

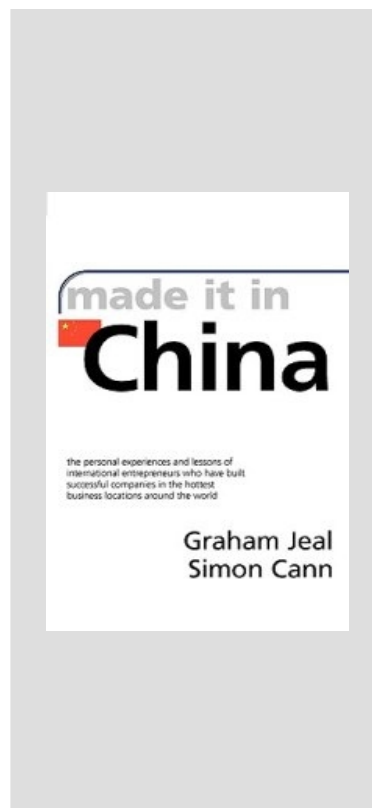


# Made it in China

By Graham Jeal and Simon Cann, MII Publishing, 2009

If you're going to do business in China, then you need to go to China. You must be on the ground conducting business on a day-to-day basis. Businesses that are managed remotely generally fail in China. You cannot make decisions or carry on negotiations on a one day business trip to China made every six months; you need relationships, understanding, and expertise.

Many entrepreneurs have found that in their years of working in China, no serious non-Chinese competition has emerged, largely because nobody sent anyone to come and live in China, get under the skin of the country, and understand how the system worked.



## About the Authors



**Simon Cann** is the author of a number of business and music-related books including "Rocking Your Music Business: Running Your Music Business at Home and on the Road", "Sample This! (Third Edition) (with Klaus P Rausch)", and "How To Make A Noise". He has also had a behind-the-scenes role in many other publications. Simon spent over 15 years as a management consultant where his clients included global music industry, entertainment, and broadcasting companies.



**Graham Jeal** has been working in China since 2001. In 2002 Graham established Shanghai Vision Ltd, a property investment company which now has over 500 property investors from around the world and over US \$200 million of assets under management. Graham also set up Euro-China Consulting Ltd, a consortium of companies spanning investment, venture capital, international trade, e-commerce, and the construction industry. In 2007/2008 Graham was the President of the Entrepreneur Organization in China.

[Click here for more on Simon Cann and Graham Jeal](#)

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## Why You Need this Book

"Made it in China" shares the insights of a group of non-Chinese entrepreneurs who give their first-hand account of their experiences in the country. These are people who have gone to China, invested their own money, gotten their hands dirty, and built successful businesses.

These people are the real deal and (at the time of writing) are all actively working in (and on) their businesses in China.

This practical and entertaining book talks about the challenges faced by business entrepreneurs and how these were met, with their own observations and thoughts for dealing with each situation.

"Made it in China" is the first in the "Made it in..." series of books featuring the personal experiences and lessons of international entrepreneurs who have built successful companies in the hottest business locations around the world.

The series is intended for business-people, students, and anyone else who wants to know:

- Where are the current business hotspots?
- What's happening in these places?
- Who are the leading entrepreneurs in these location and what are they up to?
- How does what's going on in these other places around the world affect me?
- Will what's happening make my life better or worse?
- What are the most up-to-date business practices and thinking around the world?
- What can I learn from these techniques and how do I implement them in my business?

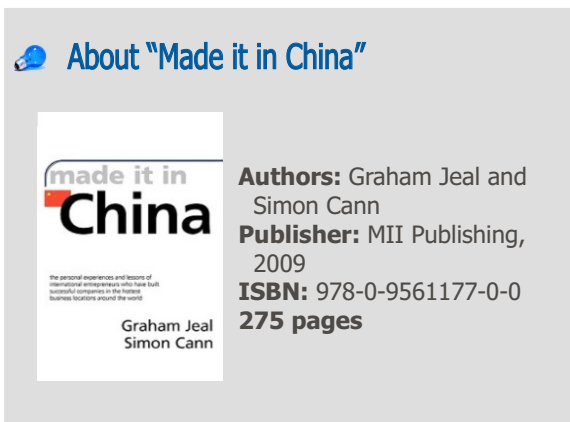
## Manufacturing in China

Paul Stepanek moved a Mid-West manufacturing company in China where he remained and ran the factory.

