

# The 2007 AmCham Shanghai China Trends Conference

## *China Trends & Implications to Strategy*

*Presented on June 8, 2007*

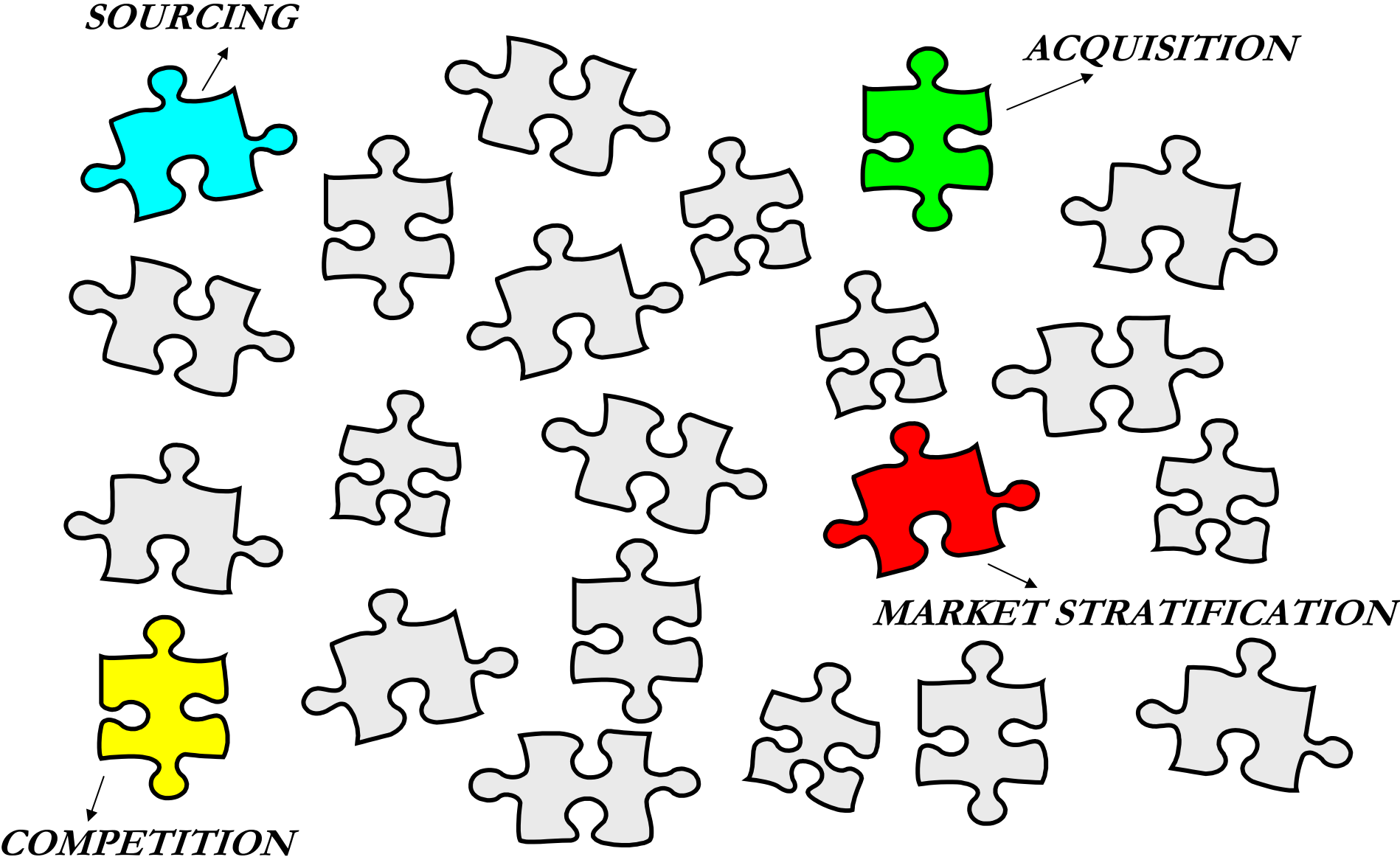
*By*

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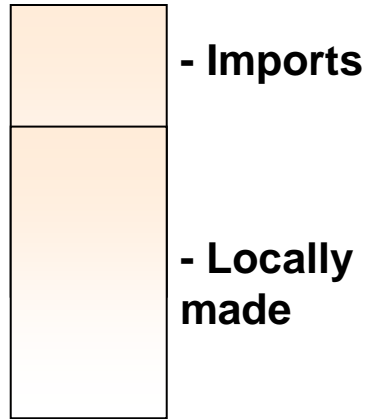
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# Pieces to the Business Case Puzzle



