SELLING IN THE CHINESE B2B MARKET: IT'S NOT 1.3 BILLION CONSUMERS IT'S 40+ MILLION BUSINESSES

Launch Factory 88
a chc group member

WHAT YOU WILL LEARN

- Finding the best entry-mode for your business
- Regional differences and why they matter
- The five most common mistakes made by mnc's
- Case studies of successful B2B companies
- Getting the most out of your distribution network
- A crash course in chinese business culture

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01. OPPORTUNITIES IN THE CHINESE MARKET

Historically regarded as the factory of the world, China now boasts one of the largest consumer markets globally and is currently poised to become the world's largest growth engine both in terms of output and consumption. However, many companies are still hesitant to enter the Chinese market.

Many misconceptions exist about China and its business environment. We are here to tell you that business in China is done the same way as anywhere else- it's just done a little bit differently. This short whitepaper will offer you no-nonsense, practical information about setting up your B2B sales in China. Read on to learn more about why now is the best time to enter the Chinese market.

A rapidly growing domestic market

China is transitioning from an export-led economy to a consumption-led economy, and consequently shifting its traditional focus on developing low-cost products, in favor of attracting more advanced technologies from abroad.

China can no longer be considered as merely a sourcing location. Instead, the second-largest economy in the world is fuelling its domestic market and pushing for consumer-driven growth.

In addition, due to its favourable location China is becoming increasingly important as a strategic hub for servicing the Asia-pacific region. Companies can no longer simply ignore China's importance in their international strategies.

The modernization of rural areas

The majority of foreign companies entering the market tend to focus their sales efforts on larger cities such as Shanghai and Beijing. Yet, most of China's future growth will come from its smaller and less developed regions. Many of the *second and third-tier cities*, located primarily in central and western China, have been helped by the *Chinese stimulus package* which has provided better highways and faster trains to increase access to these areas.

Whereas China's largest cities are growing at around 7.5%, developing regions grow between 8% and 12% per year and are increasingly contributing to overall GDP growth. The modernization of rural areas is giving a push to local economies, which in turn creates more opportunities for businesses. New regulations enable farmers to purchase larger plots of lands and expand their business. But they will need advanced machines and technologies to get the most out of it.

Increased purchasing power

The country's rapid development has paved the way an emerging middle class. As incomes increase, people are gaining more purchasing power and the demand for high-quality products and solutions has increased accordingly.

Nor is consumer-demand the only factor pushing the need for more efficient technologies and machines; the greying of the population is demanding it as well. China currently possesses the fastest growing consumer market in the world and its e-commerce market has already surpassed the U.S. in terms of total revenues of sales.

Quality is becoming more important

Whereas price was the main differentiator only a few years ago, Chinese consumers and businesses alike are now increasingly paying attention to quality and brands. Due to an increase in purchasing power and quality-awareness, value is starting to triumph over price.

Foreign brands are often associated with higher quality. As a result, advanced foreign technologies and products of high quality are gaining popularity.

A hunger for new knowledge and technologies

The Chinese government is actively offering support in the form of subsidies and loosened regulations to foreign and domestic companies in order to push domestic innovation and growth in their priority sectors. The types of subsidies available, such as free land-leases and favourable tax conditions, depend on the region and district you want to invest in.

The Chinese government currently supports the following industries: new energies, energy conservation and environmental protection, biotechnology and medical devices, new materials such as rare earths, new IT technologies, high-end equipment manufacturing and clean energy vehicles.

The country's rapidly growing domestic market, loosened economic controls and hunger for foreign advanced technologies is now offering companies a new and relatively untapped market potential.

02. ONE COUNTRY MULTIPLE MARKETS

The first realization that foreign companies need to make is that China is in no way a uniform and homogenous market. Although China is unified in the geo-political sense, socially and economically the picture is much more fragmented. As such, it is important to consider China as a collection of individual sub-markets instead of one single, unified market.

Developed, developing and underdeveloped

China is transitioning from an export-led economy to a consumption-led economy, and consequently shifting China's rapid economic development started in 1979 in its coastal regions in the East and has since started moving West. Consequently, the farther you move away from the coast, the less developed the areas become.

