Success in China for Less: Don't Rent Office Space in Beijing

2/10/2010 - Co-founder of SCI Tim Weckesser offers some general advice for companies entering the China market or for those who need a push in the right direction of relocation or customer service.

TCBN: Dr. Tim Weckesser is President of Sino Consulting, a firm that represents US capital equipment and specialty components companies in China. Over the years, he has worked with such companies as Kodak, Alcatel, Unisys, Teleflex, and Rockwell as numerous middle market companies.

So Tim, I want to see if you can offer advice for companies still in the US, not yet penetrating the China market. They're trying to ask themselves "Am I ready to support business in that market?" For the type of companies that you work with on the capital equipment side, what do you find to be the key points of readiness to be sure they can hit the market correctly?

WECKESSER: Right, that's actually a really good question, and over the years we've developed criteria that we look for in companies. First of all, the company has to have a product that's fairly well differentiated in the market. If a company has a product that is more on the commodity end, rather than the highly differentiated end, frankly, it's going to have a hard time in China. 20 years ago – no, you could sell anything in China. You can't do it anymore.

What we look for in capital equipment is niche products that have a fairly defined competitive universe with maybe half a dozen companies. They're making something that is highly engineered or difficult to make, that China is either not yet making or doesn't make in sufficient quantity.

China is a high tech market now. 20 years ago, even 10 years ago, you could sell a lot of stuff you can't sell today. Once we believe there's a market there and start to sell products, we continue to monitor the market and monitor domestic producers to see how close they're getting in competition.

TCBN: Let's talk about that - the need for added value in differentiation. Everybody's fighting for a piece of China market consumption, if you will. If a product stands on its own, what's the timing and the cycle it takes to get a sale completed in China?

WECKESSER: We normally think it's going to take a year to get a very, very nice product going in the market. There are promotional things you can do. There are a couple of standard things. One is what's called the showcase. If you're new to the market you need to find a potential buyer that you can solve a real problem for. You provide the product basically at cost and help them get it up and operating so that you provide a 'showcase' which other companies can see in China. This is a very common strategy, and it's widely accepted and sort of liked in China. You can also advertise in the trade magazines, which is quite inexpensive compared to the United States. But you have to be selling something that's good. You have to have a quality product that solves a problem for the Chinese buyer. Then you can get it done.

TCBN: Tim, I wanted to know, from your perspective, what do companies have to do to support a China sales program correctly?

WECKESSER: You really have to support the market in the same way you'd support it here. Whatever you have in place here you need to have in place in China; for example some reasonable way to respond to after-sales problems, service, first installation, and then after-sales maintenance, if needed. You don't have to have your own outfit there. If you don't have that capability, it can be contracted. You can contract it to an engineering firm, or whatever, as long as they're well trained and they know what they're doing. You have to have the capability somewhere available.

TCBN: In terms of physical presence for a company, if a market grows to a point where they feel they want to have their own staff on the ground, there's a choice to be made about location. A lot of people read articles mostly about Shanghai, Hong Kong, Beijing, but that isn't necessarily where you need to base yourself. I know you have direct experience with your own firm about being in alternative cities both in terms of cost and quality of staff. I wonder if you could offer some advice in this area.

WECKESSER: Yeah, that's a big, big question. We actually have a check list of location assessment items. For example, if you need to be near your supply chain, then you need to be located where those are available and that may be very limited. If you need to be right next to your customers then that often will determine where you are. How important are logistics costs? Are you manufacturing for domestic sale or export – and so on. We generally would advise companies - middle market companies especially - against setting up a manufacturing operation or processing operation in a city like Shanghai or Beijing. The costs are too high, turnover of staff is very high, expenses are generally much higher than elsewhere.

If you felt you had to be in the middle of China around Shanghai, then we would look in the circle from Ningbo in the south up through Hangzhou, Suzhou, Wuxi, Changzhou, Nanjing – up in that area. All highly, highly developed, and you can even have problems there with hiring and retaining people. That's less of an issue the more you move inland.

We actually have an office way out in Shandong province, in Weihai. It's a beautiful resort town actually. We've had it for years, we've got a full staff there, and it's extremely stable. Devoted staff, very strong and skilled. The reason we can do that is because the staff is almost never there. They're there only to process papers. We only have one or two people in the office that process orders and so on. Everybody else is out on the road. People do not come to us, we go to them. Now, would it be different if we were in Beijing? Probably. Because we could then invite people to our offices when they were in town and the like. There'd be more interaction. But we've not done it and we have done extremely well with that strategy. So far so good!

Summary: if you don't have to be in Beijing or Shanghai, to me, you should try to avoid it. You should try to look for some of the lesser known cities or some of the inland cities. There's a great deal of incentive for growing inland as the government's trying to push development away from the coast. There's good reason to take a look there. Our biggest base is in Tianjin, which is the port city for Beijing. There's huge development going on there, as you know Michael. It's going to be the next Pudong, called the Binhai New Area. But you know, Tianjin is the size of New York City, and I would bet you most Americans have never even heard of it! The pay levels and pay grade there are significantly lower than Beijing or Shanghai, and they've got a hundred higher educational institutions. It's first class. The turnover's much lower, and so on. That's an example of a coastal city still with lots of development left, and there are more examples.

TCBN: Appreciate you having time to day to speak with us about your experiences and opinions on the China market, Tim.

WECKESSSER: My pleasure, Michael, any time. Really appreciate it.

TCBN: Thanks very much.

Dr. Weckesser co-founded SCI in 1988 and has overseen SCI's development into an internationally recognized consulting firm providing strategic market entry services to companies. The company has completed over 400 assignments for some 100 clients, and Dr. Weckesser was recently awarded Tianjin's 2003 Haihe River Prize for his long term contributions to Tianjin's development. He was also recently appointed as Economic Consultant to the Tianjin Free Trade Zone and Tianjin Airport Industrial Park. See more at http://www.s-c-i.com.

You can listen to the interview at **http://www.thechinabusinessnetwork.com/Channel-Index/The-Big-Picture/General/General-2010/Success-in-China-For-Less--Don-t-Rent-Office-Space.aspx**