

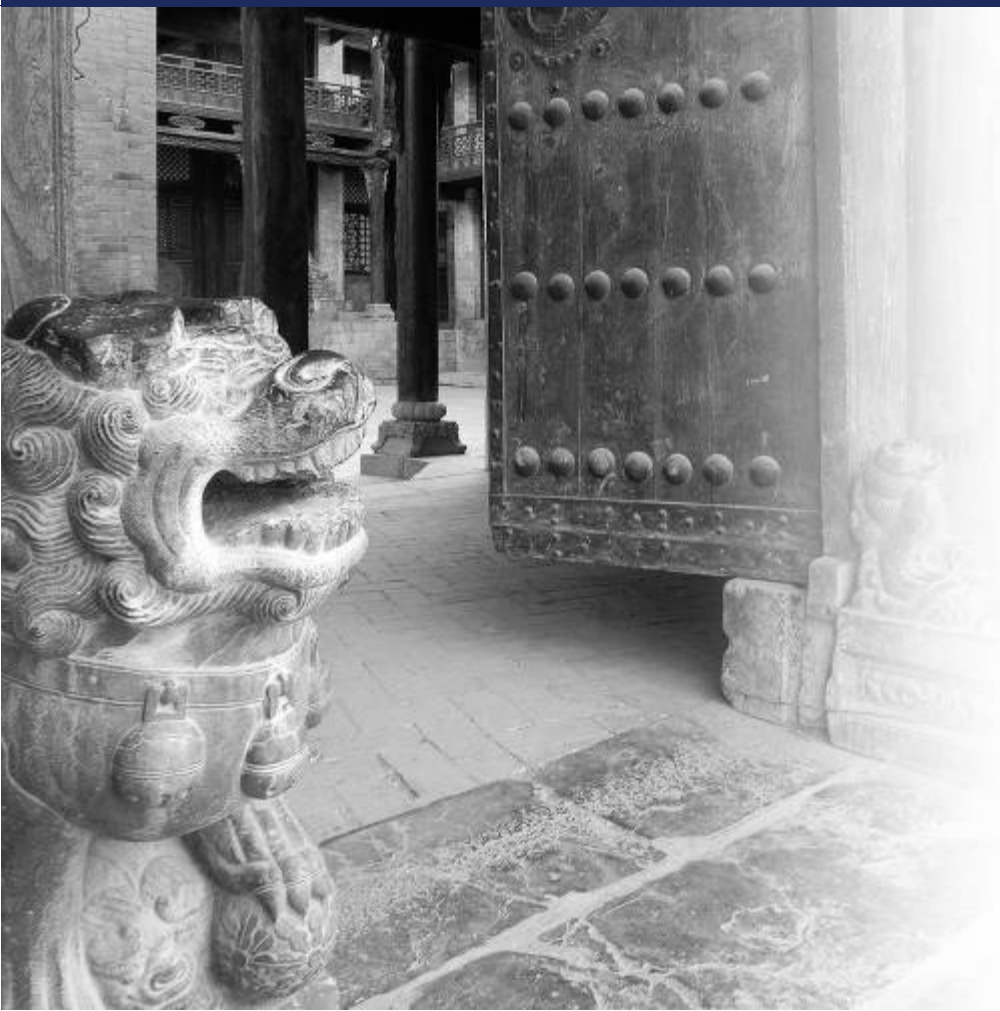
# InterChina Insight



## Introducing: The China Man

The ideal solution for machinery companies' sales operations in China

By Franc Kaiser | July 2010



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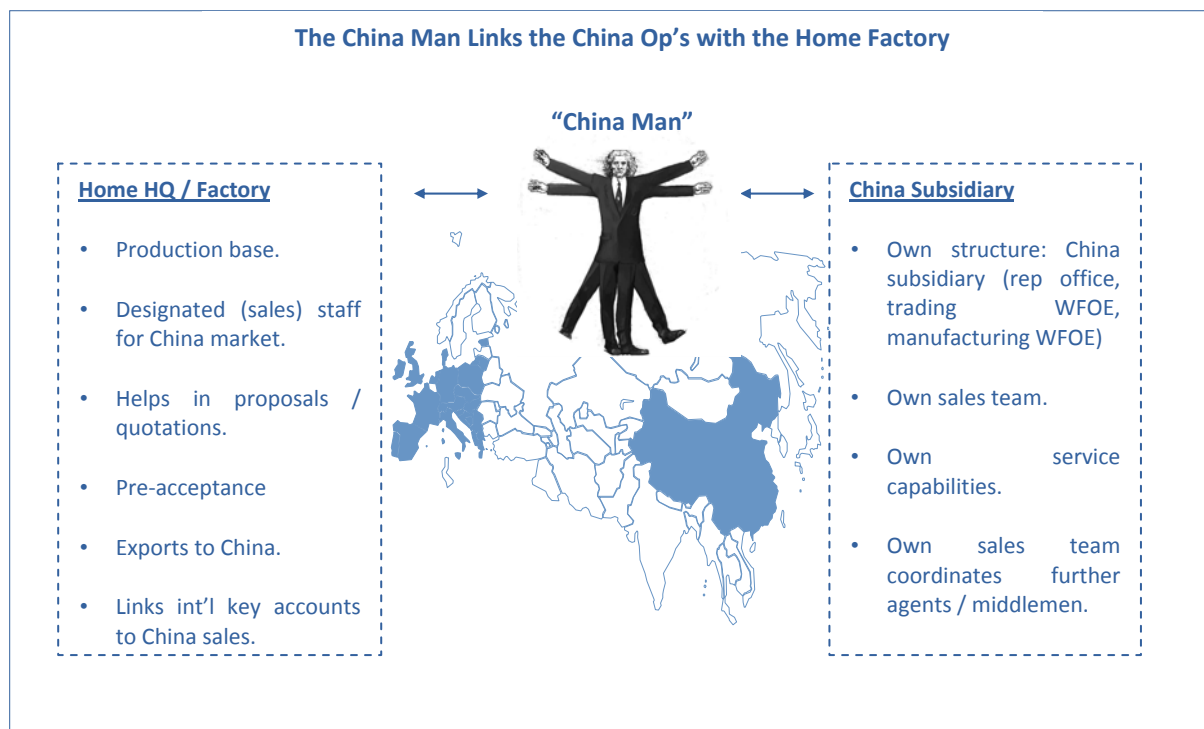
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China's ascent as a manufacturing powerhouse has made it the world's largest market for many machinery categories. For machine tools alone, the Chinese market absorbs 40% of the global sales, bound to keep growing at 15 – 20% over the next 5 years. As multinational machinery makers and their Chinese rivals go head-to-head, the competition is becoming increasingly cutthroat. Foreign machinery makers need new strategies to grow their sales and gain market share. That's where the "China man" steps into the picture.

InterChina has found that international machinery companies selling imported machines in the Chinese market face serious problems with coordination between their China sales teams and home country factories and corporate headquarters. This has resulted in inefficient market development and is slowing sales growth. The position of the "China man" could be the ideal solution for many of our machinery maker clients.

## Who is the China Man?

Marc Liechti, a pseudonym since the original China man prefers to keep his name and that of his company anonymous, had been working at the headquarters of a Swiss machine tools company as an applications engineer for his entire career. Talk about a mid-career change. Now, the lanky 40-year-old spends half of his time in China, coordinating sales operations there with his company's factories in Switzerland, Italy and Germany. Liechti's company's China sales account for one-third of its global total and are growing rapidly. "China is becoming an increasingly important market for my company and will continue to be the most important market in the next 10 years," Liechti said in an interview at his office in Shanghai, in fluent, German-accented English.



