markets where you sell, but where you anticipate having it manufactured.
 - Many companies have made the mistake of not applying for IP protection in the area of manufacture only to find that **the manufacturer begins selling the product in question on the side!!**
 - Beware!: **China is a "First to File" country**
 - So make sure your rights are protected before you disclose any designs or IP to suppliers.

Environmental regulations in China

Beware: Environmental regulations in China are becoming stricter!!!

How, in reality...

- Despite China's recent tightening of laws, there are **still relatively few environmental regulations compared with western countries** like the US or western Europe.
 - Many regulations can be side-stepped with the right connections (**your competition may be doing this, you may not!**)
- Several regulations are written vaguely, and can be misinterpreted, so it is important to find **expert counsel** who has **experience with nation/provincial / local environmental laws / regulations.**

Sourcing in China: Key success factors

?

Benefits of sourcing from China

- China +90% of total sourcing: Product expertise across categories
 - Competitive pricing
 - Availability of skilled labor
 - Capability to handle mass production
 - Flexibility of vendors
- Integrated industrial structure: availability of raw materials and parts
 - Efficient domestic and international transport system

Some challenges to sourcing in China



Can quality products be made in China?



- Sub-standard products are often the result of a lack of knowledge, not a lack of ability. **By digging into enough technical details + very proactive management, often possible to make suppliers deliver the expected quality.**



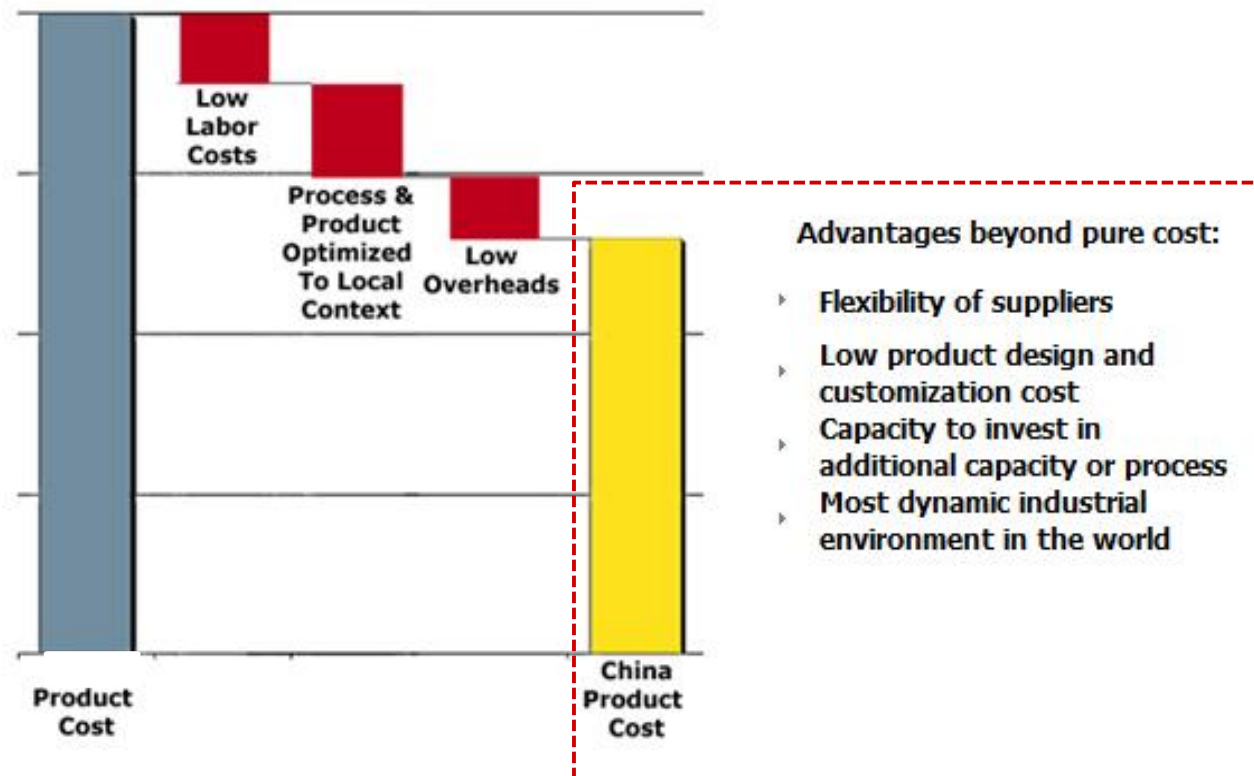
- Chinese suppliers' approach to quality is different. 100% inspection or simple labor intensive inspections are frequent. It is **often easy to improve quality level by implementing simple actions.**