By simply looking at a province's GDP you can already find substantial differences between the different regions. As you can see from the figure below, Shanghai can be compared to a Finland whereas Yunnan province is comparable to a Malaysia in terms of GDP.

Consequently, consumer purchasing power and behaviour also differ greatly by region. Not to mention the particular challenges that exist in each region; fierce competition in the developed regions, price sensitivity in the central regions, and poor infrastructure in the least developed regions.

Some prefer rice, others prefer potatoes

Clustering regions based on their respective GDP, population size and economic growth is a first step. However, it fails to take into account local tastes and preferences.

There are considerable differences in cultures, cuisines, dialects, climate and buying habits in China's regions and cities. Typical stereotypes also exist; North-easterners are known to be aggressive and hot-tempered, whereas Shanghainese are regarded as more westernized and savvy. Furthermore, did you know in the South people mainly enjoy rice as opposed to the North where people tend to enjoy wheat-based foods e.g. noodles more? Or, that the South has an abundance of water whilst the North is battling with severe droughts?

China's vast size demands a well-targeted approach that takes into account regional differences and their accompanying challenges.

Research, group and target

The best way to approach sales in China is by recognizing the regional differences and to develop a set of criteria that will be used to determine the attractiveness of a particular city, region or cluster. This should take into account all factors ranging from local tastes and preferences to purchasing power and local infrastructure, policies and certification bodies. Once your initial market research has been completed a strategy can be devised per target segment. Each of these segments will likely consist of several regions/cities that are grouped together based on similarities. Although foreign companies in the B2C sector are mainly drawn to China's richer coastal cities, B2B businesses are generally more scattered across the country.

Sources: the Economist, Economist Intelligence Unit; CEIC; WTO

"China is as wide as its peripherie. Few can represent the thoughts and feelings of 1.3 billion people and 56 ethnicities fairly in one statement."

Bob Tan

This is partially due to China's industrial clusters in specific regions and cities throughout the country e.g. Beijing focuses on IT and electronics, Guangzhou on automobiles and Jiangsu on Biomedicine, just to name a few. In many cases B2B companies find more opportunities in the developing second- and third-tier cities. Often times more remote regions also offer *attractive incentives to attract local and foreign businesses.* Support generally consists of preferential tax treatments, subsidies and guidance during the initial startup phase.

"We sell our highest quality flowers in China's rich coastal regions and our lowest quality flowers in China's poorer Western regions."

Nic Pannekeet, Van den Berg

03. A CHINESE LANDSCAPE

If you have read the previous chapter you will be aware of how diverse China is. Now let's take a look at China's business culture and what negotiation tactics you will probably be faced with when doing business here.

Chinese business culture 101

Gaining a basic understanding of the country's culture will not only make doing business easier, it will also improve your results. However, do not stress too much over using the correct etiquette and manners. You are a foreigner in an unfamiliar country and your Chinese counterparts will understand that. Just be yourself and be polite, like you would at home.

Business is business and eventually the mutual goal is to reach a satisfactory deal for all parties involved. Your understanding of their culture will however smooth the process and helps you interpret their actions better.

Check out our blog for more articles on Chinese business culture.

In the media, Chinese business culture is often portrayed as a mysterious and impenetrable phenomenon. This unfortunately gives foreigners the wrong impression. People do business in China just like anywhere else in the world- it's just done a bit differently. You will still need to apply the same business principles in China that made you successful elsewhere in the world.

"Ebay may be a shark in the ocean, but I am a crocodile in the Yangtze. If we fight in the ocean, we lose, but if we fight in the river, we win.

Jack Ma
Founder of the Alibaba Group

THE BASICS	EXPLANATION
The concept of face	Giving someone face implies showing deference and not embarrassing a person in public. Hence, being less direct and confrontational will work in your advantage.
The art of gift giving	Gift giving is very common in China. Small gifts from your country are a sign of respect to your host and are well received.
Business cards and greetings	Always exchange business cards with two hands and carefully examine them before putting them away.
Eating and drinking	Elaborate dinners and drinks are used to strengthen business relationships. However, depending on where in China you do business this can differ greatly. Generally speaking, lavish dinners and late-night entertainment is more prevalent when doing business with large, state-owned companies than with SME's
Negotiating	The Chinese are famed for their negotiation tactics. From tiring you out to confusing and/or frustrating you; they are trained negotiators.
The art of Guanxi	Guanxi is one's interpersonal network and is often used for business related purposes. *Learn more about guanxi here.*

The importance of one's personal network, or guanxi, also tends to be overemphasized. Having a network - regardless of where you live - is important and often crucial in business. In China a good network carries even more weight. One important reason for the pervasiveness of guanxi in China is the lack of a strong institutional system.

