

# Business Opportunities and Culture in China

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*Presented by*



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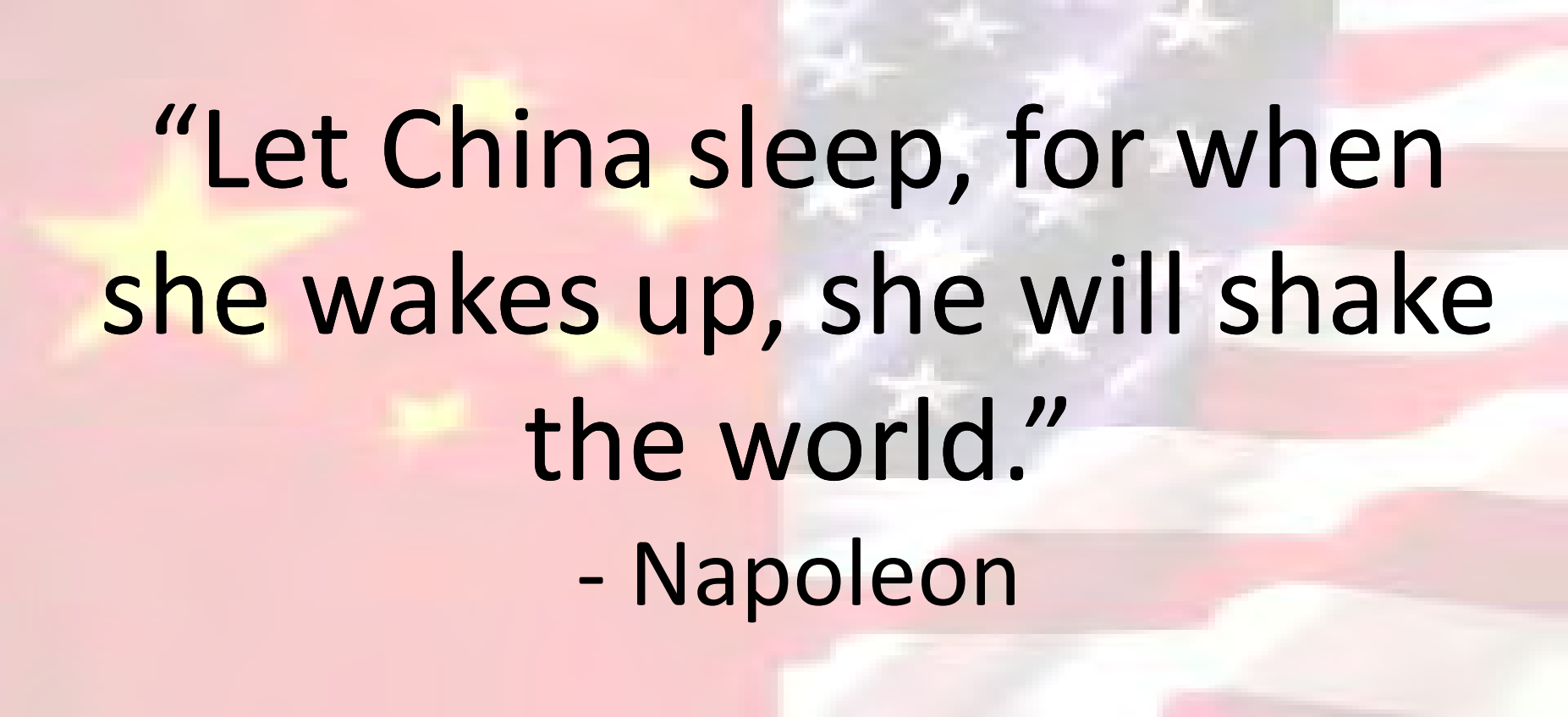
# China, Then and Now

*Diana Huo*



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“Let China sleep, for when  
she wakes up, she will shake  
the world.”

