

CEIBS

2011 SURVEY

Challenges for Foreign Businesses in China

Executive Summary



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LETTER FROM THE RESEARCH TEAM

We are pleased to present the second annual of the CEIBS Survey on challenges and success factors of foreign enterprises in China.

We would like to thank all respondents for their valuable contribution to the survey. Firstly to the CEIBS alumni community that has supported this research. In addition, our gratitude goes to the institutions and organizations that have participated in the survey. They are in alphabetical order:

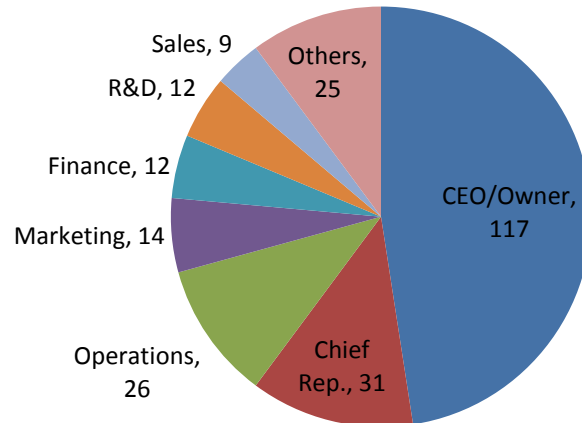
- Ch-ina, Consulting Firm
- Confederation of Indian Industry China
- Flanders Investment & Trade
- Greek Commercial Office
- Italian Chamber of Commerce
- Israeli Chamber of Commerce
- Spanish Commercial Office
- Spanish Chamber of Commerce
- Swiss Chamber of Commerce

And the many friends that helped us with their contacts.

We are also grateful for the financial support of CEIBS research fund, and the support of the Alumni, EMBA and EDP offices at CEIBS. Also thank you to our research assistant Rika Chen.

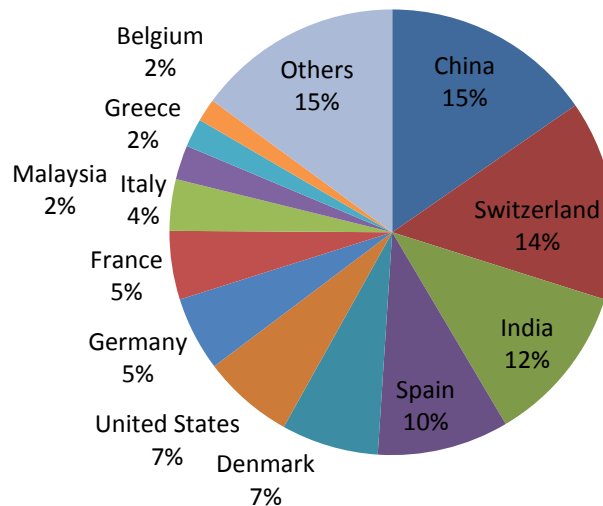
This survey measures various aspects of doing business in China, ranging from success factors and challenges to specific functional issues. It has been very successful in terms of participation, in total 246 executives responded the survey. These executives occupy a variety of positions in their organizations; among them there are 117 CEOs, company owners and top executives while the rest of the respondents represent all the main business functions: HR, Finance, Marketing, Sales, Operations and Research & Development. This broad participation adds rich and valuable perspectives to the issues experienced by their organizations in China.

Responsibility of the executives included in the survey (N=246):



The executives represented have an average of 18.3 years of work experience, of those 7.4 years working in China. Regarding their gender, 88% are males and 12% females. Finally, they come from 33 different countries including China.

Executives' country of birth (N=241):



There is a great deal of valuable information to be mined from this survey, and we hope that this study will help you in your success in China. Without your views and opinions, this report would have not been possible. Our sincere thanks to all of you.

THE RESEARCH TEAM



Dr. Juan Antonio Fernandez is Professor of Management at China Europe International Business School (CEIBS), in Shanghai, China.

Prof. Fernandez has co-authored six books: CHINA CEO, Chinese SOEs Reform, China CEO: A Field Guide, China (Foreign) Entrepreneur, Chinese Entrepreneurs, and 2010 Doing Business in China Survey. He has given presentations about his Chinese research in India, Japan, Korea, UK, France, Italy and Spain.

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Dr. Per V. Jenster is Adjunct Professor of Strategic Management of China Europe International Business School (CEIBS), in Shanghai and the Center for International Management & Industrial Development, Switzerland.

In addition, he serves as Chairman of the Nordic International Management Institute in Chengdu, China. His research has been widely published in international journals and in more than 24 books.

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Robert Ioane is a European innovative professional with 15+ years of both corporate and academia experience. After finishing his MBA in the United States at Tiffin University, he came to China.

He is currently a Business Administration Lecturer at Raffles Education Corporation – Dong Hua University in Shanghai. As a Doctoral student at SMC University, he is working on more projects related to the Chinese market. The combined years of successful work and study experience in countries spread over three continents recommend him as a true global citizen, dedicated to cross cultural understanding.

For further information, please contact bogdan.ioane@gmail.com

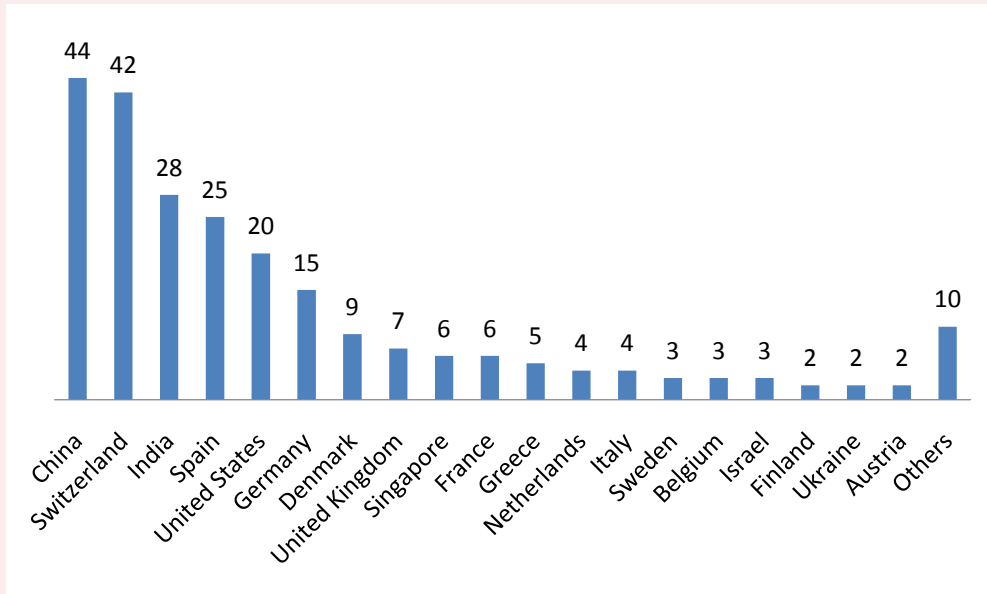
SECTION I

COMPANIES

INCLUDED

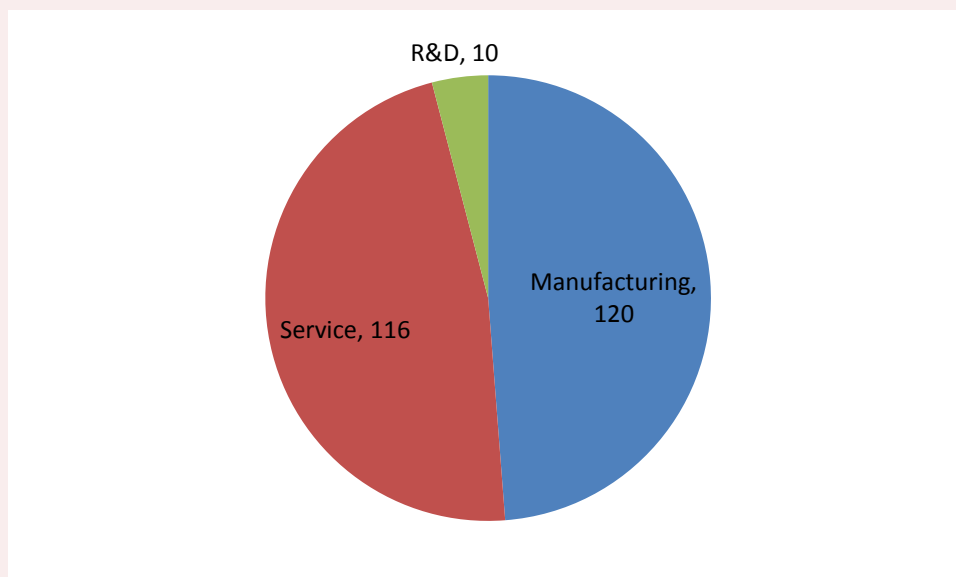
The study includes participants within organizations from 29 different countries are represented:

Country of origin of the organizations represented (N=240):



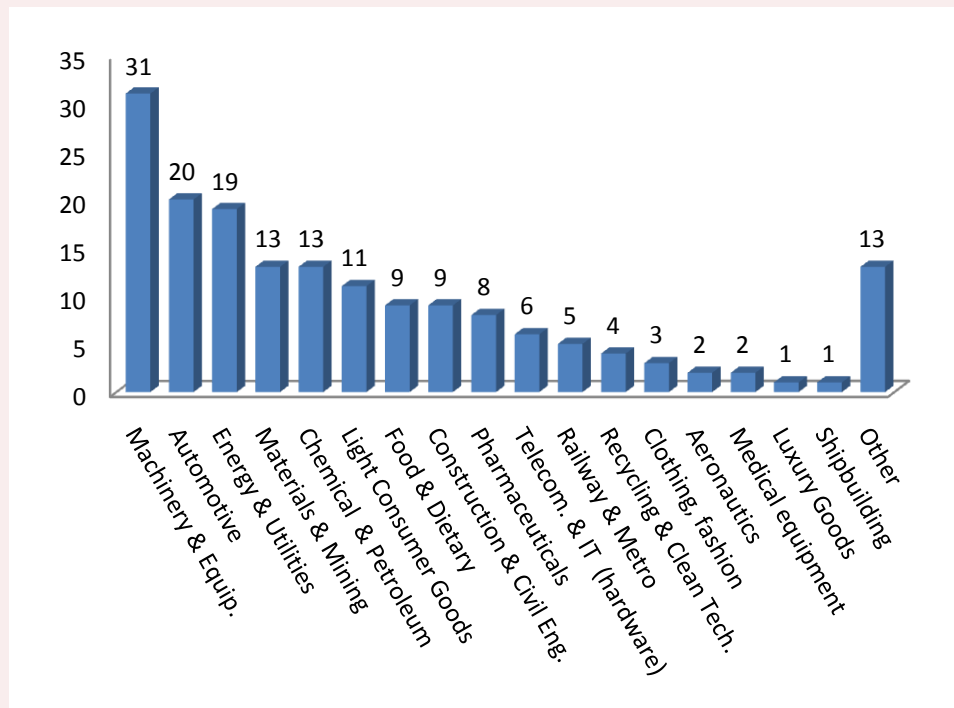
The majority of the employer companies in our sample started their activities in China between 2000 and 2010 (60% of them). Regarding their locations, 58% are in Shanghai and 21% in Beijing, the rest are located in other parts of China. The sample includes a total of 246 organizations operating in three main areas of industrial activity:

Companies' main activity (N=246):



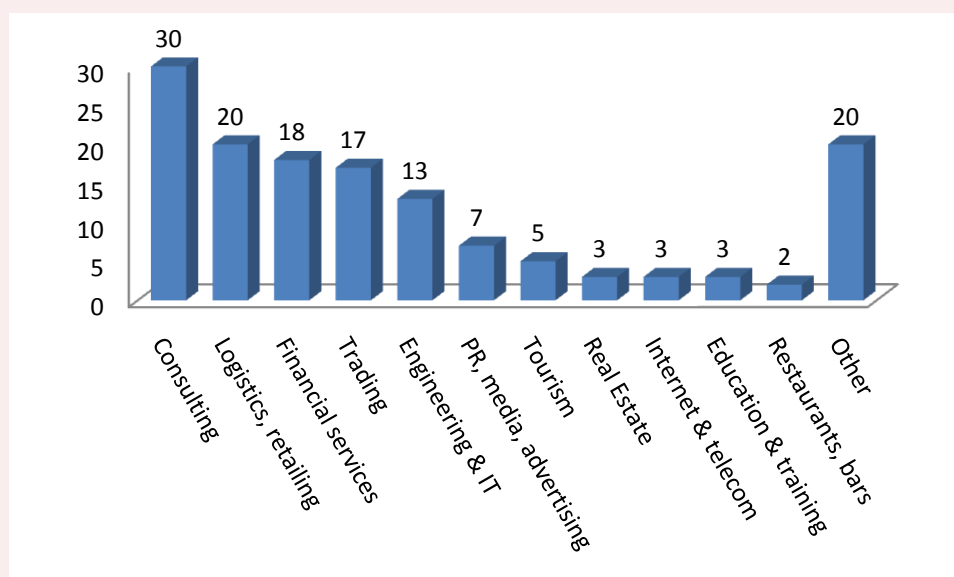
Other data about these companies:

Manufacturing companies are active in:



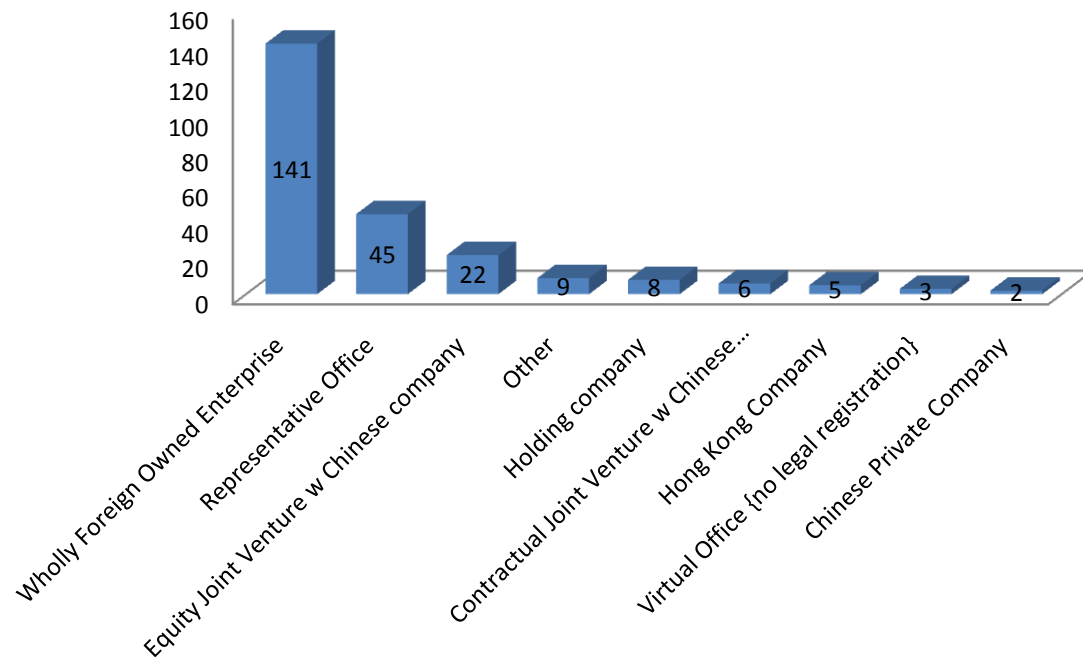
The companies included in the category “other” report their activities within aviation, airline catering, environmental services, quality control, testing and inspections, art and art exhibitions, architecture and certification services.

