

CHINA

A Market Entry Brief

Getting Started in China



**Connecting Western Firms to
Chinese Clients and Trusted Partners**



LET'S GET STARTED!

Are you a Western firm contemplating expanding your
Automotive business into China?

Have you made forays into China and run into
difficulty?

Are you a Chinese firm seeking Western technology,
products or partnerships?

We can help!

Raineight has over nine years of experience building new businesses in China from nothing primarily in the Automotive and Automotive Electronics markets and over 20 years experience in the global Automotive business.

China may seem daunting. Indeed there are many pitfalls as any established firm will tell you, but these are well understood and easily avoidable if you know what to look for!

HOW WE CAN HELP

Raineight can help you with:

- Market Exploration
- Understanding China's 5-Year Plan
- Sharp China Strategy Development
- Building New Relationships
- Sales/Business Development
- Developing Resale Partners or Distributors
- Localized MarCom
- Local Technical Support
- Import/Export Service
- Invoicing and Currency
- Establishing Footprint
- Temporary Business Services
- Recruiting New Qualified Staff
- Legal Basis for Hiring and Paying Staff
- Temporary Office Space
- Joint Venture Identification and Negotiation
- Manufacturing (Contract, Partnership, Incubation or Owned)
- Manufacturing Finance
- Operational Audits
- Legal Entity Formation
- General Legal Help

Market Exploration

If you are interested in early, general market exploration to help you gauge your opportunities for success in China, we can help.

This is the starting point for many firms in their journey into this exciting and productive market. We can assist you in identifying key touch-points, potential customers, as well as various types of partners. We can conduct initial explorations with local entities and report back our findings.

If these findings are positive in your view, we can arrange initial meetings to assist you in starting business development efforts and for full execution of the critical relationship-building step.

Understanding China's 5-Year Plan

Every five years China produces a national 5-year plan. This not just a “piece of paper” but rather a powerful document that guides the strategic direction of most major industries in the country.

It is important to understand the contents of this plan and the opportunities available to you for competitive advantage as a result of the plan. Understanding the implications of the plan for your China business model is critical to optimise your success in China.

In addition to helping you localize your strategy, we can assist you in incorporating elements aligned with the 5-year plan that will enhance your China results.

Sharp China Strategy Development

China is different. Different strategies are required.

Your brand value is one of your most valuable assets. But to deploy your brand value into China, certain adjustments are almost always required so that your value proposition is more attractive to Chinese clients



than your competitors'. One example is that Chinese clients will almost always favor commitment and long-term relationships over other details of your offer. This preference is a much more dominant force than in the West.

We can assist you in sharpening and refining your Western strategy and develop a clear China-mission to fit the unique requirements for success in China.

Building New Relationships

No single factor is more important in China than successful relationship-building. This does not happen over a couple of lunches. It requires time and genuine effort. Building strong relations in China can take years but are then extremely rewarding.

Over 200 years of mostly negative experience with foreign companies has led firms in China to deeply distrust outsiders. An additional 2,000 years of Confucian culture reinforces the value of relationships.

One key factor for new market entrants into China to deeply understand is that these critically important relationships are “personal” – in other words, people-to-people, not business-to-business. Very often, relationship factors will carry the day in China even if a competitor is offering a modestly superior product/service. A modestly superior business offer will rarely win-out in China over a strong relationship.

One way to fast-start and shorten the lengthy relationship-building process, to a high degree, is to rely on the relationships of existing partners. Rain8 brings you direct relationship to multiple individuals in over 300 Automotive organizations. In addition to the direct relations we maintain, our direct network will likewise often share their relationships with us, allowing us to leverage their referrals and expand to key firms and people you need to know.

We can touch the majority of Automotive firms in China, especially in Automotive Electronics.

Sales and Business Development

Rain8 is connected to over 300 Automotive OEM and Tier 1/2 firms in China. We are happy to leverage our connections to help you start the lead and opportunity development process so that you may close opportunities much faster than normal.