- Napoleon



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# Brief China History

- Foreign occupation 1850 – 1937
- Invasion by Japan 1937 – 1945
- Civil war 1945 – 1949
- Communist dictatorship 1949 – 1976
- Liberalization 1979 - present



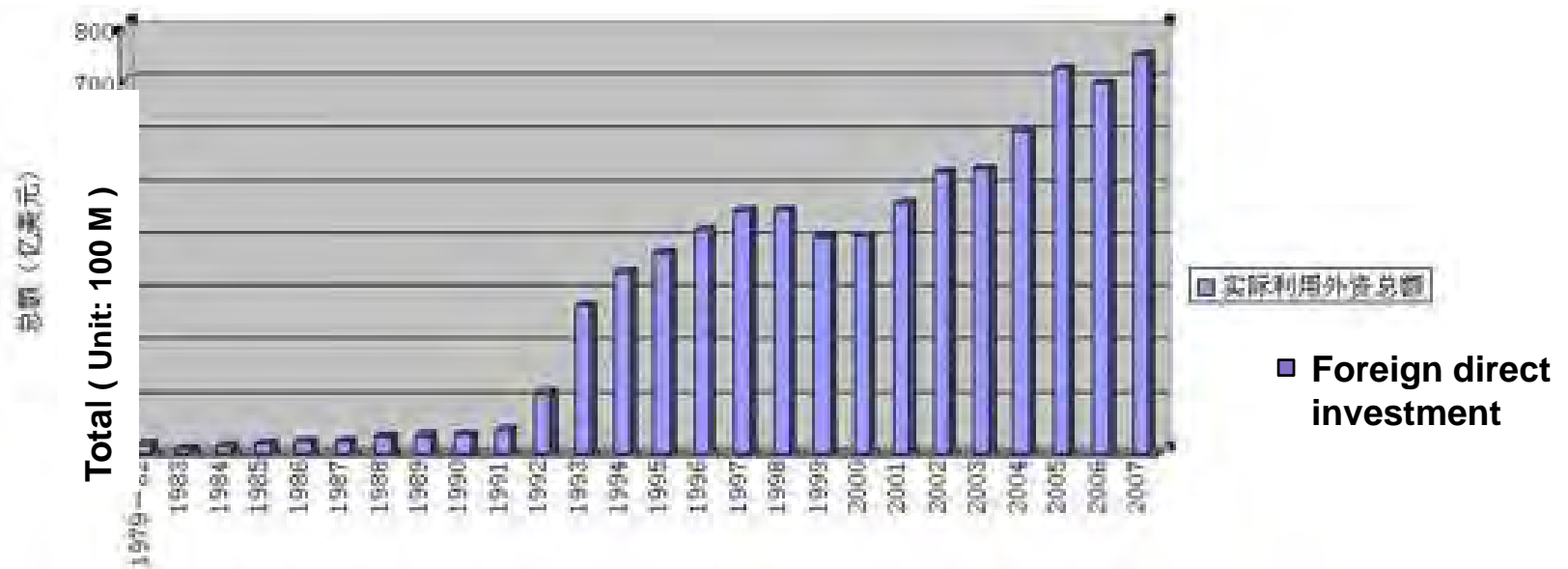
# Present Day China

- Total embrace of capitalism – anything goes
- Government continues to open the economy
- Middle class: from none in 1976 to 500 million
- Construction boom
  - 10% of population lived in cities in 1976
  - 50% live in cities today



# Present Day China

- Multinational companies rushing into China to open new factories and retail chains



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# Present Day China

- Currency reserves close to \$1 trillion
- Savings rate at 25% of GDP (U.S. is close to zero)
- GDP up 9% per year for the past 25 years

	1989	2009
Gross Domestic Product	\$451 billion	\$4.9 trillion
Consumption	\$226 billion	\$891 billion
Private cars	730,000	76,000,000



# Opportunities

- China is still a developing country

China	2009	USA
\$4.9 trillion	GDP	\$14 trillion
\$7,500	GDP per Capita	\$47,000
\$428 billion	Debt	\$13 trillion
\$891 billion	Consumption	\$8 trillion

- China's new economic situation is only 30 years old
- Many opportunities for Western companies to do business in China
- Anything is possible, nothing is easy



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# Welcome to the State of Chimerica

*Jeff Holtmeier,  
China-US Business  
Development Corp.*



“Know yourself and  
your counterpart, and  
you will win every war”

*‘The Art of War’*

Sun Tsu 544-496 BC



# Jeff Holtmeier

USA Today/NASDAQ/Ernst & Young  
Entrepreneur of the Year recipient,  
successful USA Entrepreneur since  
1982 and experienced China  
Entrepreneur since 2004



# Topics

- Chinese Business Culture
- Chinese Economic and Cultural Facts
- Opportunities in China
- Selling and Cultural Tips