- Standard requirements of Chinese customers are lower than for a typical Western customer. The **concept of quality is still young** and experienced quality professional are scarce.

Where are the real opportunities in China sourcing?

In industrial sourcing in China, smart companies go beyond mere purchasing cost reduction and leverage some of the unique strengths of the Chinese industry to develop sustainable competitive advantages



Factors affecting China sourcing base

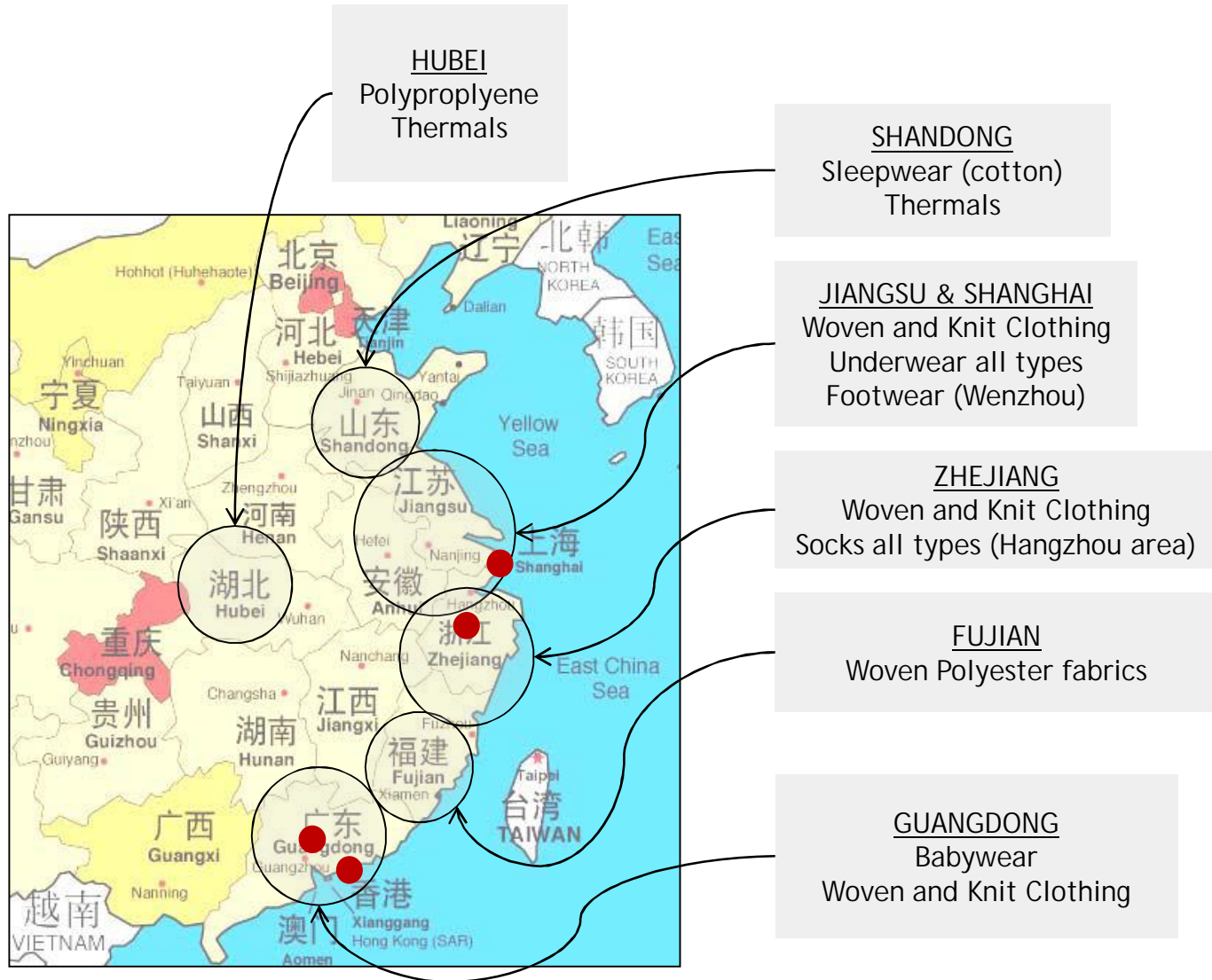
- RMB exchange rate: appreciation of 3% - 5% a year
 - Reduction of tax rebate for exports
- Rapid increase of overhead and living cost in developed areas
 - Increasing regulations which can be costly
- Shortage of labor supply in traditional areas such as Dongguan, Shenzhen

