

Thinking about doing business in China?

Many companies are thinking of starting to do business in China. Many already have started. This is to those of you who are still thinking about it. Maybe you are just now thinking “China”.

Certainly there has been a lot of focus on China the recent years. “The future is in China”. China will overtake the US as the world’s largest economy in less than 10 years – and so on.

But this does not justify in itself to begin to do business with China. And the impressive figures, growth rates, number of consumers, buying power etc. also in itself does not justify a “yes” to do business in China.

Actually all this hype can easily lead to loss of perspective and focus. Knowledge and analysis is definitely demanded to make as rational decisions as possible.

Also there is this common misunderstanding that China is only for LSE’s – Large Scale Enterprises. Many think that if you do not have minimum 1 billion € in annual revenue and over 2.000 employees then China is not for you. This is wrong. There are a lot of brilliant opportunities for SME’s (Small & Medium Sized Enterprises) in China.

Especially on the background that the EU market is stagnating in very many sectors China could prove to be worth a go. In fact quite a number of SME’s are simply forced to look for other opportunities. In terms of consumers we are looking at about 1.3 billion in China.

The old view on China just being a low-cost place for manufacturing – the factory of the world – is simply outdated. A new middle class with a growing appetite for western products offers really good market opportunities for many EU based SME’s.

As an example the Danish fashion producer Bestseller have this new middle class as the target group for brands like Vero Moda, Only, Jack & Jones and Selected. In less than 10 years more than 4.000 shops have been created. The number of employees exceeds 30.000.

The Chinese middle class that can afford to buy the quite expensive Bestseller products is estimated to be around 400 million people. Estimates say that China will have around 53% of the world’s middle class by 2030 – around 700 million people.

The Danish shoe producer ECCO also selling quite expensive products operate around 500 ECCO shoe shops in China and the number is growing all the time.

On top of this it is worth noting that China has a very young population – unlike most of the EU countries. So investments in the young generation will pay off for many years if you can make the Chinese customer loyal ambassadors for your products.

Still – China is not for everyone but China is a lot more accessible today than it was 10-15 years ago. China surely is an interesting opportunity for many European companies; but China does not come quick, easy or cheap. To lay the ground-work takes years and a lot of money. Compared to

entering other places it will take more years to earn a profit in China than most other countries. But then again the potential is immense.

The Chinese Business Environment

China has an extremely complex business environment. The social, legal and political environments are extremely different from those we know from Europe. From a cultural point of view it is indescribably difficult. And corruption is not just something we read about but a matter of fact that cannot be ignored.

Setting up operations in China is costly, risky, and tough. It takes a lot of hard work and in most cases the progress is slow.

The conclusion which most businessmen having done business with China would agree in is:

1. You need to have patience
2. You need to have persistence.
3. You need to have plenty of resources

If you do not have the means, if you are not willing to invest a lot of time and money and also prepared to take a loss, you simply should stay out and look elsewhere.

If you on the other hand still see some potential in China then this case and accompanying E-learning module is meant to help you get around the worst failures in dealing with Chinese business men.

Please notice! You will not become a China savvy just on this case, but hopefully you will get started and inspired to transfer the experiences, the good advice to your own company.

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Introduction

The following case focuses on Chinese business culture. The case story is developed in co-operation with the Danish company Interfocus.

Interfocus is an advisory company helping mainly Danish companies to internationalize. Interfocus can help a company through various barriers when trying to expand abroad. The company has a lot of accumulated knowledge about Eastern Europe, Russia, India and China.
(<http://www.interfocus.dk/en/home.html>)

When starting up business with China there are hundreds of problems a company can encounter, but the main problem according to Interfocus and this is supported by others also doing business in China is focuses around the Chinese business culture. The following case therefor is built around this problem.

Of course there also are other types of problems if European companies want to do business in China in either sourcing or selling. But these types of problems will normally be very company specific or product specific and thus not suited for a case study aimed at a broader range of SME's.

For the narrative purpose of the case a story is developed within the context of a company called *BLUE//Design*.

Brief presentation of *BLUE//Design*

The Danish company *BLUE//Design* was started 15 years ago by Sussie Jones. Sussie Jones was 35 years old when she started her company and in the following 15 years she has managed to build up a very successful business selling home accessories like bowls, vases, dishes etc. in contemporary Scandinavian Design. The main markets are Germany and the Scandinavian countries.