We can handle business development directly on a temporary or in any collaborative way that works best for your situation. One of our strengths is taking full responsibility, as part of your team, for your initial business development activities. We are fully familiar with cloud-based tools such as Asana and Salesforce allowing us to collaborate seamlessly across time-zones with your team.

Developing Resale Partners or Distributors

Resale or distribution partners are critical to most small starting businesses in China. These partners know how things work and are often willing to assist in many areas including maintaining extensive relationship networks that are most important to your success. Some can be trusted - some cannot. All must be closely managed. We can guide you and assist your evaluation and provide management of these partners for as long as you require.

Localized MarCom

A key mistake many early-China-market-entrant firms make is not localizing their marketing communications (brochures, flyers, website etc.) soon enough. This can create a credibility gap.

While quite a few junior and mid-level engineers and managers in China are able to read Western languages, and a few are able to speak them, most senior managers in China do not read or speak Western languages.

Additionally, localizing MarCom materials demonstrates a higher level of commitment to the market to which most senior Chinese managers are very alert.

After Market Exploration and after a decision has been made to engage the market, careful consideration should be given to localizing all relevant MarCom materials.

Our MarCom team has about 15 years experience in local markets including localization services experience with prestigious firms such as Apple. We can provide you all the necessary services to localize or develop new MarCom including search-engine optimization, search-engine-marketing, social media marketing, design, translation, site localization and maintenance, and trade-show/ events management.

Local Technical Support

Local technical support is highly valued by most local Chinese firms. Rarely will they work with foreign firms without a local technical support footprint.

Rain8 currently maintains relations with multiple firms, especially in Automotive Electronics who are willing to partner with you to provide initial technical support and who have a demonstrated track-record of success with this temporary solution.

Import/Export Service

Import/Export requires several types of licenses that are issued by commodity-type. We maintain a wide range of licenses allowing us to import, export, inventory, and distribute products.

In case we do not already possess the licenses required for your commodity category, we will procure them.

Invoicing and Currency Management

If you have not yet formed a legal entity and committed to local Finance staff, you will need a basis for transacting business. A few larger clients in China can transact business in foreign currency, in which case, you don't have a problem. Most local firms however will only transact business in local currency. In this case you need a solution. We have multiple solutions for this challenge, depending upon the specific circumstances and can manage all aspects of local financial requirements.

Establishing Footprint

It is important in China to be seen as committed.

Having a great product and great success in the West has less influence on Chinese decision-makers than in the West. One of the first questions you will often hear is, "Do you have business **in China?**" By this question the client is trying to measure whether others trust you or not.

If you have no current business in China, a critical step required is to demonstrate commitment by

having a proper footprint. This can be as simple as having an office address, some level of staff and some level of in-country management to help speak on a daily basis on behalf of headquarters.

We can assist you with all of the above including temporary management and business development while you build sufficient comfort in the market to begin making larger commitments.

Temporary Business Services

A variety of temporary business services ranging from HR to Finance are required to get a good start in China. We can arrange all of the required business back-office services you require at costs and risks lower than hiring in China.

Recruiting New Qualified Staff

Finding qualified staff in China can be challenging. Most industries are relatively new to China, thus the pool of qualified staff may be limited.

We know the people; the “people who know the people” and can help you.

Legal Basis for Hiring and Paying Staff

When you are ready to add staff but are not ready to form a legal entity in China, you will need a legal basis for hiring and administering your new staff. We can provide these services for you.

Temporary Office Space

At some point you will need some short-term office space. There are a variety of providers for these services. Some over-commit and under-deliver, while others are superb. We have our own shared space and are familiar with most of the third-party providers. We will guide you to the solution that best meet your needs.

Our own locations for office space include Shanghai, Beijing and Guangzhou.

Joint Venture Identification and Negotiation

Many firms in China are seeking various types of partnership with Western technology firms. We understand how to identify these potential partners, how to guide your relationship-building and how to assist you in negotiations.

