

How to structure a B2B distribution network in China

 **Battaglia
Advisory
Services**

Practice document

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Different options in terms of presence

A wide range of options are available to enter the market combining role and depth of the presence

	Direct management	With local partners
No direct presence	Handle clients from headquarters (export)	Market management mandated to a local partner (with distribution agreement)
Direct sales presence	Establish a presence in China to manage directly the market through	Joint management of the market
Direct sales and manufacturing presence	Directly managed wholly owned manufacturing facility	Jointly owned manufacturing facility

Pros and cons of different options

Each option having specific pros and cons different options are suited to different situations

	Direct management		With local partner	
	Pros	Cons	Pros	Cons
No direct presence	<ul style="list-style-type: none"> - Almost no investment required - Indicated for low volumes but with high margins 	<ul style="list-style-type: none"> - Need to carefully control travel costs - Difficult to establish a long term relationship - After sales assistance (if required) shall be mandated to a 3rd party 	<ul style="list-style-type: none"> - If the partner is well selected it can give rapid access to a distribution network 	<ul style="list-style-type: none"> - Margin sharing - Does not allow to acquire knowledge of the market - Difficult to then move to a direct presence without jeopardizing the relationship
Direct sales presence	<ul style="list-style-type: none"> - Full control of the market (sales and after sales) - Indicated for large volumes and for very technical sales 	<ul style="list-style-type: none"> - Internal human resources are key to succeed - Need to carefully control costs of the initiative 	<ul style="list-style-type: none"> - Can help for difficult sales (e.g. particularly suited, if not needed, when the government is a main counterpart) 	<ul style="list-style-type: none"> - Margin sharing - Chinese partners often difficult to manage (roles should be very clear since the beginning)
Direct sales and manufacturing presence	<ul style="list-style-type: none"> - Direct control on the investments - Mandatory when the company has a specific know-how (process / technology) 	<ul style="list-style-type: none"> - Need for internal resources (HR and finance) - Foreign companies often have higher costs than purely local companies 	<ul style="list-style-type: none"> - Easier management of administrative and authorization processes - Lower need for resources (HR, capital) 	<ul style="list-style-type: none"> - Margin sharing - Chinese partners often difficult to manage (roles should be very clear since the beginning)

Major decisions for different options

Since moving from one model to the other can present some constraints, it is better to invest in analyzing options and planning in advance

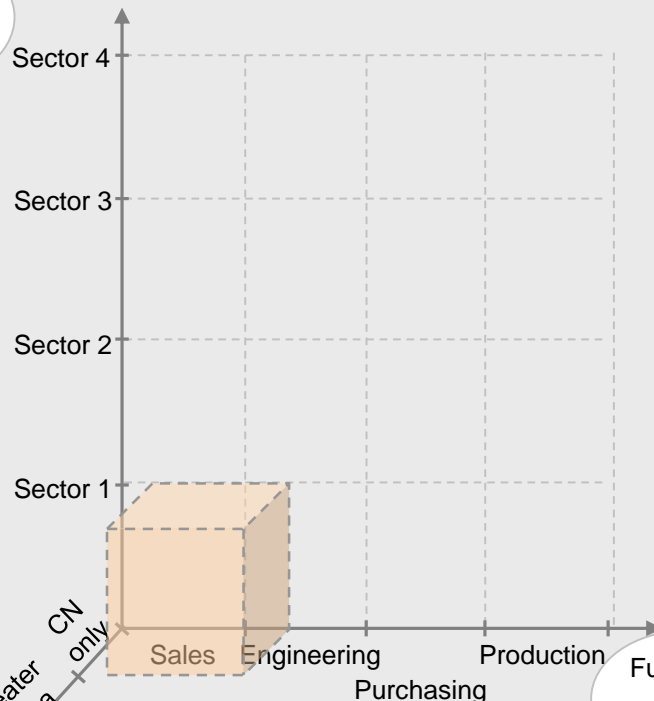
Direct presence: Key decisions

The depth of the presence shall be carefully analyzed and decided since the beginning

Local partner: Key decisions

The role requested to the local partner shall be carefully analyzed and negotiated since the beginning

Sectors to be addressed



Functions to be localized

Geographical scope

- What role to assign to the partner?
- Which characteristics / profile of the ideal partner?
- Which assets should the partner bring to the partnership?
- One partner for all of China or several partnerships targeted per industry / segment / geography?
- ...