# Market stratification

## Old Price Structure...

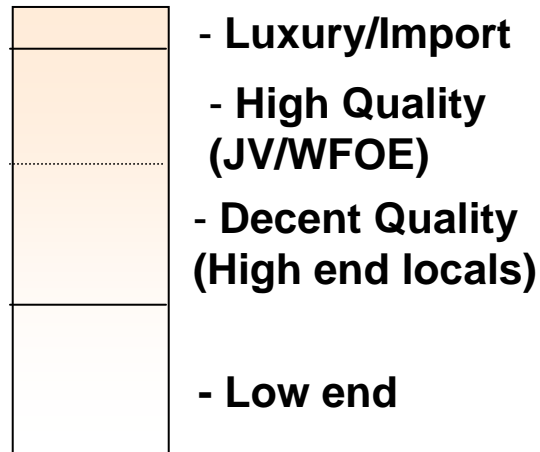


Price Index

300

50-75

## New price structure...



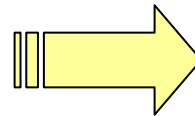
Price Index

300

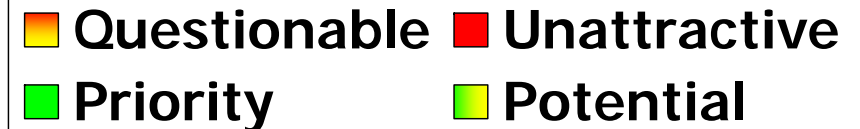
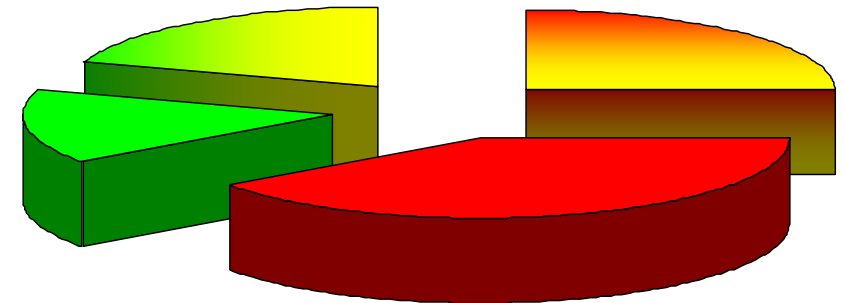
175

