

SCI China Market Update – October 2012

Dear friends,

As suggested in our September China market update, we now know that the 18th National Congress of the Communist Party of China (CPC) will be held in Beijing on November 8, 2012. We still expect that the younger and better-educated Xi Jinping will replace President Hu Jintao, and Li Keqiang will replace Prime Minister Wen Jiabao. The 18th National Congress comes at a crucial time for China, as the leadership it selects and the decisions it makes will have a profound impact on the world's second-largest economy, and more importantly, on its people and, surely on the future of both China and the world.

China is experiencing increasing downward pressure after three decades of nearly double-digit economic growth and an average annual growth of 10.7% from 2003 to 2011, according to China's statistics. The slow-down has caused international concern as China accounts for about 10% of global GDP. In 2011 China accounted for over one-fifth of global growth. We can expect some major changes after the 18th National Congress of the CPC, including more economic stimulus to support efforts such as expansion of high-speed railways, increasing investment in the e-vehicle industry, and many more internal development programs.

I will leave Philadelphia for Beijing for business on October 5th and Tim will leave for Shanghai on October 21. Tim's trip will include joining the opening ceremony of a new factory for Waukesha Bearings, one of our key clients, in the beautiful Suzhou Industrial Park (SIP).

We've been conducting market research in China for some 20 years, during which time China's industrial infrastructure has gone from backwater to high-end. And while economic growth has slowed, don't believe all the gloom and doom stories you read. Most key sectors like energy, chemicals, pharmaceuticals, automotive, and others, continue fairly robust growth. But selling into these markets requires extraordinary patience and adaptability. Here are some tips for conducting usable industrial market research in this huge but complex arena.

1. The Big Picture – Study the 5-Year Plan for Your Sector

Start here! China's 5-year plans are developed at the top of government, with detailed supplemental plans for each sector. As China has migrated toward a market economy, the importance of these plans has changed. But in many sectors, they are still authoritative – for example, power, automotive, telecom, and many more. The plans identify industrial and technological goals, outline specific

development programs, summarize government investment, define restrictions, identify responsible agencies, and so on.

2. Target the high-end: The 80-20 Rule

There are often hundreds or even thousands of manufacturers in any given sector in China. While consolidation continues, markets tend to follow a kind of 80-20 rule – 80% of business is conducted by the top 20% of companies. It's this 20% that must be identified, prioritized and targeted. In fact, 10% will often be plenty. In general, only the largest and/or the “best” Chinese companies are likely targets for high-end foreign suppliers.

3. Get to Know the Relevant “Research Institutes”

Almost every industry has a set of aligned “research institutes”. In some industries, such as energy, these institutes play a critical role in development and purchasing. They also maintain a wealth of market information and, more important, personal relationships with your target customers. They can help you to flesh out the critical information related to the 80-20 rule, and can guide you in pricing, best practices, etc.

4. Visit Some Target Customers

Telephone interviews for the purpose of market research are almost impossible in China. You need to meet face to face. Arrange personal meetings with a half dozen target customers, not with an eye to sales but rather to LEARN. Present your company and product and ask about your competition – who are they? What about quality, pricing and service? Find out what it would take for them to consider you as a qualified supplier.

5. Establish a “Showcase”

Any prospective customer in China wants to know who has already bought your product. Thus a key goal of the research should be to identify where you can get that first installation. It's a good topic with the research institutes, and with the target customers you visit. But you have to be prepared to compromise on price, and even consider it a lost leader. But once you can say that a well-respected Chinese company has already installed your product, you have a leg up on marketing.

6. Primary Data is Primary!

We have suggested personal visits with institutes and possible customers. Generalize that principle. Visit competitors, government officials, experts, and so on. Because, in China, you can never learn from secondary data what you can learn from these personal, face-to-face meetings.

7. There is No Low-Hanging fruit in China

Sorry, but you need to plan on from one to three years to get going. One year is quite fast – even with the best market information. Normally you can define and execute a market research plan in under 6 months. But that’s just the beginning.

For more information about today’s China market and opportunities please visit our website at www.s-c-i.com or call me at the number below, or Dr. Tim Weckesser at 610-828-8060.

Best regards,

Shiqiang Gu
Vice President & COO

Sino Consulting (SCI)
One Tower Bridge
100 Front St., Suite 1460
West Conshohocken, PA 19428
U. S. A.
Tel: (610) 828 8061
Fax: (610) 828 8801
Web: www.s-c-i.com