

What It Takes to Do Business in China



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China is the world's largest manufacturing economy, and will soon become the world's largest consumer economy. Any company that wishes to prosper in the coming years must have a presence there, but to succeed one must understand how the Chinese do business.

There are several keys to working in China. Dealing with China requires a long-term investment in effort, people, and money. For example, there are a host of burdensome administrative requirements and legal restrictions. China has thousands of regulations and laws currently being re-worked to comply with WTO guidelines. It takes time to sort through which of these are applicable to your business. In addition, one must establish roots early and build relationships. Personal relationships form the foundation of long-term business relationships. Also, there is no reliable credit database, which means many transactions must be conducted much more carefully.

It is critical to know your market position. Despite having a communist government, China has a very "capitalist-feeling" economy. It is very difficult to sustain sales on a commodity product. Because of differing views on intellectual property (IP) rights, you may soon find a competitor #151 perhaps even your own distributor #151 producing a product with a similar name and undercutting your price. It is vital to have a unique offering that cannot be sourced locally and/or strong IP protection strategies.

Understanding your customer will help to make your business successful in China. Chinese customers are unique in many regards. For example, for many Chinese companies, their competitive advantage is being the low-cost supplier. When selling to them, helping them to keep costs low or reduce costs is paramount. This can be challenging for many reasons. Take companies who move their manufacturing to China to capitalize on the low labor costs. In some cases, these new Chinese customers are inexperienced at manufacturing this type of product. They will require significant applications support to understand how to get the most from your product, but their business model requires that you provide it at little or no

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cost.

Another potential challenge in dealing with Chinese customers is understanding the purchase decision-making process. For example, a product may be designed in Europe, provided to a contract manufacturer headquartered in the United States, who in turn decides to use its facility in Tianjin, China to produce it. It often requires a global reach to coordinate purchase decisions and win business.

There is no unimportant customer in China. Every customer interaction is important, because the Chinese readily share information. It is impossible to do a "special deal" with one customer – all will demand it. On the other hand, once a company has established a good reputation with one customer it is likely to find its way smoothed with others, simply through word of mouth.

With the emergence of China comes great opportunities. It is crucial to make sure your company understands what it takes to do business in China and capture those opportunities.

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