The company grew and Paul got the opportunity to open and run other factories in China.

After 7 years, Paul set up USActive, a consultancy specializing in helping foreign financial institutions and manufacturing companies with their initiatives in China.

He has made it in China by making things in China and by helping others to make it in China.





## HOW TO MANUFACTURE IN CHINA

There are two main business models for manufacturing companies that want to manufacture in China:

- Set up your own factory, and
- Contract the manufacturing to an established factory.

## LESSONS LEARNED

Here are lessons to be learned in having a happy manufacturing experience in China:

- It is difficult to over-communicate. Take the time to make sure that the other person has understood.

Communicating properly includes following up on a regular basis to ensure that the understanding is reinforced through the process.

- The costs in China can be so much lower than they are in Western markets and the desire to outsource to China is often driven by costs.

This encourages cost cutting in all areas of the business. You cut every cost you can at your peril.

- Patience and persistence do pay off.

Whether in setting (and maintaining!) the vision and values of your company or dealing with suppliers – patience and persistence have always proven to be effective.

## Selling to the Chinese Market: Building a Chinese Sales Army

JC Lim's entrepreneurial career was nearly cut short before it began.

After a shaky start, JC found that he had an aptitude for sales and rapidly became his company's highest achieving salesman.

He so impressed the company that they sent him to Hong Kong where he was appointed as the sales manager and was charged with turning around the failing business.

## ELEMENTS OF PAY STRUCTURE

Unlike Western practices, there isn't simply basic pay and commission. Instead pay is structured as a number of different elements which reflect historic practices in China.

They include:

- Allowance for nutrition.
- Filial fund: a fund to recognize the Chinese practice of sending money back home to parents.
- New Year allowance: to recognize that people might need to buy some new clothes for the holiday.
- Festivity Fund.
- Transport Allowance.
- Communications Allowance so that people can get themselves a cell phone.
- Entertainment Allowance.



### LESSONS LEARNED

It is extremely beneficial to learn from China's history. There are the things it has taught:

- The history of the Chinese people shows their resilience and adaptability.

Find how to use the talents of the people you have rather than look for people who fit a preconceived notion. Enthusiastic people will always make the best employees.

- Care for your people and get involved – it shows when you're faking it.

However, remember you are the boss. By acting as the boss, as well as being able to maintain your authority, you will also be able to show greater respect to your staff.

- When you come to deal with the Chinese market, your product should be appropriate for the Chinese people. You should develop the product for the market (and not the other way round).

In addition, you should understand the logistics of getting your product to your customers.

- Take the time to train people properly and then make the training an ongoing process.

- Try and work in the Chinese way and not the Western way. It makes life so much easier.

### Start-Ups in China: Get In, Get Money, Get Out, Nobody Gets Hurt

Richard Robinson's focus as an entrepreneur is in creating new businesses, focusing on the sweet spot where media/entertainment and disruptive technologies intersect.

Currently, Rich is the CEO of a business he co-founded – Kooky Panda Ltd – which creates socially connected casual mobile games using Flash Lite. In addition to this he is an angel investor and board member/advisor to a number of companies.

### LESSONS LEARNED

Here are the lessons Rich learned from his success in China:

- China is a cheap place to fail: you can bootstrap a company and burn for a much longer time while you figure out your company's "destiny".

As anywhere, the more milestones that can be reached, the lower the risk and the higher the valuation for future rounds, and China is a greater place to tick off those milestones.

