theabcgroup
asian business consultants

Blueprint for Sustainability

Minimizing expenses across foreign supply-chains

Contents

1 Framing your efforts in China by creating a China Business Plan

Whether you are providing software to major corporations or opening a coffee shop, creating a business plan is usually the first step of starting any business. By outlining growth strategies and understanding financial constraints, businesses are able to reach new customers and gain financing for long-term expansion more effectively.

In this hyper-connected and highly efficient world we live in, few today doubt the importance of having a well-developed business plan; but while previous generations focused on customers in one homogeneous market, today's businesses are faced with the challenges of meeting the needs of diverse consumers across multiple markets, supported by equally complex supply-chains. How then can a single business plan possibly encompass the needs of so many distinct customers without over generalizing? The answer—*one* can't.

Fearing rapidly changing consumer tastes and rising input costs, business leaders know that the ability to manage supply-chains will only get harder in years to come. To manage these challenges more effectively, companies must develop specific business plans for each market they operate within. These regional specific business plans allow companies to deftly allocate capital and manpower where it is needed most. By recognizing that overseeing mature supply-chains in the US or Latin America requires different levels of investment than supply-chains in their infancy elsewhere, a company is positioned to more easily control their expenses. Differentiating between markets results in increased profitability quickly seen on the bottom line. For companies looking to reap the benefits of developing a specific business plan to frame their efforts in China, this section describes the components of a China-centric business plan; the value it provides to companies; and the development process.

What is it?

Simply put, a CBP (China-centric Business Plan) is an internally developed roadmap used to guide a company's efforts in China over time. The structure of this living document should conceptually resemble a funnel, wherein China is examined first from an industry basis, moving progressively towards a product or departmental focal point. During this process, most companies touch on five key components: Strategic Overview, S-I-L Term Objectives, Budgetary Outlays, Procedural Flow Chart, and Anticipatory Troubleshooting. It should be noted that while the overall complexity and specificity of this plan will vary from company to company, the better developed a CBP is, the more value it will ultimately yield, long-term.

Strategic Overview - As the world's second largest economy, China demands that every company, from regional players to international conglomerates, determine where China fits into their business today, and more importantly, tomorrow. Companies are no longer able to operate in a vacuum, immune from China's impact on the global manufacturing landscape. While the debate over China's net benefit as trade partner will undoubtedly rage on, businesses must begin to plan seriously, acknowledging China as a major player in the market.

When outlining a China strategy, a company must first determine what opportunities China presents within its industry. These opportunities can range from utilizing low-cost supply chains to opening sales channels for capturing new consumers, and everything in between.

Actually discovering which opportunities exist in your industry can be as simple as reading trade journals, or may require intensive market research. Once potential opportunities are identified, companies must classify them into two distinct groups: general industry-wide opportunities and company specific opportunities. Within these two classifications business leaders must examine if the prospects for growth and margin expansion can be achieved within a company's current infrastructure and financial constraints. Lastly, whether a company chooses to pursue these opportunities or not, they should understand the costs of both undertaking and forgoing expansion into China at not only a business wide level, but industry-wide as well.

S-I-L Objectives - Once a strategic course is mapped, a company can begin the process of creating short-term, intermediate, and long-term objectives. These objectives will provide valuable checkpoints over time to ensure progress is being made toward achieving larger strategic outcomes. As a frame of reference, short-term objectives typically can be accomplished within a 3-9 month period; intermediate objectives range up to two years; and long-term objectives extend beyond a two year time horizon. These varying time frames necessitate that specific outcomes will range from the concrete, such as "identify suppliers of product x," to the abstract, such as "gain brand recognition for product y." As time advances, however, it is important to transition previously identified intermediate and long-term objectives to shorter time frames.

Budgetary Outlays - Following the creation of S-I-L Objectives, management can begin the process of creating a China specific budget. The importance of separating expenses incurred in China from other markets may not be apparent to all. Those with limited experience operating in Asia will often overspend on travel, entertainment, and manpower. Combining these expenses with other markets' outlays makes it harder to identify waste. A separate China budget allows a company to easily scrutinize individual China expenses line-by-line, helping to ensure profitability.