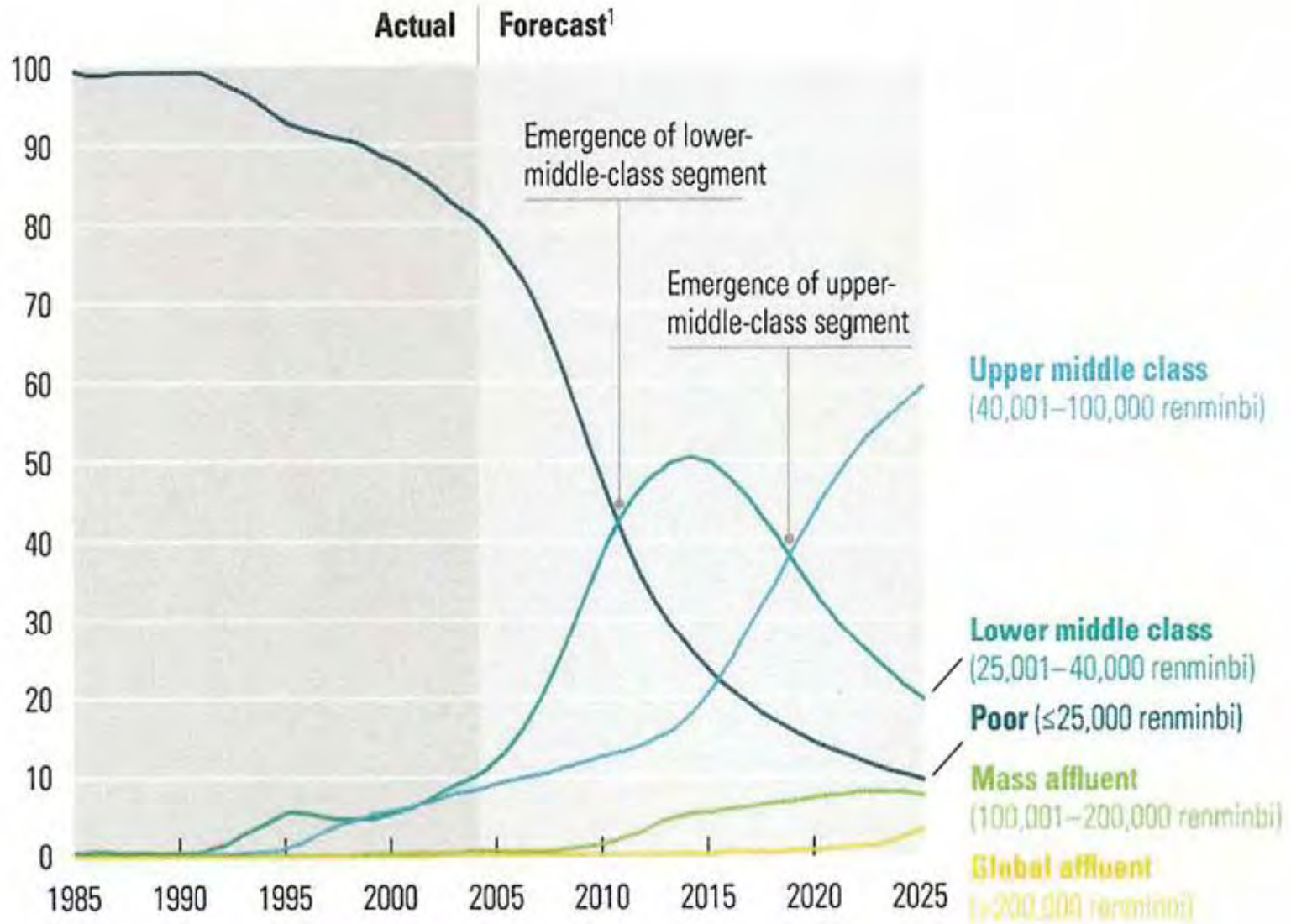
# China Facts

- World's Second Largest Economy
- Average Double Digit GDP growth >20 years
- 1.3 billion Population
- 500 million middle class
- 430 million Internet users
- Excellent Infrastructure
- Nascent Business Environment
- Changing Economic Landscape



# The emergence of a middle class

Share of urban households by income class, %



# Business Culture



# Chinese Business Culture

## Basic Etiquette

- Business (Name) Cards
- Use of names
  - Huo Wen Hong
- Displaying emotion
- Guest-Host relations
- Using intermediaries
- Lunch, Dinner, Socializing