125-140

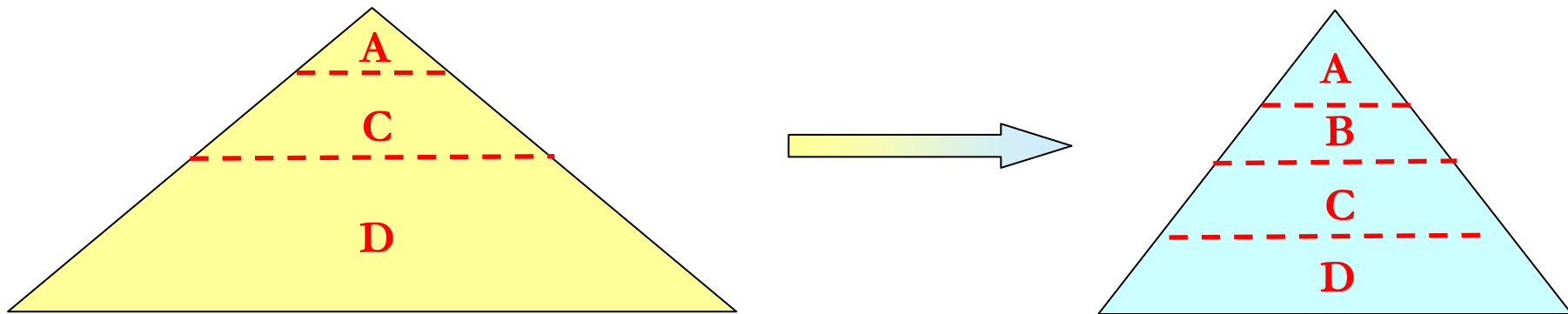
50-100



## Addressable Market "Pie"



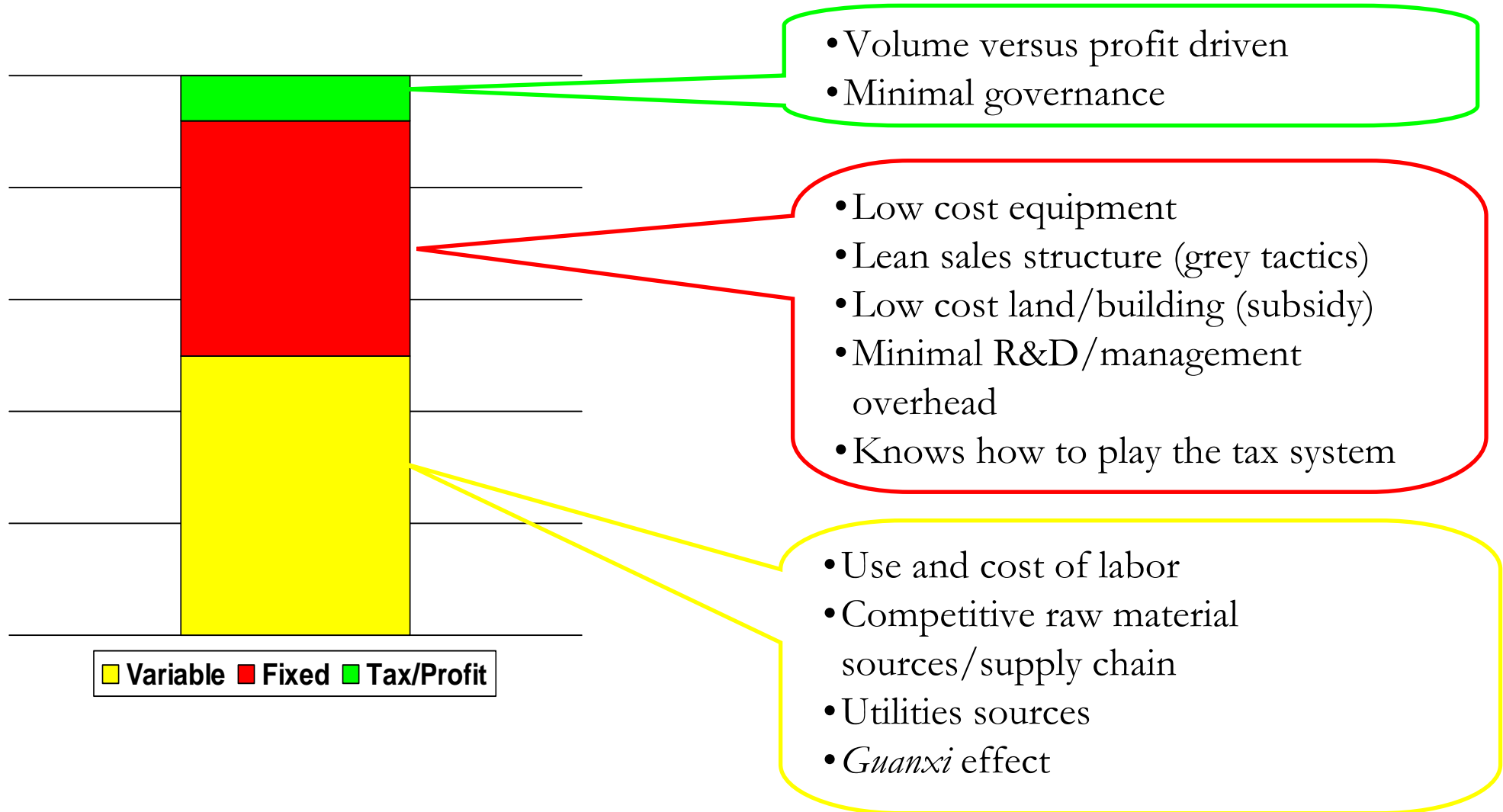
# Changing Supply Structure



Tier	Old Structure	Current/Evolving
<b>A</b>	<ul style="list-style-type: none"> <li>• Importers</li> <li>• Few FIEs</li> </ul>	<ul style="list-style-type: none"> <li>• Many FIEs</li> <li>• Contracting number of importers</li> </ul>
<b>B</b>		<ul style="list-style-type: none"> <li>• Several locals have emerged</li> <li>• Gap significantly reduced with “A” tier</li> </ul>