BLUE//design does not produce; it is a trading company. All the products in the product mix are produced by sub-suppliers from a number of countries.

In the beginning Sussie Jones was the chief designer. Today she is full time CEO of *BLUE//design*. For the designing she has hired 2 designers and she also uses external designers.

All the other functions in *BLUE//design* are carried out by the permanent staff of 15 people.

One of the staff members is Daniel Andersen who is an Assistant Sales Manager, 28 years old.

Case Summary:

For the last couple of months *BLUE//design* had been in contact with a very promising Chinese company, *China Star*, concerning a production of small bowls. It was Sussie Jones herself who got the contact to the Chinese company through a close friend, who previously had done business with *China Star* very satisfactory.

The friend personally introduced *BLUE//design* and Sussie Jones to the CEO and owner of *China Star* Liu Jin just 3 month ago. Sussie Jones and her friend were part of a group delegation of Danish business people that were in China to visit fairs. During this visit the friend personally arranged for Sussie Jones and Liu Jin to meet.

The plan originally was that Sussie Jones should have traveled to China to meet with *China Star*. Everything actually had been arranged by the Chinese supplier. The Chinese had taken care of all the practicalities around accommodation, program, visits etc. but because of unforeseen problems with a customer in Germany Sussie Jones had to cancel her trip to China.

That is why Assistant Sales Manager Daniel Andersen was called in to take over the visit to China. He was thoroughly briefed about the visit, the purpose, the negotiations etc. and had got authority by the owner of *BLUE//design* to close the contract with the *China Star*.

Daniel Andersen did not have any prior experience with business meetings in China and in short he was very surprised by how the meetings were done and not very satisfied with the outcome of the meetings.

Case Story Episode 1 – Daniel Andersen’s Arrival in Beijing

Daniel Andersen was about to take his first trip ever to China to meet a potential supplier of products for the company *BLUE//design* where he was employed as an assistant sales manager.

For the last couples of months The CEO and owner of *BLUE//design*, *Sussie Jones*, had been in contact with a very promising Chinese company, *China Star*, concerning a production of small bowls in bright colors.

Sussie Jones had got the contact to the Chinese company through a close friend, who previously had done business with *China Star* and who was very satisfied with the cooperation.

The plan originally was that Sussie Jones herself should have traveled to China to meet with the Chinese supplier. Actually everything had been arranged by the Chinese supplier. *China Star* staff had taken care of all the practicalities around accommodation, program, visits etc. But because of unforeseen problems Sussie Jones had to cancel her trip to China.

That is why Assistant Sales Manager Daniel Andersen was called in to take over the visit to China. He was thoroughly briefed about the visit, the purpose, the negotiations etc. and had got authority by the owner of *BLUE//design* to close the contract with the Chinese partner.

Daniel Andersen in advance had sent a mail to *China Star* outlining the agenda for his meeting. One of the important issues in the agenda was to negotiate a price reduction.

When Daniel Andersen landed at the airport in Beijing around 10.30, he was picked up as promised by the Chinese company. In the arrival hall he was met by Chen Hu who was a sales manager in *China Star*.

Chen Hu greeted Daniel Andersen welcome and as the very first thing he presented his business card to him. Daniel actually was surprised by meeting Chen Hu. Before he left Denmark he was told that the CEO of the *China Star*, Liu Jin would meet him in the airport. He made a remark about this to Chen Hu but without any response. Daniel Andersen then he took Chen Hu’s business card and put it in his brief case, thinking to himself that he had never seen any business card so ugly. Red background, golden letters and a kind of company monogram. Very Chinese he thought to himself.

The drive from the airport to the *China Star* premises would take about 4 hours Chen Hu told him. The drive was done in a *China Star* company car, an Audi A8 with blackened windows, company flags, leather seats etc. Normally only the CEO Liu Jin used this car and driver.

Chen Hu spoke very well English and started to tell a lot about the area they passed on the drive. Actually Daniel was not that interested in what Chen Hu told him. He found it to be quite trivial and uninteresting and most of all he was tired from the long flight, but he asked a few questions in return and politely pretended to be interested in Chen Hu’s telling about the area.

