

International



How I Cracked the China Market

Hundreds of larger U.S. manufacturers have made significant investments in China, mostly to better serve the vast Asian market. Today, many small and mid-sized manufacturers (SMMs) are entering the market. Here's how several SMMs members of the National Association of Manufacturers have made their move.

by Robert Sberna

Those who set their sights on doing business in China face a weighty risk-reward proposition. While the payoffs can be enormous, U.S. manufacturers can face a dizzying array of challenges, including cultural barriers, difficulties in setting up distribution channels and fierce competition from Chinese firms. Piracy of intellectual property is common — with little recourse for the victimized companies. Western businesspeople often report that China's regulatory environment is enforced arbitrarily and tends to protect the interests of Chinese companies.

Nevertheless, a growing number of SMMs have cracked the China market. Here's their story.

A careful strategy

Over the past 20 years, Behlen Mfg. Co., a Columbus, Neb.-based NAM member firm, has successfully marketed its metal buildings, grain dryers and bins to China — both as an exporter and as an in-country

manufacturer.

In 2003, Behlen partnered with Chinese businesspeople to construct a manufacturing facility in northwest Beijing, where they produce metal buildings that serve a wide range of applications, including warehouses, schools and offices.

"Since the mid-1980s, we had been exporting to China," says Behlen's CEO Tony Raimondo. "But in the late 1990s, our American competitors went to China and set up operations to produce metal buildings. We started losing customers, so my Chinese partners encouraged me to start a new plant with new machinery to manufacture our products."

Behlen, which employs 1,000 and sells its products in 70 countries, had sales of \$15 million in China last year. Raimondo expects that figure to rise to \$60 million over the next three to five years, noting that the firm's annual sales are about \$180 million (not including China). "Our joint venture in China is unique because I was able to get my Chinese partners to put their cash in the deal, while we contribute the technology and the management," he says, adding that Behlen is in the process of moving to a majority ownership.

Raimondo explains that Behlen's strategy in China — and elsewhere — is to always look for opportunities but guard against the downside. "We protected ourselves by having our partners put in cash," he notes.

"A wonderful market"

Leon Trammel, CEO of Tramco, Inc., has been exporting grain conveyor systems to China since 1988. Estimating that more than 1,000 of his firm's conveyors are in operation throughout China, he says the country has accounted for about half of Tramco's revenues in recent years.

"China has been a wonderful market for me," says Trammel, who founded Tramco in 1967 and now sells products to 52 countries. "I've never lost a penny in China, and I've never had any problems. When I tell that to people who have done business in China, they are amazed."

NAM member Tramco employs about 100 at its headquarters in Wichita, Kan., and another 20 at a facility in England. The firm produces equipment that is primarily used in grain-processing facilities. Trammel says he first traveled to China as part of a trade mission organized by the Kansas governor's office.

"When I'm marketing to China, I go directly to the end-users," he explains. "I visit the companies that are building processing plants there, whether they are Japanese, Indonesian or American. Those are the guys

who buy grain, and process and sell it locally. I follow those guys in.”

When asked if he’s concerned that his technology will be copied, Trammel says, “Someone could come in and copy my machines exactly, but they won’t know why they did it. All of my machines are engineered for a specific application.”

He adds that theft of intellectual property can take place in any country. “Tramco’s machinery is recognized as probably the best in the world, both in quality and application,” Trammel says. “Most processing plants run 24 hours a day, 365 days a year. They don’t want their conveyors breaking down in the middle of the night. Downtime costs \$5,000 to \$10,000 per hour, so they need dependable equipment. That’s where Tramco comes in. We have a reputation for reliability.”

Land of opportunity

China’s continuing economic development has spurred a dramatic need for infrastructure. Construction is booming — as is demand for building materials. Two years ago, analysts estimated that China consumed one-half of the world’s cement, one-third of the steel and one-quarter of the copper and aluminum. Kendig Kneen, CEO and owner of Al-jon, Inc., of Ottumwa, Iowa, visited China recently as part of a trade mission sponsored by the NAM and the U.S. Department of Commerce. Al-jon, a 105-employee NAM member, builds machinery for handling scrap metal and solid waste, such as car crushers, landfill compactors and scrap bailers. “China’s appetite for infrastructure requires massive amounts of steel, most of which is being imported,” says Kneen. He notes that the country will eventually recycle its own scrap supplies to produce steel. “In Beijing, we’re seeing that 9,000 cars a day are sold. It’s only a matter of time before they are scrapped out. We want to be involved in that process.”