Procedural Flow Chart - A procedural flow chart clearly defines individual responsibilities and their fit within the broader context of the CBP. One of the most common and costly mistakes companies make is using highly skilled employees to perform low level tasks and, conversely, using low skilled employees in areas requiring skill sets they do not possess. When this occurs, expenses are not minimized and opportunities are missed. To help avoid these inefficiencies and reduce the possibility of overlapping responsibilities, individual roles must be clearly defined. A flow chart outlining roles at various stages of the sales/purchasing cycle is one way to accomplish this. *For detailed information on manpower expenses, see Section 2.*

Anticipatory Troubleshooting - Emerging markets are susceptible to rapid and often violent and unexpected changes in the business cycle, so creating a predetermined game plan that anticipates how a company will react to different scenarios separates good companies from great ones. Waiting until a major issue arises to decide your next step is akin to learning how to swim once you have been thrown in the water. It impairs the decision making process, causing your decisions to be less accurate and effective than usual. To avoid this, companies should discuss various scenarios to prepare for the unexpected. These scenarios should cover macroeconomic external forces such as recessions; industry shifts, including competitor actions; and internal company events such as the departure of key personnel. *See section 2 for additional details.* While many of these crises will be averted, anticipatory preparations will help insulate companies from potentially major disruptions.

Value of a CBP

A well-developed CBP provides substantial value to companies by enforcing a systematic approach to Asia. How can one travel from point A to point B without a map and method for doing so? One would not embark on a road trip without a designated route and means of transportation—the same principle applies to conducting business in China. In creating a CBP, companies clearly define what they wish to accomplish and how they will execute their overall strategy.

Perhaps most importantly, a well-developed CBP provides long-term value by framing day-to-day challenges in a broader context. Often in China, seemingly simple objectives have a tendency to move in tangential paths, which can result in a loss of focus over time. This possibility alone explains why having a specifically designated CBP is so crucial. A well developed and regularly reviewed CBP enables a company to more easily determine if their efforts in China are truly providing value to the overall company. Remember, China offers great opportunities *and* pitfalls to US companies, but by using a CBP, a company can more smoothly navigate this challenging business landscape.

CBP Development

To create a comprehensive CBP our firm suggests each company begin by forming a CIC (China Initiative Committee). This panel is comprised of members spanning multiple departments and levels within the chain of management. It is crucial that senior leadership not only be included in a CIC, but offers their guidance on broader strategic considerations to help ensure any investment in China will benefit the company in the long run. Chaired by a C-Suite executive, the remaining CIC positions are typically filled by individual department heads, who can give insight on day-to-day operations and deliver external information (customer feedback), to help in the formative phases of creating a CBP.

With all designated parties assembled, the process of designing the preliminary framework of the CBP can begin (at least on paper). The key areas of focus were covered earlier in this paper, but it is reasonable to assume that each company will establish their own unique set of goals to accomplish in China, so that some of the aforementioned topics may not be appropriate for every company.

After an initial CBP is created, the work is far from over. To have a truly sound CBP, the CIC must continually review and modify the framework to confirm that the original goals are realistic; expenses remain in-line with projections; and broader strategic assumptions remain valid given changes in market conditions. Typically, a vast majority of companies that have some form of a CBP fail to review and improve upon it over time, which can be as dangerous as blindly entering China in the first place.

2 Declining Expenses in China: A function of manpower reduction and increased efficiency

The opportunities for companies to quickly increase profits in China are touted on a regular basis, making it easy to overlook the multitude of hidden hazards capable of derailing even the most successful business ventures. These pitfalls range from geopolitical shocks to fluctuations in the business cycle, and everything in between; however, the most dangerous and *avoidable* peril of all is high or rising Asian expenses.

Typically, two inefficiencies cause elevated Asian expenses. The first is unnecessarily high manpower expenses, which are commonly experienced when companies use senior personnel to manage day-to-day operations within their Asian business instead of lower paid employees, who could offer comparable outcomes. The second inefficiency is an inability to become more effective at working with Chinese trade partners over time. These two inefficiencies prevent companies from maximizing their profits, and bring into question their long-term sustainability in the marketplace.

To avoid this scenario, companies must put expenses at the forefront of their business planning. The time has passed for success in China to be measured solely by revenue growth and margin expansion. Success in the long run requires companies to pay close attention to controlling costs. To assist businesses on this path, section two of this paper will outline major components of Asian expenses; how businesses should react over time; and solutions to common pitfalls.

What Are Expenses?