Manufacturing (Incubation, Contract, Partnership or Owned Operations)

Incubation

When you are ready to start your own operations, our incubator plant is a logical first step for many firms. In our 20,000 square meter incubator plant we can provide you with production units as small as 100 square meters (about 1,100 square feet) up to thousands of square meters. We can additionally recruit and hire for you all operations personnel from operators to general management.

Our incubator program relieves you of:

- Government relations
- Business license and company registration
- Staff management
- HR functions
- Equipment purchase
- Production management and monitoring
- Daily bookkeeping and financial reporting
- General administration and IT

We will manage (in collaboration with you to the level you desire) incoming and outgoing logistics, quality, licenses, legal, import/export, currency and so on.

Each client receives dedicated operational space and secured, dedicated inventory space. We often conduct sophisticated build-outs to meet clients' precise requirements including demanding environments that may be required by regulations or clients' own standards such as for the medical equipment industry, food supplement industry, semiconductor industry and electronics industry.



In most cases we assist clients by recruiting operations management, line managers and operators. In many cases clients may not require the full-time services of certain job functions required to operate. In these cases we can often share our own professional staff covering functions such as Purchasing, Quality, IT, HR, Financial Accounting, and General Management.

After build-out is complete and before operations start, our Quality Department team assists clients in all aspects of obtaining any industry certifications required, including all ISO and many other industry certifications, and can assist in full quality audits.

Finally, our incubator operates with full transparency to you, allowing you to grow your knowledge and build your experience in how to operate successfully in China. When and if you are ready to step out into your own stand-alone operations, we will assist you in all aspects of this transition to make it as seamless as possible.

Contract

Quality of products from China is a concern for many Western firms. Manufacturing quality in China, especially for business-to-business products provided to Western firms (including safety-critical products), is actually quite mature. This is especially true for Tier 1 suppliers to major

Western OEMs and JVs such as BMW, Mercedes, General Motors, Ford and so on. We can assist you in identifying contract manufacturers that are able to meet all international quality standards.

Partnership

Additionally many potential partners in China are very flexible in their approach, such as being willing to consider simple contract manufacturing to considering full, no-touch types of partnerships in which they provide all logistics, quality, order management etc. We can assist you in identifying trusted manufacturing partners if you require more than a simple contract manufacturing relationship.

Owned Operations

When you are ready to invest in your own operations, we can assist with every step of the process including location identification, leasing, legal entity formation, build-out, equipment fitting, recruiting, start-up quality certifications and audits.

Manufacturing Finance

We maintain excellent local government relations. When you use our Incubation program, we are often able to arrange government grants or low-interest loans to help offset your start-up costs.

We are also often able to arrange private equity funding for manufacturing or even for general business development activities.

Each situation is different and each is evaluated on a case-by-case basis.

Operational Audits

If you have troubled existing operations in China, we are able to conduct full operational audits, provide seasoned interim management if required, and assist in any business recovery required.

Legal Entity Formation

There will come a time when you are ready to commit to legal entity formation. There are many choices from Representative Office, to Joint Venture to Wholly Foreign Owned Entity (WFOE). Each are designed for different purposes and have their strengths and weaknesses depending upon your objectives and your stage of market development in China.

We can guide you through this decision-process and indeed through the entire execution-process of forming a legal entity.

General Legal Help

General legal help is rarely required during the early years in China except perhaps for development of some fairly standard contracts. In case of need, we are able to connect you to highly capable, trusted local firms.

CASE BRIEFS

Case Brief 1

The Background

In 2005 Tracy Crawford, Rain8 CEO, took a full-time assignment with the Automotive business unit (BU) of a leading US-based electronic components manufacturer. The firm maintained three BUs but had decided about 15 year prior to turn the Automotive BU into a cash-cow. At the time, the BU had about USD80MM in annual revenue, one engineer, no US-based sales people, about two sales people in Europe, none in Asia and no new products for most of this 15 year period. During the latter half of this 15-year period, revenue had remained nearly flat at USD80MM.