# Chinese Business Culture

China	Cultural (Expression)	USA
Spiral	Logic	Linear
Difficult to say no	Disagreement	Argumentative
Indirect	Communication	Explicit, Direct
Subtle, Non-verbal	Honesty	Overt
“We” oriented	Self	“I” oriented
Context of the moment	Thinking	Rule based (Laws)
Preservation of harmony	Individual	Need for achievement
Guanxi, long lasting	Business Relationship	Superficial
Loose	Meeting Time	Rigid
Win-Win	Conflict Results	Winner and Loser



# Chinese Business Culture

China	Value Differences	USA
Relationship first	Interpersonal	Economics first
Virtue	Humility	Sign of weakness
Accountable by generation	Time Horizon	Accountable by the quarter
Seniority, Wisdom, Ability	Command Respect	Success, Achievement, \$
Not righteous to bully	Strong & Weak	WIN! Weak preyed upon
Strong	Discipline	Depends on person
Openly receptive but...	Openness	More open
Long memory, need to exonerate	Shame	Tends to be superseded by business priorities
Mixed: business, individual, nationalistic	Priorities	Tend to be all business



# Guanxi

## 'Relationships'

- Chinese rely on Guanxi
- Critical to business success
- Build trust with Chinese partner
- Invest in the relationship
- Chinese prefer to do business with 'friend'
- Once Guanxi is established, more doors open



# Guanxi

## How to build

- Treat them nice
- Do what you say
- Be dependable, reliable (like a friend)
- Frequent contact to establish bond
- Western companies need to 'invest'



# Guanxi

## Is Not

- Bribery
- A replacement for how to conduct business
- A reason to avoid proper due diligence
- Something that a Foreigner can learn
- Transferrable from an Employee



# China Facts

- China is almost identical in land size to the US
- An estimated 3-500m people are unaccounted
- Chinese invented paper, ice-cream, compass, gunpowder, printing, and toilet paper (1300)
- Great Wall is 5,000 km long and built 2,500 yrs ago
- Mandarin is spoken by more people than any other language (there are 200 dialects in China)
- China has more English speakers than USA



# Opportunities in China



# China's Next 5yr Plan

- China's 12<sup>th</sup> 5 year plan (2011-2015) commenced in March with the primary focus to:
  - Cut down consumption of fossil fuels
  - Improve the quality of economic growth
  - Transform and upgrade manufacturing sector
  - Develop strategic emerging industries
  - Develop comprehensive transport system
  - Develop alternative energy and electric vehicles
  - Build a resource saving/environment friendly society



# Sector Opportunities

- Healthcare
- Clean Technology and Energy
- Food & Beverage
- Environmental Infrastructure
- Luxury Goods
- Automotive and Components
- Chemicals
- Opportunities in low tier cities



# Healthcare

- Continued demand for high-end products in urban areas
- Tapping new grassroots markets with localization, alliances, M&A and actively sourcing appropriate HR
- About \$125billion earmarked from stimulus
- Reform being implemented
- CAGR 20%+



# Clean Tech & Energy

- Equipment supplies for traditional and new energies
- Renewable energy technology (wind/solar)
- Localization of technologically advanced products for renewable energy
- China's 12<sup>th</sup> 5 year plan will raise the bar in this sector
- On-going cost savings resulting in technology advancements of wind created a tipping point



# Food & Beverage

- Niche market opportunities for affluent and middle class
- Consumption patterns are modernizing
- Increasing incomes and urbanization is spreading consumption power from 30-40 tier 1 cities to >600 cities



# Environmental Infrastructure

- High end devices and chemicals (i.e. water treatment)
- Sewage and solid waste treatment
- Urbanization and industrial development provide strong long term momentum
- Promoted as a highly strategic industry by the Central Government and will remain in the 12<sup>th</sup> 5 year plan
- Strong government spending as part of the 12<sup>th</sup> 5 year plan



# Luxury Goods

- Less aware but prestigious brands with good marketing and channel efforts will do well
- Increasingly present in lower tier cities (in addition to Tier 1)
- Local investors are more active in this sector
- China is already viewed as the major growth driver of the global luxury goods industry
- This market is directly supported by the growing development of the upper middle class