"In rural areas guanxi tends to carry more weight than for instance in Shanghai or Beijing. But also there it's starting to lose its once dominant position."

Gijsbert de Bruin
CEO of CHC Group

Hence, in a nation that traditionally depended little on laws, personal networks have been key to getting things done. Although guanxi still plays a role in business, modern and updated laws and regulations have rendered it less powerful. Hence, do not let anyone tell you that having guanxi is a crucial element when doing business in China. Your business' success will still be dependent on your management practices, product, service, quality, and competition.

Negotiation tactics

Many a book has been written about Chinese negotiation tactics and a reference is often made to *Sun Tzu's Art of War* for further reading. However do not let this get to your head – you will not have to read 12 books and 6 research papers in order to negotiate a good contract. Nevertheless, it will give you an advantage to learn about common negotiation tactics. Here are two common tactics used that will be familiar to anyone having done business with a Chinese party.

Tactic 1: Renegotiations after the contract is signed
You negotiated a contract, signed it, and left China. However, the Chinese party suddenly wants to alter some of the key points in the contract. You have already put in a lot of time and effort and finding a new supplier will put your project at risk. The Chinese party knows that and is therefore able to leverage it against you. It is therefore crucial to include in your contract that any breach of contract will lead to termination and a lawsuit for damages. In some cases you will have to concede in order to protect your interests. However, make clear to your supplier how this will affect any future business dealings.

Tactic 2: Wearing you down
This is one of the most commonly used tactics. The Chinese party knows you are on a tight traveling schedule and will try to use that to their advantage. For instance, they may try to constantly introduce new issues in an effort to wear you down and extend the negotiation process. They hope you will at some point give in to their demands out of sheer frustration and time constraints. Making unreasonable demands is also part of the package. You can counter this behavior by refusing to participate in it. Also, stating that you are leaving earlier than you actually are will give them less of a chance to pressure you on time.

Consumer preferences

Successfully targeting local consumers and businesses involves adjusting your product to local market conditions in order to achieve an optimal product-market fit. Many a company has failed in the Chinese market by failing to understand the importance of localisation.

A good example of a foreign company adjusting its products is the US industrial systems and materials company Honeywell. To serve the Chinese market and other developing markets they opened a global engineering center in Chongqing with the aim of developing products for mid- and low-tier markets. Another example is Electronics giant Philips, who distributes high-end razors in first-tier cities, but sells more basic low-end versions in less developed regions.

Localising your operations also involves modifying your marketing and promotional strategies to cater to local preferences; from your brand name to your brand colours, not to mention your market positioning. Although branding is mainly important for consumer brands, it also applies to industrial companies.

Competition

To succeed in the Chinese market you will have to compete as a local company whilst leveraging your brand and advanced product knowledge. This entails having a local management team and a China-specific strategy. Although many foreign firms posses key advantages over their Chinese counterparts, they face fierce competition from local firms that design, engineer and manufacture locally, therefore benefiting from a strong cost advantage.

Marketing that emphasizes your superior quality, technologies and service can thus differentiate you from domestic competitors and subsequently justify your premium price. However, too high of price will limit your reach and will confine you to China's first tier cities where the average purchasing power is higher.

Many firms therefore prefer to produce locally in China in order to become more competitive in China and their other markets. Namely, if you move (part of) your global manufacturing to China you will have the opportunity to enjoy economies of scale and decrease overall manufacturing costs.

Your level of competition will also depend on the industry and segment you are working in. For instance, it is hard to compete in the price-sensitive small commodities industry in China whereas in more technology-heavy sectors you can differentiate on quality, technology and service.

