



How to Gain Market Share in China

The economic miracle may have slowed of late but China remains a key market for international expansion. Criticaleye explores whether or not joint ventures are an effective means to establish a presence in the country

Going it alone in China can be an expensive and futile affair, which is why the partnership route has traditionally been seen as the best option strategically.

Brian Stevenson, Non-executive Director at the Agricultural Bank of China, says: “A joint venture with a local firm gets you into the market with someone who is already experienced with the culture and behaviour

there, and if it is a regulated environment, you are more likely to get an approval if you go in with somebody who already holds it.”

As with any JV, it would be foolish not to set parameters. **Martin Bloom**, Non-executive Chairman of Chinese solar wafer manufacturer ReneSola, says: “Over time people’s objectives change. In any business relationship it is essential to have a break

clause because whatever one thinks today, things won’t always move in the same direction... [such a clause is essential] even if people feel it may show bad faith to look at how the JV will break, because it has negative connotations about the partnership.”

A similar chord of caution is struck by **Marc van Grondelle**, Head of the Joint Venture Practice for KPMG UK and Europe: “Some of

the largest companies in the world struggle to be effective in today's joint venture space – particularly in the emerging economies. Even if a good joint venture agreement, which is a rarity in itself, is signed, this is no guarantee of success, as cultural differences continue to be potentially disruptive long after the ink is dry, and value-destructive issues frequently only emerge two to four years into the venture.”

Clearly, there's a reason why The World Bank recently ranked China 79th out of 183 countries in its 'ease of doing business' rankings. **Mike Howe**, Managing Director at Stannah Stairlifts, which is building a joint venture with an existing Chinese supplier, says: “It's a different kind of relationship when you go into a joint venture [with a supplier], as what worked well as an arms-length relationship suddenly has to be buttoned-up much more tightly... Although we have experience in Europe and the US of setting up our own businesses from scratch, our intuition and the advice we got [was to seek a JV].”

“We wanted good advice from legal and financial organisations that understood both the UK and Chinese culture and practices, which meant there were significantly higher costs than if we'd simply used a Chinese organisation... But it's worth paying the money, particularly if you have concerns, because crisp, clear advice – albeit at a price – helps you move forward that much faster.”

KNOW THYSELF

The excitement of international expansion through an alliance can get the better of cold, hard reason. **Nandani Lynton**, a Criticaleye Thought Leader and Adjunct Professor of Management at CEIBS, Shanghai, says: “Lots of people don't stop to think about exactly what they want a partner for: is it for government relations, channels to markets, or both? You need to be clear, because companies have often found to their disappointment that you may have a partner who has fantastic access and channels, but who is only in one province and is almost as incompetent crossing the provincial boundary as a foreign company.”

Brian says: “The sorts of things a Western, capitalist joint venture partner may be looking for, such as return on equity, may not be what

your partner necessarily wants, at least in the short term, and that will influence things like reinvestment decisions. Those sorts of issues are critical arguments for getting it right up front.”

Viewing a JV as a shortcut can also be a mistake. **Peter Lorange**, President Emeritus of the IMD and a Criticaleye Thought Leader, says: “Looking at joint ventures as a way to overcome cultural differences could be a disaster as you are abdicating the development of your local understanding. [Entering a new market] is a matter of developing the understanding to exploit it, not exporting your view there.”

Looking at joint ventures as a way to overcome cultural differences could be a disaster

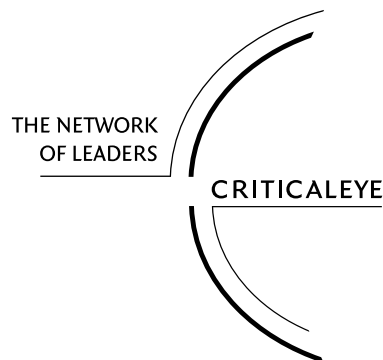
Jon Dymond, Director at management consultancy Hay Group, argues that it's important to go beyond whether the agreement makes financial sense. He explains: “There's a need to pause and acknowledge differences, so apply some of the due diligence into the 'soft' cultural issues: how a different culture, norms and rules will impose time costs on you.”

“Far more time and effort [than you expect] needs to go into building a proper picture of where you do and don't overlap. If you don't do that kind of due diligence work, the thing will founder, no matter how compelling the business logic for it to happen.”

It's a lot to consider given how much can go wrong. **Marc** says: “The average life of a JV in China tends to be less than in more mature markets, so business leaders must question whether they are creating something that has long-term strategic value.”

Complex it may be, but business is always a case of nothing ventured, nothing gained. **Mike** says: “What always makes me laugh about these situations is that you spend most of your time on the legal issues, dealing with what could go wrong. But all the time that you're talking about the negatives, you've got to remember that what's driving you [to do] this is a big positive.”

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Featuring Commentary From:



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JVs: Five Key Questions

- How will a partner further your aims?
- Do you have the right advisors?
- What does the partner want from you?
- Is the cultural fit right?
- Do you have a break clause?