



LAKE POINTE
PARTNERS LLC

Opportunities for Doing Business in China

It is Critically Important to have someone or some team on the ground on your side.



Significant Strategic Advantages

Buy from China

Even with RMB appreciation 30%+ cost saving can still be achieved, especially by truly going direct

Sell to China

One of the fastest growing consumer and industrial markets presents large scale business potential

Partner with or Establish Wholly-owned Business in China

Many small to mid-size firms have succeeded in establishing a successful in-country



Do Your Homework/Have a Presence

In many respects doing business in China is not unlike doing business anywhere else

- Have a plan
- Do your homework
- Understand whether you have the resources to get the job done, and if you don't have the required skill sets
 - Engage trusted third parties “on the ground” to make things happen quickly and well.
- The occasional business trip will not get the job done



Buy From China

What only large multinationals did over the past 15 years,
smaller firms can benefit from China sourcing

Case Study

- X-Ray Equipment Company

- 200+ Print Assembly Sourced and Prototype delivered in 16 weeks
- 15 sources evaluated; Two selected
- 30% cost savings delivered

But what this company missed was the chance to enter the
domestic Chinese market



Typical US Company Pit-Falls

Found a source at a trade show or through an internet search

- What is the probability that a company finds the best supplier in this manner?
- Doing a more comprehensive supplier search results in a better match
 - Finding compatible supplier/buyer relationships includes considering if the volume offered by the buyer is sufficient to get the desired level of service from the supplier.
- Example of Brass Valve Company found on the net



Typical US Company Pit-Falls

Not visiting or auditing a potential supplier

Performing supplier audits is very important to truly know what you are buying and from whom

- Plywood Buyer

In more cases than one would imagine suppliers move production to new sites or other suppliers

- Cast and Machined Metal parts for heavy equipment

While there are a number of articles in the press about poor Chinese quality, it is possible to find world class suppliers in China



Supplier Audits and Utilizing 3rd Party Consultants Produce Results

特性	Production defect rate					Final release parts defect rate				
	1-5月	6月	7月	8月	9月	1-5月	6月	7月	8月	9月
$\Phi 195^{+0.072}_0$	No record	0.1%	0.1%	0.0%	0.0%	53%	0.0%	0.0%	0.0%	0.0%
$\Phi 48^{+0.025}_0$	No record	2.7%	2.7%	0.6%	0.0%	47%	0.0%	0.0%	0.0%	0.0%
$\Phi 62^{+0.030}_0$	No record	0.0%	0.0%	0.0%	0.0%	9%	0.0%	0.0%	0.0%	0.0%
$\Phi 70^{+0.046}_0$	No record	0.0%	0.0%	0.0%	0.0%	9%	0.0%	0.0%	0.0%	0.0%
◎ $\Phi 62$ 对 $\Phi 100$	No record	0.0%	0.0%	0.0%	0.0%	17%	0.0%	0.0%	10.0%	0.0%
◎ $\Phi 195$ 对 $\Phi 100$	No record	0.0%	0.0%	0.4%	0.0%	2%	0.0%	0.0%	0.0%	0.0%
◎ $\Phi 70$ 对 $\Phi 62$	No record	0.0%	0.0%	0.0%	0.0%	0%	0.0%	0.0%	0.0%	0.0%



Typical US Company Pit-Falls

Assuming things are the same

- Typically labor and overhead are 70% of US costs with the balance being materials, where as in China material is often 70% of cost, with labor and overhead being much less a factor
 - Even with some wage inflation occurring in China, there is still no comparison. A 10% increase on a \$1/hour is still only \$0.10
- Profit margins of Chinese suppliers are also typically much less then in the West
- Many times there are multiple layers of agents in the supply chain; going direct can save significantly



Sell to China

There is a large and fast growing market and Chinese Companies and Consumers like US companies and US products

China is responsible for huge profits for automotive OEM's and their supply base; similarly attractive other markets are developing

Case Study

\$150M+ US Agriculture Company wanted to leverage superior technology into a market that was 100 times larger in China than in the US.

Within a year positioned the company to have their genetic approved by the Chinese government

Recently this company sold \$300,000 worth of product with a net margin of over 50%

Understanding local customs and tastes can produce unexpected opportunities



Know the Market Requirements

Neatly “soldier” your duck necks, otherwise your “superior” product will be poorly regarded

Package appropriately

Many times Chinese packaging is superior to US packaging, partially driven by lower costs which allow better packaging to be used.



Know Your Clients

As will be discussed in more detail by Louise, it pays to do due diligence on potential clients.

Case of an Indiana Stamping company receiving a \$1M+ order from a firm found to be operating out of a temporary office



Partner With and/or Have a Direct Presence in China

Case Study

Orthopedic Products Company

- Did due diligence to understand market and competition
- Started sourcing product for export cost savings
- Saw opportunity to establish a presence in China to address fast growing medical market
- After coming close to a JV, decided to start a Wholly-Owned operation in order to have more control
- Took only 5 months to establish a Wholly-owned presence
 - Could not have happened without a team on the ground supporting full-time



Summary

China is a land of many opportunities; as in all markets there are risks, knowing how to mitigate these risks is a key success factor

What once large companies could only do, smaller and mid-size firms are doing and doing well

Do not consider China as only a low cost source, although that remains an advantage; China is an attractive market for sales and business growth

Leveraging experienced on-the-ground resources saves time, mistakes and money