Service companies are active in:

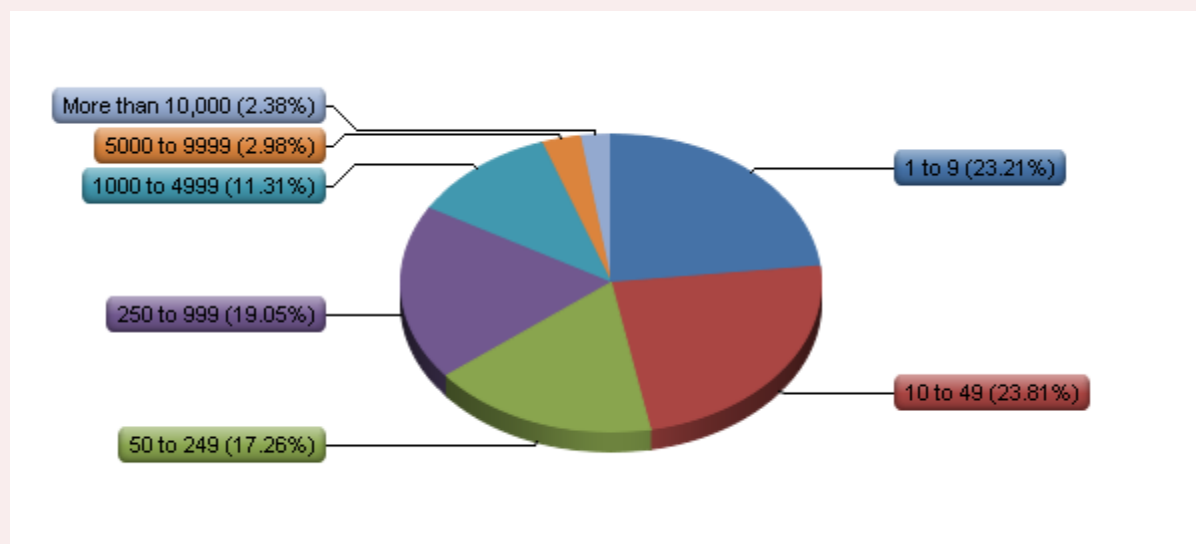


The companies included in the category “other” report their activities in security, composite materials, FMCG, imaging, cooling and air conditioning equipment, and packaging.

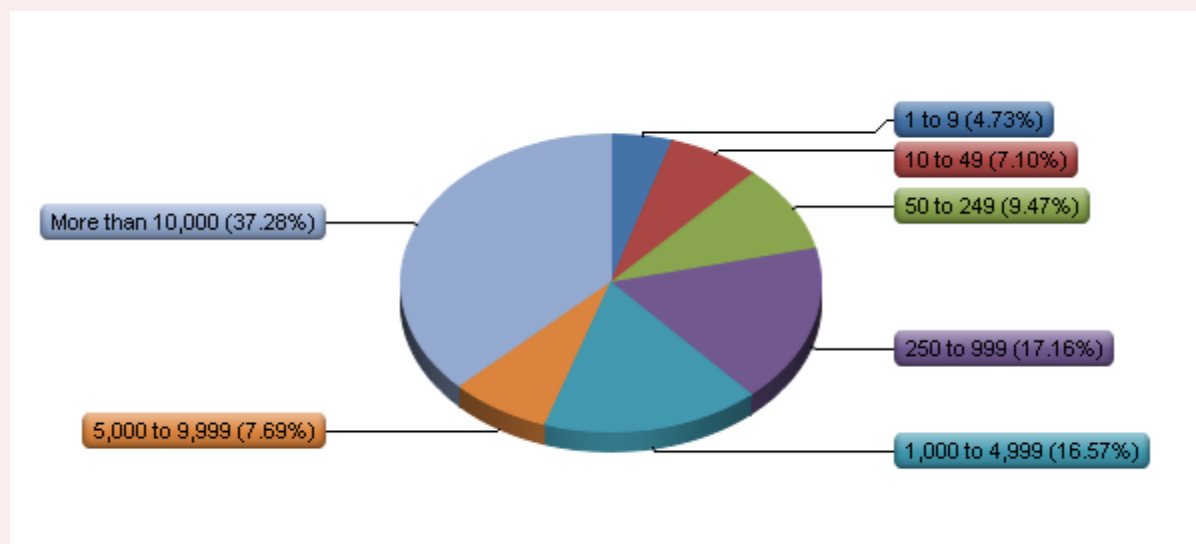
What is the legal form of your company in China? (N=241)



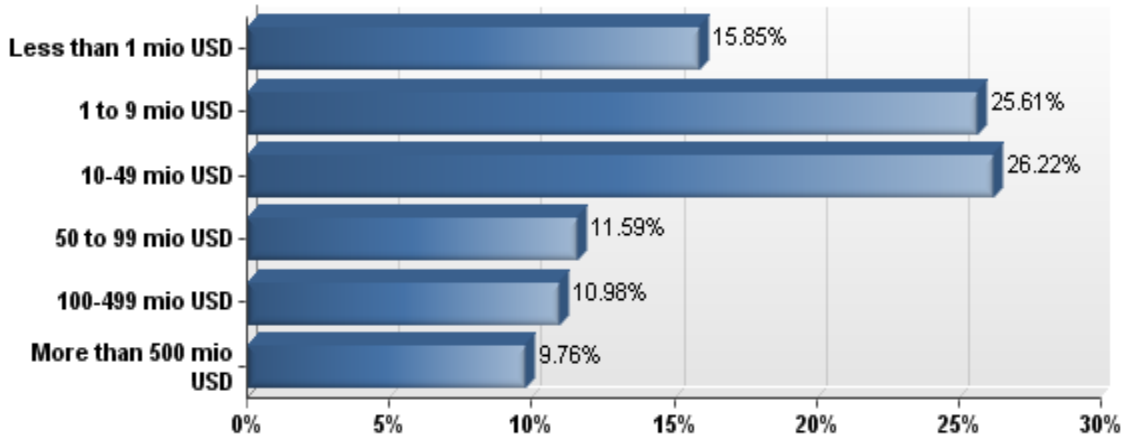
**How many workers does your company employ in China (2010)?
(N=234)**



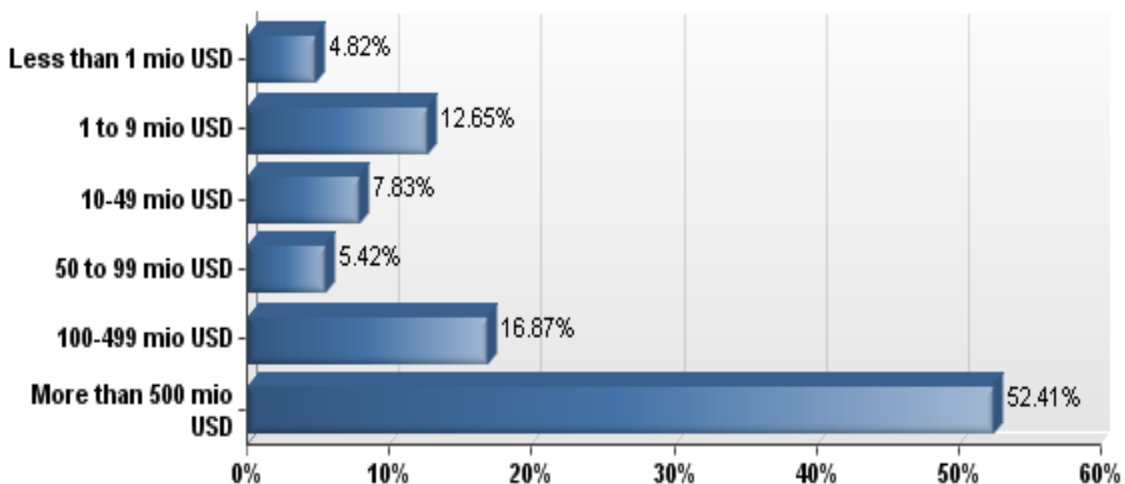
How many workers does your company employ worldwide (2010)? (N=230)



**What is your annual revenue estimated in China for 2010?
(N=203)**



**What is your estimated annual revenue worldwide for 2010?
(N=197)**



SECTION II

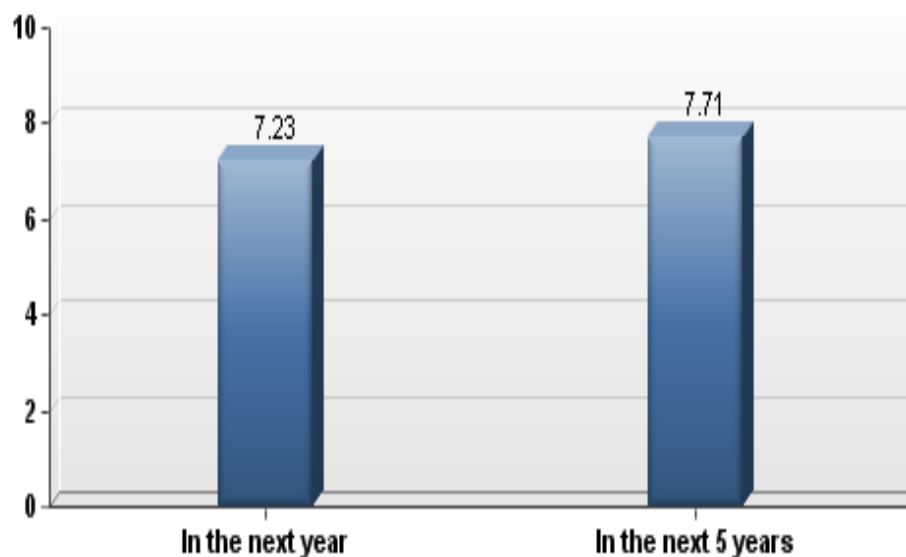
CONCERNS AND

SUCCESS FACTORS

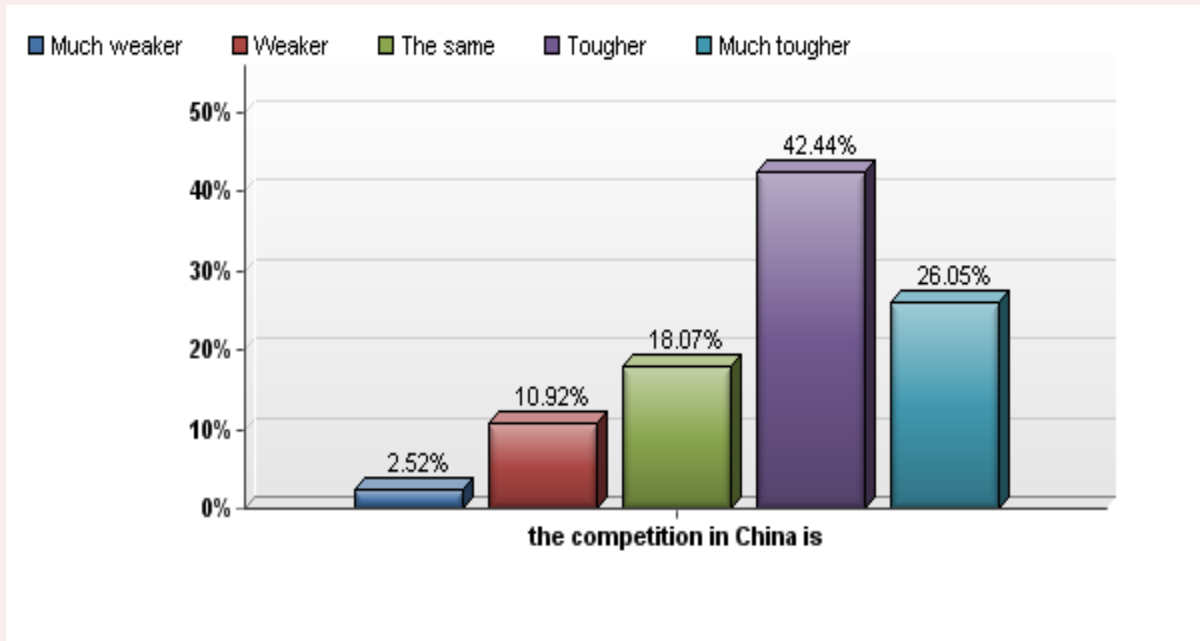
What Worries Foreign Executives?

In general, we can say the respondents have positive expectations about the future. They also declare that they have obtained results in 2010 that were in line with those expectations. Another finding is that they consider China as a much tougher competitive environment than their traditional markets. Finally, they declare having met most of their strategic objectives for the China operation.

