

# Changing Trends Among Firms Doing Business in China

■ By Professor William Reinfeld



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The more than 300 student projects submitted to CEIBS by firms in China, over the past six years, offer clues on everything from the increasing importance of the high-end of the service sector, to heavier reliance on the Internet and big data, as well as strong interest in almost anything healthcare related.

**R**apid and steady growth has become an expected feature of China's economy over the past several decades. However, we are now suddenly seeing a phenomenon of dramatic changes in the focus and business models of companies in China. Over the last few years, greater strategic priority is being placed on anticipating the demands of the rapidly growing and sharply changing domestic market (especially the younger and more affluent generation). Industries with established and well-defined products (e.g. automobiles) are rethinking the definitions of what business they are really in. New businesses (e.g. on-line shopping malls) and new concepts (e.g. digital marketing), unimaginable a few years ago, are emerging and

replacing old ones. Traditional business models for going to market are being re-designed and replaced with new concepts (e.g. big data and cloud computing) that many of their advocates don't yet fully understand themselves.

This dynamic business environment is as challenging as it is exciting (and promising). Since many of China's businesses are relatively new and without major investments in fixed infrastructure, there are opportunities for them to "leap frog" stages in the natural evolution of businesses and go directly to a leadership role in new products, new markets and new business models. Many companies appear to be addressing these opportunities and challenges, in China.



Having been involved in the creation and development of a major programme at CEIBS that enlists MBA students to address current challenges of major businesses in China, I have had the opportunity to observe how the concerns of businesses have evolved over the six years since the programme was launched. Indeed, the trends previously alluded to are clearly reflected in the changing focus of companies. We can see from the projects we received over the past six years that, while still present, concerns such as where to locate plants, how to modify the supply chain, how to reduce dependence on export markets are being outnumbered by questions such as how to use the Internet more effectively, how industries will transform and how people will shop in the future.

### CEIBS INTEGRATED CHINA STRATEGY PROJECTS (ICSP)

Over the past six years CEIBS has been conducting a programme (5-credit course) in which all MBA students are required to participate during the second half of their first year. Initially called Integrated Strategy Projects, the programme is now called Integrated China Strategy Projects (ICSP). The ICSP requires teams of students to undertake real projects, provided by companies doing business in China – mostly major MNCs, who are also corporate sponsors of CEIBS. The companies are asked to provide projects that address opportunities, issues or problems with which they are presently concerned. The students are expected to

do research, analyse the information they collect and provide recommendations and strategy for their “client”. They are given about 10 weeks to complete the projects. The class is divided into teams of 5 students; each team gets a unique project. Thus, depending on the size of the class, we have conducted between 33 and 40 projects each year since launching the programme in 2010. Since we normally receive more projects than we can use, we have in fact collected over 300 projects during these six years.

It has been our experience that companies really do see this as an opportunity to draw on the talents of bright, young MBA students and a chance to get “fresh, intelligent, and additional” perspectives on a situation that they are currently addressing. The projects are not merely

“Interest in private healthcare services has grown.”



data collection exercises or “make work” assignments. It is also quite significant that each year we are receiving more projects from unsolicited companies, including smaller Chinese companies. This is not only an endorsement of the programme’s success, but also an indication that companies in China are feeling more comfortable with going outside for analysis of important trends and recommendations for their strategy.

In examining various aspects of the projects we received since 2010 we can gain some insights into how the focus and concerns of companies in China have changed during this period. While this is not meant to be a scientifically significant exercise, it does provide a noteworthy endorsement of what we sense are important shifts in the directions China’s

businesses are taking.

Tables 1 and 2 summarise the projects by year, according to the sectors of the companies that gave us projects and the principal focus of the projects.

## SOME NOTEWORTHY TRENDS

### 1. Sector/industry

On the assumption that the companies who voluntarily submit strategy projects to us are in sectors/industries where strategic changes are of greater concern, we can note, from examining Table 1, the following trends occurring since 2010:

The service and retail sectors are steadily replacing the industrial sector as China’s dynamic growth sectors, in which strategic changes appear most significant.

- Overall, the projects we received from the industrial sector declined steadily from 78% of the total, five years ago, to only 45% this year. Meanwhile, the service sector now contributes 40% of the projects (up from 20%) and the retail sector has jumped to contributing 15% of the projects, up from only 2% in 2010.

