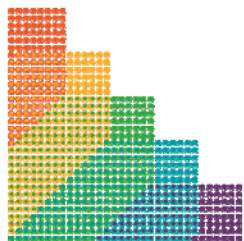




DOING BUSINESS IN CHINA

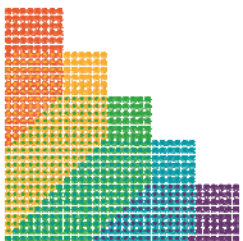
Jo Lavan, FIEEx



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CONTENT

- **Introduction & overview of the China market**
- **Getting started**
- **Approaching the market**
- **Introduction to selling to China**
- **Introduction to sourcing from China**
- **Potential obstacles & how to overcome them**
- **Building business relationships**



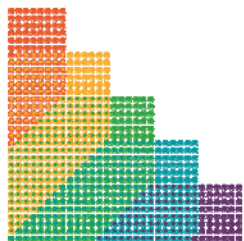
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Chinese sayings



- When you begin to understand that you don't understand, that's the beginning of understanding
- What you read is not always what you hear and what you hear is not always what you see
- What cannot possibly go wrong will go wrong no matter what you do to avoid it



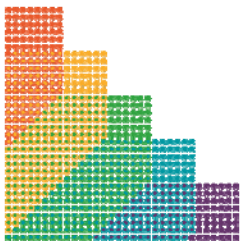
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“We Chinese mean what we say.”

- - first Premier of PR China, Zhou Enlai
- The catch is to work out what they are really saying !!!



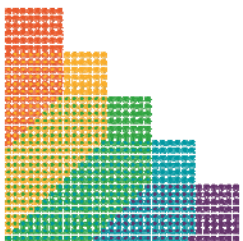
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INTRODUCTION TO CHINA

Why China?

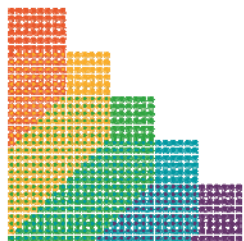
1. Fastest growing market in world
2. Population of 1.3 billion
3. Huge market potential
 - Manufacturing/sourcing
 - Selling
 - Investment



China's Economy

- China is UK's 9th export market
- China is UK's 3rd largest source for imports

- 2009 GDP growth – 8.7%
- February 09 – February 2010
 - Exports increased 45.7%
 - Imports increased 44.7%



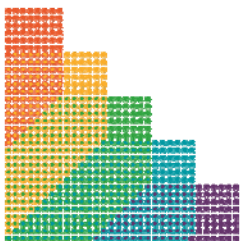
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- Over 50% of the World's cameras
- 30% of the World's air conditioners
- 30% of the World's TV sets
- 25% of the World's washing machines
- 20% of the World's fridges
- 75% of the World's toys



- One private Chinese company makes 40% of all microwave ovens sold in Europe
- The city of Wenzhou produces 70% of the world's metal cigarette lighters

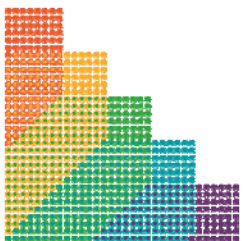


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- Internet users: 420m users (June 2010)
- Mobile phone users: almost 1.1 billion (Sept 2010)

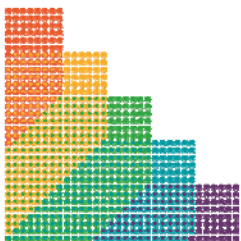


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Population facts

- Population 1.3bn
 - Increasing millionaires
 - 875,000 people worth more than US\$1.47 million
 - Average age of 39 years
 - 70 men:30 women
 - Real estate investors, businessmen, high income earners and stock investors
 - Beijing, Guangdong Province & Shanghai
 - Own on average 3 cars and 4.4 luxury watches

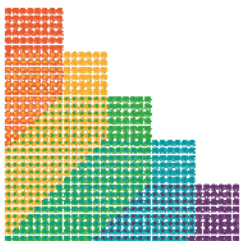


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- Increasing middle class
 - Increasing disposable income
 - Earn more than about £10,000 a year
 - 2009 forecast: 100 million households

- Fast changing consumer market!