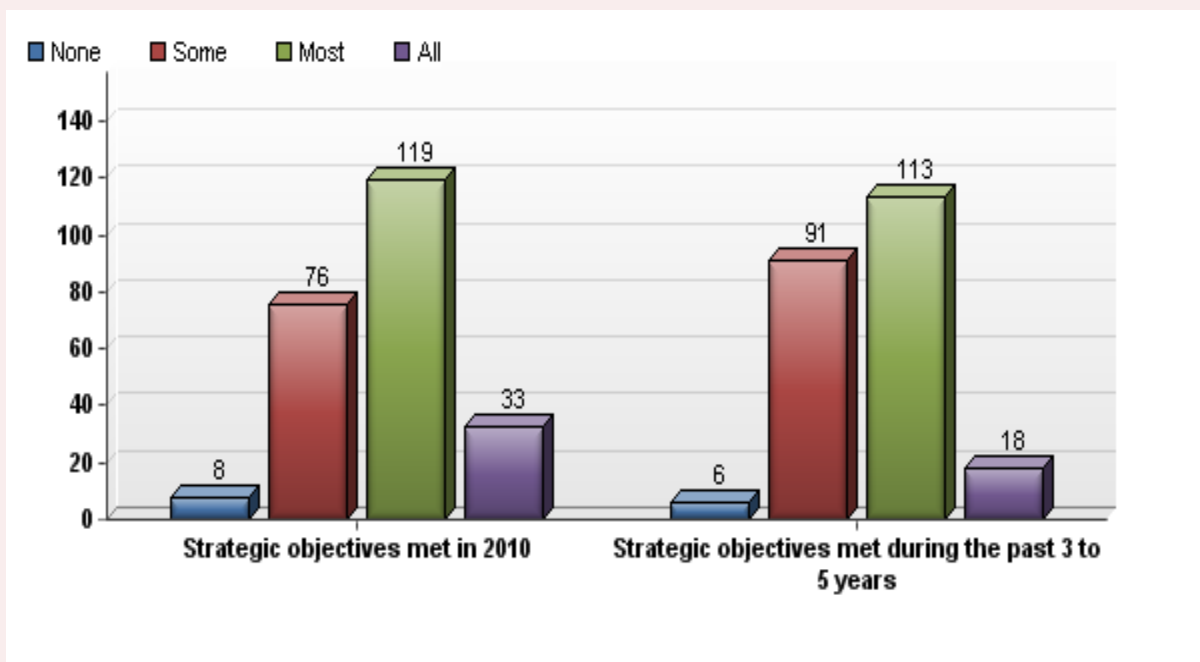
How confident are you in the ability of your China operations to reach their business objectives successfully? (N=234) (On a scale from 1 to 10, where 10 = extremely confident)



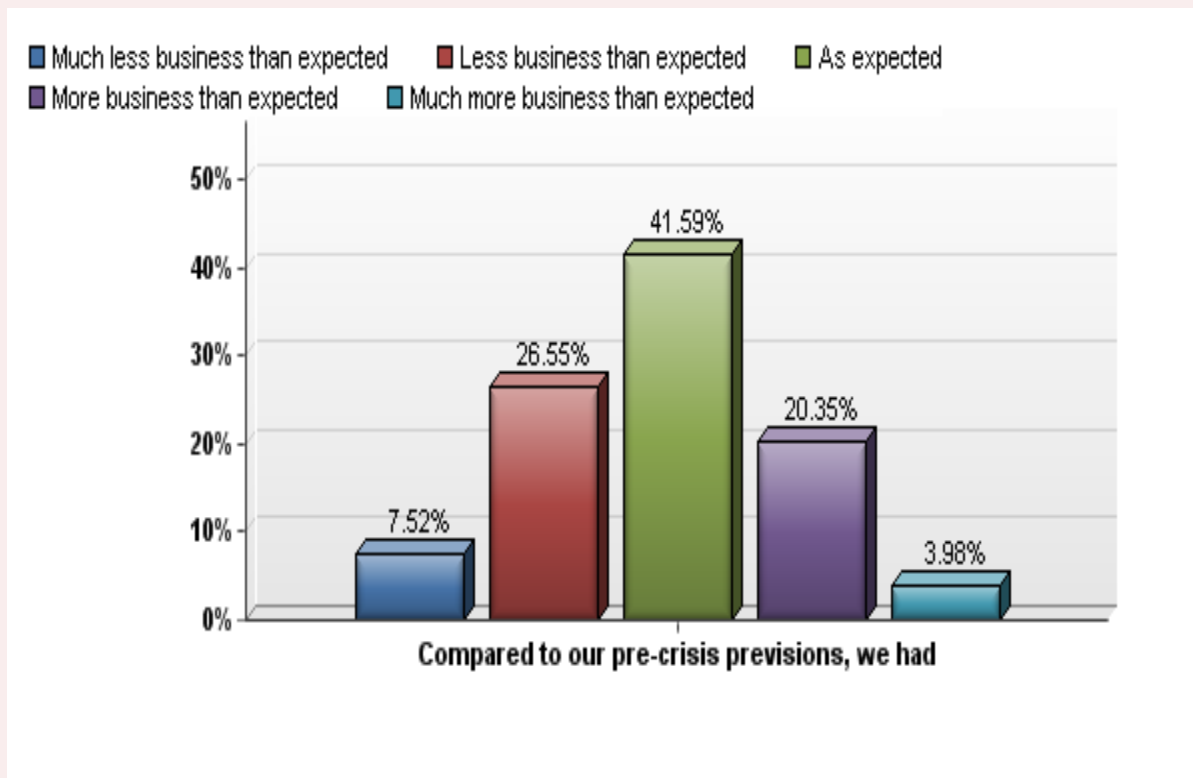
How would you consider the competition in China compared to your company country of origin? (N=238)



How many of your original strategic objectives for your China operation did you meet? (N=236)



How importantly has the crisis affected your actual business in China compared to your pre-crisis plans? (N=226)



Challenges and Success Factors

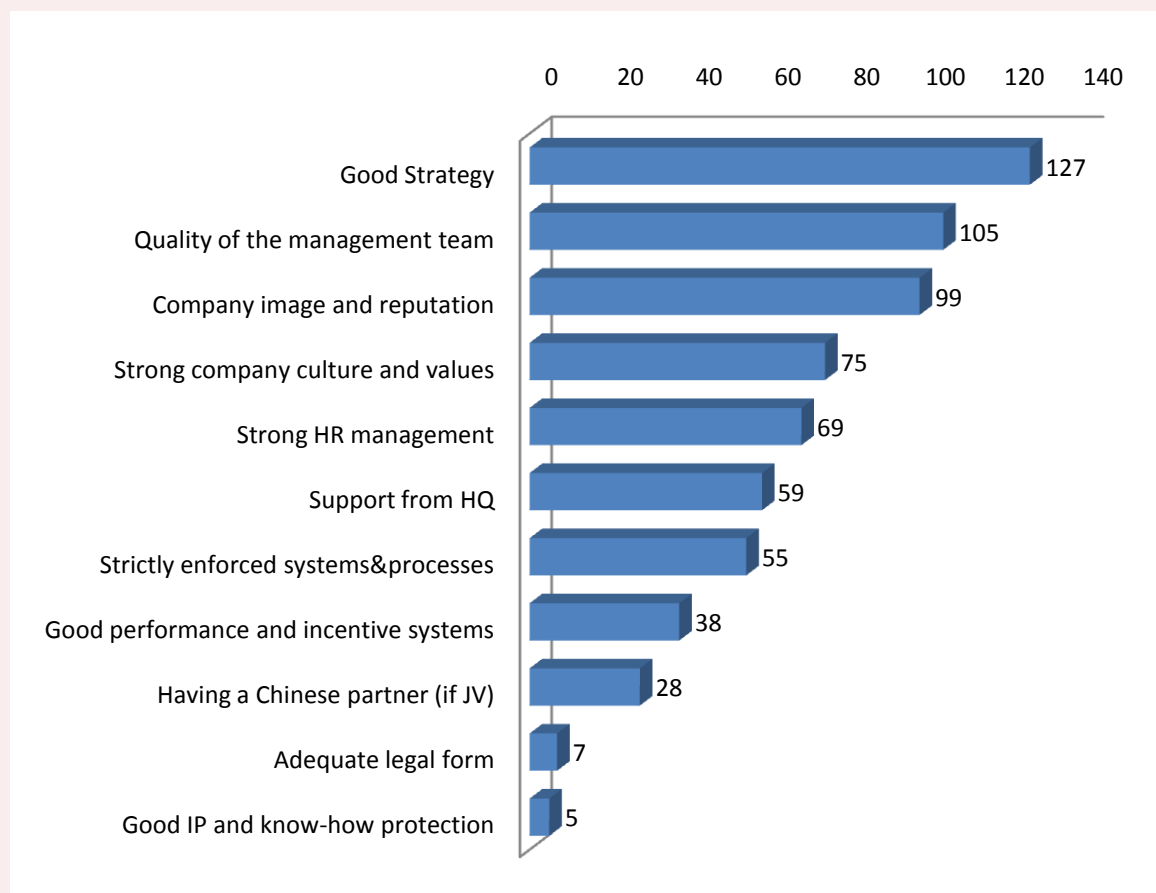
Regarding factors that are critical for the success of their business in China, our respondents mentioned the following:

- At the organization level having a good strategy and a high quality management team are considered fundamental to success.
- As for products and market, the key factors are price/quality ratio and branding.
- Flexibility and guanxi (personal networks of influence, connections and good relationships) are also critical.

Heading up the list of challenges three respondents face are three factors: finding and retaining employees, increasing labor costs, and increasing strength of local competitors.

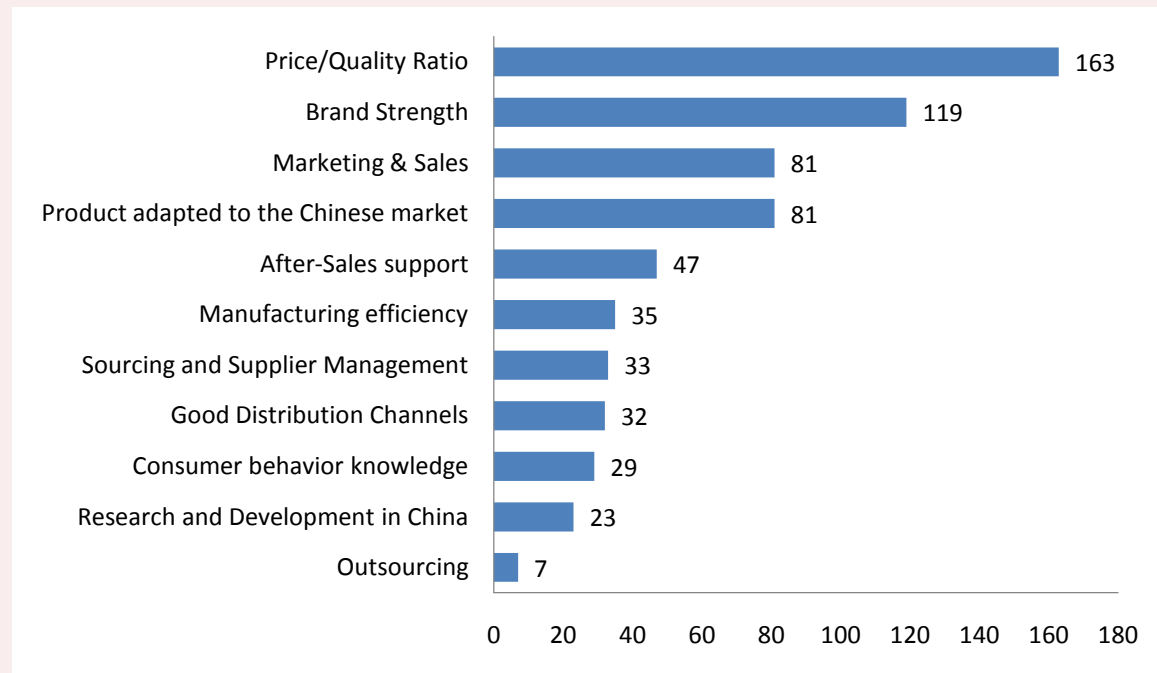
Success Factors: Organizational Strengths

How decisive are these factors for your company's success in China?



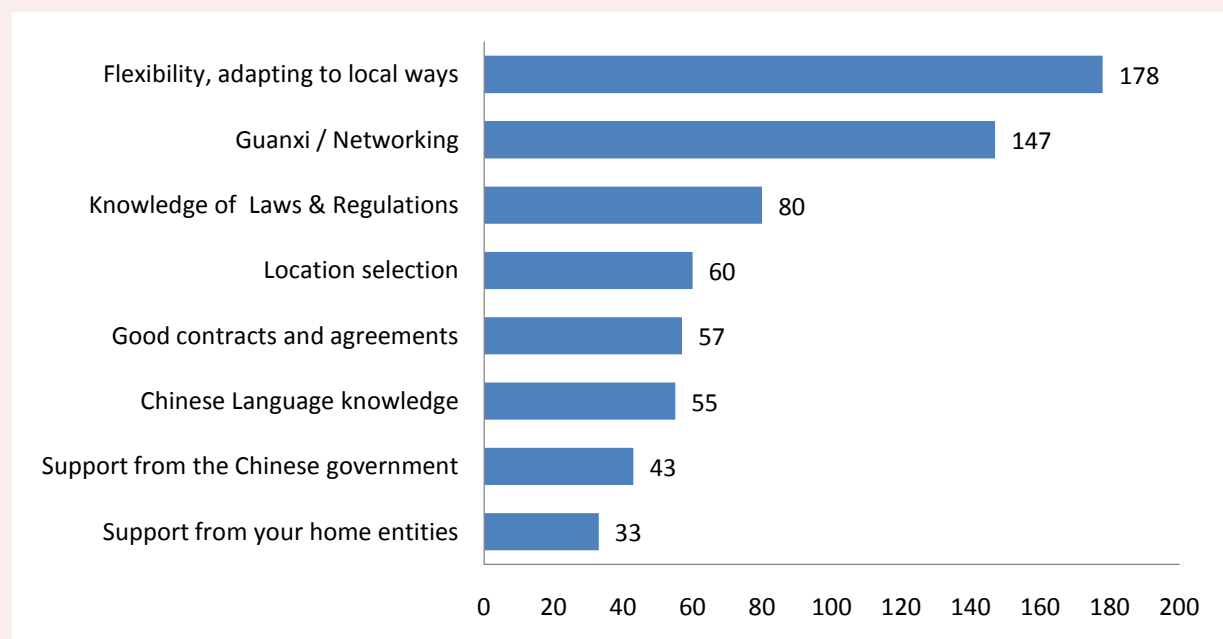
Success Factors: Products/Services/Marketing

How decisive are these factors for your company's success in China?

