

TAKING THE PLUNGE: DOING BUSINESS IN CHINA

Let's say you're taking skydiving lessons. It's unlikely that most of your questions would focus on how you get on the plane. Let's face it, when you're plummeting to earth at more than 100 miles an hour, you're going to have other issues on your mind; likewise for doing business in a place like China. It's important to know what questions to ask and which risks deserve your attention.

Often when we speak to companies about their strategy for China initially the conversation will focus on the basic how to's: How do I start a company? How do I find an agent? How do I open a bank account? These are important questions, don't get me wrong. In fact, at PNC we help clients answer these questions. But these are not the issues that will slow you down or knock you off track in China.

TOP THREE CHALLENGES IN CHINA

There are three major issues that can really knock you off track in China: the wrong strategy, the wrong partner and poor management. If a company has challenges in these areas, more often than not it's because they have failed to adequately adjust to the local conditions in China. The operating environment in China differs from that in the United States. The operating environment can be broken down into three categories:

Economic structure. China is transitioning from being a centrally-planned communist economy to a free-market-oriented capitalist economy. This transition is being rolled out unevenly across

different sectors and different regions within the country. This could have profound implications on how you do business in China.

Business environment. The rule of law and the role of government in China is very different from what we're used to here in the United States.

Cultural differences. Culture can have very broad ramifications on your business strategy in China from everything dealing with management to how consumerism, customers and buyers make decisions. There is no shortage of examples of how companies have struggled with these particular challenges. Everything from the large high-profile consumer-oriented company that entered China in the mid-2000s and then exited abruptly three years later — having failed to take into account how cultural factors impact the way consumers make decisions in China versus the United States — all the way to companies of all sizes, big and small, who report that in China their number one challenge is management, the most visible manifestation of which is high turnover rate particularly at the management level that can impact everyone.

Four general managers in six years, three general managers in three years, two general managers in a year and the second general manager may have helped himself to some of the company's money—These are the kind of stories that you hear all the time as companies try to adjust to the local conditions in China. But it's not all doom and gloom. In fact, surveys consistently reveal that 80 to 85% of foreign companies in China are profitable and a similar number are optimistic about the future of their businesses in China.

MAKING ADJUSTMENTS

China is very doable, but you have to be cognizant of the adjustments that you make to achieve success.

Doing business in China requires making adjustments. The adjustments that need to be made are similar to how a golfer approaches a new course. A professional golfer takes the same clubs and prepares to swing the same way in any tournament they're in. However when entering a new tournament or playing on a new course, no professional golfer would do so without playing a couple of practice rounds. It's important to understand how the greens and fairways play. On a particular hole do you lay up or do you go for the green? Do you play above or below the hole? Knowing the answers to these questions is the difference between scoring below par and making the leader's board or scoring a plus eight and not making the cut.

Everything that you do in your business, everything that you know about business is most likely going to serve you well in China, you can use it. However, you might have to adjust it slightly, maybe the pace at which you implement it or a slight tweak here or there to make sure that it fits in with the local conditions in China. If you take all of your skills and strengths to China and understand how to modify them, then you're most likely going to be one of those 80 to 85% of companies who are very successful in China.

If you have questions about how to approach doing business in China whether it's a basic how-to, complicated how-to or a desire to better understand the local conditions for success, please contact your Relationship Manager or visit pnc.com/ideas.

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