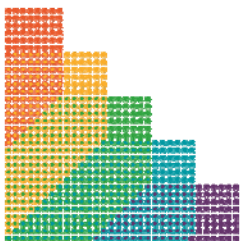
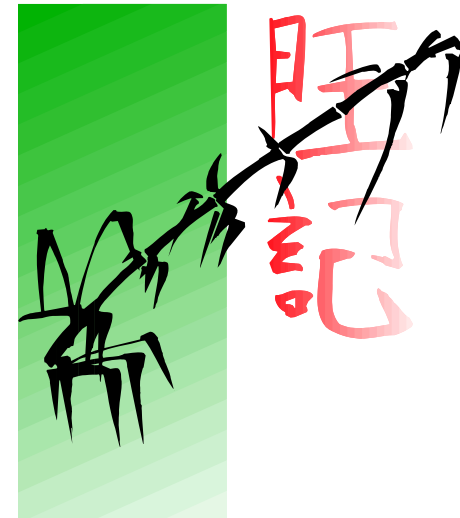


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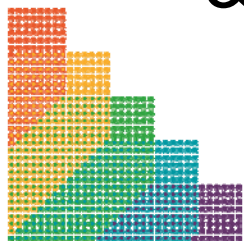
GETTING STARTED

- How to identify opportunities
- Researching the market
- Identifying potential partners



- 22 provinces
- 5 autonomous regions
- 4 municipalities (Beijing, Tianjin, Shanghai & Chongqing)
- 2 special admin zones (Hong Kong & Macau)
- & Taiwan

Map of China



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Doing business in China.....?

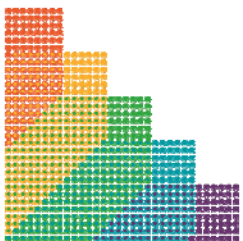
- Which province?
 - Different languages
 - mandarin & cantonese
 - Different cultures
 - food, traditions
 - Different climates

工廠電話

TRADITIONAL

工厂电话

SIMPLIFIED



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- **1st tier cities**

- Beijing (12 million)
- Shanghai (14 million)
- Guangzhou (8 million)
- Shenzhen (14 million)



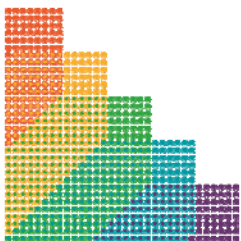
- **2nd tier cities**

- Major cities with populations over 500,000:
Hangzhou, Xiamen, Ningbo, Tianjin, Qingdao, Dalian

- **3rd tier cities**

- remaining cities of 500,000 population and below

- **Remaining 70% in rural areas**



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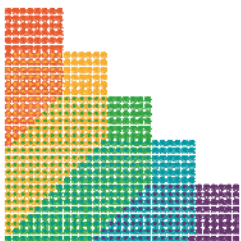
Sources of information

General information

- UK Trade and Invest www.uktradeinvest.gov.uk
- CBBC (China-Britain Business Council) www.cbcc.org
- CCPIT www.ccpit.org.cn
- MOFCOM <http://english.mofcom.gov.cn/>
- HKTDC www.hktdc.com
- Banks, lawyers, accountants and consultants
 - Specialist ‘China’ consultancies: Dezan Shira www.dezshira.com
 - International firms: Price Waterhouse Coopers www.pwcglobal.com
 - DLA Piper: www.dlapiper.com

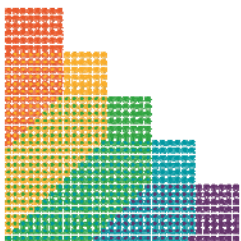
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Identifying Partners

- Own trade association
- China trade association
- Trade fairs – UK & in China
 - Biz Tradeshows
 - <http://www.biztradeshows.com/china/>
 - HKTDC
 - <http://www.hktdc.com/info/trade-events/EX/en/Exhibitions.htm>

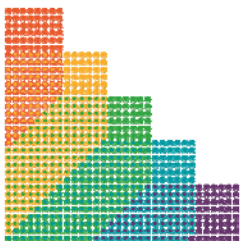


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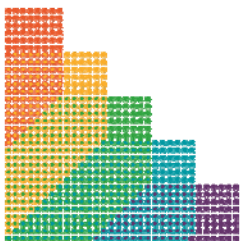
Identifying partners

- **Inward & outward trade delegations**
- **Internet**
 - www.hktdc.com
 - www.alibaba.com
- **Commissioned research**
 - OMIS, EMRS, specialist consultants
 - Verification!!



