

## Understanding the Critical Success Factors of Doing Business in China (Part 1)

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Since I moved to China in 2005, I have been advising and supporting mostly Scandinavian but also some US, UK and Australian companies with their market access, company establishments and business operations in China.

Over the years, I have thus assisted numerous overseas B2B and B2C companies and project managed the set-up and start-up of around 60 Foreign-Invested Enterprises in China.

Based on my own extensive hands-on experience in China, I have formulated my own **Lessons Learned** about the **Critical Success Factors of Doing business in China**. Please also refer to the published Part 2.

### **1) Do not consider China as one national market but as many regional and local markets (including pockets of similar markets) with their own unique characteristics.**

From abroad, it is easy to get hooked on the promise of untapped market opportunities in China, but without a proper understanding of China's vast geography and huge diversity, many end up treating China as one homogeneous market along the same lines as their own home market.

It is often said that China should be thought off as Europe with its many economic, cultural, linguistic and social differences. The latest consumer trends and buying preferences in Shanghai or Beijing are rarely the same as in Harbin, Xian or Chengdu.

However, given the many large urban population centers around China, overseas companies will find pockets of similar markets and consumers that are just as sophisticated and demanding as elsewhere.

Starting to sell in a less saturated market than the first-tier cities of China can also be less costly and give first-mover advantage.

No matter where you enter, it requires local awareness and knowledge to succeed in the Chinese market.

**2) Speak and listen to the people who have done it before and have hands-on operational experience from China.**

Before entering the Chinese market, it is always a good idea to first travel to China and meet up with seasoned professionals who have practical know-how and experience from the field and understand what it really takes to do business in China.

China is constantly changing, and local conditions differ greatly, so it is important not only to rely on desk research, opinions and hearsay from back home but to get first-hand accounts from the people on the ground and learn about the latest dos and don'ts in China.

**3) Assume everything works differently in China and consider all similarities a 'bonus'. China is its own unique Eco-system.**

Overseas companies new to China can easily be deceived by first impressions when visiting China. During a trip to Shanghai, Beijing or Shenzhen it is easy to get overwhelmed and excited by seeing the modern skyline, visible affluence and technological progress.

On the surface many things may look familiar and similar as in the West, but this is a risky misconception full of hidden pitfalls. Many get quickly impatient, frustrated or disappointed when doing business in China because their expectations do not match reality.

Be fully prepared for the challenge ahead and recognize early on that China represents a unique market that follows its own logic and special ways.

**4) Setting up and operating a company in China has become steadily easier, quicker and cheaper to do and offers many new business opportunities.**

Until a few years back, setting up a foreign-invested company in China was a difficult, slow and costly process which has created a negative perception among many overseas investors that it is too risky and not worth the trouble.

However, to attract more foreign investment, China has lately been pushing through many new reform policies to boost its economy and attract new overseas companies by reducing capital requirements and taxes, cutting red tape and speeding up the processing times thus lowering the cost.

With a China entity and people on the ground, you can build a much stronger market presence by getting access to more online and offline sales channels and benefiting from new business opportunities rather than just relying on local third parties to drive sales in China.

**5) Put your best people in charge as it is more demanding to set-up and run a new company in China than to operate your well-run business back home.**

It is not uncommon for overseas companies that start operations in China to either send their keenest but often less experienced manager or recruit a local Chinese as General Manager because they fail to recognize how demanding it is to build their new businesses in China.

The best solution is to relocate a seasoned and skilled person from senior management who has the authority and decision-making power to act independently and proactively in China. It is also important that the person in charge ensures that the overseas company's values and culture are ingrained from the start in China.

It takes full commitment, determination, ownership and back-up by the entire company organization to succeed in China.

**6) Do not only plan for business 'failure' but more importantly for 'success' in China. Many are too content with what they have and miss out on new business opportunities.**

Many overseas companies planning to enter the Chinese market are initially too focused on making contingency plans for what to do if things do not work out in China but often neglect what to do if new opportunities suddenly emerge or business grows quicker than expected.

The Chinese market is very dynamic and rapidly evolving where calculated risk-taking and quick decision-making can reap great rewards at the expense of those companies that sit back and let opportunities pass by.

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**China-direct.biz** is a business advisory & service firm in Shanghai that offers practical advice and support to mostly Scandinavian companies with their market access, company establishments and business operations in China. Our partner team has a strong legal and business background combined with many years of experience in assisting foreign-invested companies in China.

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