The importance of contracts

China's legal history is short. The country started recognizing IP Rights in 1979 and a national legal framework protecting trademarks, copyrights and patents was adopted in the early 90s. The country's legal system is not as developed as in the West and should therefore be treated differently.

Contracts are not foolproof protection for your business and should be regarded as a momentarily agreement that is subject to change. Changing circumstances such as an increase in raw material prices can cause your manufacturer to increase prices within a day's notice, ignoring any price agreements depicted in your contract.

Chinese businesses in general do not consider contracts as legal and binding obligations. It is therefore crucial for Western businesses to regard contracts in China as fluid, subject to change and potentially hard to enforce. This however does not mean you do not need a contract. The judicial system is improving day by day and a solid contract will assist you in court and during disputes.

IP Rights protection in China

The key to protecting your IP rights in China is to handle it in China. You cannot rely on anything you have done to protect it abroad. In order to protect your intellectual property rights you must register and protect it locally. This should be one of the first things you do when entering the market. Even if you are not considering entering the market at this point, it would be wise to register your IP rights in China for the future. It's relatively cheap and it will save you many headaches and potential problems when you are ready to make the step.

In manufacturing there are also alternative methods to prevent IP infringement. For instance, we work with a network of trusted suppliers for manufacturing. However, if production can be divided, we try to ensure that no one party has access to the final product. We assemble the product within our own secured assembly facilities and consequently decrease the risk of suppliers attempting to copy the product.

Moreover, if your product possesses highly advanced technologies, you can consider outsourcing basic component manufacturing to China and importing your advanced components. We strongly advise you to work with a local law office to assist you in protecting your interests and handling your IP rights. There are also valuable online resources available to learn more about IPR protection and what to consider.

Check out our resources page for up-to-date information on rules and regulations in China

04. SELLING TO CHINESE BUSINESSES

One of the first questions companies who want to sell in China should ask themselves is whether or not any restrictions apply to their industry in China. Learn more about this by studying China's Foreign Investment Industrial Catalogue and find out how your industry is categorized and what rules and regulations apply.

Depending on whether you import your products or produce them locally, you will be subject to different regulations. Particular industries are heavily regulated (e.g. books and movies) and have high entry barriers to protect them from foreign competition and influence. Hence, first investigate what entry barriers you might have to deal with before moving forward.

Do your products fit in the market?

We often advise our clients to perform a quick market scan to first assess the market potential. It's relatively inexpensive and can prevent high costs or even losses in the future. Knowing your competitive environment as well as industry-specific rules and regulations will provide you with a general overview of the market.

Ask yourself:

- **Does your product fit with Chinese market requirements?**
  Is there a need for your products in the market? Or can you adjust your product to the local market?

- **Can you compete with domestic competitors?**
  Strong local competition is hard to beat unless you possess more advanced technologies.

- **How easily can your products be copied?**
  If your products can be easily copied you will lose your competitive advantage to low-cost domestic competitors.

- **Can you offer advanced technologies that are in demand?**
  China is constantly seeking advanced technologies to upgrade their working methods and system.

The Chinese government is actively trying to acquire new technologies in a plethora of industries to boost the country's global competitiveness. Advanced technologies that are in line with the government's goals consequently have great potential for future growth within the domestic market.

Selecting your mode of entry

There are multiple entry modes you can choose from. The majority of companies wanting to sell in the Chinese market will initially start working with a local distributor. If the distributor's results show potential, the next stage would be to initiate more sales activities within China by developing a local sales office. This stage might also involve localizing (part of) your manufacturing to become more competitive.

A premium price is justified if you can provide better quality, service or are a well-known brand, but too high of a price will put you out of business. That is why the majority of foreign industrial firms manufacture locally.

