Using a Marketing Representative Services Office to Enter China

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Introduction

Western technology companies looking to crack the Chinese market face a host of obstacles. Apart from the obvious differences in language, business culture and time zones, there are a multitude of procedural hurdles to overcome in order to set up and do business in China, not to mention ever-present Father Time who is seated at the board table with your investors, bearing down on you.

The "Mad Max" Approach

In the past, tech companies have frequently used the 'Road Warrior' approach or set up offices in Hong Kong to serve the Chinese market. The typical Asia-Pac sales vice president is the ultimate road warrior, especially if he or she is based in the U.S. Even setting aside the high burn-out rates, these Mad Maxes, popping up for a day or two here, a day there, are seldom as effective as having in-country representation. And, as costs continue to rise in Hong Kong, and more and more customers demand that their vendors sustain a mainland presence in Beijing or Shanghai to be taken seriously, setting up shop in the former British territory is no longer a cost-effective or direct customer contact option. Chinese regulations have been dramatically liberalized in recent years making it much easier to directly establish a representative office or subsidiary, which often takes the special form of a Wholly Foreign-Owned Enterprise (WFOE), but it remains a time-consuming and intensive endeavor.

Some technologists have chosen to establish a joint venture with a native Chinese partner, but this can entail grueling and time-consuming negotiations resulting in exorbitant attorney fees on both sides of the ocean. Yet another route is the channel partner strategy. Here, time and money are focused on up-front selection from a number of prospective channel partners. It can be difficult for the start-up to evaluate the track-record and credibility of such partners in so foreign a market, and the risks are great. If the start-up turns out to have chosen the wrong partner, they won't know until after key opportunities have been lost, and the company's reputation may have suffered, making a re-start with another partner even more difficult.

Serious westerners know that to do business, they now need to have a presence in mainland China. But how to establish that presence in the most cost-efficient and time-effective manner? Equipment vendors are realizing the benefits of using sales and marketing representative firms that straddle the Pacific – one foot in China and one in Silicon Valley. Such firms can speed an equipment vendor's entrance into China, at a much lower cost than establishing a local office on their own. Many of these firms are staffed with repatriated Chinese nationals who have spent years in the West and have returned home in response to increasing opportunities in China. Here's why these firms are gaining greater significance.

Going Alone Takes Too Long

Vendors that directly establish a presence on the mainland on the "go alone" plan typically start with a stock-in-trade "Sales Representative Office." This can take weeks to months of developing a plan for opening and staffing an office.

They usually retain the services of a large legal or global consulting firm which immediately escalates the costs of opening a subsidiary. Only after the local vice president or country manager has been retained can staff recruiting start, as the vice president will typically have an existing network or staff from a previous position that he may prefer to bring on. Additional local assistance, in the form of attorneys or customs brokers may be sourced to assist with customs and importation formalities.

Of course, no formal activities can take place pending final certificates of approval from the appropriate Chinese ministries. The list of agencies is long and varies somewhat by circumstance, but generally the vendor must apply, register, file, or otherwise pay homage to the Chinese Ministry of Foreign trade, the Administration for Industry and Commerce, the Taxation Bureau, the Health Inspection Center, the Labor Bureau and the Statistics Bureau. It all adds up to the euphemistic 'paperwork delays.'

It's not inconceivable that it takes a vendor from nine to fifteen months from project initiation to having to having an office secured and staffed with capable technicians that can begin training on the product. This activity represents a distraction for the start-up vendor that is focused on developing a native market and trying to make the last round of financing stretch as far as possible.

Finally, customer engagement can begin! But are the right people on board in China? Do they have the necessary relationships in place with the target customers? Do they have a track record of successful product introduction, and a foundation of trust with the prospects? How quickly can they get the product inserted into a trial, let alone secure that all important initial purchase order? Three months? Six months? Nine months? The time it takes from initiation to the initial P.O. could take from twelve to twenty-four months (depending on the actual market segment) – how many start-ups have that long?

A Representative Services Firm Makes Sense

A trans-national sales and marketing firm can jump start this process, leap-frogging the equipment vendor past the bureaucratic nightmare and directly into opportunity assessment for the Chinese market and prospect engagement and trial promotion.

