The Challenges of Creating New Business in China

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Agenda

Short Company and Self Introduction
“Microeconomic” View of Growth - Company
“Macroeconomic” View of Growth – Country
China – The Wild West
Three Key Learnings – IP, Process and People
Summary
Discussions, Questions and Answers
Background – Agilent and Me

**Agilent Technologies Inc. (USA)**

- Spin-off from HP in 2000;
- Provides core electronics and bio-analytical measurement tools to advance the electronics, communications, life sciences research, environmental and petrochemical industries
- Agilent Central Research Labs: create new business opportunities that extend or enhance current businesses

**Lee Ng (USA, Singapore)**

- An engineer by training, but has worked in consulting, VC and HP/Agilent
- In 2005, my job was to find opportunities for Chemical Analysis in China so that Agilent Labs can start a new research effort in China to support new business in developing countries.
How Does a Company Grow?

*History of HP, IBM, Google and any global company you know*

- All companies start locally to fulfill an unmet need and establish a foothold in a first market, usually also local.

- As they validated their value proposition for a set of customers, they expanded their sales and marketing to other geographies, usually through distributors, manufacturers reps, or overseas direct sales offices.

- As they scale, “resource arbitrage” becomes more important, and they start to move other activities like manufacturing, logistics and R&D to geographies that are more economically competitive, setting up “competence centers” in different parts of the world.
How Does a Developing Nation Grows?

**History of Japan, Korea and **

- All developing nations start by “arbitraging” low cost labor.
- As their manufacturing industry grows, they create demand for more goods and services, and all the global companies flock to them to expand their market.
- But most nations aspire to create world brand by building global companies and creating sustainable economic values.
- Evidence: Chinese Government is providing R&D dollars to private companies (not just SOE). They have a better chance of scaling and going global if management challenge can be overcome; In Taiwan, Government invested in a fund for Taiwanese companies building overseas brand; Singapore has active foreign Economic Development Board offices and investment funds.

*Concept adapted from Stan Shih (施振榮)*
What can we learn from the two models?

• China companies are developing global experience in other developing countries. Examples: China Mobile in Ghana, Huawei in Africa.

• China will likely develop its own companies and brand globally – Huawei, Haier, Suntech Power, etc.. It will find its winning formula learning from developing market under intense price pressure, different marketing environment and use cases.

• Many foreign corporations today view China only as world factory or world market and their business strategy reflect it. Many companies today are setting up sales offices in China and moving manufacturing, even R&D there. Few companies, big or small, are thinking about the big picture.

• Playing only in the high end market in China to preserve margin and leaving the low end to locals may not work in the long run for global companies.

• Good place for private equity play in China; many industries are fragmented…. but company structure and management is challenging …shortage of talent more limiting than available funds. What can a global company do in this landscape?
China – The Wild West

**Reality**

- The early days of capitalism is “lawless” and “dirty”
- Political and social connections rule the land (no recourse otherwise!)
- Lots of opportunities, lots of failures
- Things move fast and can be unpredictable (esp. politically!)

**Remember**

- Do not be offended by the reality; only time and maturity can fix it.
- Be there to learn and churn with the market.
- You need to hold your ethical line, and others will respect it. Eventually, everyone will play by the rules, whether it’s published or not. Integrity is the only sustainable business advantage in the long run.
Key Learning No 1

**Intellectual Property Protection (or lack of)**

- Until China creates its own valuable IP, enforcement is not going to be easy…… which means depending on IP protection as your competitive advantage is naïve, if not dangerous.
- Then, should foreign companies do R&D in China?

**Implications**

- Use utility patent as appropriate.
- Put energy into other areas:
  - Brand – Control Packaging (eg. Intel)
  - Design – Renew/Revision frequently, esp. SW
  - Use Product Support for Revenue - Make it open source? Control API?
  - TTM – China market is more forgiving on quality issues IF response is prompt and competent. Staff adequately…
Key Learning No 2

Process Efficiency (or lack of)

- It is amazing how much time everything takes in China
- Yet everything seems to happen faster in China
- Why such an apparent dichotomy in China?

Implication

- Chinese typifies Einstein’s Quote: “The most important thing to decide is what to do next?”
- Long term planning is almost futile; but a vision with tactical plan is indispensable.
- Don’t use western assumptions in planning; benchmark Chinese companies. There may seem to be too many headcounts, but people are needed to move things in China.
Key Learning No 3

**Skilled People (or lack of)**

- Technical people in China are trained differently than in the US. More guidance may be required.
- Good marketing and business development people are hard to find. Remember that the china market is only open in the last decade.

**Implication**

- Micro-management may be required initially. Set clear goals and coach with cultural sensitivity.
- Retention of employees is the key challenge. Employees expect more feeling of “family”.
- Expect high turnover as the normal course of doing business. Set up efficient processes to cope with it rather than complain about it.
- Expect to invest more in employee training and development.
Summary

China presents just as many challenges as opportunities
The China experiment will move forward regardless
China will become a significant player in the world economy

Now is as good a time as any to start learning by doing in China
More Reading…. 

Reference

http://www.businessinafrica.net/news/west_africa/500149.htm
Hong Kong-based China Mobile has announced a $5.3bn bid for telecom operator Millicom, which operates in Ghana under the brand name Tigo

http://goliath.ecnext.com/coms2/summary_0199-3523521_ITM
Recently, Huawei Technologies won a series of contracts which amount to over US$400 million from mainstream telecom operators from Kenya, Zimbabwe, and Nigeria. The cooperation covers a wide scope of Huawei products and solutions including 3G, NGN, optical transmission, switches, routers, and Intelligent Networks.

Good Articles and Books


An interview with a CEO of a European company (Danfoss) on their China strategy (There are links to more good articles about doing business in China on the McKinsey website)

http://hbswk.hbs.edu/archive/3714.html
When U.S. and Chinese businesspeople sit at the negotiating table, frustration is often the result. This *Harvard Business Review* excerpt summarizes the historical and cultural disconnects.