THE BASICS		EXPLANATION
Distributor	**Pros**	A cost-efficient way to sell in China.
	Cons	Little control over brand and products; often disappointing results unless support is provided by parent company. Distributors sell a range of products and will therefore not exclusively focus on selling your products. In addition, if products are sold at too high of a price there is a higher risk of IP infringement.
Agent	**Pros**	An often cost-efficient way to sell in China. Although some agents will expect to be able to take goods as consignment.
	Cons	Uncommon practice in China; difficult to find and manage good agents.
Representative Office	**Pros**	Low-cost, easy way to establish a presence in China.
	Cons	High running costs and cannot engage in profit-making activities. Difficult to disband and therefore not suitable if you want to expand operations. Not a viable method for product distribution.
Joint Venture		JV'S WERE A POPULAR ENTRY-MODE BEFORE CHINA JOINED THE WTO.
	Pros	Able to benefit from Chinese counterpart's network and facilities; no steep learning curve; shared risks.
	Cons	Less control; more receptive to IP infringements; high risk of failure due to culture, business and/or expectations mismatch.
Wholly Foreign Owned Company		WFOE'S ARE CURRENTLY THE MOST PREFERRED ENTRY VEHICLE.
	Pros	100% control over your operations; no third parties involved.
	Cons	A long incubation period; difficult to disband; high initial costs.

Incorporating a business in China usually requires a long incubation period together with a relatively high upfront investment. This is also the reason why smaller and medium sized foreign-owned companies prefer to work with a distributor or an intermediary such as an incubator platform that can provide a legal business license to operate under, along with shared office and back-office services.

Here we briefly discuss some of the most common entry modes for foreign companies. We do urge you to consult additional sources on which entry mode best fits your situation and not to rely solely on this information.

Incubator platforms: an attractive alternative option

In recent years alternative, more cost-efficient methods for entering the market have opened up opportunities for SME's to take advantage of the Chinese domestic market. Incubator platforms, aimed at providing firms with a competitive entry into the market, offer multiple advantages. Working under the wings of an established company makes it possible to sell in the Chinese market without having to incorporate a company yourself.

"Incubator platforms can offer invaluable advice and resources to companies doing business in China for the first time."

Willem van de Nes
Ambassador China, Royal Boon Edam

This significantly decreases costs and lead-times. It also incurs fewer risks and is an attractive option to 'test' the market before committing significant resources to your operations in China.

It is important to choose an incubator platform that specialises in your sector and that can provide you with industry-specific advice, a reliable partner-network and the resources you require. For instance, Launch Factory 88 specializes in assisting industrial B2B firms sell and manufacture in China. If you are in a creative industry e.g. marketing or design, you will probably find better options than LF88.

"We started Launch Factory 88 to give foreign SME's a competitive advantage in the market. A supported entry lowers risks, makes entry into the market more cost-efficient and shortens the learning-curve."

Gijsbert de Bruin
CEO of CHC Group

We help businesses by providing a business license to operate under, back-end services, a partner network and 16 years of experience doing business in China. This not only increases our clients' competitiveness, but also enables them to fully focus on their sales efforts while we take care of the rest.

Although incubator platforms are aimed at rapidly grounding companies in the market, they merely serve as a portal to developing your own presence. To give an example, most of our clients stay with us for 2-3 years before taking the next step.

Supporting and training your distributors

An often-neglected yet crucial part of managing your distributor network is to offer support and guidance on the ground. Having a local sales office that can train, manage and support your distributors as well as visit key customers will generate better results. This, in turn, also enables your distributors to improve and upgrade their working methods, which consequently benefits your operations. The majority of businesses in China lack effiency and professional management, resulting in higher costs and lower gains. For instance, large numbers of distribution networks lack advanced practices in inventory management and demand planning which leads to higher operational costs. Thus, nurturing your distributor network assists in the development of an appropriate channel system aimed at gaining more market share and reducing overall costs.

"Because the majority of distributors do not keep count of their sales and inventory, we are currently developing our own inventory management system for our distributors. That way we are able to receive market data that our distributors were previously not able to provide."

Nic Pannekeet
CEO Van den Berg

Being on the ground also enables you to exercise more control over your brand image and provides you with market information. It also assists in strengthening relations with your end-consumers and makes IP infringement less likely.

Working with one or more distributors

Many distributors will demand exclusive rights to your products in the market. However, this is rarely your best option. The Chinese market is fragmented and working with merely one distributor can thus limit your reach. It is vital to find distributors that are well grounded within their respective local markets in order to achieve success. Distributors will argue they have nationwide coverage but it is important to take such claims with a grain of salt. It is practically impossible to cover the entire country without working with a web of sub distributors. It is smarter to control your own distributors and sub-distributors by working with multiple partners instead of putting all the power in the hands of one party.