While defining business expenses appears to be a routine task, providing limited value on the surface, one of the most common reasons companies fail to control costs in China is because few take the time to evaluate their budgets on a line-by-line basis. Without this evaluation, it is difficult to differentiate between worthwhile investments and wasteful spending. To avoid this, companies must have a firm understanding of not only how much they are investing in China, but also why those levels are appropriate.

The largest expense is manpower, which is the value of all personnel actively involved in China-related business. The basic cost is easily calculated based on employee wages, but within the larger context of manpower lays a subjective value of opportunity costs. In the simplest terms, this is a gauge of whether personnel are being used to their maximum potential. It is here that companies most often fail.

The second major expense companies face in China are those associated with travel. These costs include international airfare; air, rail and car transportation within the country; lodging; and entertainment. Historically, excessive travel is the most easily identified and corrected of budgetary overruns, but high travel costs are often symptomatic of a failure to control expenses, rather than a root cause.

The third and fourth components of a company's primary expenses in China are R&D and claim resolutions. The main inputs of R&D costs are prototypes, low run production, and marketing. Within claim resolution, we include the cost of the claim; any penalties incurred for delays in production; and missed sales. Obviously there are additional costs that could be included in this value, such as damage to a company's brand from sub-par product, but while the negative economic consequence of this damage is real, the immediate and long-term effects are difficult to calculate.

The final and frequently overlooked expense companies incur in China is the cost of freight. This value includes the cost of not only ocean shipments, but also hidden intermodal charges as well. For some companies, determining an accurate shipping cost is difficult since suppliers can include a portion of these fees into their pricing structure, but working to identify true shipping costs is vital to controlling expenses.

Establishing Infrastructure in China

Despite numerous opportunities for growth, recent studies suggest that few mid-sized US companies actually conduct business in China directly. Recognizing that emerging markets in the Asia-Pacific region will be engines of growth in the years to come, it is important that we outline here how to establish sustainable infrastructure in these countries. Accomplishing this requires companies to traverse three distinct phases: market entry, active management, and oversight[1]. If all three phases are successfully navigated, a company's expenses will decline and ultimately stabilize, making budgeting more effective and the company more profitable. This is the point where the full benefits of operating in an emerging market are reaped.

Market Entry - For companies looking to enter China for the first time there are a series of steps which must be performed to ensure success: designing and executing a market research program and initiating commercial business. Companies begin this process by defining realistic market research objectives and implementation timelines within their CIC. These objectives can range from identifying sales channels for various products to locating suppliers capable of enhancing existing supply-chains. With these objectives in place, qualifying criteria can then be developed to help vet potential trade partners. These criteria can include information on production/sales capabilities, company ownership, or general work conditions, among others. Within these criteria, however, it is useful to establish both a core set of requirements to eliminate poor candidates, and a more comprehensive set of standards to differentiate between viable trade partners. Once objectives and guides are outlined, the process of conducting market research can begin.

Market research can be conducted by internal personnel, or companies can opt to use an outside firm to collect and analyze market data. For those choosing to perform market research internally, it is best to use a three tiered process consisting of general surveys, telephone interviews, and in-person inspections. To find potential trade partners, companies can perform internet searches, attend trade shows, and contact various government or industry trade associations.

Once market research is gathered and analyzed, a company's CIC can determine if there are sufficient business opportunities to warrant further investment. Often, research data will show one of two outcomes: insufficient demand/supplier base for a company's products, or potential opportunities that require further vetting. For the latter, key individuals from the CIC should travel to those facilities to conduct a final in-person meeting before beginning any commercial business.

Active Management - The period of active management is often the most challenging phase when working in China. This phase often presents rising expenses and obstacles that can inhibit commercial business. To compound the problem, few companies have a viable strategy for transitioning from active management to oversight. This is why it is critical for companies to establish an efficient and easily adaptable framework in China that provides

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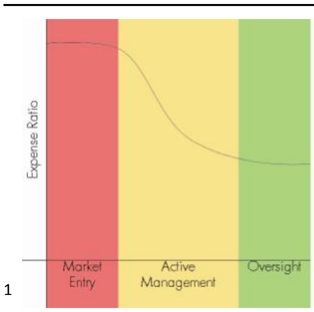

Figure 1.1

This graph represents the three phases a company navigates when working in China. The x-axis defines in generic terms the individual phases. The y-axis represents a company's China expense ratio defined by the total expenses in the region divided by the total volume in dollars purchased or sold in the region.

long-term value. A successful plan should lead to Asian expenses declining to a relatively stable level.