# Automotive & Components

- All related services to Chinese carmakers
- Component mfg's with advanced technologies
- Energy saving & pollution mitigating components
- Components for alternative energy vehicles
- Aftermarket products and services including auto clubs, auto refit, roadside assistance
- Large potential in car services, used vehicles
- Continued 8-12% CAGR for the next 5 years



# Machinery/Machine Tools

- High End machinery and machine tools for
  - Environmental protection and renewable energy
  - Smaller plants/factories
  - Automotive related industries
  - Specialized machinery, inspection equipment for railway
- High speed train, wind energy, hydropower, automotive markets all high growth
- Heavy government incentives spurring investments
- CAGR 10-20%



# Chemicals

- M&A is appealing option. Acquire local players
- High performance chemicals including specialty such as pollution treatment
- 12<sup>th</sup> 5 year plan encourages development of advanced materials
- Value added products enjoy impressive growth
- CAGR 10-12%



# Low Tier City Opportunities

- Target smaller cities that surround large cities
- Consumption based: Packaged goods, RTD drinks, seasoning/flavoring, infant care, personal care, consumer electronics/appliance, footwear & fashion and automotive, quick serve restaurants
- Urban population will shift from 46% in '09 to 70% in '25 adding 400 million and reaching 1b
- Consumption driven by rising disposable incomes in lower/middle class in China's largest 600 cities



# China Facts

## ‘Show me the Money’

- China has 128 Billionaires in 2009 to USA 403
  - In 2000, China had 2
- China has 477k Millionaires in 2009, 4<sup>th</sup> in the world
- Bentley will sell >400 cars in China this year
- BMW sales in China have surpassed Germany
- Mercedes will sell 300k units/year by 2012
- Audi will sell 200k in ‘10, doubling sales of ‘08



# Chinese Food



# Chinese Lunch



# Chinese Food



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# Tips



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# Marketing & Distribution

- There is no single market in China but countless local markets each with its own preferences and established practices.
- Have a well thought out process for communicating with regulators at the central, provincial and city levels and seek to influence those regulators for the growth and well being of the market
- When introducing a new product/service in China, you need a good sales pitch and also a timely political pitch, then be persistent.



# Marketing & Distribution

- Even if you are a strong global brand it does not guarantee your success in China. You need to recognize, understand and adapt to the different business environment and market and spend your \$ doing the right thing.
- Tailor your brands to China's consumers tastes. Younger Chinese prefer western brands because they believe that western products elevate status.
- China is moving fast and changing faster. Your business model must be configured for constant change .



# Marketing & Distribution

- Align your business with the governments priorities and you will stand the best possible chance for success.
- Long term relationships matter and the way to establish these relationships is through on the ground presence in China.
- Preferences of how Chinese business people like to be introduced to new goods and services are
  - Trade Shows first, followed by email and the Web



# Marketing & Distribution

- Chinese companies will select suppliers who they like and trust personally, not just professionally.
- Partnering with companies that enable low-risk China market access will provide the best chance to succeed.
- There are many opportunities for technology companies, health-service providers, insurers and pharma companies
- It is often best to start your business at the provincial level where the government officials are more business-oriented and entrepreneurial.
- Cultivating relationships with government officials is very important for doing business in China.



# Communication

- There is no way you can do business in China without understanding what guanxi is and what you need to do to win and sustain it.
- Learn about the Chinese communication style, and the Chinese mindset.
- Be ready for your counterparts to ask for changes in contracts. In China, the contract is only the beginning of a relationship, not the definition of the deal.
- Be ready and set reasonable expectations that things probably won't happen quickly. Patience pays off.
- The Chinese now understand the outside world much better than the outside world understands China.....



# China Facts

## CONSTITUTION CHAPTER II. THE FUNDAMENTAL RIGHTS AND DUTIES OF CITIZENS

- Article 35. Citizens of the People's Republic of China enjoy freedom of speech, of the press, of assembly, of association, of procession and of demonstration.
- Article 36. Citizens of the People's Republic of China enjoy freedom of religious belief. No state organ, public organization or individual may compel citizens to believe in, or not to believe in, any religion; nor may they discriminate against citizens who believe in, or do not believe in, any religion....
- Article 51. The exercise by citizens of the People's Republic of China of their freedoms and rights may not infringe upon the interests of the state, of society and of the collective, or upon the lawful freedoms and rights of other citizens.....



# Wrap and Q&A



# Thank You



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