

The Changing Environment of Manufacturing in China-*the best ways to fast track market entry into China.*

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Australian manufactures are facing tough times at home and for obvious reasons looking to the China market as a solution to their manufacturing problems. This can be an affordable and rewarding opportunity for some as China offers advantages such as low labour costs, cheap property acquisition, low materials costs and tax advantages. The challenge facing manufacturers though is how to fast track this transition and find the most suitable corporate structure for their business in China.

At China Blueprint we regularly hear new customers comment: “I want to take my company to China but I don’t know the best way to do it. I’ve heard that if you have a China business partner you have greater access to the market, but how will I know whether to trust them?”

Choosing the right business structure in China can be complex, especially considering the vast differences between corporate law there and at home. A medium sized, successful business looking at taking on the next phase in their growth can quickly turn troublesome if they choose the wrong location, partner up with the wrong business partner, or have their technology ripped off and sold through the black market. For this reason, consideration to market entry should be carefully planned and researched, using industry experts that know and understand the China market.

There are various options available to new China market entrants. They include, but are not limited to, working together with an existing factory, taking over an existing factory or starting from scratch and purchasing a land plot then building from the ground up. There are also options for share and compensation trading, leasing and process & assembly.

The big challenge for foreign investors is which model best suites their particular circumstances. Here are some of the more common approaches;

WOFE (Wholly Owned Foreign Enterprise)

A WOFE allows you complete control of your China operations which can be moulded from the ground up. You will not be taking on encumbered debt or have the worries of a local business partner’s loyalty.

However it requires careful planning and puts you in direct competition with local established markets. Depending on your product or service, you will need to rely heavily on research, expert advice and heavy marketing.

Joint Venture

A joint venture partnership offers a lower price point entry and benefits from a local business partner's experience and networks. It is also essential that due diligence is undertaken to assess that there is no encumbered debt and no partner dishonesty. Strong legal guidance is recommended to ensure due diligence and legal protection strategies. There is a greater chance of copyright infringement under a JV partnership.

Representative Office

Having a representative office in China is a great way to conduct research and have a market presence in China - giving your company credibility and market recognition. It can though, be expensive given the limitations on what you can actually do.

Virtual Joint Venture

The virtual joint venture option is like having a 'factory within a factory' and best suits those who don't want to go it alone or risk the IP of their products. It is the establishment of a formal relationship with a trusted China-based business partner, and the utilization of their assembly line and expertise to manufacture the goods. The Australian partner then uses this transition phase to develop and gain experience, plus benefit from the costs of manufacturing in China with the view that in the future they will eventually develop their own factory presence. This saves time and money, and ensures a much safer strategy to China market entry. This option is also useful for IP projects where a number of vendors can be coordinated to deliver various materials to one highly secure location for final assembly and packing. It ensures no single manufacturer ever has full position of all your product specifications.

Doing business in China is very different from working in Australia. Company registration, tax and corporate law and business strategies are constantly changing. And it is not uncommon to hear stories of company representatives arriving in China to lock down a deal before having conducted any basic due diligence. If you are reading this article and you are already on the plane to China, my advice is go and have a look, don't tell anyone about your plans or idea, come home, and do your homework.

For more information about setting up a Virtual Joint Venture, sourcing a factory location or any other business entity set ups in China, please visit the China Blueprint website: www.chinablueprint.com.au Or contact Lisa Goodhand directly in Sydney on T: +61 2 9267 2933