



# Selling in the Chinese B2B Market

Historically regarded as the factory of the world, China now boasts one of the largest consumer markets globally and is currently poised to become the world's largest growth engine both in terms of output and consumption. However, many companies are still hesitant to enter the Chinese market.

“ Although there is a growing demand for high-quality foreign products, the local competition is fierce and will outperform you unless you have a strong understanding of the local market... ”

The country's rapid development has paved the way an emerging middle class. As incomes increase, people are gaining more purchasing power and the demand for high-quality products and solutions has increased accordingly. Nor is consumer-demand the only factor pushing the need for more efficient technologies and machines; the greying of the population is demanding it as well. China currently possesses the fastest growing consumer market in the world and its e-commerce market has already surpassed the U.S. in terms of total revenues of sales.

The Chinese government is actively offering support in the form of subsidies and loosened regulations to foreign and domestic companies in order to push domestic innovation and growth in their priority sectors. The types of subsidies available, such as free land-leases and favourable tax conditions, depend on the region and district you want to invest in. The Chinese government currently supports the following industries: new energies, energy conservation and environmental protection, biotechnology and medical devices, new materials such as rare earths, new IT technologies, high-end equipment manufacturing and clean energy vehicles. The country's rapidly growing domestic market, loosened economic controls and hunger for foreign advanced technologies is now offering companies a new and relatively untapped market potential.

## Research, group and target

The best way to approach sales in China is by recognizing the regional differences and to develop a set of criteria that will be used to determine the attractiveness of a particular city, region or cluster. This should take into account all factors ranging from local tastes and preferences to purchasing power and local infrastructure, policies and certification bodies. Once your initial market research has been completed a strategy can be devised per target segment. Each of these segments will likely consist of several regions/cities that are grouped together based on similarities. Although foreign companies in the B2C sector are mainly drawn to China's richer coastal cities, B2B businesses are generally more scattered across the country.

This is partially due to China's industrial clusters in specific regions and cities throughout the country. In many cases B2B companies find more opportunities in the developing second- and third-tier cities. Often times more remote regions also offer attractive incentives to attract local and foreign businesses. Support generally consists of preferential tax treatments, subsidies and guidance during the initial startup phase.

## Consumer Preferences

Successfully targeting local consumers and businesses involves adjusting your product to local market conditions in order to achieve an optimal product-market fit. Many a company has failed in the Chinese market by failing to understand the importance of localisation.

A good example of a foreign company adjusting its products is the US industrial systems and materials company Honeywell. To serve the Chinese market and other developing markets they

opened a global engineering centre in Chongqing with the aim of developing products for mid- and low-tier markets. Localising your operations also involves modifying your marketing and promotional strategies to cater to local preferences; from your brand name to your brand colours, not to mention your market positioning. Although branding is mainly important for consumer brands, it also applies to industrial companies.

## Competition

To succeed in the Chinese market you will have to compete as a local company whilst leveraging your brand and advanced product knowledge. This entails having a local management team and a China-specific strategy. Although many foreign firms possess key advantages over their Chinese counterparts, they face fierce competition from local firms that design, engineer and manufacture locally, therefore benefiting from a strong cost advantage.

Marketing that emphasises your superior quality, technologies and service can thus differentiate you from domestic competitors and subsequently justify your premium price. However, too high of price will limit your reach and will confine you to China's first tier cities where the average purchasing power is higher.

Many firms therefore prefer to produce locally in China in order to become more competitive in China and other markets. Namely, if you move (part of) your global manufacturing to China you will have the opportunity to enjoy economies of scale and decrease overall manufacturing costs.

## IP Rights protection in China

The key to protecting your IP rights in China is to handle it in China. You cannot rely on anything you have done to protect it abroad. In order to protect your intellectual property rights you must register and protect it locally. This should be one of the first things you do when entering the market. Even if you are not considering entering the market at this point, it would be wise to register your IP rights in China for the future. It's relatively cheap and it will save you many headaches and potential problems when you are ready to make the step.

In manufacturing there are also alternative methods to prevent IP infringement. For instance, we work with a network of trusted suppliers for manufacturing. However, if production can be divided, we try to ensure that no one party has access to the final product. We assemble the product within our own secured assembly facilities and consequently decrease the risk of suppliers attempting to copy the product. Moreover, if your product possesses highly advanced technologies, you can consider outsourcing basic component manufacturing to China and importing your advanced components. We strongly advise you to work with a local law office to assist you in protecting your interests and handling your IP rights. There are also valuable online resources available to learn more about IPR protection and what to consider.