The transition from Active Management to Oversight begins with the prototype process. Often, this process requires extensive assistance from in-house engineering, sales, and procurement, and may be repeated multiple times for a single item. The process doesn't end with approved prototypes—it is vital to develop quality control procedures either at manufacturing facilities, or through sales channels in Asia, to prevent fraudulent or easily avoidable claims that reduce profitability.

Developing QC criteria is relatively easy, but the actual implementation and monitoring of compliance is very difficult, *without an on-site presence*. Typically, companies lacking a permanent footprint in China will experience above average claim rates in both value and frequency, due to their inability to verify rejected goods. To address this, a company can use internal personnel or an outside audit firm to perform regular on-site inspections to protect their interests.

Once methods for enforcing quality control policies are in place, the next challenge is to coordinate shipping schedules. This requires continual communication between sales/production and a company's trade partner in China. The most difficult aspect of this process is managing the lengthy shipping times associated with ocean freight while adjusting to changing levels of demand throughout the year. Mismanagement of shipping schedules may result in expensive air shipments of product, which greatly reduces profit margins.

If a company can traverse all of these obstacles, and in the process create efficient and easily understood procedures, they will position themselves to enter a period of oversight. In the oversight phase, the need for frequent travel and high staffing levels is reduced.

Oversight - Oversight is the final operational phase of establishing business in China. To reach this point, companies have effectively conveyed expectations to their Chinese trade partner, and created a framework that is capable of servicing their business needs. Going forward, companies are able to efficiently conduct commerce and reduce their previously allocated manpower to the lowest levels since market entry. The result is stabilized expenses, allowing for more accurate business planning.

It should be noted, however, that oversight is not a passive period, but is instead a phase defined by operating within a highly efficient framework that provides predictable outcomes. Additionally, it is common for various portions of a company's business in China to be spread across multiple operational phases at once.

From an expense standpoint, the oversight phase is the least manpower intensive, but is also the second most likely period for experiencing high expenses after active management. Unlike active management, however, where expenses rise rapidly due to excessive travel and nonconforming goods, the major expenses in oversight are opportunity costs related to personnel. Specifically, it is the practice of using highly qualified personnel to perform low level tasks, such as QC inspections or order tracking, that result in inflated costs. To avoid this, a company should establish a permanent presence in the market if sales or purchasing volume merit, or opt to use an outside auditing firm to conduct those low level tasks.

Expansion within similar markets

One of the most valuable skills an individual can possess is the ability to learn from previous experiences and apply those lessons to future problems. This particular skill is essential to succeed in a dynamic environment like China. Therefore, it is no surprise that companies who employ personnel with this skill in their Asian infrastructure are able to expand quickly, and with minimal additional investment[2].

More specifically, this “learning curve” effect provides two concrete benefits: the reduction of market entry costs and a shortened active management period. This effect is most dramatic when expanding business with like products, but general knowledge of the Chinese business landscape can foster reduced investment, even with dissimilar programs. To further enhance this phenomenon, as a company continues to serve the Asian markets over time, personnel will become more adept at not only avoiding costly obstacles, but also at identifying valuable trends that other companies, lacking on-the-ground insight, will miss.

Common Failures

When evaluating common failures, it is important to distinguish between symptoms and causes. Often a company looks at their Asian budgets and sees high travel costs or claim rates, and concludes that reducing the frequency of travel or instituting new QC measures is a sufficient corrective action plan. It is more likely, however, that high expenses are a symptom of structural shortcomings, and not merely wasteful spending. Below are some common scenarios companies grapple with—their symptoms, causes, and possible solutions.

Failed Market Entry - When a company struggles to complete the necessary steps for market entry, information gained from market research might be incomplete or unusable. This includes data that is not representative of market conditions, or lacks the specificity required to make further investment decisions.

Causes: While a failure at any point during the market entry phase can result in poor market research data, the primary cause is typically a failure of the CIC to clearly define objectives and institute a realistic implementation timeframe. If these requirements have been met, a company should then examine how their research was conducted. In the

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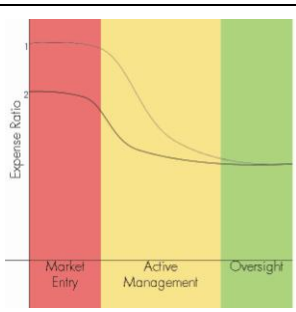

Figure 1.2

This graph demonstrates the “learning effect” when companies expand on existing business within China. Similar to Figure 1.1 this graph shows the initial three phases a companies navigates in China on the x-axis and the original expense ratio function listed as 1. The second expense ratio function shows a shift lower in initial investment and decreased period of active management.

process, companies often discover that designated market research personnel were unable to overcome the significant language and cultural barriers China presents.

