



MARKET ENTRY CHALLENGES FOR EUROPEAN SMEs IN CHINA: LESSONS LEARNED

Public Summary

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*Study based on **critical incident methodology**, analyzing **13 crucial situations** along **four market entry process phases**: market evaluation, entry planning, entry implementation, local operations (see illustration).*

The motivation to enter the Chinese market should not only be low cost production opportunities which might diminish faster than expected. It is more likely that the increasing customer spending power can stimulate the growth of any company – including Swiss SMEs - substantially.

Study Background and Approach

After the economic reformations in the late 1970, China has emerged to one of the fastest growing economies worldwide. While in the early stages foreign companies entered the economy for low-production-cost reasons, nowadays the motivations of European SMEs for a market entry have changed. The strong increase of prosperity and purchasing power has become an important incentive to enter the Chinese market. According to many researchers the second largest economy worldwide is on its way to become the largest and cannot be ignored by Western companies anymore - including Swiss SMEs.

Nevertheless, the market entry into China is quite difficult and challenges foreign companies in multiple dimensions. China is the most complex and competitive market worldwide and therefore a profound knowledge and trustworthy experiences are required to enter the market successfully.

A research team of the University of St.Gallen in collaboration with students from the EBS University of Business & Law has analysed fundamental challenges for SMEs imposed when entering the Chinese market. This public summary provides some take-aways including which incidents along the four market entry phases are a) most important for the market entry success and b) most complex to address by executives of SMEs.

Take-Aways

- The study participants stress the necessity of strong networks and trusting relationships in China as well as the time and investments they require.
- Governmental influence and legal aspects in China are major concerns for the managers of SMEs. The understanding of the future industry environment in China is key for the success in any sector.



“In the Chinese thinking any contract can be changed if there is a new situation for one of the partners which is not covered by the contract. So in this case, the real contractual regulations are important.”

Study Participant,
Business Development
manager

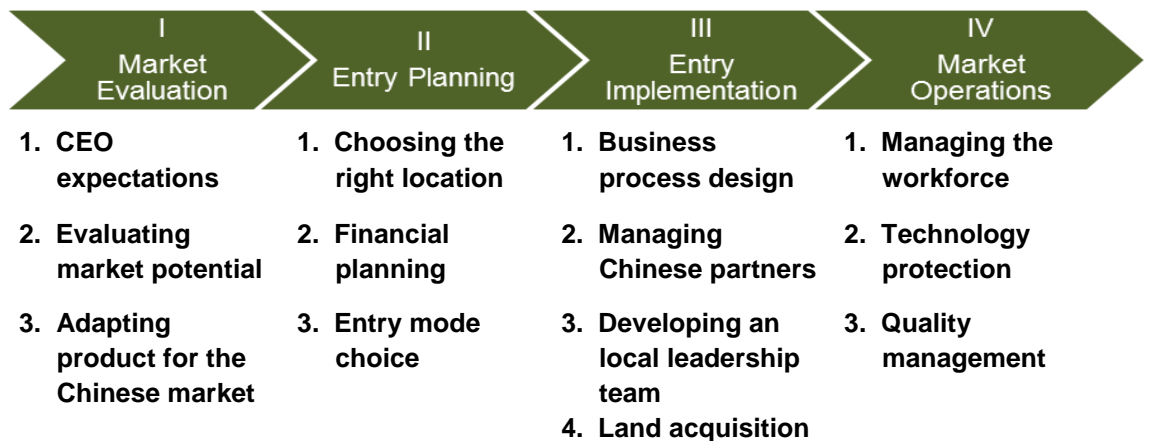
“International firms need to adopt to a long term thinking in China instead of a short term shareholder value maximization.”

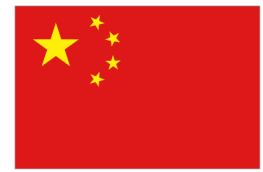
Study Participant,
Deputy General
Manager

“Some business transactions are not possible in China if a company wants to implement the same moral standards like in Germany or elsewhere in the world.”

Study Participant,
General Manager

- SME executives judge the market evaluation phase as the most important and most complex to address.
- Specifically, participants identify the following incidents as **most important** for overall market entry success:
 - Awareness of the high relevance of personal networks in China and the reduction of the dependence on local agents.
 - A proper handling of CEO expectations towards short- and long-term business success in China.
 - Implementation of measures in order to keep control of the operations in China.
 - The choice of the right location in China.
- Executives of European SMEs perceive the following incidents as **most complex** to address:
 - The adaptation of European companies to the Chinese business culture on the management and operations level
 - Managing Chinese partners – suppliers, customers, collaborators
 - Adapting the products and/or services of European SMEs to the Chinese market
 - Conducting a reliable and realistic financial planning
- Our analysis of the participants’ answers suggests that the most complex challenges can **be efficiently addressed by the following guidelines**:
 - Target niche markets and do not compete on the price-level – it is hard to beat the “China Price”.
 - Strategically develop your network and relationships in China – over a long time.
 - Plan the market entry accurately, however, maintain flexibility in order to deal with unexpected incidents and delays.
 - Seek for professional legal advice and when entering in a joint venture clearly identify duties and responsibilities in advance.
 - Employ expatriate managers who are familiar with local business, culture and language.





When entering China, executives of SMEs should ...

“Chinese customers are very qualitative-sensitive, especially when they purchase non-Chinese products. This is why they expect best quality and performance.”

Study Participant,
Business Development
Manager

“Successful interaction with local authorities and decision makers is almost impossible without the support of capable Chinese assistance”

Study Participant,
Business Development
Manager

“Hire local people who are capable of acting as transformers between the manufacturer and the market.”

Study Participant,
Sales Manager

Market evaluation:

- Gather a substantial amount of knowledge by visiting the country, hiring experienced consultants, talking to experienced companies and/or by finding reliable local business partners. However, one-time study trips don't help to build networks and relationships.
- Plan from a long-term perspective and schedule for a long-lasting market entry in order to build trust and essential networks.
- Do not lower the products' quality, as the Chinese are highly qualitative-sensitive and expect “Swiss Quality”.

Market entry planning:

- Not only consider financial/taxation advantages when choosing the location. Focus much more on the availability/cost level of local labour force, infrastructure, living conditions for Western as well as Chinese staff and the market attractiveness of the region.
- Avoid 'blind' trust in local agents, business partners or distributors. By contrast, it is important that the SME establishes a personal relationship to Chinese customers, suppliers etc from the beginning.

Market entry implementation:

- Develop a leadership team for your operations in China which is familiar with culture and language – in China and Switzerland.
- Handle cultural distance properly and invest in hands-on training measures.
- Be aware of the necessity of keeping control of local managers and operations.
- Pay highest attention for contractual issues and prepare necessary documents and legal requirements in advance – it is expensive but worthwhile.
- Adapt to Chinese business mentality while maintaining the core virtues of the Swiss SMEs.
- Take enough time for negotiations with Chinese business partners.

Local operations:

- Seek for advice from local business partners and your network in China. .
- The reduction of the product quality hardly ever pays off.
- Invest in training and education of your Chinese employees in collaboration with other companies in your industry sector.
- Try to keep crucial knowledge and R&D facilities out of China in order to effectively protect your intellectual property.

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