<b>C</b>	<ul style="list-style-type: none"> <li>• Selected local players</li> <li>• Offer low end but decent alternative to foreign suppliers</li> </ul>	<ul style="list-style-type: none"> <li>• Can be many players</li> <li>• Clear gap with top tier local suppliers</li> </ul>
<b>D</b>	<ul style="list-style-type: none"> <li>• Hundreds of locals</li> <li>• Very low end/junk</li> </ul>	<ul style="list-style-type: none"> <li>• Still many but consolidating / disappearing</li> <li>• Serve lowest end market segments</li> </ul>

# Being Cost Competitive

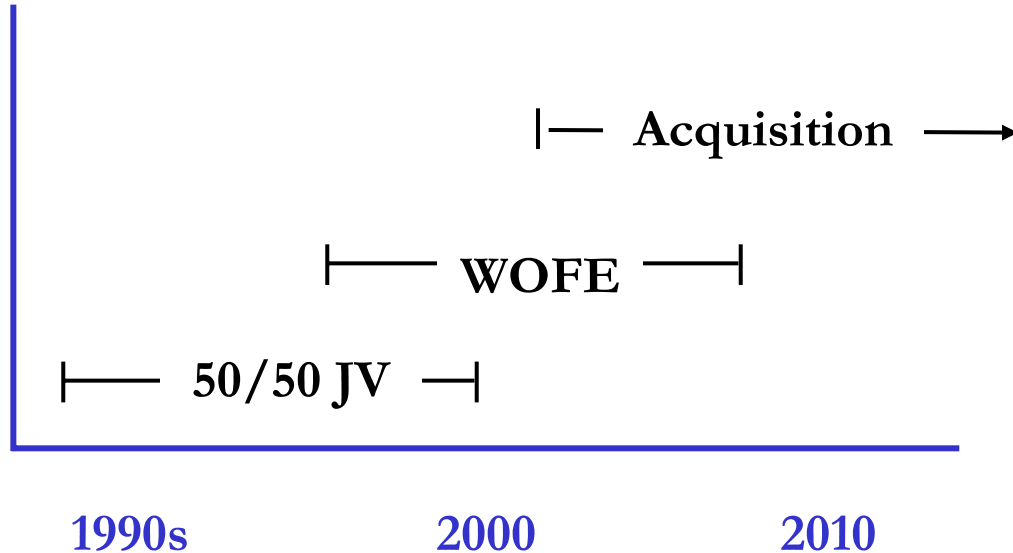
## Cost advantages of local Chinese firms...