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## Selling to Chinese Businesses

### Do your products fit in the market?

We often advise our clients to perform a quick market scan to first assess the market potential. It's relatively inexpensive and can prevent high costs or even losses in the future. Knowing your competitive environment as well as industry-specific rules and regulations will provide you with a general overview of the market.

Ask yourself:

- Does your product fit with Chinese market requirements?  
Is there a need for your products in the market?  
Or can you adjust your product to the local market?
- Can you compete with domestic competitors?  
Strong local competition is hard to beat unless you possess more advanced technologies.
- How easily can your products be copied?  
If your products can be easily copied you will lose your competitive advantage to low-cost domestic competitors.
- Can you offer advanced technologies that are in demand?

China is constantly seeking advanced technologies to upgrade their working methods and system. The Chinese government is actively trying to acquire new technologies in a plethora of industries to boost the country's global competitiveness. Advanced technologies that are in line with the government's goals consequently have great potential for future growth within the domestic market.

## Selecting your mode of entry

There are multiple entry modes you can choose from. The majority of companies wanting to sell in the Chinese market will initially start working with a local distributor. If the distributor's results show potential, the next stage would be to initiate more sales activities within China by developing a local sales office. This stage might also involve localizing (part of) your manufacturing to become more competitive.

## Supporting and training your distributors

An often-neglected yet crucial part of managing your distributor network is to offer support and guidance on the ground. Having a local sales office that can train, manage and support your distributors as well as visit key customers will generate better results. This, in turn, also enables your distributors to improve and upgrade their working methods, which consequently benefits your operations. The majority of businesses in China lack efficiency and professional management, resulting in higher costs and lower gains. For instance, large numbers of distribution networks lack advanced practices in inventory management and demand planning which leads to higher operational costs. Thus, nurturing your distributor network assists in the development of an appropriate channel system aimed at gaining more market share and reducing overall costs.

Being on the ground also enables you to exercise more control over your brand image and provides you with market information. It also assists in strengthening relations with your end-consumers and makes IP infringement less likely.

## Working with one or more distributors

Many distributors will demand exclusive rights to your products in the market. However, this is rarely your best option. The Chinese market is fragmented and working with merely one distributor can thus limit your reach. It is vital to find distributors that are well grounded within their respective local markets in order to achieve success. Distributors will argue they have nationwide coverage but it is important to take such claims with a grain of salt. It is practically impossible to cover the entire country without working with a web of sub distributors. It is smarter to control your own distributors and sub-distributors by working with multiple partners instead of putting all the power in the hands of one party.

"Giving one distributor control over all your distribution is almost never a good idea. They can start selling alternative products to your clients once you start delivering less value to them and it also makes you vulnerable to IPR infringement. If your distributor sees market potential and thinks they can produce a similar product, there is nothing stopping them from doing it." - Gijsbert de Bruin, CEO of CHC Group

We often see foreign companies making the mistake of trusting

THE BASICS		EXPLANATION
Distributor	Pros Cons	A cost efficient way to sell in China. Little control over brand and products; often disappointing results unless support is provided by parent company. Distributors sell a range of products and will therefore not exclusively focus on selling your products. In addition, if products are sold at too high a price there is a risk of IP infringement
Agent	Pros Cons	An often cost-efficient way to sell in China. Although some agents will expect to be able to take goods as consignment. Uncommon practice in China; difficult to find and manage good agents.
Representative Office	Pros Cons	Low-cost, easy way to establish a presence in China. High running costs and cannot engage in profit-making activities. Difficult to disband and therefore not suitable if you want to expand operations. Not a viable method for product distribution.
Joint Venture	Pros Cons	JVS WERE A POPULAR ENTRY-MODE BEFORE CHINA JOINED THE WTO Able to benefit from Chinese counterpart's network and facilities; no steep learning curve; shared risks Less control; more receptive to IP infringements; high risks of failure due to culture, business and/or expectations mismatch.
Wholly Foreign Owned Company	Pros Cons	WFOE'S ARE CURRENTLY THE MOST PREFERRED ENTRY VEHICLE 100% control over your operations; no third parties involved. A long incubation period; difficult; high initial costs.

