

Results

The newsletter of **BAIN & COMPANY** BENELUX

B U S I N E S S S T R A T E G Y C O N S U L T A N C Y

January - February 2003

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The China Thing

China's WTO entry makes it possible for overseas companies to invest in more areas, produce and market according to their own strategies. What many don't realise is that the Chinese market is fiercely competitive. Today, the initial failure rate among foreign companies investing in China has reached a startling 80%. So how does one make it big in China?



Paul DiPaola

The short answer to who succeeds is: companies that are leaders in their industry, that continue to grow their market share, and continue to make money. They include among others: IBM, Procter & Gamble, Coca-Cola, DHL, Motorola, Dell. To identify keys to success, Bain analyses companies from the moment they enter China. Scrutiny of their track records has yielded some fundamental requisites.

Local partnerships
Successful companies are those

that manage excellent partnerships with local players. In these relationships, each one brings something vital to the party. Foreigners tend to bring technology and know-how; the Chinese provide on-the-ground expertise and a network ensuring relief from oppressive regulations. Having said that, many of these relationships do go sour. There are several reasons, but the main ones remain: lack of trust, fights for control between partners rather than an effort to manage jointly, different agendas and/or levels of commitment.

Real localisation

To get anywhere in China companies must hire a largely local staff and local supplier base. Manufacturing and sourcing of raw materials should also be local. Companies must also strive to match the local cost structure to the goods sold, and abandon attempts to sell at the same prices as back home. Foreign companies can not grow market share without profoundly modifying their products' offerings to reflect market conditions.

Stronger customer interface

Success requires dealing with the issues facing Chinese customers. The only way to do this is to build a strong, local sales force and local distribution channels.

Multinationals that turn to Bain for help on entering China

THE MANAGEMENT COMMENTARY

-roughly 75% North American and 25% European- do so for one or several reasons:

1. Help with partner selection.
2. Market information: is it really as big? Is demand -both in volume and price conditions- really there? At what prices can they sell?
3. Help in identifying which products will fly and which will not.
4. Help in interpreting regulations and working through how they translate into reality.

CHALLENGES

Respecting the conditions for success -partnering, localising and tuning in to the local market may sound straightforward, but it is a lot more work that people realise. One must go the extra mile to adapt to local skills, local machinery, even local manufacturing quirks. And as importantly: a foreign company cannot impose its way of doing things, even if it did prove successful back home. It took Volkswagen eight years of painstaking investment to train local people, and a concerted effort to get the manufacturing just right. Now, with over half a million cars sold in China in 2002, these efforts are finally paying off. ✨

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