How can I make it in China?

Once the most basic question of all has been addressed ('Should I manufacture in China?'), the biggest question for most companies is: How do I translate my well established business in Europe into a successful operation in China without making fatal mistakes on the way?' Madeleine Sturrock has been talking to British companies that have taken the plunge in one particular city in China, Tianjin.

OVER THE YEARS, I have met countless British companies that know they need to address the question of what they will do about China but find it difficult to decide where to start. It is not so difficult for companies intending solely to export. They can do research, identify potential customers, visit China alone, or on a trade mission, and then sell direct or through an agent or distributor. The question, 'How can I manufacture in China?' is much more daunting. There is a lot to learn about the market before one feels secure enough to proceed. For this article, I questioned several companies, of various sectors and sizes, who have decided to manufacture in China, but have chosen different routes.

• IMI Cornelius

IMI Cornelius is a £67m business in the UK, and part of the £1.5bn IMI plc group. IMI Cornelius initially invested £3.3m in a wholly foreign-owned enterprise (WFOE) in Tianjin's TEDA investment zone, which became fully operational in 1997. Their plant makes a range of drinks dispensing machinery for use with carbonated beverages and beer. Major customers include Coke, Pepsi, McDonalds and KFC. They told me they chose TEDA because of its proximity to good air freight and port facilities, and because of the support and investment incentives offered by TEDA. They report they are very satisfied with their investment. The infrastructure, government support and local supply base all meet their requirements and have allowed substantial growth in the last three years. IMI Cornelius plan to double the size of their factory within two years to help meet the demand for their products in Asia, and to fit in with their corporate strategy of maintaining a strong presence in China and Asia. Phil Harnett, general manager, says, "In the early days things were slow, but in the last two years we have gone from strength to strength and turned in record figures for 2004. This recent performance has led us to make plans for expansion during 2005/06. "TEDA continue to be supportive, and we are just days away from being granted one of the first business licences that will allow us to manufacture and trade from the same business entity. This should help us to grow even more in the future." Asked for advice for other companies wanting to take this step, Phil Harnett says, "Make sure you take the time to form the important relationships that are required to do business successfully here. As a foreign enterprise, you cannot work in isolation, even as a WFOE. Good relations with the bodies that you deal with will pay dividends as you move from the planning to the implementation stage of your investment."

• John Crane

John Crane, a subsidiary of Smith’s Industries, has been located in Tianjin (near the port) since 1987. It sells, manufactures and services mechanical seals and systems for rotating equipment (pumps, reactor vessels, car water and oil pumps) to the automotive, process plant, oil and gas, petrochemical, power and similar industries. Recently it has acquired Tianjin Timing Seals Company, which makes the more technologically advanced gas sealing products. John Crane began its manufacturing operation in Tianjin in 1989 with an initial, modest investment of Yn2.9m (less than £400,000) in a joint venture (JV) where it held 33 per cent of the equity, and licensed the JV to manufacture a small range of products. In 1995 John Crane increased its stake with an additional investment of Yn13.5m, giving it a majority shareholding of 66 per cent. Having set up in China very early on, there were some challenging years for John Crane in the beginning. But, with persistence, and a closer understanding of the cultural differences of doing business in China, they are now very happy with their investment. Following the acquisition of the Tianjin company, the future looks promising and there are plans for expansion of the business. Ray Dorey, managing director,John Crane Asia Pacific, has this advice for others considering setting up in China: “Although things are ‘westernising’ faster now, don’t underestimate the cultural differences and challenges.”

• GSK

GSK is one of the world’s largest pharmaceutical companies. It first established a presence in Tianjin in 1984, creating a JV with the Tianjin Pharmaceutical Group and the Tianjin Medical Corporation. In 1995 it established a second JV, with the Tianjin Pharmaceutical Group. Investment in the two facilities now exceeds US$150m; they manufacture a broad range of pharmaceutical and over-the-counter medicines to global standards. The choice of Tianjin was influenced by several key factors, GSK say: the favourable financial and investment incentives; the availability of technically skilled labour and good manufacture; the proximity to Beijing (the regulatory and administrative centre for this industry in China); and the consistent quality of both managerial and operational support from the JV partners, TEDA and the Tianjin government. Whilst China has presented a unique challenge to GSK’s traditional business models, reliance on the insight and guidance of Tianjin partners and stakeholders has helped guide GSK through complex and unfamiliar business situations. Peter Bains, senior vice-president, GSK International, says, “We are very pleased with our business in Tianjin; that is why over half of our recently invested capital has been in TEDA. We are confident that the partnerships that we have formed, and our growing experience, provide a robust platform for our next 20 years in China.”

• Simclar

Simclar is one of the largest integrated comanufacturing groups in the world, with 16 factories and 2,500 employees in Europe, the US, Mexico and China. They serve many sectors including electronics, biotech, defence, automotive and security. They have had a factory in Tianjin since 2001, making metal fabrications, high-level assemblies and cable harnesses.Before choosing to locate in TEDA, Simclar undertook extensive research into differentareas of China, considering their proximity to their customers and the support andfacilities available. Eventually, they invested US$4m in a WFOE, their first investment in China. Simclar have been pleased with their progress over the last few years and plan to increase their investment to incorporate plastic injection moulding capability during 2005. Douglas Kirkaldy, general manager of Simclar (Tianjin), emphasises the importance of careful research. “If you are looking at China for the first time, ensure you do sufficient homework and take plenty of advice from others before making majordecisions,” he advises. “In general terms, we have been satisfied with the support we have been given b y the administration and we like the progressive nature of the TEDA development plans. We have made a good start and now are considering how to enhance our investment here.”The conclusion to reach is that Tianjin offers a very promising base for UK companies to invest and then to develop their business. TEDA and Standard Chartered Bank, in partnership with Air China, are sponsoring visits to TEDA and Tianjin to give companies an in-depth knowledge of the investment environment and to help companies decide on their next steps. If you would be interested in participating in one of these visits, email: panhua@attglobal.net for details quoting “TEDA Visits”.

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