The company Liechti works for had operated in China via sales agents for about 10 years before setting up its own representative office, staffed by three people, in Shanghai. By last year, that the China staff had grown to 15 people, so the company decided to make its China operations a trading WFOE to enable it to invoice shipments in RMB if necessary.

Liechti literally lives and works between two worlds, coordinating between two operations and two cultures - European and Chinese - serving a common customer: producers of automotive components in China.

“This is an exciting assignment, but is very challenging. I need to get our Swiss guys in the factory working faster and smarter to fulfill customer requirements. I also have to meet the Chinese sales team’s expectations,” said Liechti, whose family remain back home in Switzerland.

Liechti is actually coordinating between more than two cultures because he is handling proposals, orders and service between Chinese customers and four factories: two in Switzerland, one in Italy and one in Germany. Each of the factories exports different machines to China, and the local sales team is representing all brands and machine lines for the company’s Chinese customers. “It is a 24 hour-a-day, seven-days-a-week job. Inquiries come from all over China, every day all week. I need to coordinate those with our four factories. This is quite complex because each factory has its own rhythm and different products, and different cultures – not just their production cycles, but also their own ways of finding solutions for customers, and their degree of flexibility on pricing decisions,” he said.

## The challenges for technology and machinery companies

As they jostle for position, some foreign machinery companies have switched from using local sale agents to setting up their own sales teams in China. Some have set up wholly owned trading companies, like Liechti’s has, or have even built their own factories. But most international machinery makers still find their import businesses remain very important and profitable, while at the same time selling locally produced machinery or the

second-grade, cheaper machines in the local market to different customer segments.