“Giving one distributor control over all your distribution is almost never a good idea. They can start selling alternative products to your clients once you start delivering less value to them and it also makes you vulnerable to IPR infringement. If your distributor sees market potential and thinks they can produce a similar product, there is nothing stopping them from doing it.”

Gijsbert de Bruin
CEO of CHC Group

We often see foreign companies making the mistake of trusting their newly appointed distributor (or partner) and taking him on his word. We urge you to double-check any potential partner and perform extensive due diligence before entering into a contract. We have seen too many partnerships fail because they relied on trust instead of actual data.

Expect problems and headaches

Distributors and distribution channels within China are still in their early phases of development. As a result there are many areas that can be improved upon. For instance, poor forecasting abilities cause inefficiencies and higher costs. An unsophisticated inventory management system causes longer lead-times and consequently dissatisfied clients. In addition, fragmented and complex distribution networks create inefficiencies on all levels of distribution and supply chain management. Keep in mind that China is still developing its distribution networks and that consequently you cannot rely on achieving the same efficiency demanded in more developed markets.

“Lots of companies have trouble understanding the Chinese market. And it’s no surprise why: they’re not physically there. Only their distributors are. Your own office enables you to gain control and receive real-time market information that will help your business.”

Nic Pannekeet
CEO Van den Berg

The advantages of having your own sales office

Having your own sales office on the ground offers many advantages. A local presence signifies your long-term commitment to China and provides credibility and security to your customers. In addition to being able to better support and train your distributors, a local sales office also decreases risks. Being fully dependent on your distributor network places the power fully in their hands. However, having a local presence enables you to exercise more control over your marketing promotion, stakeholders and IPR, providing you with a stronger foothold.

"Whether you are working with agents or distributors, you cannot simply expect them to sell your product the way you intended it to. In the past we had distributors who sold unsuitable solutions to our clients, who made promises we could not live up to and who were not able to communicate our unique value proposition to our leads. This does not only negatively affect your sales results, but also your brand value."

Gijsbert de Bruin
CEO of CHC Group

Another thing to keep in mind is that foreign companies are primarily able to compete based on quality, know-how and service. Therefore, not managing your own customer service but leaving it in the hands of your Chinese distributors also weakens your competitive position.

Our distributors were not able or willing to provide the level of service we normally deliver. Servicing clients costs distributors money and time and does not offer a direct pay-off, making them reluctant to provide it. Hence we took customer service into our own hands, which has worked out much better.

Willem van de Nes,
Ambassador China at Royal Boon Edam

Training, supporting and strengthening relations with your distributors and clients is important. Particularly when you develop tailor-made solutions, as is often the case, for instance, in the construction industry. One example we can examine more closely is Royal Boon Edam, a company that develops custom-made entry solutions e.g. doors and safety gates, opened several Chinese sales and support offices in order to service their clients better.

Their average client requires a tailor-made solution, and their distributors simply do not possess the in-house knowledge and expertise to provide clients with professional advice. Consequently Royal Boon Edam employs their own in-house trained professionals to discuss the project with the client, take measurements and offer a suitable solution.

Reaching out to your target clients

Sales channels in China are the same as anywhere else in the world. Depending on the industry you work in, one will be more effective than the other. Below you will find a table that shows the most favoured sales channels in China's B2B markets based on a study by B2B International.

SALES CHANNEL & EXPLANTION	
Conferences & Exhibitions	Most favored
Email	Highly favored
Websites	Highly favored
Workplace	Favored
Phone	Less favored
Post	Less favored
Networking	Less favored

Sources: based on a research by Matthew Harrison and Mark Hedley for B2BInternational

As can be seen from above table, conferences and exhibitions are most favoured by Chinese companies. However, as mentioned earlier, it's important to research exhibitions beforehand.

CASE STUDIES

Royal Boon Edam

Royal Boon Edam is a global market leader in entry solutions. Their products such as revolving doors and access gates are widely used in hotels, office buildings and airports. Established in 1873, they have over 140 years of experience and are active in more than 55 countries.