Major issues to be addressed to build a sales network in China

Manage complexity

- The market economy in China is still relatively young
- The economy has been growing exponentially in the last years
- During the last 10 years regulations changed many time

The structure of the market is often complex

Define geographical reach

- The county is very large
- Very big differences across different regions
- Very big differences between rural and urban areas

It is key to avoid dispersing the efforts

Select scope of activities

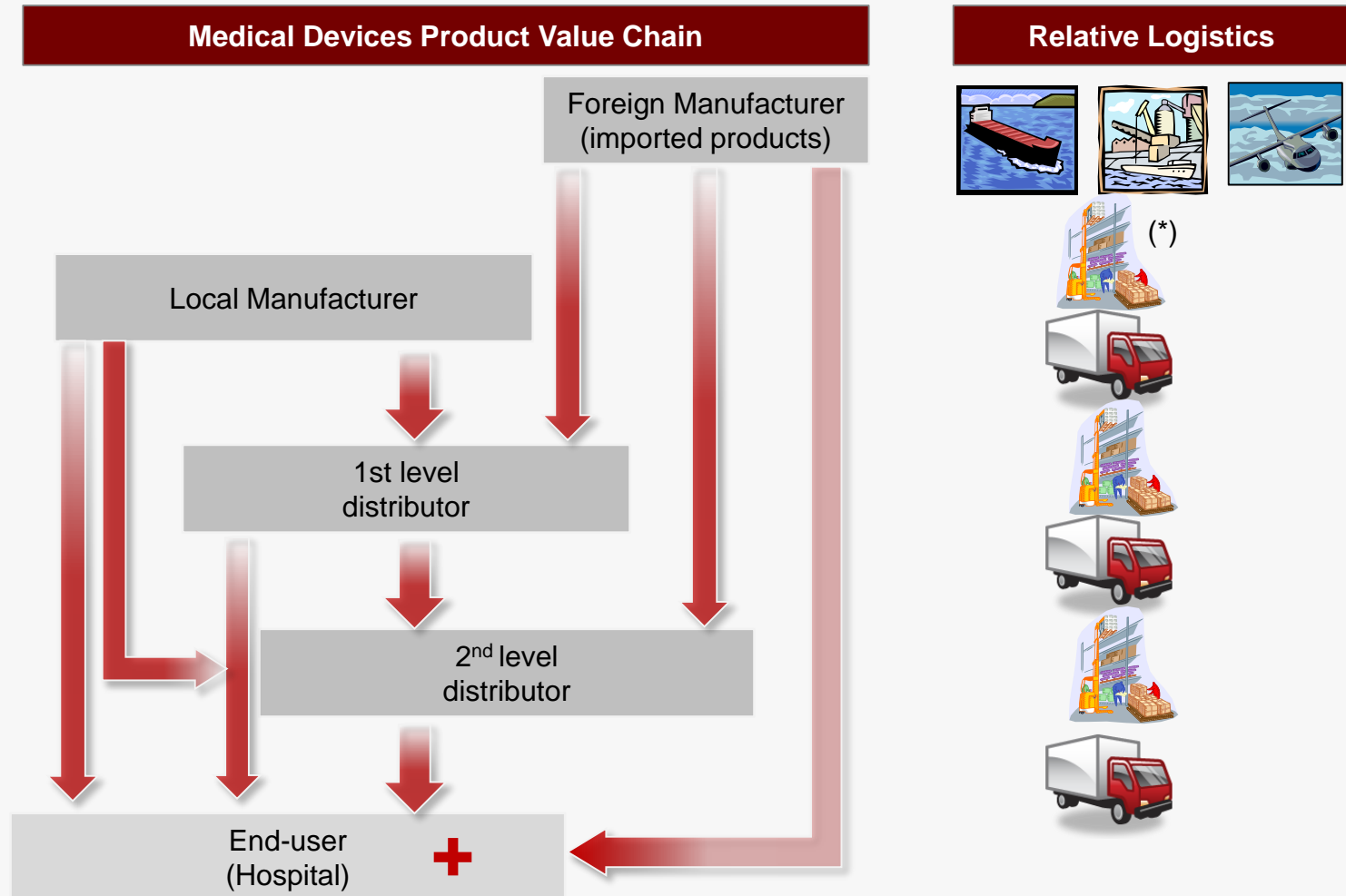
- Locally based sales resources
- Depth of control on the network
- After sales
- Local stock

It is key to well manage a distant market

Manage complexity: chaotic distribution structure

The Medical Devices case

Real example from a project



Source: Project example

Define geographical reach: Wide coverage network

Real case in the Medical Devices sector

Before

One single distributor for all of China

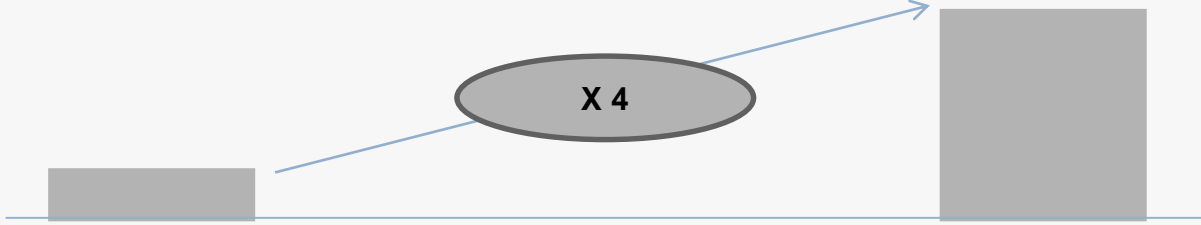


After

The company is developing a network of distributors, granting them exclusivity on their province