Critical success factors

1. Find the recognized production base(s) for the product you buy – and not factories all over the country or region

- 80% of the worlds socks come from HZ
- 85% of China's undergarment comes from Dongguan
- Cities are geared to support key products (employment, machinery, raw materials, **ecosystem of component suppliers**)
 - Locate your category area(s)
- Improves your efficiency, ability to manage and reduces travel costs

Some of the key regions



Critical success factors

2. Build a team of category experts to manage your sourcing categories

- Category experts
- Technical experts
- Local knowledge
- **Chinese business people will constantly test the professionalism of the buyer (product knowledge & supplier knowledge)**
- Chinese factories will quote better prices if they respect the knowledge of your people

Critical success factors

3. 80% of your product should come from “partner” factories where the ongoing relationship is fundamentally important for each party

- Partner Factories
- Production should be between 40% and 50% of the factories annual output: Ensures producers have “skin on the line”
 - Joint investments
 - Shared forecasts and information
 - Pre-positioning of raw materials
 - Regular meetings
- But always have well tested contingency plans to avoid dependence!

Critical success factors

4. However you must keep competition in your supply base by exiting bad performers, bringing on new alternatives

- Always exit bad performers
- Bring in new alternatives regularly
- Tell suppliers where they rank
- Have more than one alternative for your high volume styles
 - Chinese suppliers need to be aware of competition
 - Suppliers will know who you are going to visit next

Critical success factors

5. Conduct appropriate due diligence on new suppliers and ensure quality / reliability / reputation before starting business

- Set clearly defined standards and get sign off for commitment in black and white
 - Basic, Level 1, 2 & 3
- Compliance is getting more difficult to control as cost pressures increase
 - Use your own (local) people
 - 3rd Parties
 - Follow-up is required
 - Complete before orders are placed

Critical success factors

6. Finally, support your sourcing teams with an integrated information system to efficiently manage transactions, provide visibility of orders and give volume information for negotiation

- Multiple purchasing systems
 - No visibility
- Suppliers deal with multiple systems
 - Delays
 - Confusion

Sourcing in China: A snapshot of the winning approach



Sourcing should be approached in systematic way, meticulously covering every base

Feasibility Analysis

- Analyse spend category in detail
 - Specifications and quality requirements
 - Volumes
 - Deadlines
- Analyse supply market and identify potential suppliers
- Pre-qualify potential suppliers through an RFI process
- Manage RFP process with pre-qualified suppliers
- Analyse supplier responses and calculate fully delivered price (logistics, import duties,..)
- Develop Business case and implementation plan

Supplier Selection and Contracting

- Shortlist suppliers based on RFI/RFP process
- Audit shortlisted suppliers
- Select 2-3 suppliers for sample development process
- Manage sample development process
- Conduct final negotiations and select suppliers
- Finalise Contract

Procurement Operations

- Manage P/O and agree payment terms and details (L/Cs,..)
- Check in process production quality
- Conduct pre-shipment QC
- Arrange logistics
- Manage supplier performance
- Monitor new sourcing opportunities

Key activities

Due diligence challenges in China

The unique market landscape and business culture in China creates many challenges for analysts and strategic planners

Challenge 1: Diversity

Challenge 2: Lack of structured and reliable information

Challenge 3: Rapid change

Challenge 4: Reality on the ground

Challenge 5: Tendencies to distort information

Case studies

Evaluated attractiveness of investment in a food manufacturer in China for PE investor

Private Equity | Strategic Analysis - Competitive Landscape Analysis, Due Diligence

KEY BENEFITS Received a rapid and objective evaluation of sustainability of target company's growth. Gained in-depth understanding of market environment and potential impact on target company. Received strategic pointers on viable growth options and strategies

NEED

A leading global private equity firm wanted to better understand the growth potential of an investment target in China.