Approaching the market

- Working directly
 - Resources
 - Control
- **Working indirectly**
 - **Agents/distributors/trading companies**
- Establishing a presence
 - Representative office
 - Joint ventures
 - WFOE's

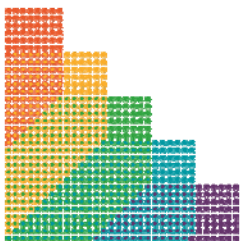


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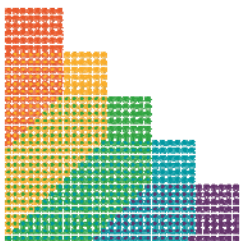
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Agents/Distributors

- Can be based in the UK or China
- Normally represent single or several manufacturers
- Work on commission



- Provide:
 - Local market and product knowledge
 - Technical skills
 - Warehousing/transportation facilities
 - Language and cultural understanding
 - Preferential financing options
 - Economies of scale

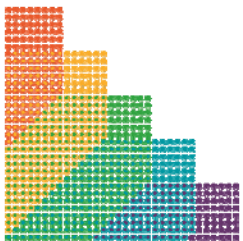


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Trading companies

- 'Export Licence'
- 3-5% premium
- Facilitation of exchange of goods and financials
- Quality control, packing, final assembly and logistics

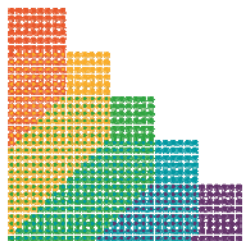


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Manufacturer or trading company?

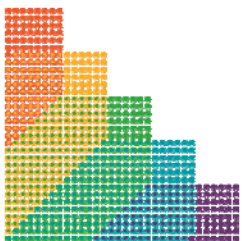
- Shanghai Handbag Manufacturing Co Ltd
- Shanghai Handbag Import & Export Co Ltd
- Check Chinese name



Checklist for partners

- Shortlist potential partners
- Visit & make sure you meet the 'boss'
- Spend time building relationships
- Understand each other's needs

- **DUE DILIGENCE!**

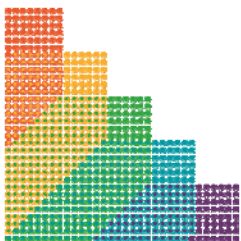


Why sell to China?

- Opportunities
- Size of country
- Population

- But

Nothing is easy & everything is possible!

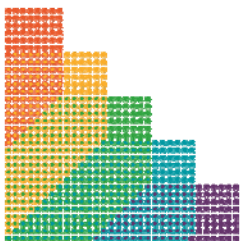


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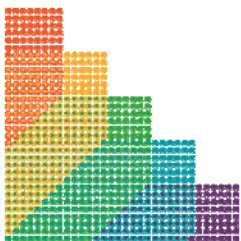
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Selling to China...?

- Chopsticks
- ABCD
- Whisky
- Technology
- Consultancy



- Customs Tariffs of China (CTC)
 - <http://www.chinavista.com/database/cides/index.phtml>
- US guide on China's law, standards & custom regulations
 - http://www.export.gov/china/exporting_to_china/importregs.asp?dname=exporting_to_china
 - China Compulsory Certification (CCC)
 - <http://www.ccc-mark.com/>
 - Sector specific regulations

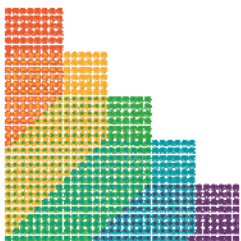


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Other considerations?

- Language – Gillette
- Numbers & colours – Cambridge4You
- Web-site
 - Translation
 - Localization
 - Design
 - Colours
 - Images



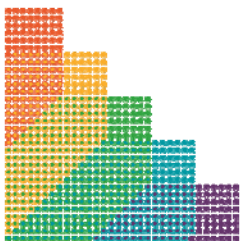
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Logistics

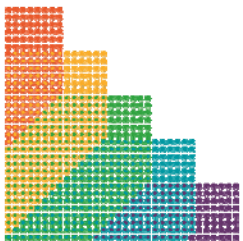
- Distribution costs can average 7-10% of selling price
- Inefficient distribution activity
- Little understanding of customer service

- But it is improving



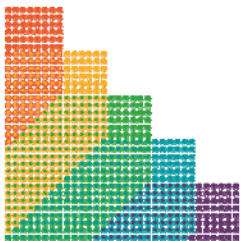
Financials.....