# Creative Acquisition Strategies

The problems in the “early days” of the JV are leading to altered strategies today...

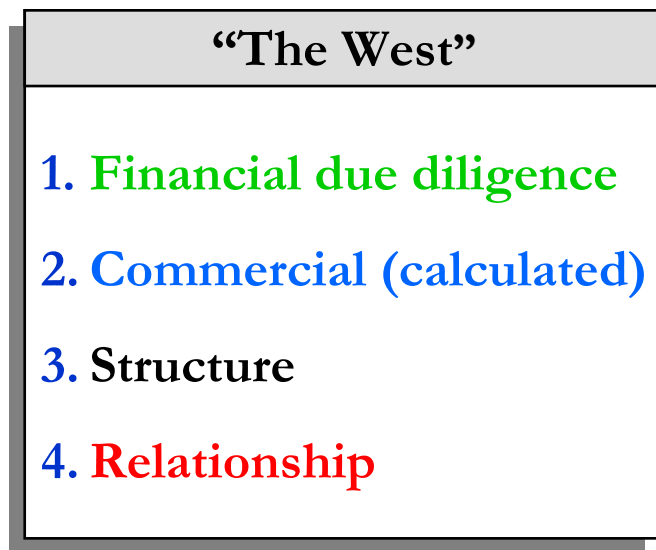
## What went wrong...?



- A “snapshot” view of market dynamics and structure
- Too casual an attitude toward partner qualification
- Poor understanding of value chain dynamics and their importance
- Poor financial planning
- Structure before strategy
- In general, most ignored the “6 D’s”

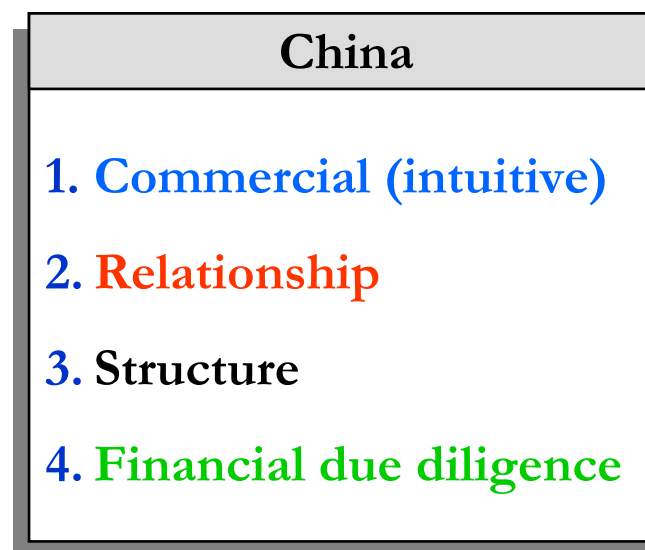
# Cultivating the Deal – Buyer and Seller Motivations

China sellers typically often have a different *paradigm* in developing a deal...



Everything flows from  
*financials...*

VS.



Everything flows from  
*relationships...*

## Types of Sellers

- *Unsuspecting*
- *Inexperienced*
- *Resistant*
- *Desperate*

## Moving to strategic sourcing...

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### Key Drivers

- Chinese suppliers extending out to West
- Big customers in West setting up direct sourcing in China
- Middle man “getting squeezed”

# Moving to strategic sourcing...

Feature	OEM	ODM	EQUITY
Flexibility	High		Low
Control	Low		High
Quality assurance	Limited		Optimal
IP protection	Limited		Optimal
Exclusivity	Difficult		Assumed
Complexity to manage	Low		High
Competency exchange	Limited		Optimal
Relationship Style	Vendor		Partner