After a couple of hours drive Chen Hu said that he had planned for them to take a break and eat lunch on the way. Daniel knew he was on a tight schedule during his visit in China and the program

he had seen said nothing about a lunch. And besides that he just had eaten a somewhat large breakfast on the airplane.

“Sorry Mr. Hu but I think we should drive directly to your company to get our meetings started”, was his reaction to Chen Hu. “I just had breakfast in the airplane and I am not hungry now”.

To Daniels annoyance which he did not try to hide, they ended up at a restaurant anyway because Chen Hu already had made the plans and also the driver needed a break he said.

The lunch was very good. Certainly Chen Hu had done everything in his power to give Daniel a good first impression of China. They got a lot of small, very delicious dishes; most of them totally unknown to Daniel.

All the time when a new dish came in Chen Hu eagerly explained what it was and it was clear that Chen Hu tried his very best to make it an enjoyable first experience for Daniel to eat Chinese food.

Being quite fond of food Daniel actually enjoyed the situation. Only a couple of times he said no thanks to some dishes because they were too strange for him. Pig’s feet and chicken feet for instance he did not like to try. Chen Hu clearly was astonished by Daniel not wanting to eat some of the food. He explained several times to Daniel how well pig’s feet taste.

When back in the car Daniel felt better and he started to ask Chen Hu about China. He asked a lot about the political situation? About Tibet? Chairman Mao, and so on.

To Daniels surprise Chen Hu hardly knew anything about the Chinese political situation and only gave very brief and very general answers. Often he would use the phrase “complicated” as an answer to some of Daniels questions.

A few hours later they arrived at the factory. The driver gave Daniel his suit case. Daniel shook his hand and thanked him saying he was an excellent driver.

Case Story Episode 2: The first Meeting

Chen Hu accompanied Daniel into the office buildings and to the conference room. Here Daniel Andersen was introduced to three other members of the management of *China Star*, but to his surprise there was still no sign of the CEO Liu Jin.

All the participants in the meeting greeted Daniel welcome to China and presented the same kind of business card as Chen Hu. And they all gave their cards to him in a strange way he thought, using both hands to hand him over the card. Again Daniel thanked for the welcome and put all the cards into his brief case.

When they sat down Daniel then found his business cards and passed them on to each of the Chinese managers and he also gave one to the secretary present.

Daniel noticed that they studied his business card quite a lot. They are impressed with the design he thought. Typical Danish design: A white card and very fine lined special designed letters in blue color to underline the design aspect of his company. Here the Chinese could learn something he said to himself, thinking about the very colorful and old fashioned design of their business cards.

“Are you related to the story writer Hans Christian Andersen”, one of Chinese persons asked. Daniel could not help smiling and said no to the question explaining that Andersen is a quite common name in Denmark, and that Hans Christian Andersen actually is more famous outside Denmark than in Denmark, especially among younger people like himself.

“But you know his stories”, the same person asked. Daniel explained that when he was at school he had read some of the stories but that he rather would read English or American detective stories than Hans Christian Andersen. Daniel could see that his answer caused surprise and disappointment although he did not understand why.

One of the Chinese managers made a signal to start the meeting, and asked Daniel if he would like something to drink during the meeting. Daniel asked for coffee but to his surprise, he was not able to get coffee. Only tea or water he could get. Daniel then settled for tea like most of the others. No coffee, that would have started a revolution back home, he thought to himself.

The tea was good though and some small talk among the Chinese people and him was started. They wanted to know how the weather was in Denmark at time of the year. Do you have a wife? Do you have children? What job do your parents have? And so on. Especially Chen Hu asked him many questions.

Daniel of course answered their questions but also he got somewhat impatient and several times he took a look at his watch.

After about half an hour one of the Chinese people, Wang Wu, who was Vice President of *China Star* gave sign to start the business discussions. After welcoming Daniel to China with the hope of long lasting future cooperation and friendship, Wang Wu gave the word to Daniel.

Daniel started out by a few words of introduction and gave his greetings from Sussie Jones, explaining that she was sorry not to be able to attend, but she had to travel to Germany to meet with a very important customer.

When Daniel was doing this, the door to the conference opened and the CEO of *China Star*, Liu Jin came into the room. All the Chinese people quickly rose from their seats and nodded very politely to him.