- US\$ or euros – leave room for negotiation!
- Import duties - average import duty 9.8%
- Import VAT – 17%
- Consumption tax
- Handling charges
- Chinese mark-up
- Domestic VAT



Industry clusters?

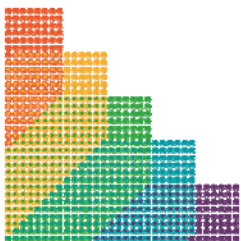
- Textiles
 - **Shenzhou** – ties & scarves
 - **Hangzhou** - silk
 - **Yantai & Weihai** – carpets
- Heavy engineering
 - North East China
- Furniture
 - **Shunde** – furniture & furniture components
- Chemicals
 - Zhejiang, Jiangsu Province
- Consumer goods
 - **Yiwu** – commodity goods



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- Yiwu – consumer market
 - 60% of world’s plastic straws
 - 40% of world’s electronic clocks & watches
 - 6 billion pairs of socks
 - Zips long enough to circle the earth 20 times
 - Provide more than 80% of world’s Christmas products
 - Yiwu Fair - October

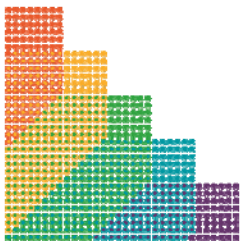


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Sourcing factors

- Manufacturing cost
- Transportation efficiency
- Lead time and scheduling
- Product design
- Technical capabilities

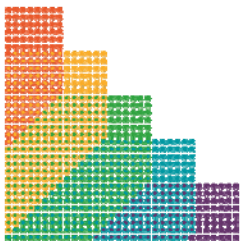


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Manufacturing cost

- Total labour content
 - savings with large labour content
- Wages
 - The average salary for urban residents = RMB36,000
 - Wage inflation in large cities
 - Government importing workforce
 - Further inland: poor roads & lack of developed infrastructure

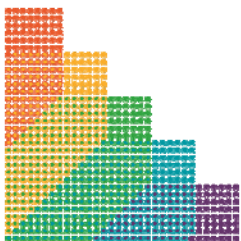


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Transportation efficiency

- Financial assessment on total landed cost of the product
 - Measure ratio of transport cost to total product cost eg small electric motors v concrete manholes
- Large volumes = bigger inventory and defect risk
- Ocean freight lead time eg wiring panels, just-in-time, late stage product customization
- Seafreight v airfreight costs

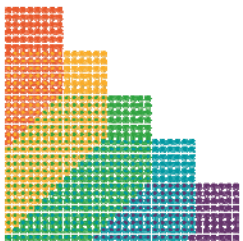


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Production schedules

- Samples
- Quality checks
- Production capacity
- Lead-time & delivery deadlines

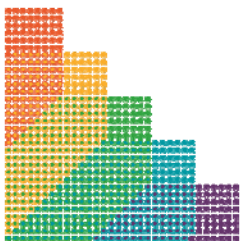


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Product design

- Regular engineering & design changes
 - immature supply chain
 - language gap
 - lack of local technical capabilities

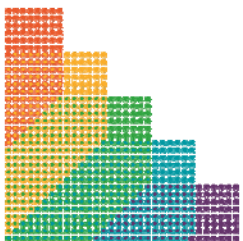


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Technical capabilities

- **Have you chosen the right Chinese partner?**
 - Technical & logistical requirements
 - Are they adaptable & competent?
 - Due diligence

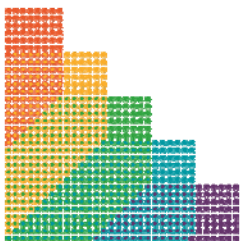


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Quality control

- Inspection Service Companies
 - SGS/BSI
 - Sercura www.sercura.com
 - Local companies
- Own presence - representative office
- Buying agent/interpreter

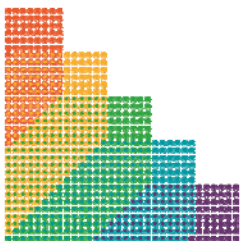


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Cost evaluation

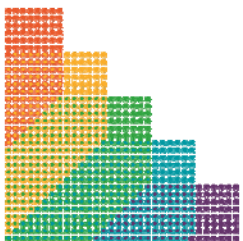
- Do full cost evaluation
- Be sure about quantities
- Ask for fob quotations – shipping costs can vary
- What is the shipping cost? – How long is the journey?
- What is the UK import duty?
- Payment terms? – cost of L/C