Green implies strength, red weakness and black neutral

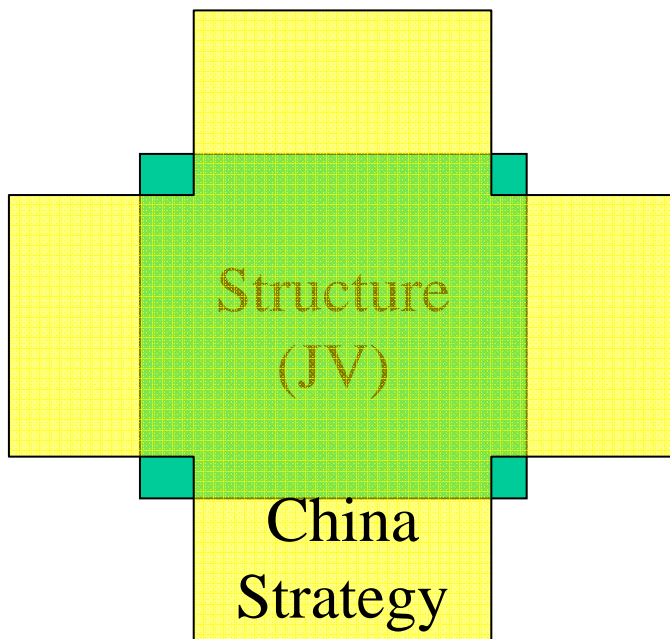
## Take-aways

Trend	Take-away
<i>Market Stratification</i>	<ul style="list-style-type: none"><li>• Do quality market research</li><li>• Identify your addressable market</li><li>• Align value proposition</li></ul>
<i>Shifts in Competitive Structure</i>	<ul style="list-style-type: none"><li>• Know your competition</li><li>• Optimize your costs</li><li>• China-fy your localization strategy</li></ul>
<i>Increasing Acquisitions</i>	<ul style="list-style-type: none"><li>• Strategy leads structure...be creative</li><li>• Adjust your acquisition process (relationships)</li><li>• Observe the 6 Ds</li></ul>
<i>Moves to Strategic Sourcing</i>	<ul style="list-style-type: none"><li>• Define your strategic intent</li><li>• Think long-term</li><li>• Localize as needed</li></ul>

*In China, everything is possible, but nothing is easy!*

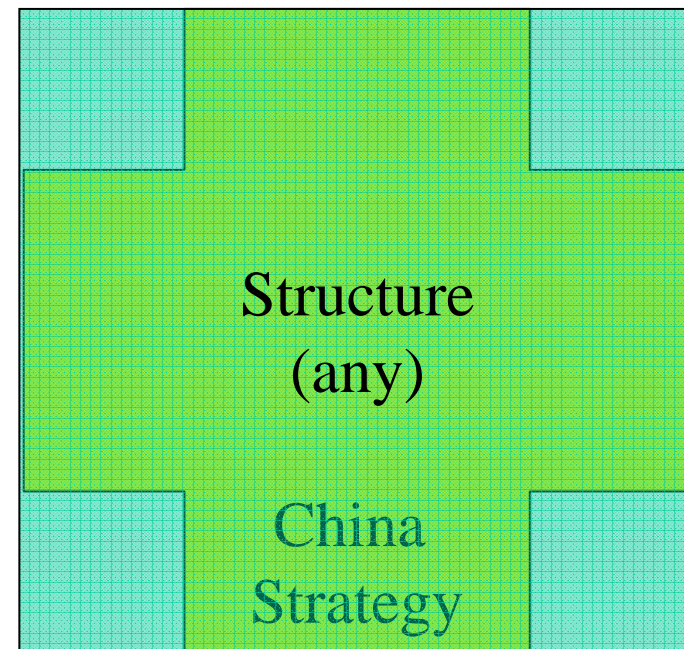
# Strategy Must Lead Structure

In the past...



*Force-fit the strategy to the structure*

Today...



*Find the structure to fit the strategy*