

## **Understanding the Critical Success Factors of Doing Business in China – Lessons Learned No. 6-10 (Part 2)**

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Since I moved to China in 2005, I have been providing practical advice and supporting services to mostly Scandinavian but also some US, UK and Australian companies with their market access, company set-ups and operations in China.

Over the years, I have assisted numerous overseas B2B and B2C companies and project managed the set-up and start-up of about 65 Foreign-Invested Enterprises in China.

Based on my own extensive hands-on experience in China, I have created my own **Top 10 Lessons Learned** of what I call the **Critical Success Factors of Doing business in China**.

In the following, I will go through the last five. Please refer to the published Part 1 for the first five.

### **Lesson Learned No. 6:**

**To achieve real e-commerce success in China, you first need to build brand awareness among Chinese consumers via social media marketing channels before you will gain any sustainable online sales.**

Many foreign companies wrongly perceive Cross-border E-commerce as an easy and affordable shortcut to reach millions of potential Chinese consumers from the comfort and safety back home.

But this one-sided go-to-market strategy fails to recognize the difficult task and high cost of building brand awareness and selling online in the highly competitive Chinese consumer market.

Without a realistic and well executed marketing plan and budget, many foreign consumer products and brands are doomed to fail because expected online sales underperform and stagnate.

So, in conclusion:

***Generating online sales in China takes local marketing skills and proper funding to overcome fierce competition and rising customer acquisition cost.***

### **Lesson Learned No. 7:**

**Setting up and operating a foreign company in China has become steadily easier, quicker and cheaper to do and offers many new business opportunities.**

Until a few years ago, setting up a foreign-invested company in China could be a difficult, slow, and costly process which created the wrong perception among many foreign investors and not least SMEs that it was too risky and not worth the trouble.

But to attract more foreign investment, China has in recent years been pushing through many new reforms that have made it steadily easier, quicker and cheaper to set-up and operate a foreign company by reducing capital requirements and taxes, offering incentives, cutting red tape, and speeding up processing times.

With fully dedicated local employees on the ground in China, foreign companies can also benefit from getting access to many more sales channels and connecting directly to a much larger and constantly evolving customer base in the Chinese market.

So, in conclusion:

***With a China entity and own local staff, you can build a much stronger market presence and boost sales quicker instead of relying on external third parties in or outside China.***

### **Lesson Learned No. 8:**

**When recruiting in China, let the salary be a function of the job requirements and do not let your selection be a function of the salary. Demand outstrips supply for the best people in China.**

Many foreign companies looking to recruit and hire local staff in China, do not realize the high demand for the best qualified people and rapidly rising labor cost, especially in the first and second tier cities.

Salary budgets are therefore set too low from the start and instead of paying people the right salary for the required skills and experiences, foreign companies end up hiring the wrong people based on an insufficient budget.

So, in conclusion:

***Understanding the local labor market from the start is key as hiring and firing in China is much costlier than paying people with the right skills and experiences the actual market price.***

#### **Lesson Learned No. 9:**

**In China, as the saying goes: “It is better to ask for forgiveness than for permission”. The Chinese authorities often let the market forces take their course before they start to regulate.**

In most Western countries, the authorities will regulate the market forces before new inventions and innovative ways are introduced to the public whereas in China it is often the other way around.

Many Chinese technology driven companies follow this unofficially sanctioned but commonly accepted opportunistic business behaviour where it is better to act fast and apologize later.

This approach allows Chinese companies to test out new ideas in real life and quickly fine tune their product offerings in the market.

So, in conclusion:

***Foreign companies can learn a lot from the mindset of “daring free enterprise and risk-taking” in terms of business innovation and execution in China.***

#### **Lesson Learned No. 10:**

**Do not only plan for business failure but more importantly for success in China. Many are too content with business as usual and miss out on new market opportunities.**

Many foreign companies entering the Chinese market are often too focused on adopting detailed contingency plans for what to do if things do not work out as expected and overlook how to act and adapt if/when new or different market opportunities emerge.

The Chinese market is very dynamic and fast-paced which can be difficult to comprehend and plan for as a foreign company used to doing business in more mature and saturated markets.

As a result, it is easy to get frustrated or disappointed when operating in China because companies constantly need to adjust their original business plans to actual circumstances.

So, in conclusion:

***Navigating the Chinese market requires both clear direction and adaptability where quick decision-making can reap great rewards at the expense of those that let opportunities pass by.***

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