Solutions: A company has a few options to correct this situation. The first is to redesign their market research program with new objectives and an extended implementation timeline. This will help refocus a company's research team, and allow additional time to pursue new opportunities. If these measures are not sufficient, a company may elect to use an outside party with experience in the region to conduct their market research.

Note: The inability to identify qualified suppliers or sales channels may not necessarily mean market research is a failure—certain advanced or proprietary products may not yet be in demand throughout the region.

Prolonged Period of Active Management - As mentioned previously, active management is the most difficult phase for a company to complete. Consequently, when companies face marginally lower expenses from market entry; limited sales from inquires; repeated claims; and late shipment of goods, they face the risk of remaining in active management for an extended period of time.

Causes: There are numerous reasons for a company failing to complete the active management phase. The first is, again, the possibility that initial market research was not conducted properly or that the outcomes detailed by the CIC are unachievable with the selected trade partners. If, however, these trade partners are properly vetted and capable of fulfilling the CIC's business objectives, then these failures may be the result of poor communication between the US and China, or due to inexperienced personnel operating within a company's foreign infrastructure.

Solution: To avoid stalled progress in active management, a company may actually need to temporarily increase their expenses by sending senior management or key personnel to reinforce expectations with Chinese trade partners. These visits often require days or even weeks, on-site, to oversee various stages of production or the sales process. Once progress is resumed, senior management can shift focus to instituting long-term quality or purchasing agreements.

High or Rising Oversight Expenses - If costs have not dropped significantly from market entry levels despite maturing trade relationships, companies cannot minimize their expenses. Common symptoms are excessive travel to fix recurring problems; an overall expense to sales/purchases ratio higher than other foreign markets; and the involvement of senior personnel on low level tasks.

Causes: Frequently, the issues that cause high oversight expenses are the result of failed active management. During active management, companies must establish clear expectations with trade partners and develop a framework to manage those relationships. If this has been accomplished, then the next most common cause for high oversight expenses *is the use of senior level employees performing low level tasks such as QC checks and logistical support.*

Solutions: To help reduce expenses over the long run, companies may need to re-enter the active management phase to modify existing infrastructure with the goal of becoming more efficient when working with trade partners. With this accomplished, companies can then focus their efforts on reducing manpower costs by delegating low-level tasks to on-site personnel with lower opportunity costs.

Excessive Freight Charges - When companies are unable to effectively manage production in periods of fluctuating demand, they can face significant increases in shipping charges due to the use of costly air shipments or partially filled containers.

Causes: The causes of high freight charges may result from failing to project the needs of end users with variable shipping times, or from missing opportunities to consolidate multiple smaller shipments together.

Solutions: To help control freight charges, companies should, first and foremost, always insist on FOB pricing when purchasing from Chinese suppliers to eliminate the possibility of rate gouging. In addition, using long-term forecasts, blanket orders, and on-site shipping support will further mitigate the risk of excessive shipping costs.

Shocks to Supply-Chains or Sales Channels - Even with talented personnel overseeing a company's infrastructure, occasional external shocks can radically alter a company's presence in the region. One potentially devastating shock is the unexpected termination of a trade relationship.

Causes: Radical and unforeseen shocks are frequently the result of changing macro-economic conditions or upheaval within a specific industry. Additionally, increased political tensions and protectionist legislation leading to heightened trade barriers, such as new tariffs or quotas, can also be a factor.

Solutions: Since many potential shocks to a company's foreign supply-chains or sales channels are caused by external factors, it is difficult to actively avoid these pitfalls. The best course of action in these instances is to prepare for potential "worst case scenarios" by developing contingency plans. Planning could include identifying secondary supply-chains or sales channels; or considering larger strategic changes, such as focusing on other markets.

3 What Lies Ahead: A global footprint for tomorrow

When comparing foreign companies operating in China, two organizational attributes consistently surface, even among companies in dissimilar industries. These attributes are the presence of forward looking senior management and a strong desire to provide the company with a competitive advantage over its peers. So, it is not surprising that many of these companies do not view being profitable in China as their end goal. For these companies, the desires to expand margins and reach untapped markets are core business principles that will carry them into the next decade, performing stronger than ever. Achieving this requires companies to continually seek new ways to increase efficiency and identify new opportunities.