Liu Jin asked everyone to please sit, and then he went to Daniel to greet him. Again Daniel got a business card the same way; two hands and the text facing towards him. Also Liu Jin started to ask him about his trip. If he had been to China before? About the Danish weather. Actually the same questions they just had been asking, Daniel thought to himself.

About 20 minutes went with that before Liu Jin said to Wang Wu to carry on with the meeting. When Liu Jin sat down the secretary quickly placed herself next to him.

Daniel did not quite understand what went on. Why did Liu Jin show up this late he thought and why did he not take charge of the meeting. They were more than one hour behind schedule and he started to get more and more impatient he could feel.

All the time while the meeting was progressing Liu Jin did not take a very active role. Actually he seemed to have very little interest in the discussions. And again and again he was called outside, or he answered a phone call or had to sign papers. Daniel was confused to say the least and he could feel the frustration inside and that he was beginning to lose focus, because of all this.

Suddenly Liu Jin asked him when he should return to Denmark again. Daniel answered that he should leave again from Beijing International airport in three days, and that there was many more things they had to do before he went home.

According to the program he had got in advance, the meeting should have started at 14.00 but because of the lunch in between they first started one hour later, and now the time approached 16.00. And without any conclusion to anything Daniel thought. We are just talking, no concrete decisions are made. It seems impossible to get the meeting to progress Daniel frustrated thought.

Close to 18.00 Liu Jin said that it was time to end the meeting and to continue the next day. Daniel was kind of relieved. He did not feel he could get anything done. The price issue which to him was the most important issue they had not even touched upon yet. Also Daniel could feel the long travel in his body and he was kind of longing for a bed in his hotel.

“Chen Hu will accompany you to your hotel”, Liu Jin said. “And afterwards he will take you to a restaurant where we all will meet for drinks and dinner. We have arranged something very special for you. I hope you like Chinese food”, he continued.

Daniel tried to say that he was very tired but he soon realized that he just as well could play along and join his Chinese hosts for dinner that night.

The dinner actually went quite well. Everyone was in a good mood and Daniel talked a lot with them, especially with Chen Hu, who by far was the best to speak English in the group.

They started out with some very large but very nice tasting drinks. Then they got a lot of very delicious food, definitely not cheap Daniel said to himself. Most of his Chinese host preferred wine to the food but some joined Daniel for beer. And Daniel drank more beer than he would have done at home because the second after he had finished a beer the waiter served him a new one.

The same happened with the food. As soon as his plate was empty one of his Chinese host served him more food. Contrary to the lunch Daniel this time tried to taste all the dishes served. Some of the food tasted great and Daniel could feel the satisfaction among his Chinese hosts when he praised the food.

Around 10 o'clock in the night Wang Wu went to the DJ and started to sing karaoke. The others applauded him enthusiastically. Also the rest of the party except for Liu Jin performed karaoke. Of course they also wanted Daniel to perform but for once he succeeded in saying no with the excuse that he was a really terrible singer.

At midnight the company car arrived and Chen Hu brought Daniel back to the hotel. Although very tired and somewhat dizzy from too much beer Daniel thought back on the day, the meeting and the dinner. He was frustrated of the little result he had had in the meeting, but he hoped that he would have more success tomorrow and be able to involve Liu Jin in the negotiations.

Case Story Episode 3 – Meeting on the price issue

The meeting next day went better in Daniel's opinion. Again Liu Jin joined the meeting after the starting time, again he was not very active, but now and then he spoke his opinion, mainly in English but very often also in Chinese. Daniel clearly had noticed that the English Liu Jin spoke was not very good and he thought this was the reason why Liu Jin also spoke in Chinese.

One of the issues on the second day meeting was the new bowl that *BLUE//design* wanted *China Star* to produce for them.

Daniel explained about the product and underlined that quality was extremely important. He had brought all the blueprints needed to do the production. This issue went very well Daniel thought. Everyone nodded, everyone agreed to everything he asked for. Yes, they could produce in all colors. Yes, the deadline was no problem. Yes, he could be sure about the quality. Actually "yes" to everything Daniel happily noticed.

After having had a lengthy lunch, Daniel was shown around in the company, the offices, production etc. The Chinese hosts were particularly proud when they showed him some of the products they were able to produce. And Daniel certainly felt relieved because he saw really good quality products.