Entry into the market

Royal Boon Edam first set foot in China in 1986 through a distributor in Hong Kong. In 1998, the company decided to setup a JV with a partner in Beijing. During that time Beijing seemed a logical first step; the upcoming Olympics combined with a boom in construction offered Boon Edam a string of opportunities.

Not long after, they developed their own manufacturing facilities in order to compete more effectively on price and strengthen their relationships with the local government. Fast forward 10 years later and Boon Edam has 22 sales & support offices scattered over China. China is not only their largest market, it also shows the most future potential according to Willem van de Nes, ambassador of Royal Boon Edam China.

The development of a local sales operation

Royal Boon Edam first attempted to develop the Chinese market using a network of distributors. However, due to their distributors' inefficient working methods they incurred high costs in addition to disappointing sales results. Also, distributors were not always willing or able to provide their clients with the service they needed. Recognizing the need to adjust their strategy, they subsequently developed their own sales and support offices; starting with Guangzhou, Shanghai and Beijing, followed by smaller cities in China's growing regions.

They consistently train all their office managers within their HQ in Beijing and delegate much of the management to their local offices. Willem said that attracting Chinese employees with strong local networks has helped them significantly in their sales efforts. They also work with a network of free-lancers who serve as a gateway for getting in contact with local decision makers. Willem stressed the importance of having a local network, particularly in China's less developed regions.

Competition

Royal Boon Edam experiences strong competition from both foreign and domestic companies in China. However, they tend not to focus too much on their competitors. As Willem noted "We have many local competitors and even copy-cats, but we are not too concerned about them. We focus on maintaining a high level of quality and service and that's what sets us apart. Moreover, many companies eventually turn to us after disappointing experiences with counterfeits and low-quality domestic products."

Tips and advice

Willem van de Nes provided several pieces of advice to companies wanting to sell in the Chinese market:

- **Be on the ground with your own office**
  Chinese companies prefer to work with companies that have a local presence because it shows their commitment to China. A local office also provides you with on the ground knowledge and more flexibility.

- **Focus on quality and service**
  Domestic Chinese companies often lack in the areas of quality and service. Willem noted that their relentless focus on quality and service is what distinguishes Royal Boon Edam from its competitors. And this strategy seems to work for them, as more and more Chinese companies and customers are valuing quality and service over price.

- **Train and support your network**
  Although Royal Boon Edam decided to eventually stop working with distributors, they constantly train and nurture their network of stakeholders. This in turn, helps their sales offices to better serve their clients.

- **Use a top-down approach when negotiating**
  After years of experience negotiating with Chinese companies Royal Boon Edam learned that the best way to negotiate a deal is by directly talking to the highest decision maker. This eases the negotiation process because you will not have to deal with red tape as much, which significantly speeds up the negotiating process.

Van den Berg Roses

Van den Berg (VDB), member of the CHC Group, has been active in the flower business in China since 1994. Despite being foreign-owned, it has grown to become China's largest flower producing company and a dominant player in the horticulture business. VDB possesses 200.000m2 of high-tech production facilities in Yunnan and sales offices in Kunming and Guangzhou.

The development of a local sales operation

VDB was setup in China by Nic Pannekeet, co-owner of the CHC Group, and focused on only selling in the Chinese market from day one. Although the company also sells flowers abroad, the vast majority of their customers are located within China. They initially started selling by recruiting a small local sales team whilst simultaneously developing a nationwide distributor network. Currently the company employs over 300 people that control a network of over 200 distributors.

However, they are planning on reducing the amount of distributors per city in order to have more control over their brands of flowers and to focus their resources more on direct sales. Their biggest markets are located in China's richer coastal regions, however they see much potential in less developed regions as well. The problem is educating their distributors; in the country's less developed regions price still triumphs over all other aspects. The majority of times distributors are therefore forced to sell the aspect of a low price to consumers, although it is the quality of flowers that sets the company's brands apart. Educating the market is therefore one of the company's top priorities.

Competition

China's flower industry is still in its early phases and most companies are small, family-owned businesses that lack the necessary technology and know-how to produce high quality flowers. As a result, VDB experiences little competition from domestic competitors.