Table 1: Modes of entry into the Chinese Market

their newly appointed distributor (or partner) and taking him on his word. We urge you to double-check any potential partner and perform extensive due diligence before entering into a contract. We have seen too many partnerships fail because they relied on trust instead of actual data.

## The advantages of having your own sales office

Having your own sales office on the ground offers many advantages. A local presence signifies your long-term commitment to China and provides credibility and security to your customers. In addition to being able to better support and train your distributors, a local sales office also decreases risks. Being fully dependent on your distributor network places the power fully in their hands. However, having a local presence enables you to exercise more control over your marketing promotion, stakeholders and IPR, providing you with a stronger foothold.

## Reaching out to your target clients

Sales channels in China are the same as anywhere else in the world. Depending on the industry you work in, one will be more effective than the other. Below you will find a table that shows the most favoured sales channels in China's B2B markets based on a study by B2B International.

SALES CHANNEL & EXPLANATION	
Conference & Exhibitions	Most favored
Email	Highly favored
Websites	Highly favored
Workplace	Favored
Phone	Less favored
Post	Less favored
Networking	Less favored

Sources: based on research by Matthew Harrison and Mark Hedley for B2BInternational

As can be seen from above table, conferences and exhibitions are most favoured by Chinese companies. However, as mentioned earlier, it's important to research exhibitions beforehand.

## The 5 Most Common Mistakes

More and more foreign companies are advancing into China to profit from the country's growing domestic market. Where else in the world are you going to find a population of 1.3 billion, a growing middle class and a GDP growing it 7 to 8%? Yet many foreign companies are struggling to win the hearts of Chinese consumers and businesses. Here are several common mistakes we see foreign companies make in the Chinese market.

### 1. Targeting China as one large, unified market

Just as you cannot target the whole of Europe, you cannot target China as one big market. China has over 600 cities, 22 provinces and is the third largest country in the world. Choose your target markets wisely; start small, learn, then adapt as necessary.

### 2. Implementing an international strategy in the Chinese market

Employing a global 'one-size-fits-all' marketing strategy is often

destined for failure in China. Understand your customers and develop a China-specific strategy. Employing a global strategy yet refusing to delegate some of the decision making process to the local management team has been the cause of many problems and misunderstandings. Develop a strong local management team and manage your day-to-day operations from China, not from abroad.

### 3. Not adapting product to local market requirements

Regardless of the industry your company is active in, your product or service will have to be adapted to fit with Chinese market requirements.

### 4. Poor management of distribution network

Market entry through working with a distributor is a cost-efficient and fast method to sell in the Chinese market. Particularly smaller companies who do not possess the resources to setup sales offices can benefit from working with distributors. However, often the mismanagement of distributors is what causes poor sales results in the Chinese market. In order to get the most out of your distribution network you need to be able to offer support and training on the ground. Poor management of your distributors will not only make you lose control and visibility over your sales and marketing, it can also have implications for your IP rights protection. Setup your own sales/support office to get the most out of your distributors and protect your IPR.

### 5. Not understanding China's business environment

Although there is a growing demand for high-quality foreign products, the local competition is fierce and will outperform you unless you have a strong understanding of the local market and are able to navigate through an environment that is different from your own. For that reason we always stress the importance of having a local staff to assist you in your efforts. It is also important that the parent company understands the complexities of China's business environment and consequently employs a flexible approach to doing business.

## About Launch Factory 88

Launch Factory 88 assists foreign-owned industrial companies gain a strong foothold in China. Our solutions provide a cost efficient market entry into China or expansion into the Chinese B2B markets. Leverage our B2B Sales Program to develop your Chinese market potential and localise your manufacturing using our in-house expertise and facilities.

LF88 is part of the CHC Group, which was established in China in 1998 by two Dutch entrepreneurs and currently employs over 500 people locally. Launch Factory 88 builds on the experience and knowledge our group has gained in the past 16 years of doing business in China.

Our company's own success in a diverse range of industries is what sets us apart from the rest; we are the biggest flower-producing company in China, we organise the largest annual aqua-technology trade fair in the world and we have helped over 100+ companies successfully develop their products in China.