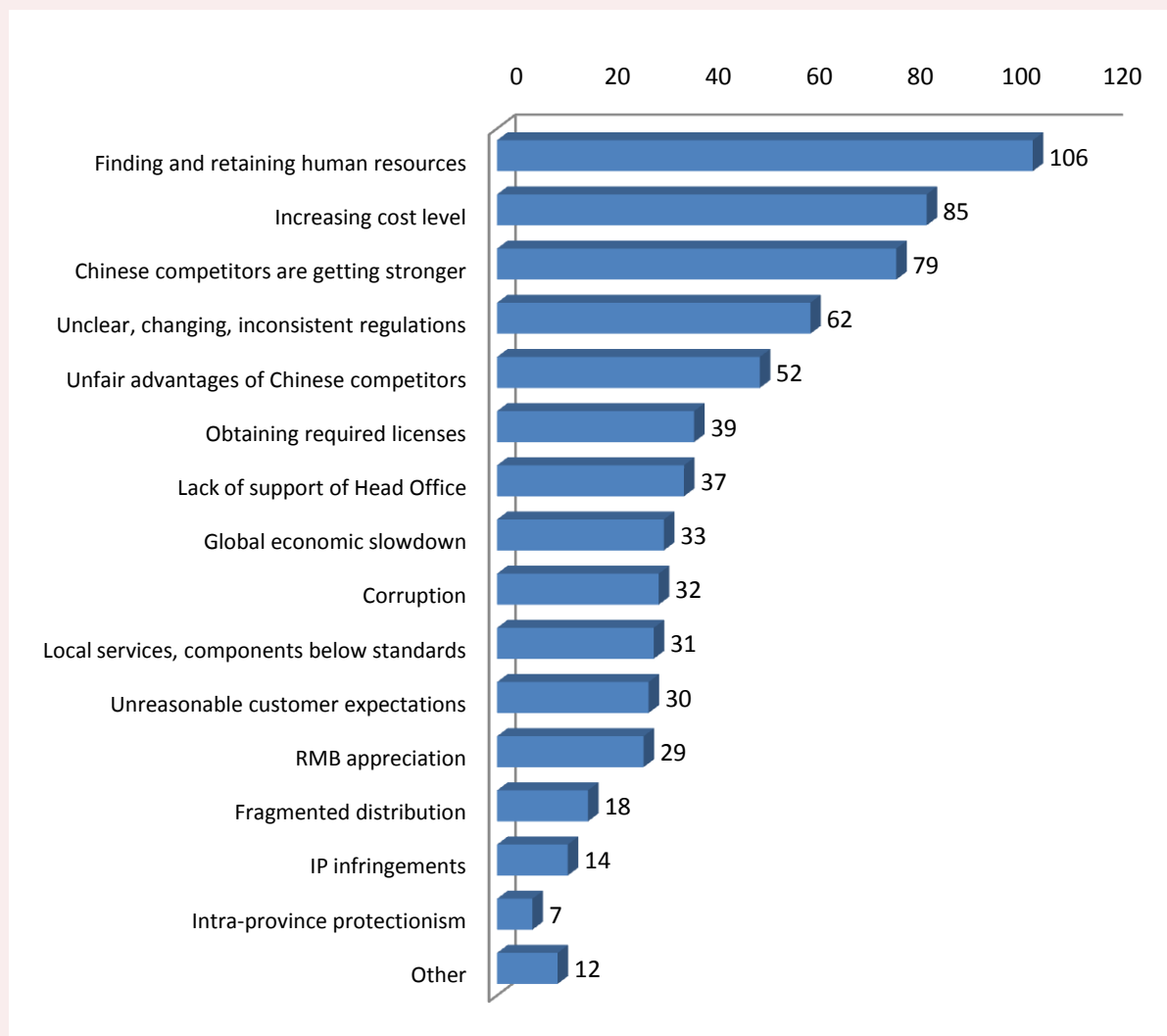


Success Factors: Other Strengths

How decisive are these factors for your company's success in China?



Challenges: What is causing you the most difficulties in the running of your China operations?



In the category “others”, some of the respondents mentioned problems for the Chinese employees to obtain Schengen Visa, the lack of local financing, local politics, unclear long term strategy, etc.

SECTION III

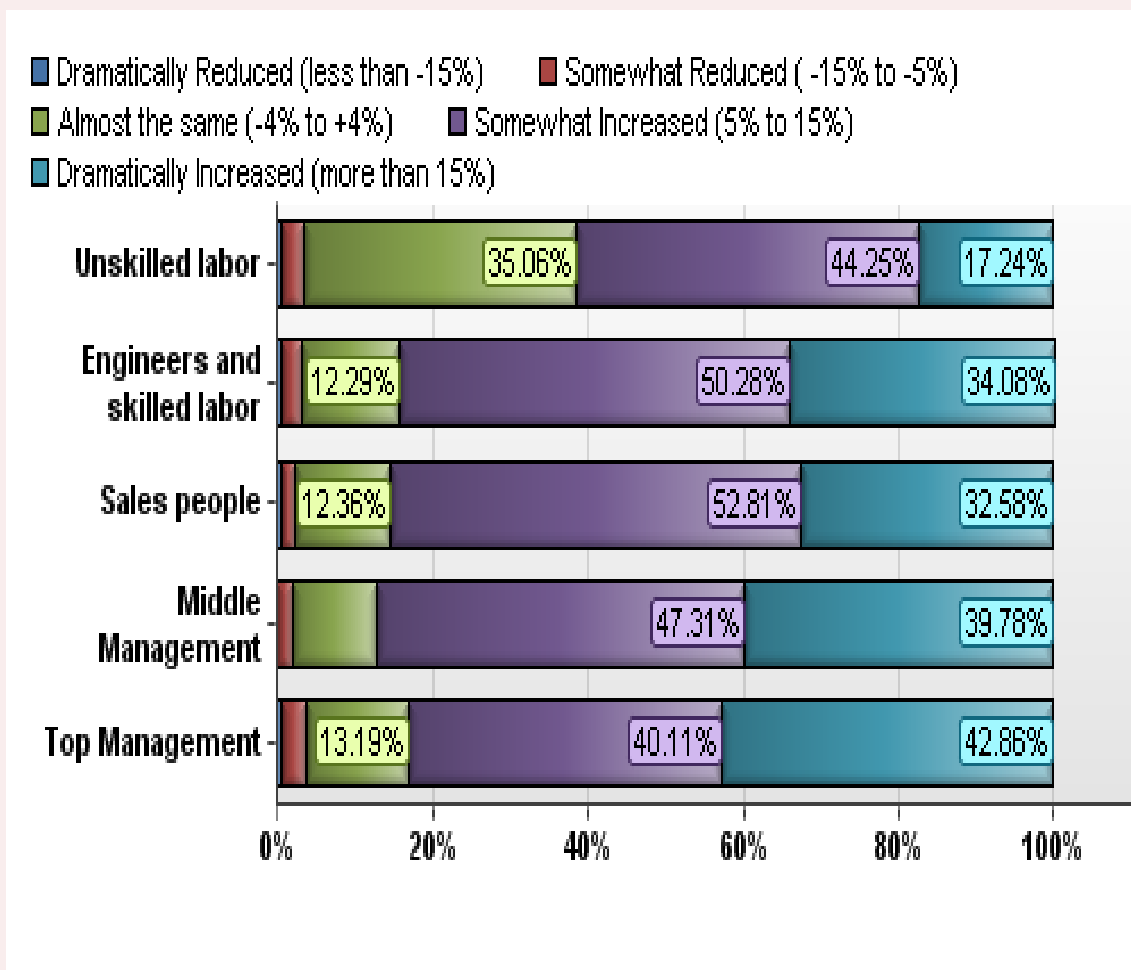
FUNTIONAL

PERSPECTIVES

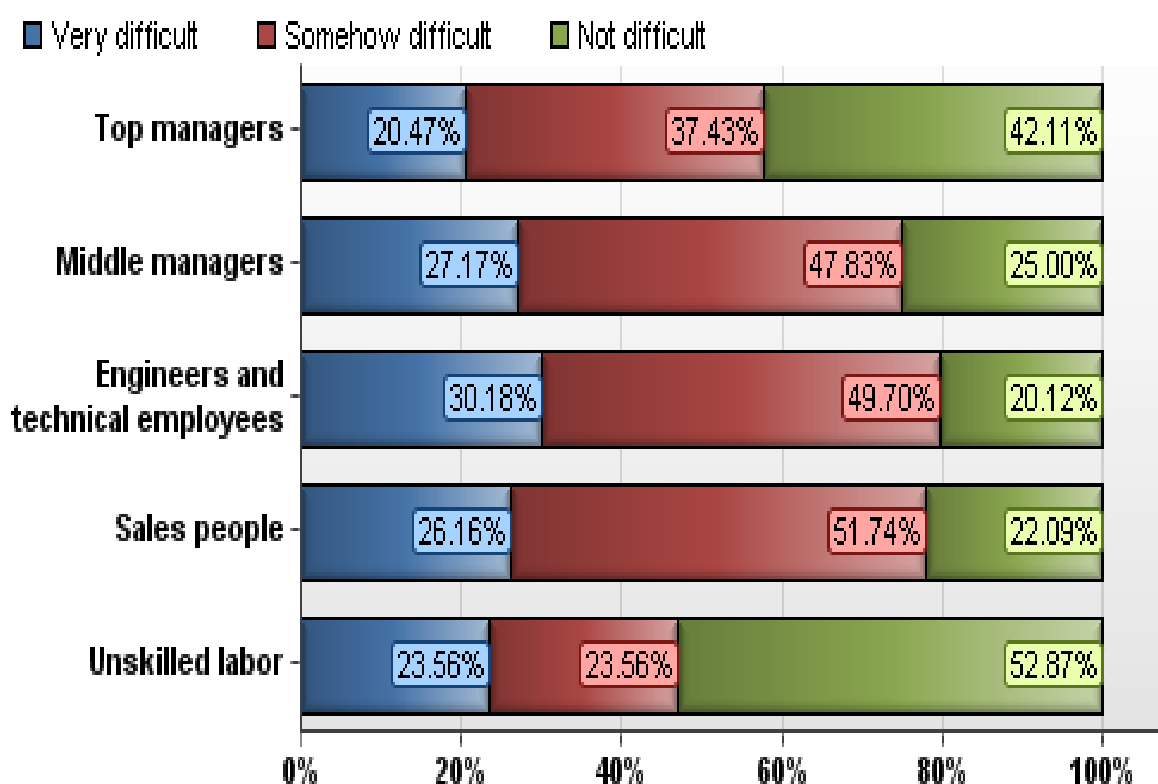
Human Resources

Human resources is the top challenge for our respondents. Retention seems to be one issue with an average of 12% turnover in 2010 together with increasing labor costs with a 9% salary increase in 2010 compared to 2009. In terms of employment creation, the average increase of labor force in 2010 was close to 18% and the planned increase in 2011 is of 20%.

In your industry and field of activity in China, how do you expect the following HR costs to evolve in the coming 2 to 3 years? (N=186)



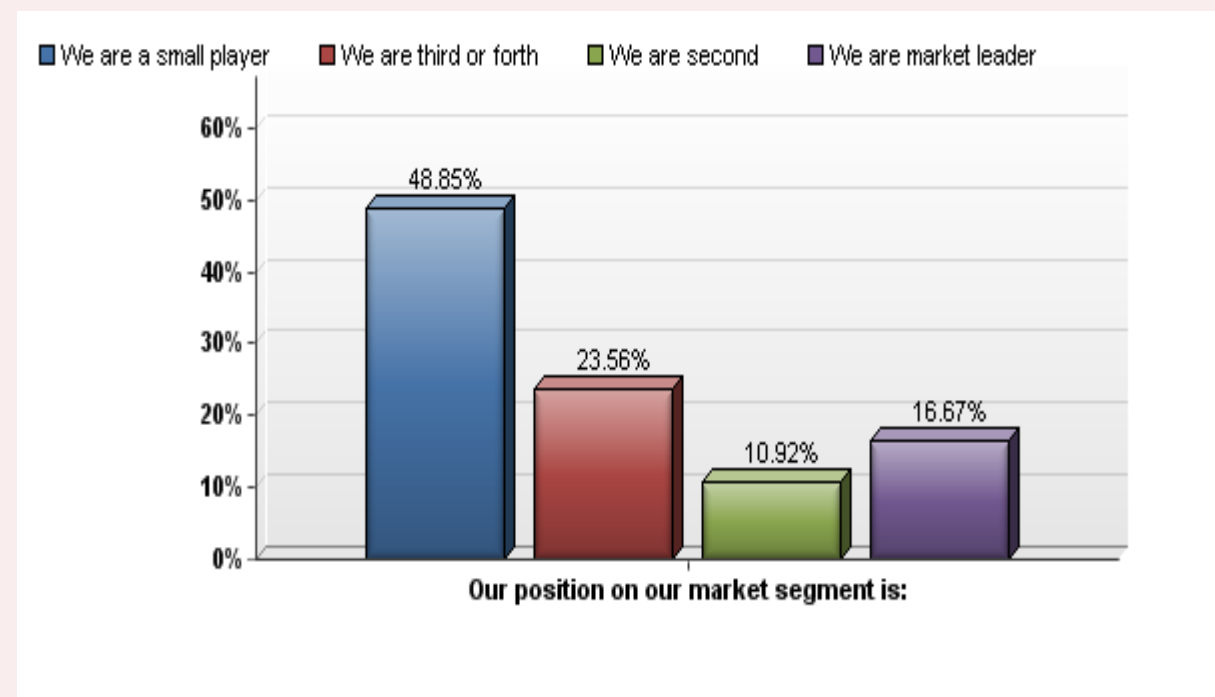
In which category is retention difficult? (N=184)



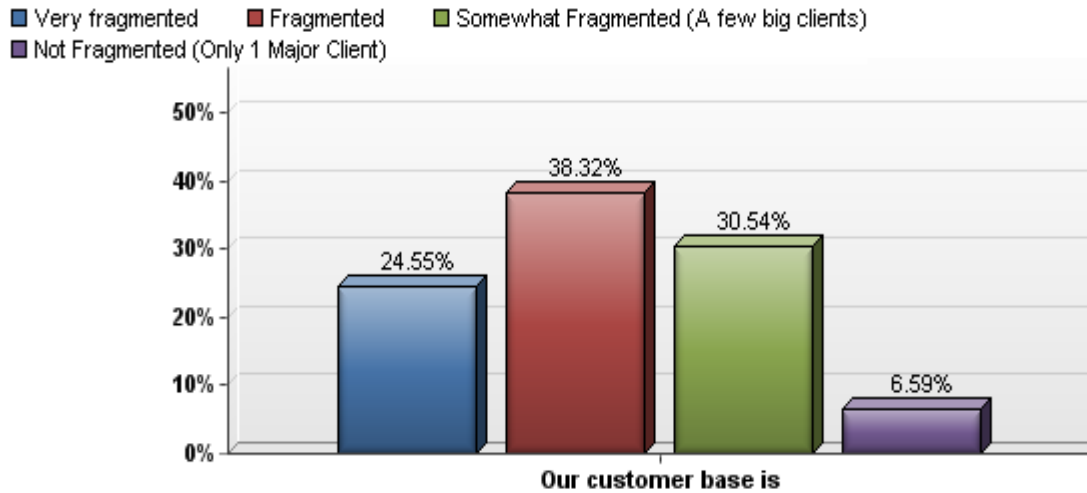
Marketing and Sales

The participants in the survey reported a decline in the percentage of growth of their sales to clients in China whilst sales to clients located outside of China increased. On average, the increase of sales to clients located in China grew by 35% in 2010 and they expect to grow by 30% in 2011. In comparison, the growth of sales to clients located outside of China grew by 16% in 2010 and it is expected to grow by 20% in 2011. Lastly, they spend an average of 6.5% of their revenues on marketing.