In addition, VDB can make use of economies of scale, whereas small business-owners cannot. The company also uses multiple sales channels and strong marketing practices to reach its customers. For instance, VDB sells through online and offline distributors, possesses its own sales offices and employs mobile marketing to educate the market and strengthen their brand positioning. Marketing is a relatively new concept in China, especially in the flower sector. As a result, marketing promotion has helped VDB strengthen its position in the market relatively easily. Due to the company's more advanced technologies and working methods, in combination with its marketing efforts, it now enjoys a strong competitive position.

Tips and advice

- **Demand upfront payments**
  It is customary in China to demand a full upfront payment before the shipping of goods. It is also strongly recommended.

- **Do not underestimate the power of marketing**
  Many foreign-invested companies tend to underestimate the importance of marketing in the Chinese market. The majority of domestic companies undervalue marketing, therefore creating ample opportunities for foreign companies to use their advanced marketing practices to secure a strong market positioning.

- **Educate and train your distributors**
  Although domestic distribution networks have improved considerably in the past decade, distributors still tend to use inefficient working methods resulting in higher operational costs and longer lead times. Chinese are also used to selling based on price, not on value. Training your distributors how to correctly present the unique benefits of your products and services can therefore provide a strong boost to your sales efforts.

THE 5 MOST COMMON MISTAKES

More and more foreign companies are advancing into China to profit from the country's growing domestic market. Where else in the world are you going to find a population of 1.3 billion, a growing middle class and a GDP growing at 7 to 8 percent? Yet many foreign companies are struggling to win the hearts of Chinese consumers and businesses. Here are several common mistakes we see foreign companies make in the Chinese market.

Targeting China as one large, unified market

Just as you cannot target the whole of Europe, you cannot target China as one big market. China has over 600 cities, 22 provinces and is the third largest country in the world. Choose your target markets wisely; start small, learn, then adapt as necessary.

Implementing an international strategy in the Chinese market

Employing a global 'one-size-fits-all' marketing strategy is often destined for failure in China. Understand your customers and develop a China-specific strategy. Employing a global strategy yet refusing to delegate some of the decision making process to the local management team has been the cause of many problems and misunderstandings. Develop a strong local management team and manage your day-to-day operations from China, not from abroad.

Not adapting product to local market requirements.

Regardless of the industry your company is active in, your product or service will have to be adapted to fit with Chinese market requirements. Volkswagen, for example, sells car models that are only available in the Chinese market, KFC offers rice meals and Pizza Hut positions itself as an upscale foreign restaurant.

Poor management of distribution network

Market entry through working with a distributor is a cost-efficient and fast method to sell in the Chinese market. Particularly smaller companies who do not possess the resources to setup sales offices can benefit from working with distributors. However, often the mismanagement of distributors is what causes poor sales results in the Chinese market. In order to get the most out of your distribution network you need to be able to offer support and training on the ground. Poor management of your distributors will not only make you lose control and visibility over your sales and marketing, it can also have implications for your IP rights protection. Setup your own sales/support office to get the most out of your distributors and protect your IPR.

Not understanding China's business environment

Although there is a growing demand for high-quality foreign products, the local competition is fierce and will outperform you unless you have a strong understanding of the local market and are able to navigate through an environment that is different from your own. For that reason we always stress the importance of having a local staff to assist you in your efforts. It is also important that the parent company understands the complexities of China's business environment and consequently employs a flexible approach to doing business.

MORE INFORMATION & REPORTS

Are you interested in learning more about selling in the Chinese market? Subscribe to our newsletter to receive complimentary articles and tips on doing business in China. Also, don't forget to follow our blog for the latest updates.

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ABOUT US

Launch Factory 88 assists foreign-owned industrial companies gain a strong foothold in China. Our solutions provide a cost efficient market entry into China or expansion into the Chinese B2B markets. Leverage our B2B Sales Program to develop your Chinese market potential and localize your manufacturing using our in-house expertise and facilities.

LF88 is part of the CHC Group, which was established in China in 1998 by two Dutch entrepreneurs and currently employs over 500 people locally. Launch Factory 88 builds on the experience and knowledge our group has gained in the past 16 years of doing business in China.

Our company's own success in a diverse range of industries is what sets us apart from the rest; we are the biggest flower-producing company in China, we organize the largest annual aqua-technology trade fair in the world and we have helped over 100+ companies successfully develop their products in China.

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