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IMPORTER/EXPORTER

Doing Business in China: Change Your Thinking or Perish

By Jeffrey Plitt

Jeff & Cheryl Plitt operate Plitt International, LLC, a professional firm specializing in business relations with China. Plitt International's focus is to bring competitive advantage to small and mid-sized US companies through international trade with China. This competitive advantage is gained through importing, exporting, and the formation of joint ventures. Plitt International has developed its reputation through the successful implementation of programs across a broad range of industry segments.

Introduction

Domestic competition embracing trade globalization in the form of international sourcing is a threat to most small and medium sized businesses in America. Being on the forefront of the change in business philosophy and accepting the globalization of business will allow American companies to gain competitive advantage within their market space.

Doing business in China will require you to get out of your comfort zone in regards to business practices. If you are going to be successful in working with Chinese partners you must understand that business in China happens slowly, is difficult, possible, negotiable, and flexible. Being patient is the key attribute to embrace if you are an American company doing business in China.

Roadblocks to doing business include a language barrier, relationship barrier, and a cultural barrier. These differences must be understood and at times embraced if an American company wishes to have a successful experience operating within China.

The Situation

By 1910 almost all American oxen had been replaced by draught horses, the railroad, and early automobiles. The Clydesdales, Belgians, and Shires moved faster than the oxen's dawdling pace of 2 MPH. The railroad could haul large quantities of goods and Henry Ford was beginning to revolutionize personal transportation. Oh, the outrage! America had turned its back on the animal that made the early American's life possible; the beast of burden that forged the Oregon Trail and made western expansion a reality had been replaced. The day of the draught horses was also nearing a close. The lighting industry of the day was about to shift as well with the advent of Edison's light bulb. The candle makers and oil lamp manufacturers were about to get squeezed.

During each change, industry leaders had a chance to embrace new technology or new business models. I can hear the entrenched candle maker's of America spreading the news about this fad called a 'light bulb'. Who would want to have ugly wires attached to the house? The threat of fire from candles must be minor compared to those wires. Besides, wouldn't you miss that pleasant aroma of tallow and smoke in the house?

In regards to global trade, a portion of America's business owners are thinking like the candle makers and livery owners of the past. They are either blind to the shift in the business world or hoping against hope that globalization is a passing fad. The reality is that being savvy with international trade is not just a good idea. For many companies it's a matter of survival. At first glance the acceptance of global trade seems threatening, overwhelming, and for some, unpatriotic.

The Facts

The last point first; there is nothing patriotic about watching your own destruction without an appropriate response to an outside threat. In our drive to gain competitive advantage we seek to provide our goods and services better, cheaper, and faster than our competition. Why? To build a better future for ourselves and those we are responsible for (families, employees, charities we support). That is the core of competitiveness and what brings the American consumer ever increasing value in the goods and services purchased.

The outside threat in this case is other businesses embracing the benefits of international trade better, cheaper, and faster than their competition; not Chinese entrepreneurs seeking to fill international market needs. Are you on the forefront of that change in business philosophy or are you currently paying the price for watching?

For businesses that recognize the need to be involved in the global market place, the prospects of engaging in international trade are both overwhelming and threatening. The threat is apparent. Delay means eroded market share. Engaging foreign business partners, whether in sourcing goods at lower costs or in developing outlets for goods and services, is a daunting task for all businesses. Unless you are capable of simply buying a presence in China, you will probably struggle with the entire process. Do not let the process be a deterrent. You are about to enter an area of business that is foreign to you in many ways (pun intended).

The Solution

Companies interested in developing business relationships in China must first determine if they are really ready to make the move. From an American companies perspective there is a very definite need to gain the advantage of better sourcing or larger markets. The company is probably correct in their assumption that China is a good place for them to develop sourcing partners or export outlets. What is not apparent is the need for that company to change the

way they think about doing business. Doing business in China will require you to get out of your comfort zone in regards to your current business practices. This does not mean that you are going to accept less than satisfactory quality. It does mean that the steps to getting those goods at an acceptable quality are very different than taking those steps taken in the US.

We want to believe that everything in China is cheaper. Mostly, that is a correct statement. However, that cost benefit comes at a price. If you are going to be successful in working with Chinese partners, you must understand:

- Everything in China happens slowly.
- Everything in China is difficult.
- Everything in China is possible.
- Everything in China is negotiable.
- Everything in China is flexible.

With that being the case, being patient is the key attribute to embrace if you are an American company. You will not be successful in China if you choose to be anything other than patient. You will not be successful if you think the Chinese are going to work at your pace. Even though you are their client, you are likely to move at their pace, not yours. That pace can be developed and changed to meet your specific needs, but only after a relationship has been developed with the Chinese factory.

