

Solving the China Conundrum

The continued momentum of China's economy coupled with its growing global presence and ambitions makes it more essential than ever to think carefully about how best to interact with this incredible market.

China is now the largest market globally for many goods and services. Its level of innovation is accelerating and in many ways more advanced than that of the U.S. Its enterprises are deploying leading technologies to improve productivity and be more competitive, and remain keen to source best in class solutions and capabilities that will assist them.

Despite growing economic tensions between the U.S. and China, and a deterioration of the business climate for foreign companies, the China market can still be very lucrative for U.S. companies. It should not be ignored lightly.

However, China remains a complex and difficult market in which to conduct business. As a result, it is imperative to approach China strategically and develop a thoughtful and realistic market strategy and execution plan. Critical to that plan will be an analysis which helps answer the following questions:

- 1. What is the market need and size of market for your product or service?*
- 2. What is the competitive landscape?*
- 3. What is the position of the government towards foreign investment and foreign entities in your sector?*
- 4. How defensible is your technology/product from local competition? How would you adjust if your product was blatantly copied/re-engineered?*
- 5. What level of localization, customization and/or unique product development is required to be successful? and at what cost/effort?*
- 6. Based on local market conditions, what business and pricing model should you adopt and how disruptive might that be to other markets?*
- 7. Is there a clear channel to market that exists in China? Can you sell your products and services directly, or does it make more sense to develop partnerships? If so, what form should those partnerships take?*
- 8. Given the above, what is the appropriate business structure (rep. office, wholly owned subsidiary, JV) and what licenses are required to conduct business in these various forms?*
- 9. Can you attract, develop and retain top-notch local talent? Do you need to supplement your workforce with expatriates?*
- 10. And last but not least, what will it all cost?*

Hopefully your analysis leads you to conclude that your prospects are good and you are ready to forge ahead. No matter what business you may be in, the following advice will most certainly apply:

- Don't rely on your instincts. They are almost certainly not valid. Get input from multiple data sources and triangulate your way to the truth.
- Take a long-term view of the market. Assume that progress will be slower than you initially thought, and that there will be significant fluctuations. Ask yourself the question "can we stick it out for the long run?"
- Build meaningful long-term relationships with multiple stakeholders based on shared interests.

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- Develop a proactive government strategy that takes into consideration both national government policy and local governments potential support.
- Be prepared to enable significant strategic flexibility (business model, product offerings, partnering model, pricing model) while at the same time maintaining tight business and financial controls and high transparency.
- Build situational, cross-cultural fluency and share the learnings broadly in your organization.

China is not going away. It continues to outpace most other economies from a growth perspective for some time to come and will only become a more essential player in the global economy. Ignore the market at your peril.

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