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- Due Diligence
- Contracts in China
- Clear specification when ordering goods
- Dispute Resolution
- Intellectual Property Rights

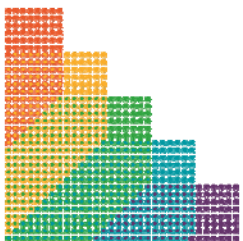


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Business meetings

- Different styles of meetings
- Business etiquette
- Preparing your presentations
- Mutual benefits!
- Preparing your offer

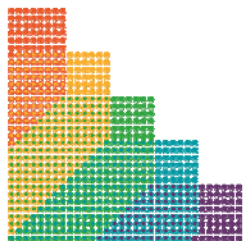


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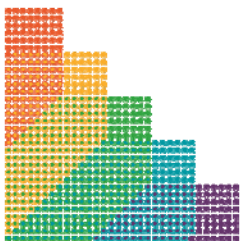
Business cards

- Chinese translation on the reverse of your card
- Give yourself a good title!
- Say what you do on the card
- Make sure the translator is Chinese



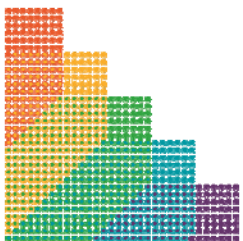
Company profile

- A4 company profile
- Translated into Chinese
- List reason for visit
- List benefits



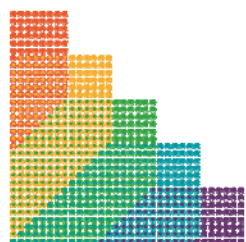
Gifts

- Take a few gifts with you
 - Corporate gifts are ideal
- Wrap in red and gold
- Giving of gifts
 - Hierarchy
 - Cost

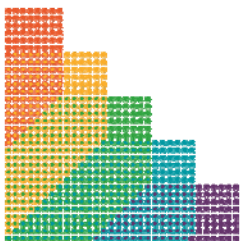


Business etiquette

- Ring to confirm the meeting the day before
- Introductions
 - Most senior person first
 - Shake hands
- Business cards
 - Handover with both hands
 - Study card carefully
 - Number of job titles?
- Seating arrangements
 - Business card tip!



- Format
 - Casual & informal chat
 - Formal introductions of each organisation
 - With or without powerpoint
 - Down to business
 - Summarize

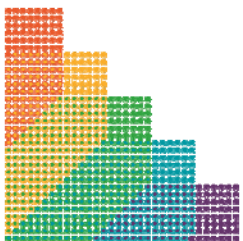


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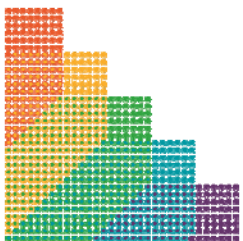
Initiating contact

- Respect
 - patience, endurance, persistence and show interest
- Negotiation
 - negotiate in a friendly atmosphere but stay firm
- Be diplomatic



Preparing your offer

- Tell your partner about the mutual benefits!
- Leave room for negotiation
- Don't forget to leave price until last!



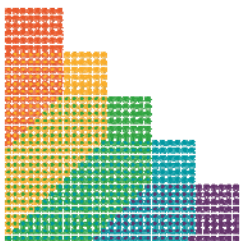
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Communication

- **Verbal**

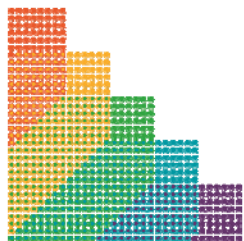
- Negatives replies considered impolite
 - ‘No’ - ‘Maybe’, ‘I’ll think about it’ & ‘No big problems’ probably means ‘We still have problems.’
- ‘Yes’ means ‘I hear what you say’
- Don’t be afraid to say ‘No’ yourself!
- Be persistent



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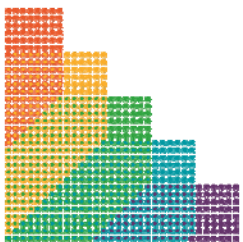
- Listen carefully – particularly the implication
- Beware of small talk
- Follow up as soon as you return to the UK
 - Thank them for the meeting & their hospitality!
 - Summarize the meeting and actions required
- Follow up, follow up, follow up
- Be patient!!