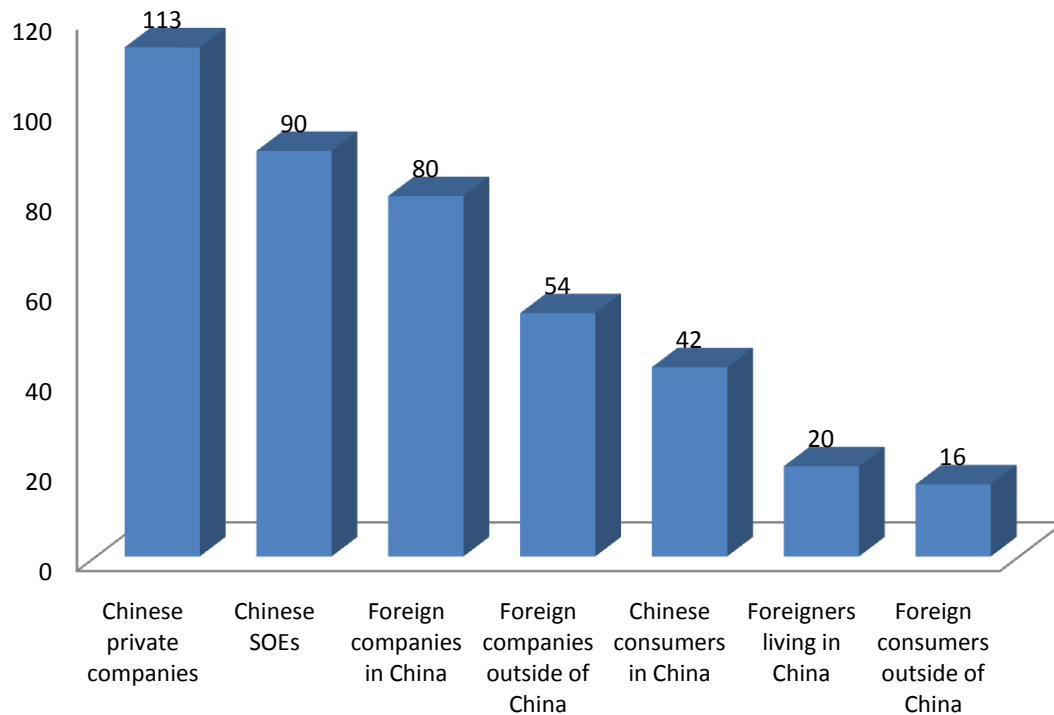
In your market segment, what is your position in China? (N=174)



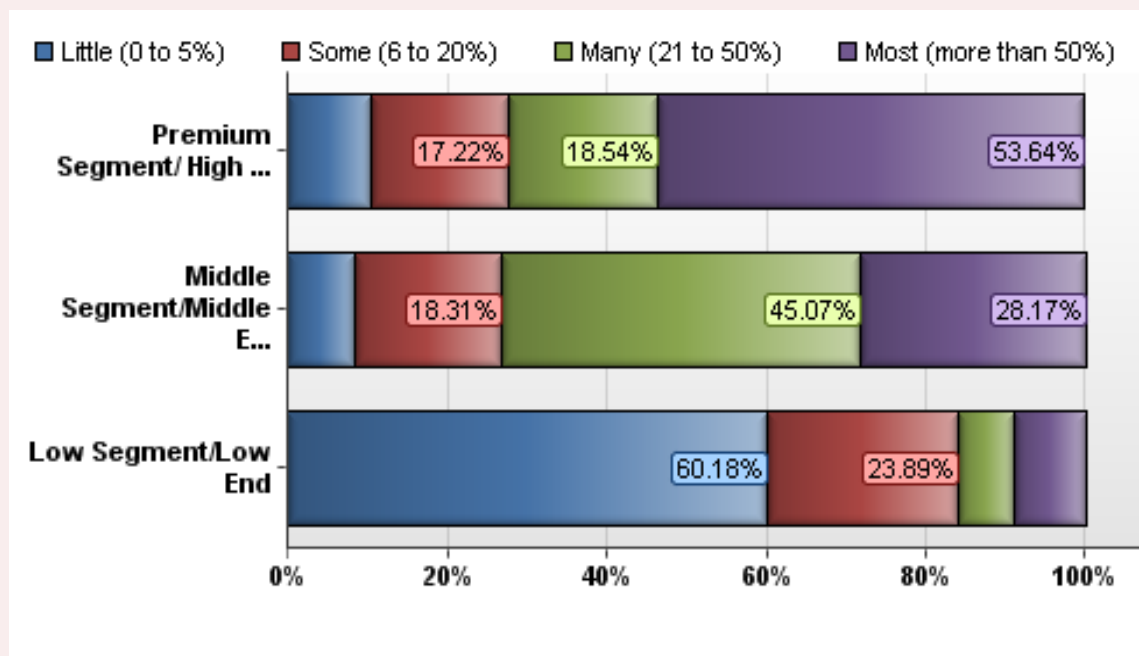
To what extent is your customer base in China fragmented? (N=167)



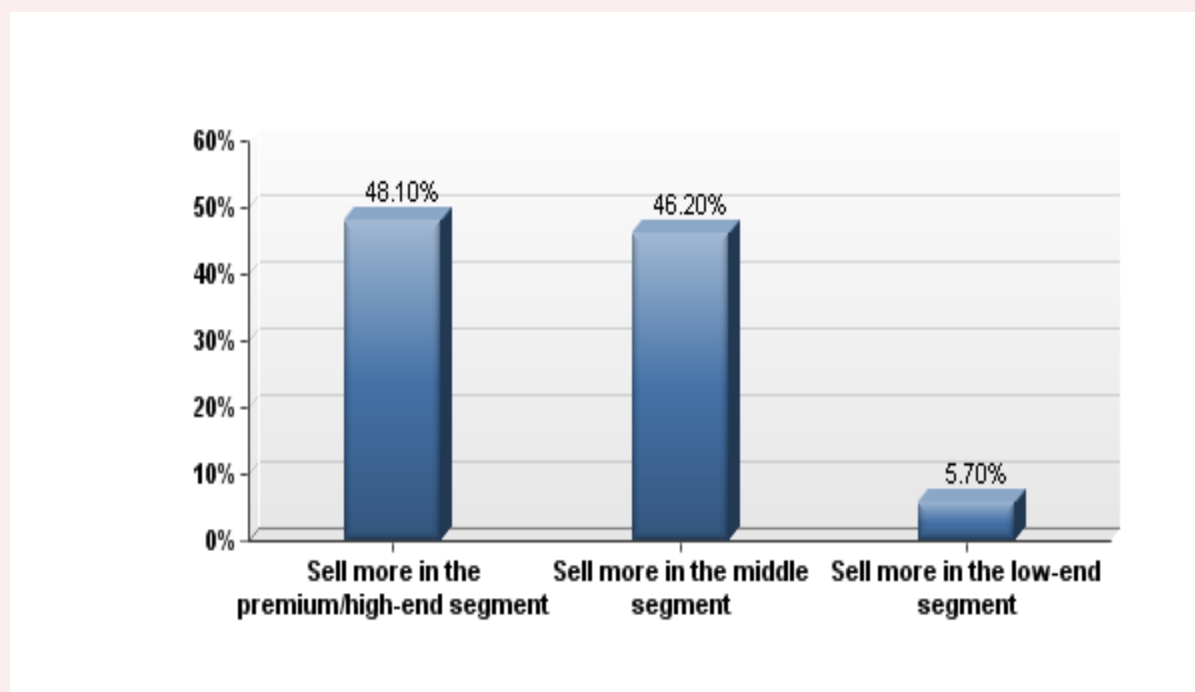
What type of client are you mostly selling to?



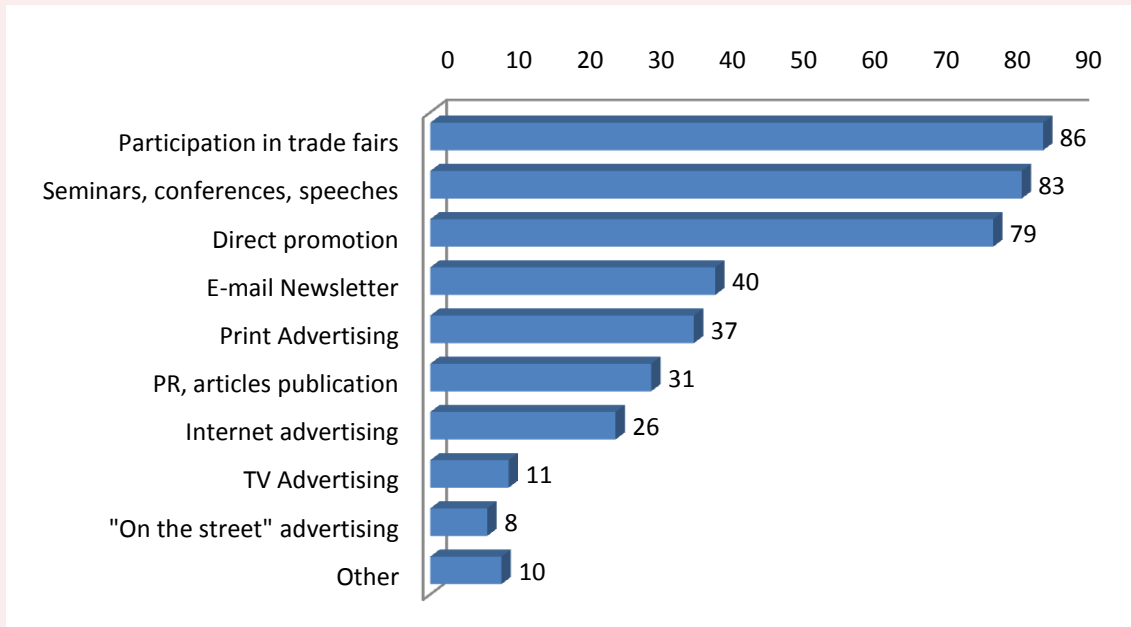
In what segments of the China market are you selling your products? (N=151)



What are your plans for the future? (N=158)

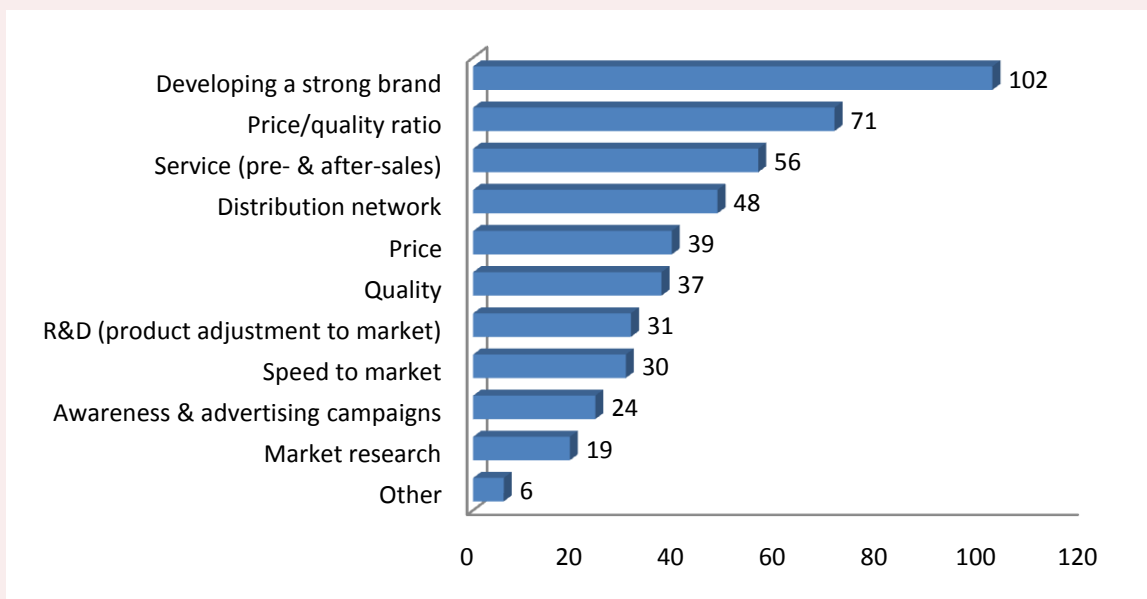


Please rate these types of marketing tools by effectiveness for your activities in China.



Other responses indicated additional effective marketing tools for China market, such as mouth-to-mouth, networking and personal contacts, relationship management and direct sales.

Please rate the influence of these different factors on the success of your sales in China.