The last issue on the agenda was about the prices offered by *China Star*. Sussie Jones had asked Daniel before he left Denmark to do everything he could to negotiate a better price than the one *China Star* had offered.

Daniel was really keen to prove to Sussie Jones that he would be able to negotiate the prices down. He opened the issue by explaining the problems *BLUE//design* would have if the price was not decreased. In his opinion a 30% decrease in price would represent a fair compromise to both parties he argued in the meeting.

When the discussion on the price began Liu Jin was called out of the meeting room to deal with something pressing. The main person participating in the discussion therefore was Vice President Wang Wu.

Daniel soon felt he was in the same situation as the first day. No response to his arguments, no actual discussion on the price issue. Wang Wu almost all the time responded to him with a “very complicated” or “too complicated” or “we can just not do it that way”. Also he argued a lot about deadlines to reject Daniels demand for a price decrease.

Daniel never understood what he meant; he never got any real explanation on this about deadlines. The situation were not made any better because of the fact that Wang Wu spoke English with a very distinct Chinese accent making him very difficult to understand.

Daniel got more and more frustrated as the price negotiation went on. He tried though to keep calm remembering that Sussie Jones specifically had instructed him not to lose his temper. But at one point it simply became too much. Daniel got up from his seat. With an outburst and with a very angry face and voice he said, that maybe it would be the best to stop the meeting now and to break off any future cooperation between *BLUE//design* and *China Star*. Obviously *China Star* was not very interested in doing business with blue design, he scolded.

Since Chen Hu was far the best in English he addressed him directly and asked for a final decision; yes or no to a price decrease. As Daniel expected Chen Hu was reluctant to answer and there were some moments of unpleasant silence in the meeting room.

Finally Wang Wu said something. He gave a long explanation on the situation and why it was difficult for *China Star* to offer a better price – again using the word “complicated” a lot as the main explanatory reason. But it all ended up in Wang Wu offering a 20% price decrease to Daniel. Daniel was disappointed but accepted the price proposal from Wang Wu and everyone around the table looked relieved.

In about the same moment Liu Jin came back to the meeting. Wang Wu said something to him in Chinese and Daniel could see Liu Jin smile. Then he addressed Daniel directly and said that he was happy that the negotiations had ended with a satisfactory result and that he looked forward to the future cooperation between *BLUE//design* from Denmark and *China Star*. Unfortunately he now had to attend a meeting in another company and he therefor would say good bye to Daniel. Then he left and Daniel did not see him anymore.

The rest of the afternoon the meeting went on in a relatively constructive matter Daniel thought, and the meeting ended by signing all relevant papers.

According to the program the meeting was supposed to stop at 14.00 the second day, and because of that Daniel had made plans to do some sight-seeing in the city.

It therefore came as somewhat a surprise to him when Wang Wu told him that he had arranged a visit to the local Trade Association Club to meet some of his colleagues from other companies that he believed could be of interest for *Blue Design*. Daniel quietly sighed but thanked Wang Hu for his initiative. He thought he could participate in the meeting with Wang Hu’s colleagues for a few hours and then head for the city.

The meeting at the Trade Association Club was very good. Wang Wu introduced Daniel to many new contacts and Daniel felt sure, that some of them *BLUE//design* later would contact for future business.

Case Story Episode 4 – Back in Denmark

Back in Denmark Daniel had a meeting with Sussie Jones. He told about his negotiations; how they had been difficult but that China Star had guaranteed him no problems with quality, color delivery time etc. And he was also proud to tell that he had negotiated down the price by 20%.

Some weeks later *BLUE//design* received the first shipment of vases from *China Star*. Daniel was eager to see the products and he went to the stock room where all incoming goods were unpacked and quality checked.

Daniel was shocked when he saw the vases. The shape was not like the blueprints showed and the colors were not the same colors he had asked for.

And just to make the situation even worse the prices were not decreased by the 20% Wang Wu had promised.

“I do not understand this” Sussie Jones said to him, when she saw the vases from China Star. “Did you not give China Star the blueprints and the color samples”, she asked. “And what about the prices Daniel? You told me that you had negotiated a 20% discount”, Sussie Jones displeased asked.

Selected references:

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