Slaying the dragon: How to do business in China

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Any company operating on a global scale needs to have some kind of presence in or with China. But as many of the bigger multi-nationals have come to realise - doing business in China is not as simple as 1-2-3. Experts say that gaining the right inside knowledge and sharpening up negotiation skills are keys to success.

The Chinese economy is currently the second biggest in the world - after the US - and despite some indications of slowing down, it is still, at 7,7%, growing at a rate most countries envy. But the Economist cautions that while the Chinese market is still the most enticing on the global stage, it is not that easy to gain entry - and succeed in this market.

While many companies have been able to generate good profits in China - companies like GM and Apple have done well - others, like computer giant Yahoo and cosmetics powerhouse L'Oréal, have struggled. As GE CEO Jeffrey Immelt has said: "China is big, but it is hard...[other] places are equally big, but they are not quite as hard."

Doing business in China often requires fancy footwork and reading lots of small print - in a foreign language - dealing with complex legal systems, stringent regulations and a host of niggly requirements particular not only to the country, but to a specific region. Then there is the need to acknowledge there are cultural issues which need to be understood if not totally accepted. Ways of doing business are again often peculiar to the country and region.

Local firms in China have also stepped into the market, increasing competition and making operations significantly harder for foreigners. Despite these complexities, most global commentators agree that having a presence in China has to be part of the game plan of international business.

"Any company that wants to operate on an international basis has to have some dealings with Asia and China," says Rodney Man, professor at the Business School of the Hong Kong University of Science & Technology, one of the top tier business schools in the world.

Man, who currently convenes an executive short course on doing business in China at the University of Cape Town Graduate School of Business, is an expert when it comes to doing business in China. Apart from his academic career he has 16 years of working in China on joint ventures and business partnerships. While some of the issues in dealing with China may be the same as with other emerging market countries, there are also subtle differences and complexities, he cautions.

"It is very important that one knows and is aware of the advantages that come with doing business with China as well as what to look out for," says Man. He warns that foreign companies seeking to do business in China should not rely too much on the legal system in the country to protect them, as it is still evolving, but should focus on structuring their deals in a way that leaves as little reliance on litigation as possible.

Getting reliable information and official statistics can be another obstacle, so it is often difficult to get proper verifications. "China is vast, there are different laws and regulations for each region, which are also interpreted in different ways. There is a difference between the local and central government and you need to understand this and know how to go about," says Man.

Many companies, like UK retailer Tesco, have solved the problem of navigating the complex business waters in China by turning to joint ventures. Experts praised the move by Tesco to partner up with China Resource Enterprise (CRE), a huge Chinese company with 4100 stores under 10 different retail brands. Even though the Chinese grocery sector is the largest in the world, Tesco by itself was unable to succeed in the country due to high staff turnover, amongst other problems.

Other successful Sino-foreign joint ventures are BASF-Sinopec, and also Volkswagen with Shanghai Auto. In both cases, identification by each party of the other as a potential joint venture partner proved vital, even before the long and arduous task of successful negotiations was undertaken.

"Statistics show worldwide that less than 50% of all joint ventures are successful and in China, there is an even greater rate of failure. You need to give yourself a better chance of success by gathering as much information as possible, to ensure you are adequately prepared and able to negotiate the best deal. Joint Ventures of course are not the only means of entry to the Chinese market. Most companies choose to enter as wholly-owned foreign ventures; in these instances there is less reliance on help from your potential joint venture partner, but you need to do more preparation on your own. In both cases, there is no substitute for adequate preparation, and for making timeous decisions when opportunities arise."

It is for this reason that Man says the UCT Graduate School of Business course on Doing Business in China focuses intensely on the major practical issues that underpin a successful negotiation. There is also attention on how to structure a deal effectively and how to handle oneself in the negotiating session to establish the right rapport straight off the bat.

As Man points out, "You want to make sure that your negotiation is successful as there is a high cost to failure. It is not only the time and money spent making the deal but if it fails, everyone knows about it and you next deal will be more expensive."

Talk may seem cheap but acquiring the right negotiation skills and business know-how can be the key to saving your company a lot of money - and ensuring a successful business future in China.

For more information on the Doing Business in China course, which will run from 16 to 18 July contact ann.wium@gsb.uct.ac.za.

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