Kneen also sees a niche for his equipment in China’s nascent solid waste-disposal industry. “If you were to look out your window, everything you see will turn into one of two things: scrap or solid waste,” he says. While the Chinese government has not yet mandated solid waste-disposal and landfill regulations, Kneen explains, “When you have 1.3 billion people, it’s only a matter of time before you have a more consuming society and have to deal with those problems. China is still incinerating their waste, but eventually they will have to use landfills.”

He says that China’s waste-disposal problems have resulted in various environmental problems, including severe water pollution. “I’ve seen people fishing in water that you wouldn’t want to put your hand in,” he says. “The government will need to pay attention to these issues.”

Al-jon's China strategy is focused on exporting U.S.-manufactured equipment to end-users. "We've started to contact potential customers," says Kneen. "But right now, the process is in its infancy. We're currently looking at how to best market our products."

Like Al-jon, the Walex Products Co. of Wilmington, N.C., sees enormous opportunity in China but is awaiting government regulations that could create an instantaneous market for its products. The NAM member firm develops chemical formulations that are used to sanitize and deodorize toilets and lavatories.

Robert Williams, director of Walex, envisions widespread use of his products in China's trains and other public transportation vehicles, and in portable toilets on construction sites. "But at this point, the Chinese government does not require that type of thing, so there is not a demand right now," he says. "In the United States, for example, we require portable toilets on construction jobs. But if you go to Shanghai, stand in one spot and then turn in a 360-degree circle, you'll see 20 skyscrapers going up. The amount of construction is amazing, and all of the workers on those high-rises don't have toilets. They basically just dig a hole in the ground. When the government gets a handle on this problem and regulates it, the need and demand for our chemicals could go from nothing to huge."

Walex is one of the largest manufacturers of specialty sanitation products in the United States, notes Williams, who founded the firm 18 years ago with his son. "We're keeping tabs on how the Chinese government is moving to regulate this situation," he says, estimating that entry into the China market could potentially quadruple his firm's annual sales.

Keys to unlocking China

Kneen has this advice for China-bound manufacturers: Work with federal and state agencies and other

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institutions that can help cut through the bureaucratic red tape of international trading. In his case, the U.S. Department of Commerce was a valuable resource. "The Department of Commerce scheduled

interviews with prospective customers in China, set us up with interpreters over there and arranged transportation. Without their help, it would have taken me several weeks to figure out all that myself. Working through the Department of Commerce is like having an in-house trade organization."

Williams says that partnering with a Chinese national or Chinese-American can help open doors. However, he says it's important to tread carefully when forming a joint venture in China. "Their government encourages these relationships, but it may be difficult to protect your proprietary technology if you're in a joint venture," he explains. "You have to be cautious with your technology or it won't be long before six other companies are copying your product. I would say that the Chinese government is not doing much right now to safeguard the intellectual property of foreign companies."

While Raimondo agrees that joint ventures can increase vulnerability to technology theft, he notes that the Chinese people are starting to get the proper focus on intellectual property rights. "It's important that you take enough time to really get to know your prospective partners," he says. "You have to be patient. The Chinese are better at that than we are. It helps to bring your partners to the United States so they can understand your needs and goals."

Cracking the China market requires considerable effort, time and expense, as well as unusual commercial risks. Is it worth it? "Absolutely," says Kneen. "If you're interested in exporting products, you can't overlook a country that has 1.3 billion people."

Additional Resources • Contact the Foreign Commercial Service (FCS) officer on duty at the NAM at (202) 637-3149.

- Visit the NAM's Exporting Web Page at www.nam.org/exporting
- Or visit the FCS resource center at www.export.gov

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