These firms leverage their existing relationships and track record with the target customers (i.e., direct end users, value-added resellers, and system integrators) to quickly assess the market potential for a product and secure tender participation. Typically such a firm will represent vendors across the spectrum of technologies with technology and market specialists for each product category. Further, Chinese nationals returning to their homeland that have spent time doing business in the West possess a powerful one-two combination of an understanding of both Eastern and Western high-tech company business practices and a network of professional colleagues and friends in both cultures. A Chinese based trading firm staffed only with 'never-left-the-mainland' professionals would lack such a powerful network, and may have trouble understanding a young start-up's concerns relating to trade secrets and non-disclosure agreements.

The equipment vendor benefits from an interim in-country sales manager that answers to their global vice president of sales, so that he or she can concentrate on global issues, not the micro-issues of setting up shop in China. Technical and administrative staff are already in place, eliminating set-up and recruiting lag time. Travel expenses are contained, and the language and culture gap is bridged. Rapid market research and feature assessment saves time and conserves funds for the start-up to adjust their strategy, modify the product, and re-engage. The important metrics of "time to trial" or "time to initial purchase order" for the product are contracted from several quarters to a matter of months.

Cost Savings

The table below shows a comparison of three China entry models – the US based Road Warrior model, the China Satellite office model, and the new outsourced model. From the table it's clear that the outsourced model can provide savings on the order of three or four times a "go alone" strategy.

Task	US Based	Satellite Office	BASAY
Salaries / Retainer Note: Assumes 1 V.P. and 2 Sales Engineers	$320K	$300K	$188K
HR Overhead	$105K	$135K	n.a.
Hiring Costs	$80K	$120K	n.a.
Salary Package Benefit Costs	$70K	$90K	n.a.
Company Setup Costs	n.a.	$20 - $200K	n.a.
Office Rental	n.a.	$60-$180K	n.a.
Travel	$80K	$40K	$10K
Operating Costs **Note: Telephone, Internet**	$6K	$8K	$6K
Other Expenses	$6K	$6K	$6K
Legal & Accounting	n.a.	$100-$150K	n.a.
Totals	**~$667K**	**~$1M**	**~$210K**

By using an outsourced sales and marketing representation firm straddling the Pacific, the start-up vendor saves money in several cost categories. Travel is substantially reduced, and organizational, leasing, human resources and salary expenses are non-existent. Just as importantly, but not shown on the chart, is the time-savings from rapid opportunity assessment and immediate engagement of qualified customers with a clear goal towards securing participation in technology trials and the first purchase order. The client has immediate access to the China market via skilled professionals and a jump start on foreign market sales.

So, once convinced of the benefits of the outsourced model, where does the Silicon Valley CEO find a competent firm they can entrust their product and image to? And how to evaluate them?

Firms are sprouting up with offices in Silicon Valley, Beijing, and Shanghai. Look for a firm staffed with – and preferably founded by – Chinese nationals with a successful track record of product introduction in Asian markets for past and present global technology leaders. Ideally, the Chinese managers will have spent some time living and working in the West. Further if these same managers have become U.S. citizens while in the West, they can often travel immediately to other Asian countries, responding to opportunities, while their

Chinese competitors are still applying for travel visas. Competent firms should also have Westerners on staff with experience marketing products or doing business in China. Think of the firm as providing a bridge from West to East with roots firmly planted in the soil on both sides. A further consideration would be whether or not the firm provides an exit once sales begin to take off. Will they help you migrate your operations to your own subsidiary office and sales team once sales warrant it? Will you be able to 'graduate' to establishing your own WOFE with ease? Be wary of firms that don't provide a path towards an ultimate return to corporate control of Chinese operations once sales ramp up.

Conclusion

The benefits of outsourced sales and marketing representation in China are clear, and readily available. Culture, language and bureaucratic gaps need not be a barrier to the start-up looking to capitalize on opportunities in the East. A new breed of time and cost effective Asian marketing representation firms has arrived.

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About Consultiq – http://www.consultiq.com/

Consultiq is a strategic management and marketing services consultancy, focused on solving high-impact, mission-critical business problems and enabling competitive superiority. The two senior partners, Robert Dolezal and David Howard have over fifty-five years of combined experience in operations at media, telecommunications and Internet services companies.

About Basay International – http://www.basay.com/

Basay Technology Consulting, a business development and consulting company, enables clients to quickly establish and/or expand their sales and marketing presence in Asia Pacific markets. Basay's team of professionals have solid hands-on experience and will leverage their regional sales connections, high-level management relationships, and distribution channel resources in order to make your entry into Asia a success.