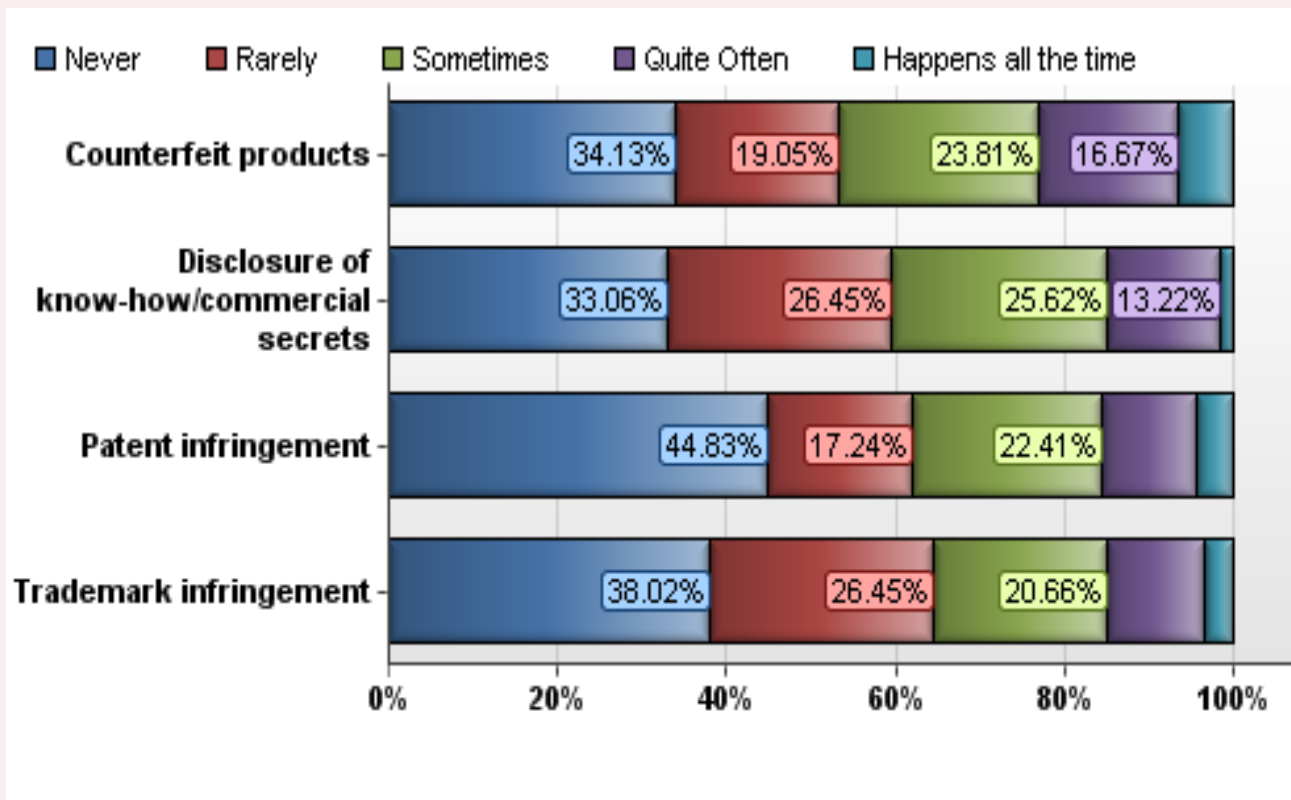


Other factors that influenced the sales success for our respondents were good design, good relationship within their supply chain, measurable ROI for partners and good references from existing customers.

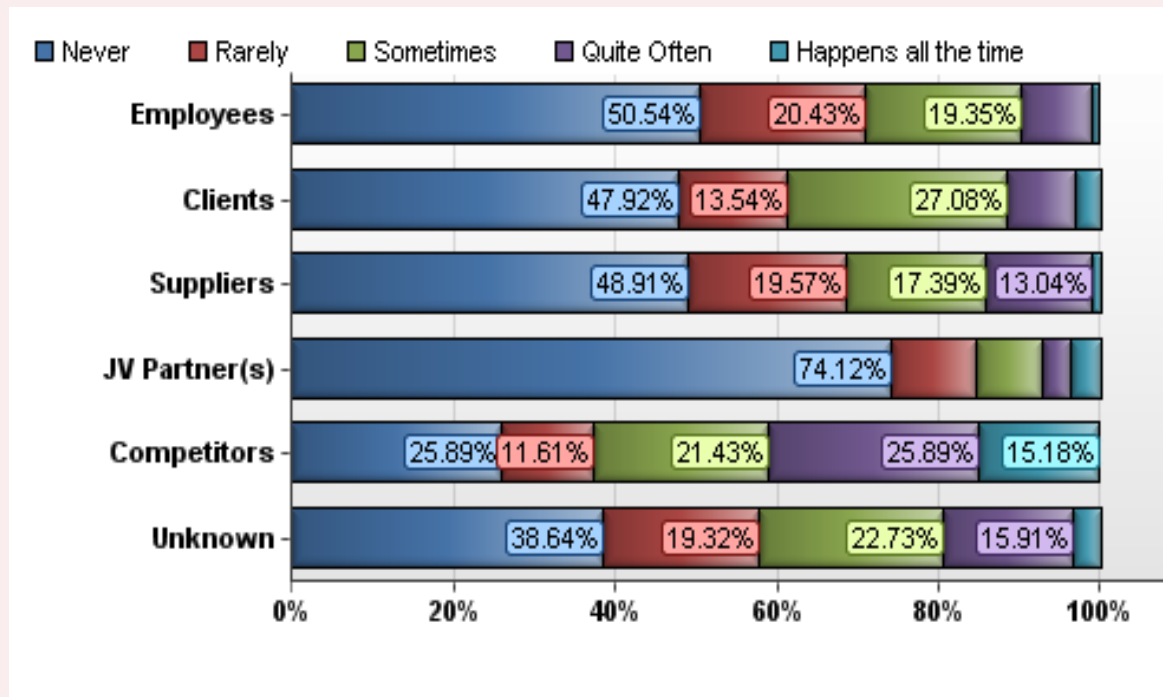
Intellectual Property Rights

Most of our respondents (67% of the total) consider Intellectual Property as important or very important for their business in China. An important number of them own patents (81), trademarks (95) and proprietary technologies (65). Other respondents mentioned owning domains, know-how, processes, designs, formulations and non-patentable knowledge.

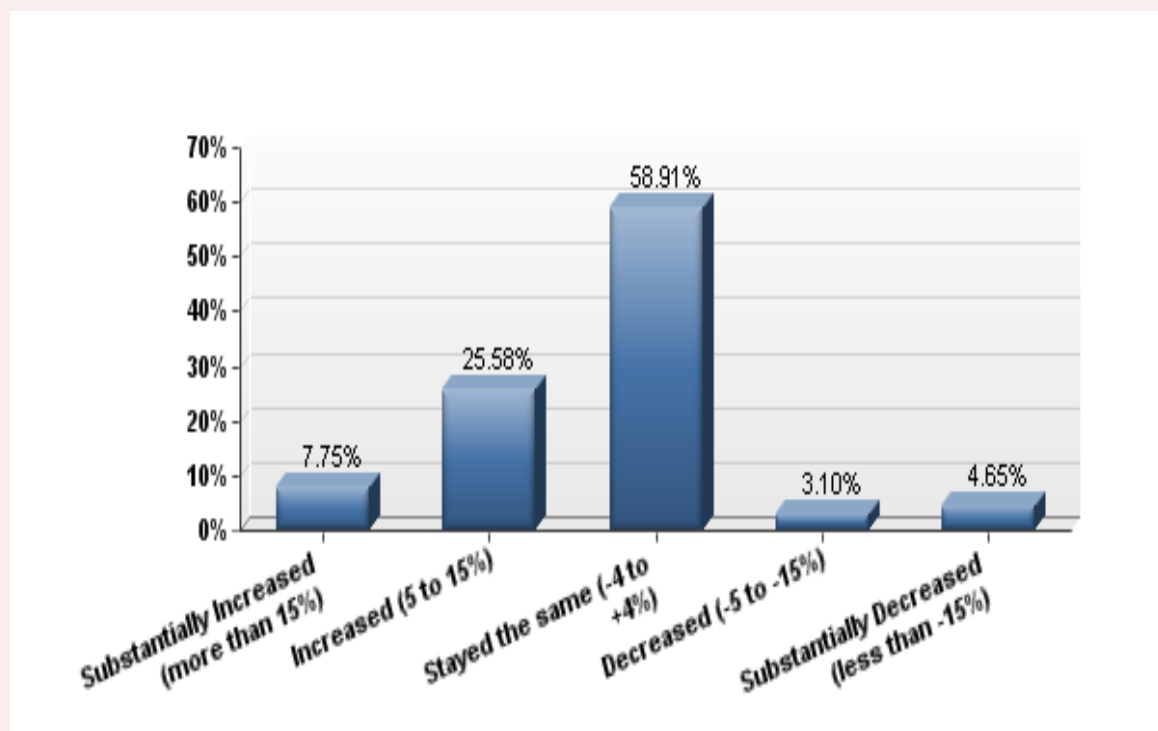
How often has your IP been infringed upon in the past year? (N=219)



Who have been perpetrators of IP infringement? (N=112)

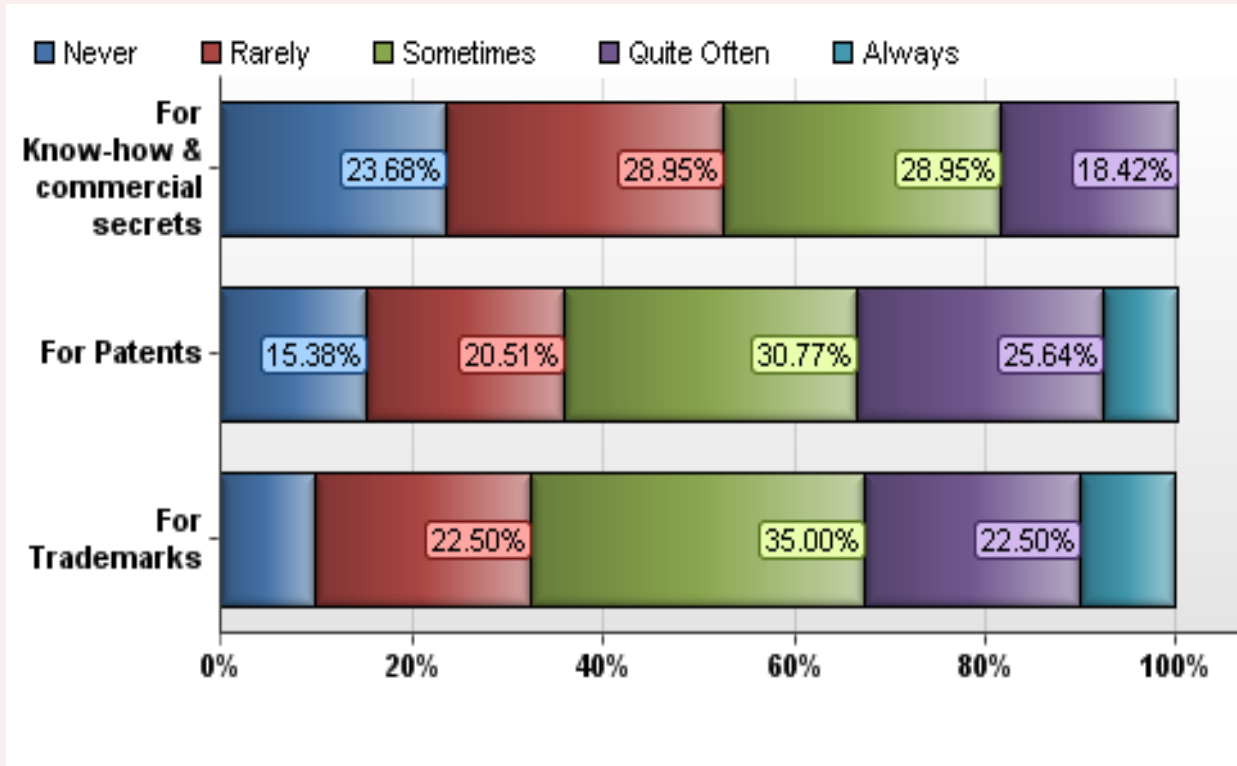


Compared to 3 years ago, the number of IP infringements has ... (N=129)

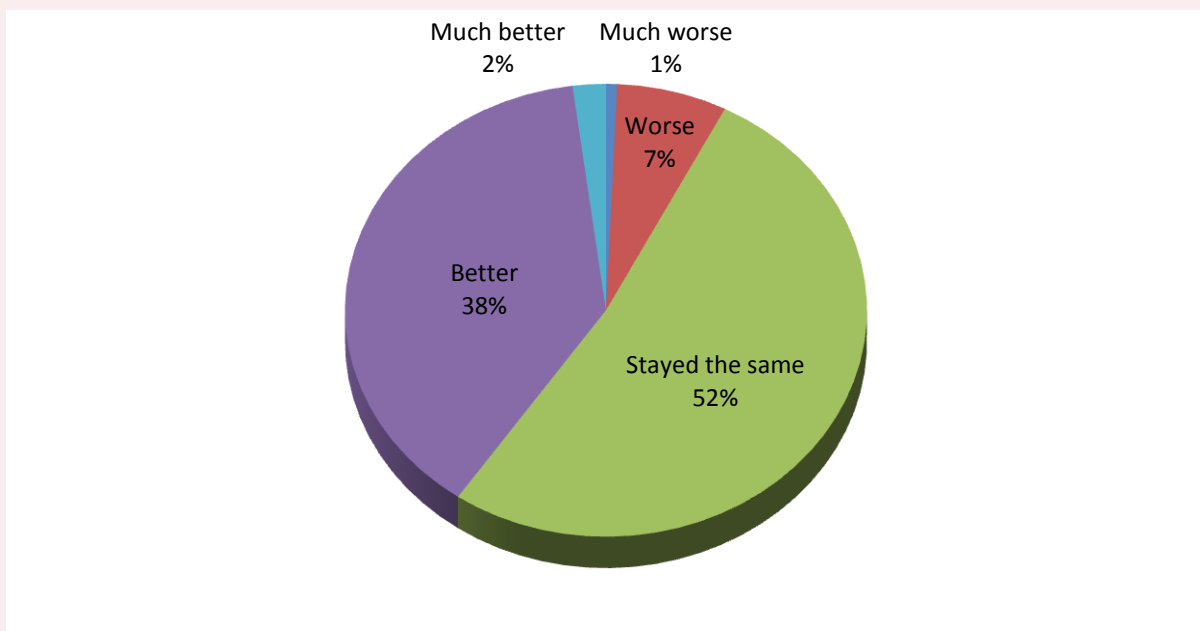


Of a total of 137 respondents experiencing IP infringement, 52 have taken legal actions against the perpetrators.