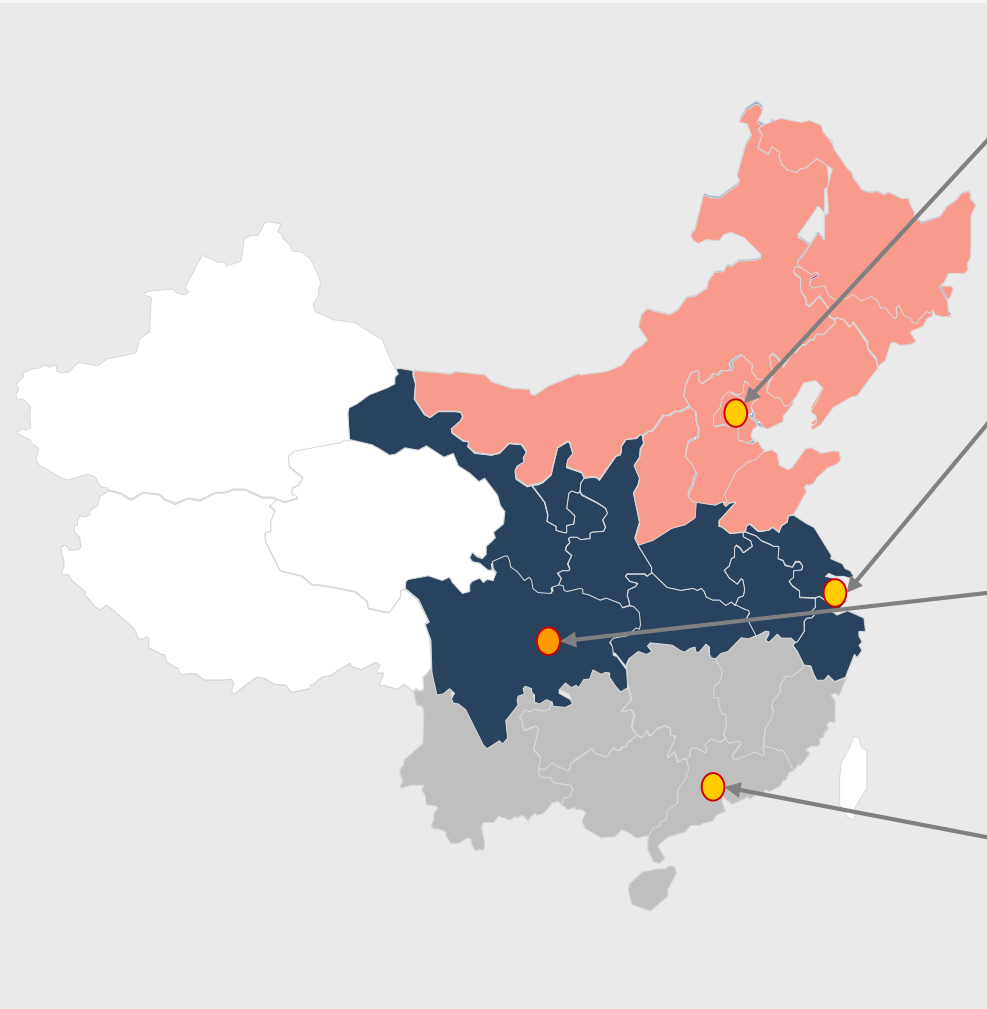


Sales



Define geographical reach: concentrated networks

Real case in the Appliances market

Major areas	Regional distributors	Proposed solution
	<p>North</p> <p>To be identified & selected...</p>	<ul style="list-style-type: none"> - Represent ~20% of the market - None of current distributors is strong in this area
	<p>East</p> <p>Company A (confidential)</p>	<ul style="list-style-type: none"> - A is a loyal partner and is strong in the area - We cannot afford to loose its sales
	<p>West</p> <p>Decide if needed, then select</p>	<ul style="list-style-type: none"> - 2 major cities where demand may increase in the region in near future - Difficult to serve without a direct presence
	<p>South</p> <p>Company B (confidential)</p>	<ul style="list-style-type: none"> - B is strong in the area - We cannot afford to jeopardize the relationship (also because of HK and Macau)

Select scope of activities

Selecting the right scope of activities we want to perform is key to then manage the network

- What need for internal key resources?
 - Control
 - Coaching
 - Direct involvement in sales process
- How many distributors layers we want to control?
 - None
 - 1st level distributors
 - 2nd level distributors
- How strategic are after sales services?
 - No
 - Yes but can be performed by 3rd parties
 - Yes and it needs to be performed by us
- How strategic is shorten the lead time with a local stock?
 - No
 - Yes but can be performed by 3rd parties
 - Yes and it needs to be performed by us

Capturing the opportunity

The Chinese market can offer huge opportunities but needs to be approached with method

Carefully assess your strengths

- Italian companies often have some very strong points but it is important to verify whether they make a real difference in the specific situation

Size and understand your target

- For many products the market as a whole can be very large but the space for premium products is often smaller than what expected
- It is key to dedicate enough time to understand what the market asks for

Adapt products to the market

- There are few so called “global products”
- Adapting products to local needs can open the opportunity to a completely different size

Adapt to the Chinese way of doing business

- Yes, there are some rules ... but do not over estimate ... nobody really expects you to know them deeply