Application: Strategic Planning

Geography: China

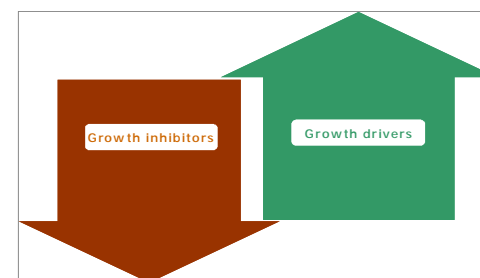
APPROACH

A combination of face-to-face and telephone interviews with distributors, retailers, competitors, and industry experts was conducted, complemented by extensive secondary research on industry dynamics and trends.

Methods: Secondary & primary research including both face-to-face and telephone interviews

SOLUTION

Evaluated target company's executive team, product portfolio, brands, positioning, distribution, sales strategies, retail presence and production. Also evaluated competitive environment and demand trends in terms of their impact on the target company's growth.



Deep-dived potential markets and determined needs of 11 segments

Manufacturing & Industrial | Strategic Analysis - Market Sizing & Forecasting, End user analysis

KEY BENEFITS Client gained insights into the optimum marketing and communication mix strategy for specific products segmented by different user groups.

NEED

A global hand tool manufacturer wishes to gain further insights in the **purchasing behavior, product requirements and brand perception for end user groups** of specific products.

Application: Strategic Planning

Geography: China

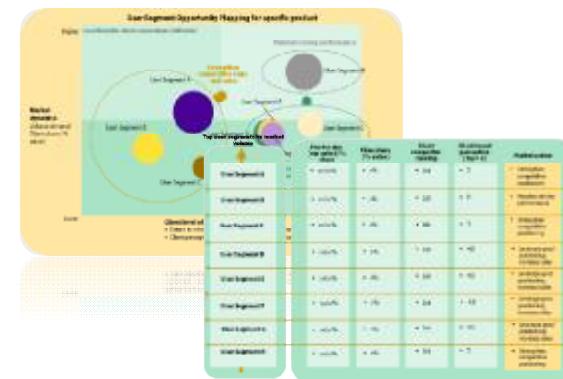
APPROACH

Utilizing in-depth primary interviews with end-users, as well as suppliers, distributors, retailers and experts. Future growth, trends and competitive dynamics were also analyzed.

Methods: Over 400 primary interviews were conducted in different major cities within China, cross-referenced with reliable secondary research data

SOLUTION

The client was delivered a report in which details from each user group were spelled out with overall strategic recommendation and insights provided.



Realigned a global chemical company's value chain strategy in Greater China

Chemicals | Strategic Analysis: Value Chain Analysis, Advisory

KEY BENEFITS Realized greater sales volumes across product segments and saved on distribution costs

NEED

A global industrial gas supplier wanted to determine potential for a new distribution proposition in Greater China.

Application: Strategic Planning

Geography: China

APPROACH

Mapped distribution tiers and channel shares, analyzed customers' unmet needs and identified inefficiencies in the value chain. Involved value chain structure research and customer research.

Methods: Secondary research and analysis

SOLUTION

Products were grouped into opportunity segments and a distribution strategy recommended for each group. For some segments, a move to sources outside the investigated markets was recommended, with a new pricing proposition. For others, the client was advised to tie up with a local player or serve a select group of customers directly.



GIA's MI Capabilities to capture the opportunities in China

GIA Group capabilities in China

- Offices in Hong Kong and Shanghai, China
- Team of over 200 consultants across 32 provinces in China
- Industry experience including: Agribusiness, Automotive, Chemical, Financial Services, Consumer & Retail, Healthcare and other industries



Q&A