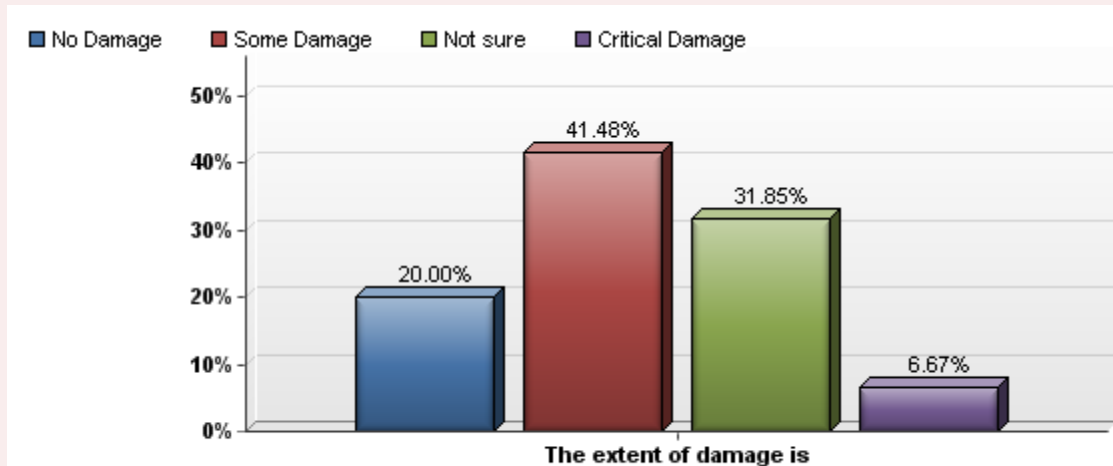
If you have taken legal actions against IP rights infringements, how often was it successful? (N=40)



During the past 3 years, the IP protection from the government in China is (N=146)



What is the extent of damage caused by IPR infringement originating in China to your business? (N=135)



Which are the most effective measures you use to protect your Intellectual Property in China?

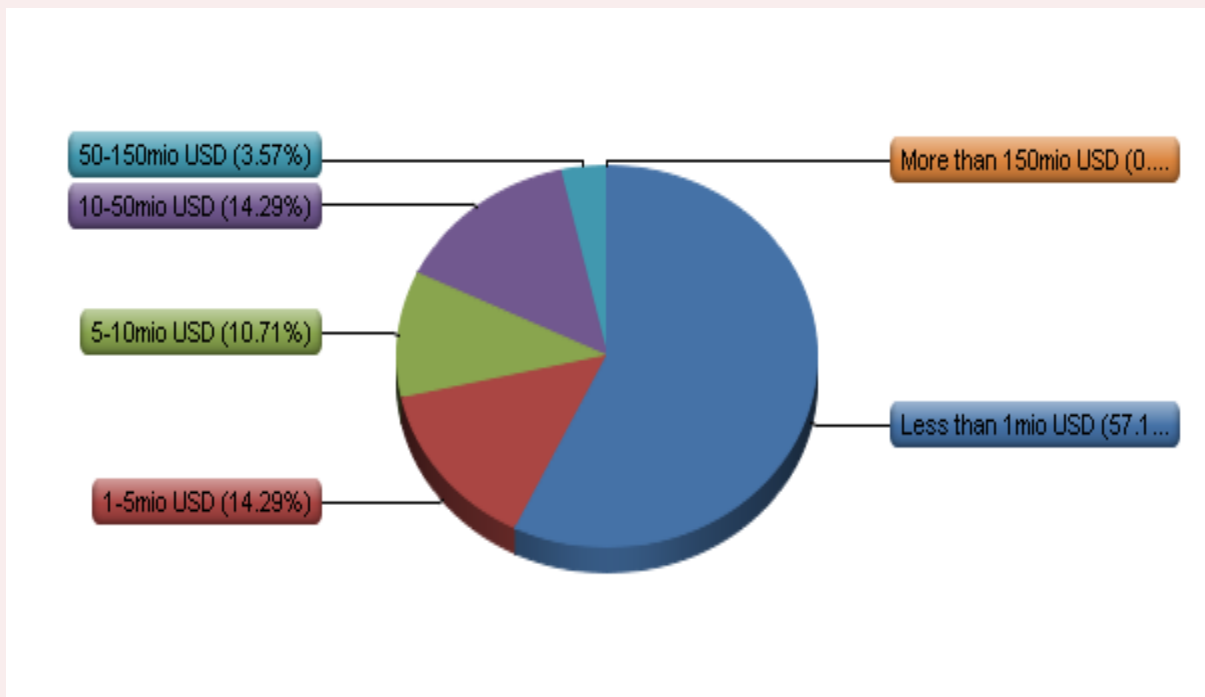


Amongst other effective measures, the respondents suggested keeping strategic developments abroad, using aggressive marketing and sales strategies, being fast to market, increasing the brand awareness and innovating.

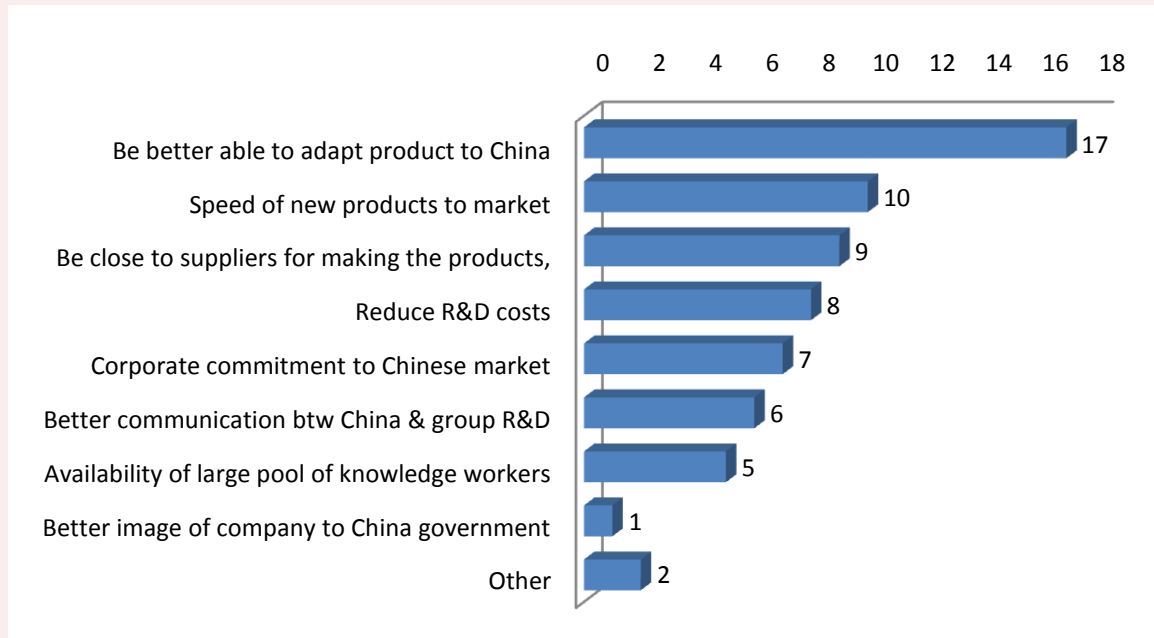
Research and Development

Within the sample there are 28 companies with R&D in China. Most of them are small centers, 14 of them have less than 10 people employed, and a few large centers. The annual funding follows the same pattern. The average funding of their R&D activities accounts for 14.5% of their revenues in China. Finally of the 28, the majority (25) are satisfied with their R&D operations in China.

What is your R&D China Center annual funding? (N=28)

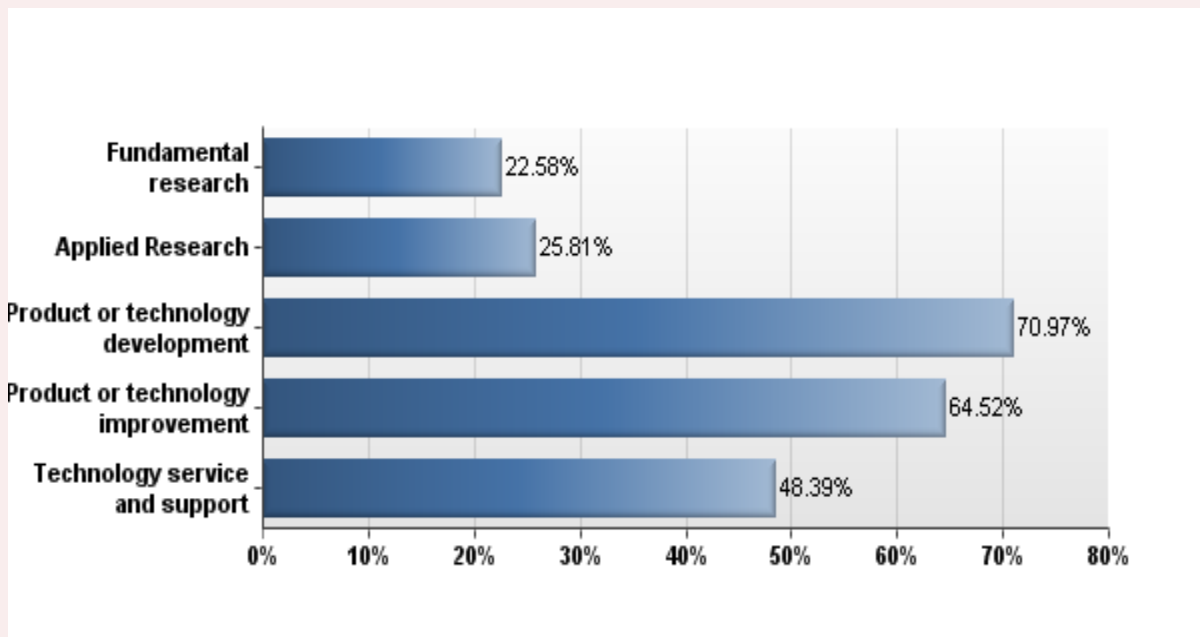


How important are the following reasons for having opened or planning to open an R&D unit or center in China?

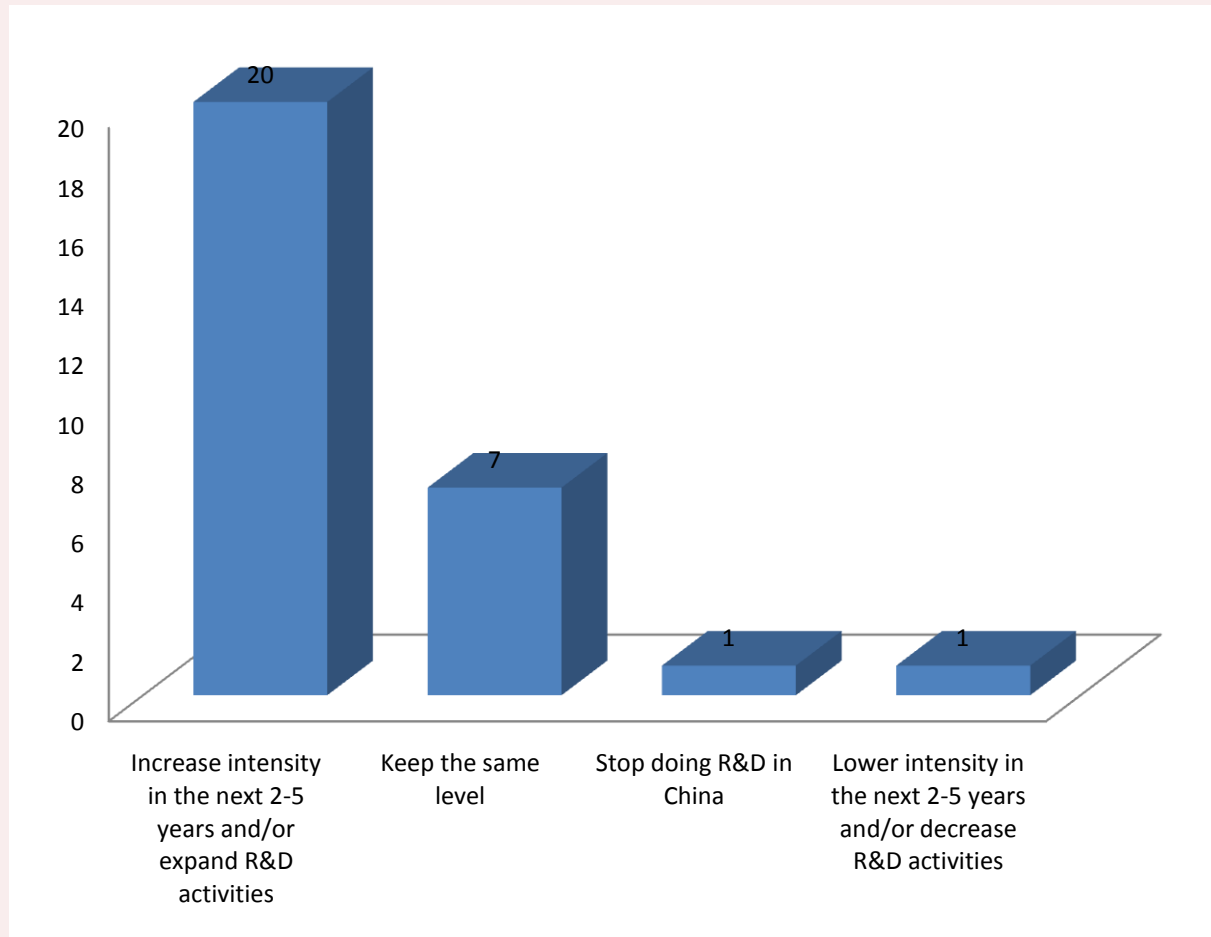


Other reasons were tax breaks and access to Chinese knowledge and research.

What type of R&D activities are you doing or are you planning to do in China?