Machinery equipment makers share a common problem: Even if they have their own sales teams in China, they often are unable to meet various demands from their customers. Production sites in Europe or the USA are too far away, and coordination and communication between the China sales teams and staff back in Europe or USA suffers as a result.

Accustomed to the sorts of just-in-time supply chains that dominate many industries in China, some customers provide very short lead times for inquiries and requests. Time differences and cultural gaps also can slow the process down. The general manager of an American packaging maker says, “Our sales man responsible for Guangdong province just sent us an email demanding a quotation for a packaging system this very evening. It takes us at least one week to put together a decent proposal.”

Apart from the extreme urgency of many requests, customers often have unpredictable, complex or unusual technical requirements. This can also work against companies operating far from headquarters. “A prospective customer in Xi’an changed the specifications for a machine three times already, each time asking for a better price. I hardly dare to get back to my overseas factory people ... they have already lost confidence that this project will ever materialize,” said the manager of a local sales team for a European machine tool maker.

Even companies that have local sales teams in place tend not to give them price negotiating authority or the tools they need, such as a price discount corridor. Local sales people do not have enough bargaining power within a company’s organization. They are often neglected by HQ and factory engineers and face an uphill battle in trying to convey the high pricing pressures in the Chinese market. “It is very hard for me to close a deal. All pricing decisions for imported machines are made by the factory in Germany, and I get very little room for any discounts. I sometimes lose contracts just because we cannot give the customers’ decision makers some face, although it would not have a fundamental impact on our margin,” said the manager of a China sales team for a German machinery maker. Meanwhile,

dickering with HQs intent on avoiding discounts and pushing for higher prices causes costly delays and annoyed customers.

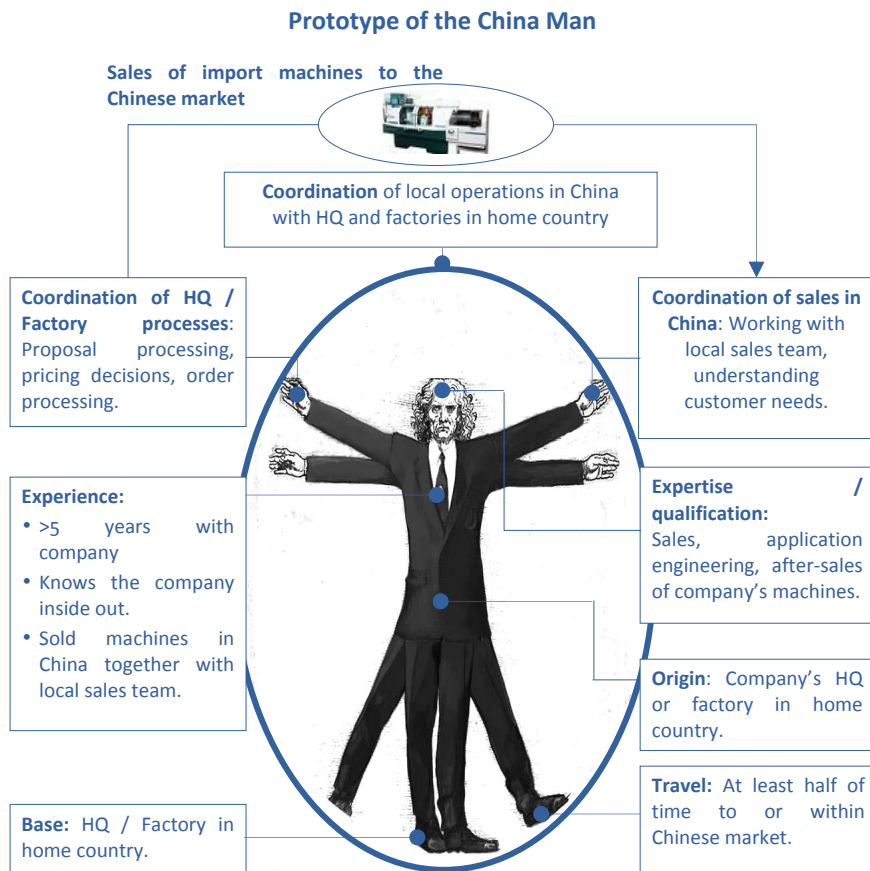
Add to the mix communication, cultural and language problems. “There are a lot of communication problems. Although our local application engineers in China speak and write English, we still don’t understand each other, especially in critical and hectic situations, such as just before the closure of a large contract with a customer,” said the export manager of a European machinery company.

### Defining the China Man

The China man can help bridge some of those chasms. He is the missing link between headquarters and production sites in Europe or the US and local sales operations, coordinating sales involving overseas factories and Chinese customers. If the right person has the job, he can help speed up decision-making and nurture the flexibility in terms

of specs, prices and overall customer handling required to compete effectively in the China market.