Within the industrial sector, significant shifts are indicating moves to higher value-added industries where China can find advantages among global competitors.

- We have seen sharp declines in the number of projects received from the heavy industry/materials/

construction group. In 2010, we received 14 projects from this group; this year we received none.

- The chemicals industry now provides us with the most projects, followed by pharmaceuticals and medical devices. These industries are generally higher value-added industries and are quickly advancing with new products and new markets, both domestically and with their exports, as they seek to introduce higher quality and more technically advanced products.

While the service sector is growing rapidly in its importance to the economy, shifts within this sector indicate trends toward more higher-valued services.

- The group of hospitality/entertainment/F&B services, which only provided one project in 2010, is providing the most projects in this sector. These are generally focused on capturing a larger share of the rapidly growing and increasingly more sophisticated and affluent market of younger people, whose propensity to spend money on these services is increasing.
- Interest in private healthcare services has grown from practically none to one of significance. This year we received four projects focused explicitly on opportunities in providing such services. We also received a couple more projects that we classified as hospitality/entertainment, but which concerned themes focusing on health and “wellness”.



## TABLE 1 SECTORS OF COMPANIES PROVIDING PROJECTS

(Number of Projects)

SECTOR	2010	2011	2012	2013	2014	2015
<b>INDUSTRIAL</b>						
Heavy Industry/ Materials/ Construction	14	8	5	4	4	-
Automotive	2	2	2	2	3	4
Chemicals	7	7	10	12	11	10
Pharma/Healthcare/ Medical devices	3	5	5	7	6	6
F&B	4	2	4	5	5	3
Control systems/ Instruments	4	4	3	4	3	1
Infrastructure	1	2	2	6	3	1
<b>SERVICES</b>						
Financial	4	4	8	4	4	4
Healthcare	-	1	-	-	-	4
Hospitality/ Entertainment/ F&B	1	3	1	1	4	6
Consulting/ Media/ Education	3	2	4	1	1	3
Transportation/logistics	1	3	1	2	2	1
e-commerce/IT	-	-	2	2	3	4
<b>RETAIL</b>						
	1	2	3	5	6	8
<b>TOTAL NUMBER OF COMPANIES</b>						
	45	45	50	55	55	55
<b>INDUSTRIAL</b>						
	35 (78%)	30 (67%)	31 (62%)	40 (72%)	35 (64%)	25 (45%)
<b>SERVICES</b>						
	9 (20%)	13 (29%)	16 (32%)	10 (18%)	14 (25%)	22 (40%)
<b>RETAIL</b>						
	1 (2%)	2 (4%)	3 (6%)	5 (10%)	6 (11%)	8 (15%)
<b>TOTAL NUMBER OF COMPANIES</b>						
	45	45	50	55	55	55



E-commerce/IT services are growing quickly as businesses seek outside expertise in this dynamic and rapidly evolving industry.

- Companies in the business of providing Internet and information technology services (other than consulting services), such as web-based platforms and Internet channels that allow businesses to practice e-commerce, are emerging and growing rapidly. This group of services hardly existed a few years ago; now they include major companies as well as small start-ups.

The retail sector is going through dramatic shifts as both its importance as well as its business models have experienced dramatic changes.

- Projects from retailers jumped to 15% of the total, up from 2% in 2010. As our discussion (below) of the projects' focus will show, this reflects the trend that businesses are actively looking for new opportunities in and new approaches to this important sector in China.

## 2. Strategic focus

When looking at the focus of the projects we received over this period, we can get an indication of important strategic issues with which companies have been concerned. Here we can see even more significant trends over the 2010-2015 period. Table 2 summarises how the primary focus of the projects broke down each year. We have grouped these topics into eight subjects. While many of the

projects focused on multiple subjects, they all had one that was the primary focus. The following are some of the more interesting and significant trends we can see from these projects:

Broadly defined strategic concerns have remained heavily focused on addressing market issues – general market strategy, new product launch, new market entry and exploring for new opportunities.