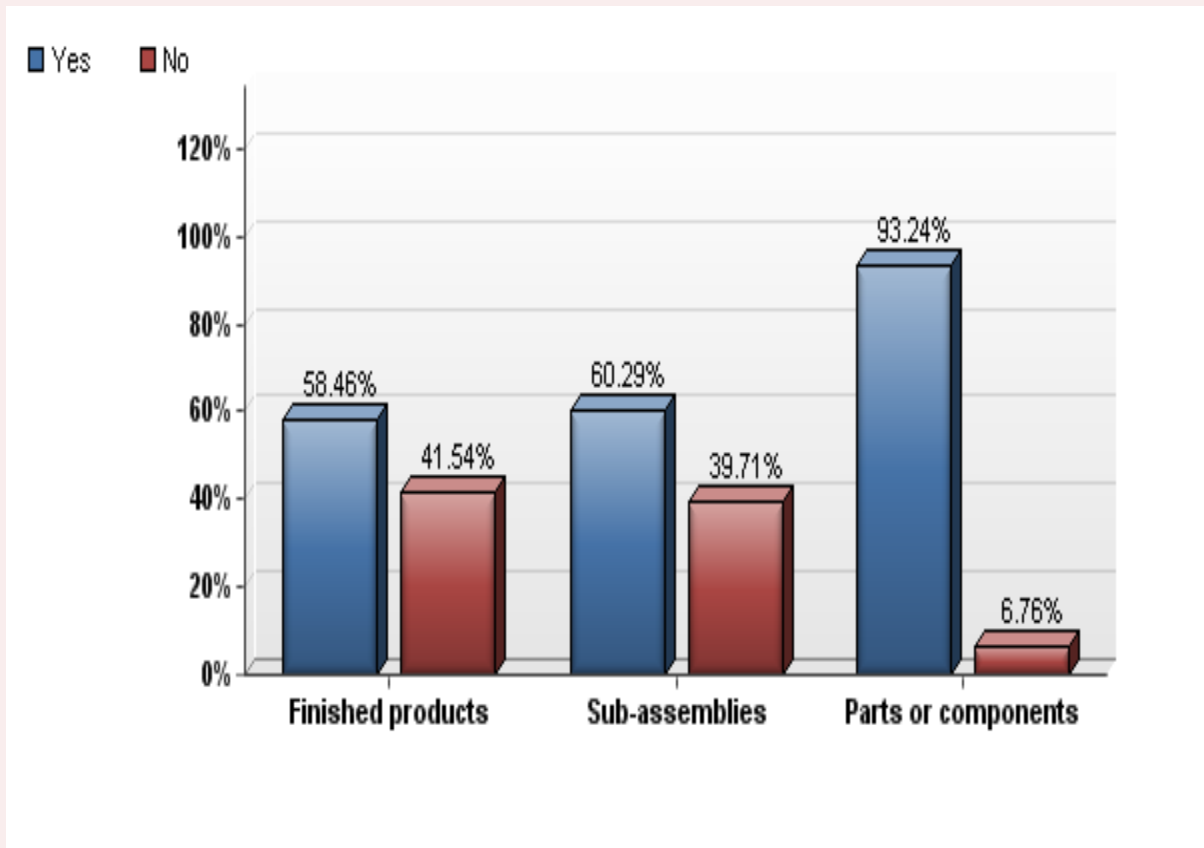
Regarding R&D in China, what do you plan in the future? (N=29)



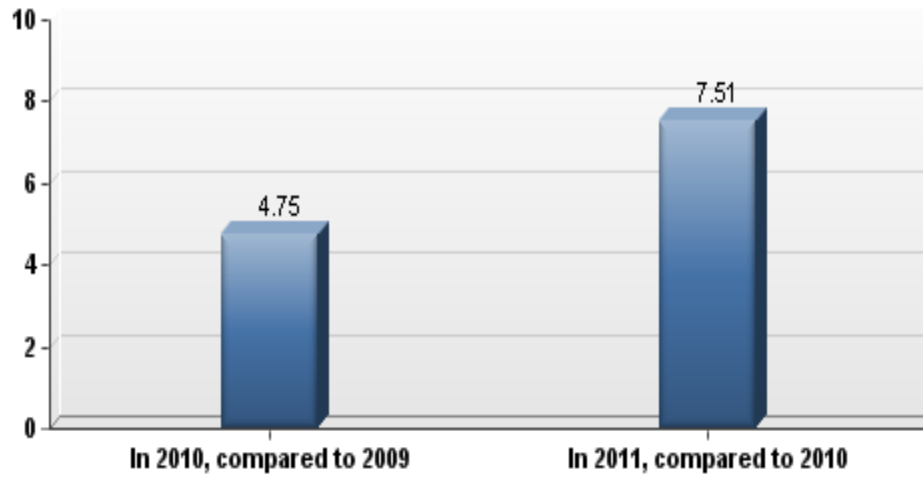
Sourcing and Production

Outsourcing is one of the key activities of foreign manufacturing companies in China. Of the 76 respondents that report having outsourced products, 78% have plans to increase the outsourcing activity in the next three years.

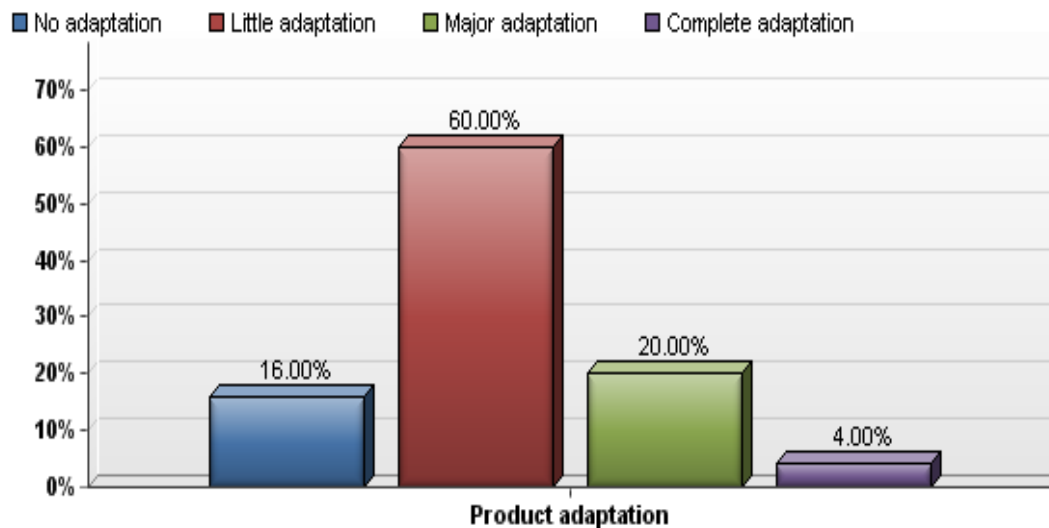
What are you sourcing in China?



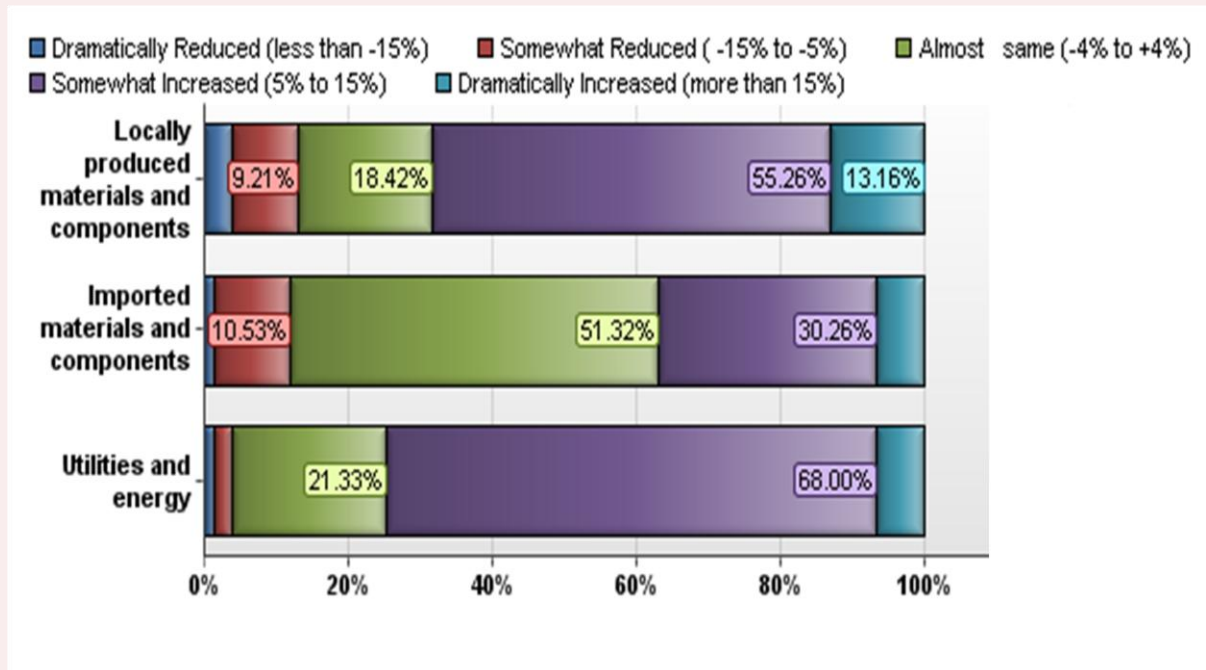
How have the prices changed on the produces you buy from China, relative to previous years? (N=72)



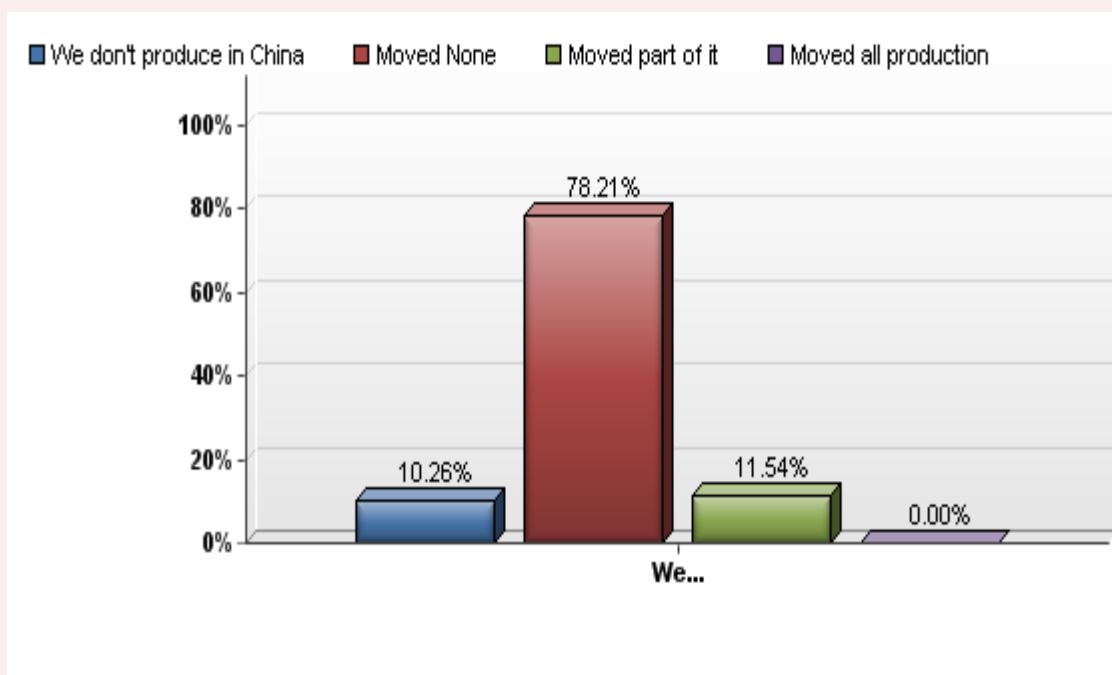
Have your products needed adaptation to enter the Chinese market? (N=75)



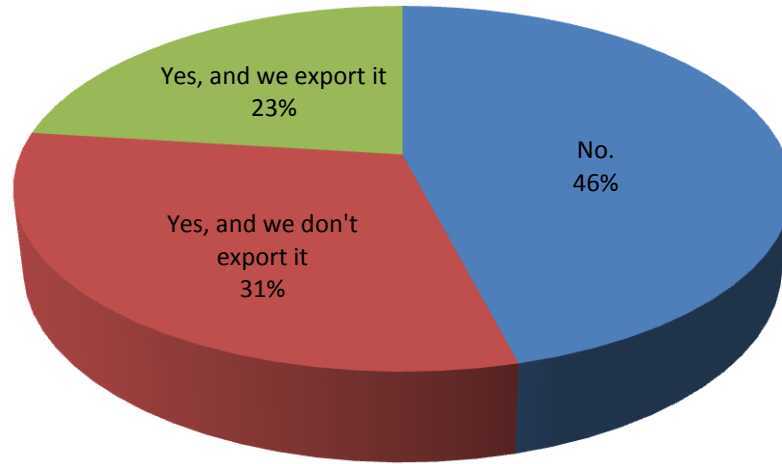
In your industry and field of activity in China, how do you expect the following costs to evolve in the coming 2 to 3 years? (N=76)



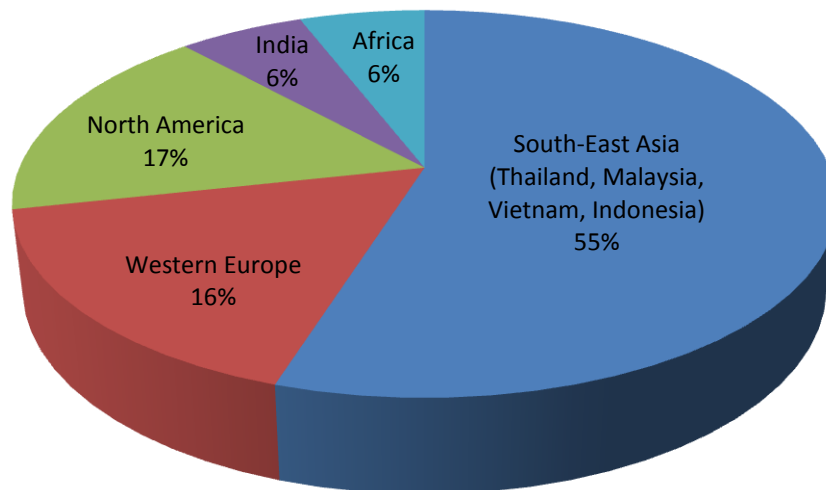
Have you in recent years moved part or all your production to a "cheaper" country (e.g. Indonesia, Vietnam, South America etc?) (N=78)



Have you developed a "China line" of your products? (N=78)



For those that export it (23%), where do you export it? (N=18)



THANK YOU

Juan A. Fernandez Per Jenster Robert Ioane