The China man typically comes from the home office and has worked there for at least five years, enabling him to know all the important people in key positions. He needs to have their respect and understanding and to know both the positive and negative aspects of the company’s culture. The China man needs to have wide experience with selling machinery in China with a local sales team and needs to be familiar with technology and after sales issues for the company’s products. His main function will be to serve as a link between the local sales operation and overseas operations, facilitating sales in the China market and helping the local sales teams and their customers to communicate more effectively and efficiently with company headquarters. Like Liechti, he likely would spend half of his time in China and half at the overseas factories.



## The China Man boosts and smooths sales

We have found that companies who have a China man significantly improve their sales performance in China and profit from less chaotic day-to-day business operations. “Our sales in China have increased by 20% since last year. I cannot say that this is entirely to our China man’s credit (because the overall market is growing), but we have become much more efficient in our order processing and can prioritize the real important and profitable accounts we really want to have. We are also faster than some of our international competitors who need days or weeks more to create solutions and draw up proposals for the same customers,” said the general manager of a machinery factory in Europe.

A local Chinese sales manager in Shanghai agrees that the China man helped has made their sales process more efficient and smoother. “It’s so much easier now for us sales people to get our contacts moving in Europe. Previously, we would submit an inquiry, but nothing would happen. Now, things are really moving, and we can get back to the customer with a strong proposal much faster, while we are confident that the price is right and not completely off the charts – for the customer and for us.” The China man also helps engineers at the factory in Europe understand the sales process and what Chinese customer would like. “Our work has improved a lot because the sales process in China has become more transparent for us. Now we understand the relevance of customer A vis-à-vis customer B, and we know if something is marked ‘urgent’ it means in the next three days, but not today or in three weeks,” said an applications engineer at a factory in Europe.

There is another strategically crucial benefit: slower turnover among sales people in China, where job hopping is a national pastime. Key account managers are precious and losing one can be disastrous in terms of damage to client relationships, access to clients, and so on. A more stable link between China and HQ leaves the Chinese-based sales staff much more satisfied, increasing their loyalty.

A China man can be doubly helpful if a company has more than one factory or product or machine line and needs to align different interests, budgets, targets, and particularities of those factories.

Acquisitions can leave companies grappling with very diverse cultures, with different factories brought together having varying interests and attitudes toward the local market. Some companies can have immense difficulties communicating and dealing with local sales people and local customers. This can create a vicious circle in which the sales team will tend to sell only products for which it can easily get a quotation and not struggle with the communication issues.

There are other complex issues at stake. A Chinese sales manager with filled order books and an aggressive compensation package might earn more than his counterpart back at the factory in Europe, but be at a disadvantage in terms of technical expertise. It falls to the China man to manage the difficult process of transferring knowhow to the local team. As Chinese sales teams grow and customer relations intensify, the local sales people need a greater degree of applications engineering ability. Not every engineer back home in the factory will welcome this. Some companies deliberately withhold training and knowledge from their Chinese sales teams to minimize risks of IPR theft. But the defensive approach is not what the local market needs or wants. These days, Chinese customers require high technological expertise in Mandarin from local sales people (and service people), not from fly-in engineers who charge tremendous travel and accommodation costs. The China man can do just this: Keep transferring knowhow and practical expertise to the local sales people as needed, while remaining in control of the process.

The daunting role of China man is an ideal position for someone wanting to move back to a company’s headquarters later on and climb the corporate ladder. But managing relations between the China man and his colleagues can be tricky. Sometimes, the China man will be the boss of the China sales manager and China GM. Sometimes he will have a deputy role. Interestingly, China GMs and China sales managers we have dealt with actually have welcomed having a China man, as they understood immediately all the benefits of having that position. That is not to downplay the challenges. Some companies do not have the right mindset for a China man and do not give him the authority and trust needed to get things done. There are language and cultural barriers, as well.

## Where to find a China Man?

The foremost challenge is in finding a China man to begin with. We strongly believe such people should come from the home country or region. Taking the job of China man can be a reward for long-time, loyal engineers who enjoy trust within the company and want to wet their feet in international waters. We believe the concept will only work if the China man commits one-third or about half of his time to actually being in China. This will mean five to six China trips a year, each of them three to four weeks, or some longer stays.

What's next? The China man cannot stay forever. As Chinese sales operations become increasingly entwined with overseas factories, in theory, at least, the China man should eventually become redundant. "This will take at least a couple of years, for sure," such a China man tells us.



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**Comprehensive Services:** InterChina supports clients along the sequence of challenges faced when entering or expanding in China, and our 3 specialized consulting practices combine to provide a suite of comprehensive and complementary services:

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- InterChina's Corporate Practice supports our clients establish and expand corporate structures in China.
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