

THE BUSINESS JOURNAL

MINNEAPOLIS • ST. PAUL

OPINION

From the November 4, 2005 print edition

Guest Opinion

Is your business China-ready?

[Kent D. Kedl](#)

For some reason, I have this recurring flashback: I'm in kindergarten, in Roseville, and my best friend, Mark Anderson, and I are in his backyard with shovels in our hands and a 2-foot-deep hole in front of us. Mark pauses, leans on his shovel and says, "You know, if you dig a hole straight down from here, you'll get to China." Sure enough, I go home, find Minnesota on a globe, and draw an imaginary line through the center of the earth -- arriving smack-dab in the middle of China. I sit back and ponder, in my 6-year-old imagination, what it would be like to go to China.

On Nov. 11, Gov. Pawlenty will lead a delegation of Minnesota business leaders on a trade mission to China. Sure enough, every company executive will have the same question in mind: How do I get my business to China? Unfortunately, it's more complicated than digging a hole.

Interest in China among the U.S. business community is at an all-time high as China emerges as a key center for global business activity -- for small businesses and Fortune 500 companies alike. In my time, I've learned that, before companies explore "how," they should first consider "why": Why should my company even consider a China strategy? Once you know "why," the options for "how" become much clearer. Research and experience leave me thinking in terms of five fundamental motivations for U.S. companies to look at deeper China play:

1. Customer pull: A telecommunications equipment manufacturer I've worked with heard from a large multinational customer that the manufacturer needed to supply this customer from within China in 12 months or lose that business. Talk about a motivation.

Many Minnesota companies -- particularly small and midsized ones -- are facing this exact challenge as they see their industries' value chains moving to China. They can either move with those value chains or stand on the shore and wave goodbye.

2. New market opportunities: I was talking to a St. Paul-based manufacturer recently about new growth opportunities, and he was saying that his company could not even quote on much of the new business

because the new growth was all in China. Similarly, you may have to consider reaching out to those new markets in China to maintain your company's growing edge.

3. **Competitive threat:** If your international competitors have responded to the first two motivations, they have a leg up on you. If they haven't, local Chinese competition has responded and is getting stronger -- and will soon be looking to the United States for their own growth. It's almost guaranteed that you have competition in or from China, and you must understand the competition's capabilities in order to know how to respond.

4. **Cost savings:** An early motivation for many companies was China's low-cost manufacturing capabilities, either to reduce product costs and retain market share or to protect margin in the face of cost-down pressures. While this is still important to consider, cost savings cannot be the only motivation. You still need to grow your top line by gaining customers.

5. **Shareholder push:** Maybe you have a board member who's really hot on China, or your CEO just visited and is saying, "We have to get into China before it's too late!" Some might have the opposite problem: A Minnesota company I worked with has a board member who had a deal go south in China 10 years ago and is now dead-set against doing anything there. Getting support from your shareholders is important, but you have to qualify the opportunities according to the first four motivations.

How does your firm line up against these motivations? Probably, more than one has significance for you. Once you know why you're considering China, you have several sales, distribution and manufacturing options open for the how part, either through a China partner or on your own. If you don't know why you want to do business in China, or how you'll do it, you may find yourself digging a deep hole and wonder why it's getting so hot in here.

Kent D. Kedl, executive director for international strategy consultancy Technomic Asia, is co-author of The China Ready Company and its online counterpart, www.ChinaReadyCompany.com. He can be reached at kkedl@technomicasia.com.

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