- Monetization can be a challenge but is certainly not impossible. Having a solid China story can help with future fund raising.

- China is a great outsourcing destination. Thomas Friedman got it right when he said that China will not be content with only being the world's



factory and leaving India to be the world's office.

China wants to be the world's office and it is starting to drink India's milkshake. Getting a few lieutenants who can speak English to coordinate with partners is key to leveraging China as an outsourcing base.

### Negotiating in China: The Great Conjuring Trick

Graham Jeal is a British entrepreneur who founded Shanghai Vision in 2002. While in China Graham found himself negotiating with developers, property management companies, staff, and officials on a regular basis, and learned the tricks of the trade at first hand.

He is now a veteran of smoky rooms, the extremes of endless Chinese meals, lawyer tantrums, and some dubious negotiating tactics.

#### **THIS IS THE START OF SOMETHING BEAUTIFUL**

This is a very Chinese approach to business: the Chinese do business with friends. Each business relationship has a shelf life and follows four distinct phases:

- The first phase is the getting to know each other phase. Like a prolonged first few days at school, an assessment is happening as to whether someone is qualified or useful to enter into a friendship or business relationship.

- The second phase is the most productive phase where both parties are working together in a constructive manner. Both partners are adding real value and supporting each other in achieving their objectives.

- The third phase is where one party starts to take advantage of the other party, often by introducing unrealistic demands. One party takes the other party for granted: perhaps they have the money in the bank and see little reason for cultivating the relationship going forward.

- The fourth and final phase is where one or both parties start acting dishonestly knowing that the relationship is over. Mercifully this is normally the shortest phase as someone is getting burned.

#### **LESSONS LEARNED**

Here are some of the main lessons Graham learned during his time haggling in China:

- When you come to the negotiation table, always remember that the most important thing for the Chinese person is probably just the price, and money is often the only measure of a deal.

- It is something of the universal truth, but one that is still very valid in China: if you are selling you need to strip everything out of the price that you can, but if you are buying you need to add into the price everything you can.

- Prepare to negotiate in China, not in a Western environment. Keep your sense of humor, patience, and killer line ready and you'll be fine!



## Everybody's Number-One Challenge: Human Resources

Bob Boyce's first restaurant was started because it was difficult to find straightforward, casual Western food at a reasonable price. By chance his room mate at the time worked in the restaurant business in Guangzhou, southern China. The two decided to give the food and beverage business a shot together.

The first restaurant opened in 1999 – there are now 11 (with three new venues scheduled to open in 2009) and the company currently employs over 600 people (and that figure is rising quickly).

### LESSONS LEARNED

There's almost always a way to get around, or over, most barriers in China, as long as you are determined, and willing to explore different routes and avenues.

Here are some big lessons to remember:

- Take the time to understand people and get to grips with the Chinese culture as best as you can – even if only so that you can understand when you are doing something that your people may find uncomfortable.
- Hire great people. If you are training people, then enthusiasm counts far more than untested claims of experience that may be coupled with a poor attitude. Once you've got great people, then good processes will help these people succeed.
- Get the process right and then grow – not the other way round.

## Fostering Creativity in China

Montgomery Singman (Monte) is the founder and CEO of Radiance Digital Entertainment, a Shanghai based online game producer and publisher that now employs over 100 people in Shanghai.

Monte looks at the challenges of finding the creativity in people who have been indoctrinated for generations with Confucian conformity and where creativity has been systematically removed over the last two generations.

### LESSONS LEARNED

- It takes time for certain ideas to sink in with your Chinese customers or employees. Prepare them with background information and then give them time to consider the new ideas.
- For some Chinese people in some areas – especially when it comes to management techniques – you have to show them how to do it. Role-play with them or they just won't get how to do it.
- Hire Chinese people to manage Chinese people. This philosophy came from a Chinese saying, "use the foreigners to control the foreigners." Learn from this ancient lesson.
- Have room for mistakes. Don't count on everything going as planned because it won't, especially in a creative industry, especially in China.
- Never say to creative people that things are not the way they were where you came from – try to be more constructive when you are not happy with the status





quo. Foreigners have the reputation of being snobby because they look down on cultures that are different. Creative people will not respond well to this.