Roadblocks

Roadblocks to doing business in China are numerous and ever-changing. Outlined are a few obstacles to give the reader a flavor of the challenges that are likely to be present when developing on-going business relationships in China. These obstacles are tackled differently by companies based on their size and depth of involvement they wish to have with their international partners.

At one end of the spectrum, we have clients who wish to source products from China and Plitt International handles all aspects of trade including the sourcing, project management, international banking, international and domestic shipping, customs clearance, etc. Other firms wish to be intimately involved with the factory and Plitt International acts very much in the way a consultant would in facilitating the development of the relationship. In either case, the following challenges need to be understood by the US firm.

Language Barrier

You will have problems with communication unless you have staff that is fluent with Mandarin (or Cantonese if the factory you are working with is located in southern China). It has been our experience that many Chinese factories say they have English speaking staff. The reality is that their English capabilities are limited at best and non-existent in some cases. There is a big difference in the written and verbal English spoken by Chinese nationals; the written being much more advanced than the verbal. It is not uncommon to have a seemingly positive email or fax communication with a Chinese factory in English, only to find out

upon making a visit to China that the person you were communicating with is barely intelligible.

Relationship Barrier

To say that building relationships with your Chinese business partners is critical is an understatement. Virtually everything in business is based upon the personal relationship. Do not expect to shoot an RFQ to an unknown company and get a positive response. Step one in doing business with a Chinese firm is to build a relationship with key personnel. This can be done either by you directly or by your international business partner such as Plitt International.

Cultural Barrier

If language and relationships were not difficult enough to overcome, the cultural differences present an even bigger hurdle to surmount. The American and Chinese are 180 degrees apart in their thought process. As you read the following points, remember that the Chinese are as uncomfortable with the way Americans do business as Americans are with the way Chinese do business.

Qualitative vs. Quantitative: We Americans like to think in very black and white terms. We want to know what time a meeting will start and when it will end. We want to know the results, in bullet point fashion, of a meeting we attend. This is a foreign thought to Chinese businesses. Meetings are often fluid and conclude, even after lengthy discussions, without a definable direction. The Chinese are comfortable allowing that process to unfold, and in many ways have no preconceived notions as to the exact steps to take in solving a problem. Listed action plans are not readily accepted and are of little use to the Chinese way of thinking. As comfortable as we are in our black and white, yes or no thinking, the Chinese are comfortable in working with shades of gray.

Cash Before You Carry: It is common for American business to work on credit extended from suppliers in the form of payments due net 30, net 60, or even more. Extension of credit is not common in China and should not be expected until an on-going business relationship has been developed. Chinese businesses often require up-front payment for tooling fees, or raw materials cost. Letters of Credit are common and are often used by the factory to secure loans for raw materials. While we caution against any up-front fees, there are times when it cannot be avoided. Expect to pay for the goods at the time of shipment. This is common practice and will require a US company to accept the notion that money goes out the door prior to goods being in hand.

Government: Both the US and Chinese governments have numerous regulatory agencies and departments that make foreign trade more complicated. When exporting, caution must be taken with dual use items (items that could also be used for sinister purposes by a foreign power). Imports must have appropriate duties paid and quotas observed. Homeland Security can be potential for delay if a container is randomly selected for inspection. US Department of Agriculture

has jurisdiction over foods, animals, and animal by-products entering the US. Sometimes lengthy quarantine periods are required, as in the case of cattle exports to China. China requires a 30-day supervised quarantine of a herd just prior to shipment and then another 30-day supervised quarantine upon entry into China.

Legal Environment: Welcome to the Wild, Wild West. In the US we live in a society that is governed by the rule of law. Chinese culture operates by what is practical. A contract that ceases to be beneficial to one party is easily forgotten. Intellectual property protection is a problem in China. The issue is not likely to be solved in China anytime soon. If Microsoft and Nike cannot solve the problem, a smaller US firm will not be able to either. Confidentiality agreements may help in keeping pirated goods from entering the US, but does little if the Chinese factory is determined to operate dishonestly. We recommend structuring the relationship in such a manner that the factory has limited ability to pirate intellectual property.

Time Difference: China is half way around the world. They are, on average, 13 hours ahead of us in time. This makes for difficulty in communication and accounts for at least a business day of delay in seeking answers to questions.

Plitt International, LLC welcomes a discussion with your firm in the hopes of building a more secure business future through international trade with China. The question is not **if** the globalization of business is here; rather, what we need to do to prosper now that globalization **is** here.