For some, this may entail expanding or relocating existing supply-chains in the country; for others it may involve developing products specifically for consumption in China. Either way, companies must understand the limitations of their current strategies, on both a company and global basis, and recognize where they need to be positioned for the long run. To make this evaluation, senior management needs a clear understanding of the business landscape in China; potential growth strategies within this context; and methods for scaling their business on a global level.

New Markets within China

When looking to expand upon existing business in China, it is vital to understand the unique and varying economic landscapes across the country. Unlike other markets, where input costs are relatively constant and consumers possess similar tastes, China is comprised of multiple sub-markets where wages vary from region to region and consumer preferences lack continuity. This fractionalization can be traced back to the 1980's, when foreign companies entering China in search of cheap labor established their supply-chains in coastal cities such as Guangzhou and Shanghai, and rarely moved inland, except to cities with river access. While commerce blossoming in port cities prior to migrating inland is not surprising from a historical context, this phenomenon is magnified in China, particularly when comparing its coastal mega-cities with those elsewhere.

With such a high concentration of wealth in a handful of areas, it is useful to classify China's cities into three tiers. These tiers lack firm categorization, but it is widely accepted that *tier one* cities are those with the most advanced infrastructure and "westernized" consumer tastes, and the scale slides to tier three cities which are the least developed, but whose combined population is nearly equal to that of the United States. This disparity in wealth, while difficult to manage from a marketing standpoint, poses a unique opportunity for companies with existing supply-chains in the country.

For these companies, the pricing dynamics ranging across China, from tier one metropolises to the underdeveloped tier three cities, create the opportunity for inter-China labor arbitrage. Looking forward, companies with supply-chains in or around more advanced regions may face rising labor costs, forcing them to look elsewhere to increase margins. With such a stark contrast in living standards across the country, companies can shift their supply bases from more advanced cities to those that offer competitive pricing in less developed tier two and three cities. In addition to relocating supply-chains to lesser developed regions, foreign firms can also benefit from the Chinese government's effort to support various industries. Obviously the government still strongly protects their domestic petrochemical and telecommunications sectors from outside investment, but many other industries such as textiles, automotive components, and plastics, receive active support from the government and welcome foreign trade partners. As a result, various regions now specialize in industries, greatly reducing the barriers to entry for companies seeking capable Chinese suppliers.

While the benefits of a fractionalized market are obvious to those with existing supply-chains, there are also great opportunities for companies looking to capture emerging demand for their goods—but the challenges are significant. The largest challenge is determining how to appeal to new consumers and veteran consumers with higher income levels. The simple answer is companies must think "local" to succeed. Organizational structures and business practices that work in homogeneous, developed markets will fail in China. For those serious about reaching the Chinese consumer, companies must appeal to local tastes; decentralize the decision making process; and reconsider time-tested methods of servicing customers.

While reaching the Chinese consumer poses a complex problem, the opportunities to increase profits are actually on par with, or greater, for companies looking to export to China than those looking solely to use low cost supply-chains. On sheer numbers alone, a company can capture a small fraction of the market for their goods, and realize, in gross dollars, a larger market share than in more mature markets. Couple large market size with low brand loyalty, and one realizes the door is wide open for those willing to step into the marketplace.

Key Provinces by Industry

Province	Industry
Shanghai	Petrochemicals, chemicals, pharmaceutical, automobile, electronic apparatuses, financial services
Beijing	IT, communications, electronics
Guangzhou	Automobiles, electronic appliances, textiles, apparel, toys, petrochemicals, chemicals
Jiangsu	Chemicals, textiles, communications, petrochemicals, steel, foods, auto parts, biomedicine
Shenzhen	IT, semiconductors, biomedicine, communications, electronics information
Zhejiang	Light industry, plastics, textiles, apparel, toys, metallurgy, household electrical, furniture, kitchenware
Shandong	Agricultural, oil & foodstuffs, pharmaceutical

A change in strategy and ownership

If one were to compare the business environment in China during the late 1980's to today, it would be difficult to find any similarities. At that time, China was the world's eleventh largest economy; business was conducted primarily in-person, or by telephone and fax; and investment opportunities for foreign firms were largely unknown. Today, however, with the proliferation of the internet and a Chinese government that is open to trade, these opportunities are widely discussed, and easier to capitalize on than ever before. As a result, China has vaulted itself to the world's second largest economy and has significantly altered how business is conducted globally.