### Chinese Style Risk Management: The Need to Diversity

Scott Barrack had an idea about the Ming Dynasty and Tiananmen Square, but when his grandmother asked whether there was electricity, he wasn't sure. All Scott knew was there was a lot of energy being directed to look at China by big American corporations.

He didn't know what to expect, but came with an open mind and with a desire to experience everything he could.

In 2000 he started SPACE, a real estate agency, his first venture in China. Scott talks about how he grew his business and how he constantly challenges himself to diversify and stay ahead.

For Scott, diversification has been both a growth and a risk management strategy.

#### LESSONS LEARNED

- As a basic operating principle, most businesses in China diversify. The common non-Chinese reason for diversification is applicable in China, but is not the key motivator.

Instead many businesses diversify so that if one enterprise gets closed down or fails there will still be others generating income.

- Make sure the business has growth and scale potential.

- Everyone gets sucked into the China philosophy where things are so cheap. That is a dangerous mentality to maintain – you still need to pay for quality, but make sure you put money in the right place.

### Exploring the Road Less Traveled

Grace Liu is an ABC: an American-born Chinese. Both her parents were born in China but immigrated to the States where Grace was born and grew up.

Grace understood that she needed to set up her own factory in order to maintain quality and to give her the ability to implement her own designs. It introduced her to Jian Ping Li (JP), the person who was to become her business partner.

Since that shaky start, Grace and JP have together built Asianera into an internationally recognized brand whose unique hand-painted porcelain is now seen on fashionable dinner tables, and in high-end shops and restaurants around the world.

#### LESSONS LEARNED

- If you're a manufacturer, you can't compete on price alone. Eventually there will be a lower cost manufacturer somewhere else. China will not be the lowest cost center of the world forever.
- Good, honest, hard-working, and



trustworthy Chinese business partners do exist. You just need to go and find those people.

- Find and walk the road less traveled. It will help a great deal toward product and brand differentiation. And besides, it makes for a much more interesting adventure.

### Resilience and Persistence

Henry Winter arrived in Hong Kong looking to get into the music business but found this tough as he had no music business experience. When he found that failure as an entrepreneur wouldn't count against him, he set up his own business looking to develop his experience.

Henry couldn't crack the music industry through conventional means so he started his own music marketing company, Groove Street.

This evolved into an interactive agency which introduced some highly innovative business ideas including being the first agency to execute a text (SMS) message marketing campaign in China.

While there have been many innovations, the business has had a bumpy ride, but few other businesses demonstrates so well, and in such practical terms, the necessity to be resilient and persistent in order to survive in China.

### LESSONS LEARNED

- Take the money, then renegotiate! All

valuable business partnerships evolve over time, based on the changing value that the parties can bring to the table.

If the other side offers to buy, and won't budge from their price – SELL!

If you really are worth more, they will realize they need additional service/help and will be willing to pay a fair price for it.

This applies to getting work from big clients, and getting cash from investors. Don't get stuck on price, get the deal done!

- To get investment, you need a bidding war, no matter how low the bidding starts.

Investors need motivation to pull the trigger and wire the money NOW. No amount of spreadsheets or business plans can supply that sharp poke.

Calling an investor to say "I'm just calling to say goodbye" – while you are still thinking, "we're selling to someone else" – now THAT gets a dramatic and immediate reaction, no matter how absurdly low the price "someone else" may be offering.

- WATCH OUT!! Intelligent people naturally dislike repetitive simple things.

Anyone for an all-night match of Tic Tac Toe? No – we invented chess and World of Warcraft to stimulate our minds.





Intelligent people naturally seek to make things more complicated which equates to more interesting work. But companies get rich doing the same thing, over and over.

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