- Projects focusing primarily on market-related strategy interests of businesses (Groups 1, 2, 3, 4 in Table 2) constituted 63% of the total in 2015 as well as in 2010. However, within this cluster it is noteworthy that the number of market-related projects focused on exploring for new opportunities declined from 18%, in 2010, to 10%, in 2015. While the latter is still a significant percentage, it does suggest that many companies may already have a good idea of what their markets are seeking and do not need as much “blue-sky” exploration as they did six years ago. The second noteworthy shift within this cluster is the increase in projects focused on new entry into China (3), which grew to 14%, up from 3% in 2010. This suggests that MNCs may be feeling more comfortable exploring new China-entry opportunities now, than they were six years ago.
- Projects focused on issues concerning operations (sourcing, SCM, location, sustainability, energy, etc.) declined in number to only 4% in 2015, from 19% in 2010. Equally significant is

the trend in e-commerce/Internet/big data projects, which grew to 22% in 2015, from only 3% in 2010. More on these two trends will be discussed below.

Dramatic shifts have occurred within the broadly-defined strategic concerns of companies, as reflected by the issues being explored and the options being considered.

- Projects focusing on e-commerce/Internet/big data (8) not only increased sharply in number, but also demonstrated significant changes in the nature of the issues explored. During the first few years, the projects in this group addressed basic questions, such as whether e-commerce could play a role in a company's business. Now, within a few years e-commerce is the hottest topic among the projects we receive. Over 50% of all projects we received this year include reference to this topic and ask for it to be addressed in the investigation– if not as part of the primary objective, then at least as part of the analysis and recommendations. For example, the six projects we classified as organisation (6) all asked for recommendations on how the Internet or big data could be used to achieve the objectives being addressed in the projects.
- Also interesting to note is how the nature of projects in exploring for new opportunities (4) has changed. Earlier focus was largely on exploring applications of Li batteries, solar

## TABLE 2

### PRIMARY FOCUS OF PROJECTS

(Percent of Total Projects Received)

PRIMARY FOCUS	2010	2011	2012	2013	2014	2015
1. General Market Strategy (Channels, branding, pricing, etc.)	24	26	27	23	16	16
2. New Product Launch (Strategy, business model, etc.)	18	18	22	17	21	23
3. New Market Entry (into China)	3	8	11	11	13	14
4. Exploring for New Opportunities	18	10	9	12	12	10
5. Operations (Sourcing, SCM, location, sustainability, energy)	19	20	14	11	7	4
6. Organisation (Design, HR, Communications)	12	9	4	7	6	6
7. Regulation Impact	3	5	3	2	4	5
8. e-commerce/ Internet/ Big data	3	4	10	17	21	22
	100	100	100	100	100	100

energy and LED technology, whereas now it is on linking the automobile with the Internet, intelligent homes and virtual shops.

- Projects focusing on operations (5) not only declined in number, but the nature of the studies also changed dramatically. During the first years of our programme these projects asked for analyses and recommendations concerning issues such as: location of warehouses, convenience stores and gateways; supply chain management; and sourcing strategies. More recent concerns have focused on: sustainability; automation; and B2B solutions. In fact, the projects addressing sourcing/logistics issues declined from 16% in 2010 to 2% this year. This is not to say that

logistics and sourcing have become less important, but it possibly reflects a growing familiarity and understanding of the problems and solutions in these areas.

- Organisation projects (6) have also been on the decline as well as seeing a change in focus. Issues used to include concerns over recruitment strategy, restructuring, internal branding and account management. Recently, the concerns focus on greater innovation; acquisition of suppliers; restructuring; and Internet recruiting.
- Investigation of public policy implications (7) has consistently comprised around 5% of the projects. However, the nature of policies and regulations of concern have

changed. The earlier projects in this group asked for the implications of public policies concerned with the environment, SOE reforms and industrial development. The more recent projects in this group concern policies that appear to favour Chinese companies, healthcare reform and aligning with Government's priorities.

In conclusion, the trends reflected in the projects we received in our ICSP programme, over the past six years, appear consistent with many of the trends seen in China's overall economy. They provide us with additional insights into this highly dynamic environment and also allow us to focus our research and teaching on issues determined by the "real world" rather than on curriculum developed within the institution.

<sup>i</sup>We wish to emphasise that the observations presented here, from our data, are not statistically supported. Furthermore, some of the trends in our limited sample may not be consistent with the macro trends, due to the fact that there was no sample design. We received these projects from a limited sample of businesses that volunteered projects. For instance, we have received only a limited number of projects from the Financial Services industries and the IT Industries, both of which are highly significant industries in China's economy and we do not want to read too much into this.