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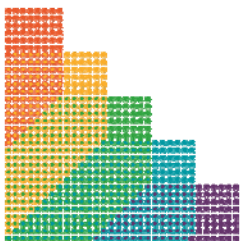
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- **Written**
 - Don't always read everything
 - Don't always understand correctly



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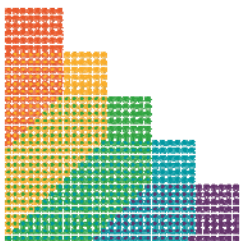
**Remember: time has a
different value in China!**



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Building Business Relationships

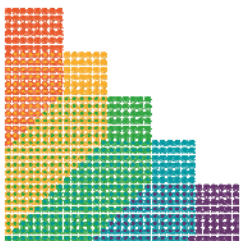
- **Guanxi!**
 - Networks
 - Connections
 - Promises
- **Ganbei!**



What is Guanxi?



- **‘Relationships’ or ‘connections’**
- Long historical and cultural roots
- **Confucius (551-479BC)** most important factor
 - Hierarchical social order

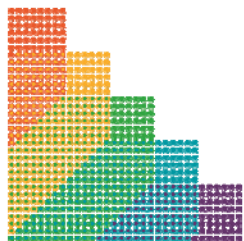


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Guanxi in business: Guanxiwang

- Developing *guanxi* networks
- Titles in business and organisations
 - The more titles, the better connected
- Reputation
- Business benefits
 - Access to information
 - Access to opportunities



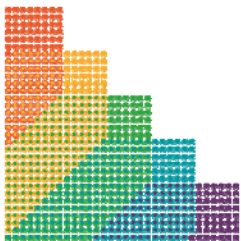
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- Vice General Engineer of Hangzhou Qianjiang New Town Administration Committee
- Vice Secretary-General of Zhejiang Architect Institute
- Director of Zhejiang Architecture and Decoration Association
- Director of Hangzhou Architecture Creation Science Committee

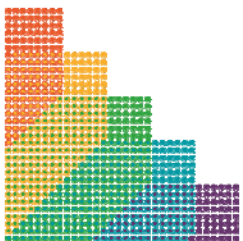


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Developing guanxi

- **Respect**
 - Chinese business culture
 - Hierarchy
- **Nurturing**
 - Keeping in contact (not just business)
 - Long term and not always a 'quick return'

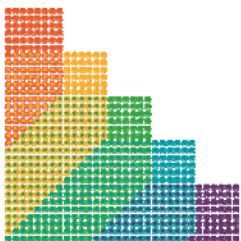


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Cautions.....

- Developing ***guanxi*** can be a resource issue
- Wrong ***guanxi***?
- Consequences of dropping ***guanxi***.....
- ***Guanxi*** is not easily transferable
- Mutual benefits: but distinguish between ***guanxi*** & corruption

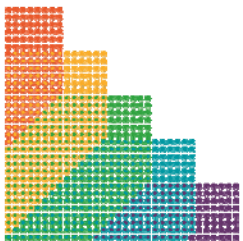


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Examples of guanxi

- Securing office accommodation for new company
- General Manager with good 'guanxi'...?
- Police escorts
- Visas!

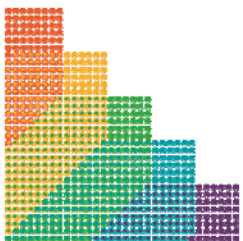


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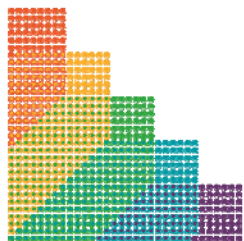
Eating & drinking

- What to expect & how to behave

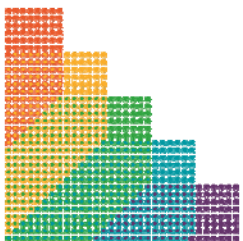


How to survive Chinese banquets

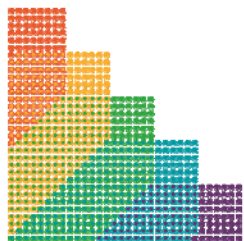
- Wait to be seated
- Wait for the host
- To eat or not to eat!
- ‘many courses’
- Chopsticks



- Personal questions
- Enthuse about the food
- Drinking & toasting
- GANBEI!!
- The end



“The only thing that does not change is that everything changes”



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