With few signs that innovation and economic growth will slow over the long run, it is inevitable that new opportunities and obstacles will present themselves. Success in China over the next decade will require companies to be flexible and willing to continually evaluate their Asian business from multiple perspectives. This might include transitioning existing supply-chains that service the US into suppliers capable of providing goods to markets throughout China, or even engineering new product lines that appeal specifically to local consumers. But why stop there? Companies can further increase their sustainability by developing local, raw material supply-chains for their manufacturing facilities, and by creating decentralized organizational structures that are capable of quickly reacting to local trends.

Moving forward, companies must decide what presence they require in China. Most foreign firms immediately look to establishing a Joint Venture.

This practice has been "in vogue" recently, but too often these trade agreements pose significant hidden risks to foreign companies, primarily due to vague accounting practices and an ever changing legal landscape in China. To avoid this, companies must evaluate the benefits and drawbacks for any temporary or permanent presence in China, and understand how those compare to their business objectives. Companies may be surprised to discover that using contract manufacturers or establishing a designated sales office may provide similar outcomes as those offered by a Joint Venture, but with significantly less financial exposure. Either way, there are no hard and fast rules to determine what presence in China is appropriate for any given company; instead, senior leadership must identify their appetite for risk and evaluate it against the potential rewards of pursuing a temporary or long-term trade agreement.

	Advantages	**Disadvantages**
WFOE	•High level of managerial control •Can employ own people without restrictions •Greater Flexibility •Can convert RMB profits into US dollars •Greater level of IPR protection	•High initial set-up costs •Long incubation period •Some industry limitations •Tax and repatriation of profits can be difficult
Joint Venture (JV)	•Mandatory for some industries •Opportunity to utilize existing sales networks •Access to partner's existing resources •Established production facility	•Finding appropriate trade partner •Prolonged negotiation period •Potential risk to IPR •Requires on-site personnel to oversee operations •Trade partner may have leverage when negotiating terms
Sales Office	•Quick to establish presence •Minimal investment required •Enhances company's international visibility immediately	•Staff may lack strategic direction from senior management in the US
Contract Manufacturer	•Minimal to no initial investment required •Large number of potential trade partners	•Limited IPR Protection •Limited control over production

Beyond China

If companies are able to adjust to rising input costs within their supply-chains and manage fragmented consumer tastes across China, why not look into other emerging markets as well? The most obvious of these is India. With a population slightly smaller than China's, and the eighth largest economy in the world, the opportunities for foreign firms are significant. From an economic standpoint, India is ripe for significant economic expansion, with 7% annual GDP growth over the last decade, and an abundance of the raw material inputs necessary for manufacturing, like iron ore, aluminum, cotton, and coal. Surprisingly, manufacturing has only made up 16% of India's GDP, compared to 55% from the service sector over the preceding decade, providing significant room for growth for manufacturers in most industries. Additionally, India captured just 5% of global manufacturing exports from low cost countries over the previous decade, and the global value of these exports is projected to reach nearly eight trillion by 2015, meaning the return on any new business in these sectors could be significant. But, to be successful, companies must learn to conduct business the "Indian way" by appealing to an equally fractionalized consumer base as seen in China, and by navigating cumbersome bureaucratic hurdles.

For those looking outside of India, there are still many untapped countries capable of providing low cost manufacturing, while offering an emerging consumer class. Specifically, companies with low cost supply-chains in China may ultimately look towards neighboring Cambodia or Laos in the coming years, but even more interesting are the opportunities that will come out of Africa. With trillions of dollars invested by the Chinese government, and abundant untapped natural resources, the economic potential for any African nation capable of achieving political stability and a functioning legal system are mind boggling.

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ABOUT THE ABC GROUP

The ABC Group is a firm focused on assisting medium to large market companies successfully conduct business in Southeast Asia by offering a variety of individually customizable services. These services include: establishing supply-chains, optimization of current Asian supply-chains, supply-chain management, identification of new sales channels, sales oversight, market research, and foreign investment assistance. With dedicated and experienced professionals in both the United States and Mainland China, The ABC Group works proactively with clients to provide innovative solutions to the complex challenges that the Asian marketplace presents.

For more information, please visit www.theabcgroupllc.com