


STRATEGIC INSIGHT

VALUE INNOVATION SERIES

V i P GLOBAL ENTERPRISES

BUILDING A WINNING GLOBAL FOOTPRINT

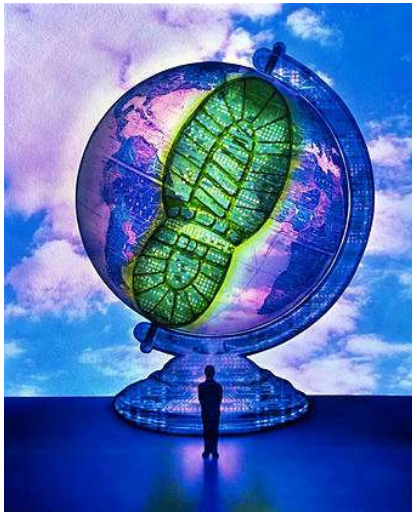
Fall 2007



ViP GLOBAL ENTERPRISES

VALUE INNOVATION SERIES

DON'T GET LOST IN TRANSLATION: BUILDING CHINA INTO A WINNING GLOBAL FOOTPRINT



Misconceptions about the low costs of manufacturing and product innovation are rampant. It is essential to assess your expansion into China as a total cost and value equation.

China is now the fourth largest economy in the world, giving the U.S., Japan, and Germany a literal run for their money. The country has experienced 20 years of steady growth and shows few signs of slowing down.

To capitalize on China's significant market and operational advantages, international businesses by the droves are relocating or starting organizations there. Yet, as companies look to expand into China, many do so without a clear understanding of the country's inherent risks.

Viewed through rose-colored glasses, China is a booming, low-cost economy. Up close, it is a hotbed of economic, social, and political challenges that, if ignored, will hurt rather than help your bottom line.

Businesses can successfully navigate through China's danger zones by considering the risks and defining the right operational strategies. We have found there are a few key issues to consider.

First, be realistic. A Western business model may not be successful in China. Ask the hard questions up front. What changes will you need to make to your strategy to operate for maximum business impact in this society? Assume there will be changes and get ahead of them, rather than hoping the translation will be seamless. Misconceptions about the low costs of manufacturing and product innovation are rampant. It is essential to assess your expansion into China as a total cost equation.

While the cost of manufacturing one single item may be low, there are many hidden costs of doing cross-cultural, cross-border business. These include higher logistics costs, astronomical employee turnover rates, rapidly rising salaries, IP protection risks, and an environment of political and social unrest.

Think very carefully about where you want to do business in China. The government actively focuses on the development of specific regions of the country, most notably the coastal zone. Great disparity exists between this area and interior China, where many people make as little as \$1 a day. This reality has far-reaching implications for the quality of business and life in these regions.

Be prepared for a staggering lack of local talent, particularly for senior management positions. The country's growth has exploded so rapidly that there simply isn't enough local leadership talent to go around. When you do successfully recruit a Chinese manager, you will often find them ill equipped to lead in the environment of change and complexity that now defines China. This challenge has deep roots, including far too few business schools and the Cultural Revolution of the 60s and 70s, which disrupted the education of the generation that now sits at the heart of China's labor force.

Despite these considerations, the upside of doing business in China is significant and growing. Management best practices are becoming readily accepted. China's entry into the WTO implies better protection of IP, asset rights, and economic rules. The government is investing more in innovation and the environment. And the major cities have good infrastructure for roads, telecommunications, and airports.

Starting or expanding a business in China requires exhaustive due diligence and a balanced assessment of opportunities and risks. With a firm grasp on the landscape, you can move forward to align your business strategy and operational model with the economic opportunities posed by this intriguing and complicated country.

About ViP Global Enterprises, Inc.

ViP Global is a seasoned team and network of proven senior executives, entrepreneurs, investors, subject matter experts, and educational providers with proven experience in addressing the challenges facing high growth and troubled organizations. Through our practice areas we help organizations strengthen initiatives in Corporate Strategy, Procurement, Organizational Change and Human Resources, Product & Service Development, Sales & Marketing, and Operations Improvement.

ViP is a Global Sourcing, Outsourcing, and Marketing Service Provider which has been assisting organizations with their global growth and operational issues for over 20 years.

Engagements may include strategic sourcing, supply management and rationalization, purchasing redesign, outsourcing operations, and selling & marketing to global organizations. Clients often average 15-25% hard savings across their supply chain and up to 50% savings in the total cost of ownership.

ViP Global has successfully implemented strategies and global initiatives across the Fortune 500, Mid-Market, and smaller organizations desiring to leverage the vast resources in the ever complex environment of global exchange.

Contact Information

In order to best serve our clients, ViP Global provides flexible fee options for their consulting services. Clients often choose between contingency (gain sharing) based, fee for service, or a hybrid arrangement.

For more information about ViP Global, its business and team members, or to discuss a structured business arrangement, please contact us directly at 312.725.6095 or on the web at www.vip-global.us.



Act Local, THINK GLOBAL™