In the face of increasing competitive intensity, due to the expiration of some of the company's patents, the company reversed the cash-cow decision to make investments to re-make the BU into an innovation/growth enterprise. A trusted and seasoned VP, "Dave," from another BU was assigned who then assembled a team of 5 directors covering Sales, Engineering, Operations, and Marketing. Tracy was recruited as Global Director of Marketing to lead development of a 5-year strategic plan.

The strategic plan development was viewed as a critically important task that would either make or break the goals for the future and was intended to be highly actionable with high levels of accountability and control over the 5-year period. Plan development was spread over 6 months and ultimately involved 14 off-site days for the 6-man management team. After the plan was complete, actions were assigned to Directors, deliverables defined, and time-lines were set.

As the BU had no significant business in Asia (due to licensing agreements under the then-expiring patents), Asia, with primary focus on China, was a big part of the plan for growth. After a few quarterly review cycles, Asia was not making progress. The BU had recruited a couple of

sales people but had established no local management or technical support. In hindsight, this was clearly a recipe for wasting investment.

As a result, Tracy was assigned an additional role as Director Business Development, Asia and was shipped out to China with a budget and close support of the VP and all of the other management team members and especially from the seasoned Global Director of Sales, “Brian,” who had lived for some time in previous roles in Asia.

The Results

Over the course of the 5-year plan period, the BU’s sales approximately doubled with about half of that growth coming from Asia (with China as the largest contributor). Gross margin percent declined slightly due to the fierce competitive intensity that Dave and Brian knew was coming.

At the end of the 5-year period the BU had captured about 90% market-share in China with all local and Western JV OEMs and Tier1 suppliers.

What Were the Keys to Success?

There were several:

Experience in Asia: Dave, Brian, and Tracy had significant prior experience in Asia. They knew what would work and what wouldn’t work. There were few qualms about what was required, and there was no resistance to the significantly different approaches. Indeed, the different approaches were embraced. Management was flexible and adaptable.

Investment: The company made appropriate levels of investment at the right times.

Partners: The BU embraced partners (in this case, traditional distributors) to leverage their starting small position, built up a network of seven distributors and provided them close support.

Strong Footprint: The BU relied on their sister BU for office space. Additionally the company had operations in China for many years prior. Well established services like HR, Finance, and Logistics allowed the BU team to focus almost exclusively on relationship and business development.

Local Technical Support: The BU quickly invested in local engineering resources to engage directly with client technical staffs.

Strategic Patience: The BU faced some local competitors who offered inferior product at lower prices along with certain *incentives* to decision-makers. Not accepting a “China-good-enough” approach since the products were safety-critical, the BU adopted an educational strategy to share with clients why they should purchase the superior product.

Goodwill: Chinese clients expect a certain amount of “free” goodwill. To find a win-win in the face of this environment, the BU developed a strategy to offer free training in the technical field served

by their products and services.

As there is often high turn-over of staff in China, and training of the constant in-flow of junior staff is a challenge for local firms, this offer was warmly embraced. The benefit to the BU was that their local engineering staffs responsible for the training formed close relations with all the clients' new junior staff. Whenever a client staff member had a problem, they called the BU's trainer, thus connecting the sales and business development people to a constant flow of new opportunities.

Case Brief 2

The Background

The Raineight team accepted a 12-month assignment to assist a producer of safety-critical electronic control systems to develop their market in China. Annual revenue was less than USD20MM. The client had 25 years experience in the market, and were somewhat established in a very small niche primarily in the US and UK, with some business in Europe.

The Challenges

The client was new to China. They had one seasoned, quite capable business development team leader with deep experience in the industry but also no experience in China.

We faced recruiting challenges for sales staff in China from the beginning as the target job description was one familiar to the West and which fit the profile of some of their similar senior Western staff. The problem, however, was immaturity of the market in China - such targeted senior staff don't exist in China as the segment is still quite new in China. We finally recruited one senior business development manager, but he could not join for 4-5 months. Just before his joining-date, he had to decline due to personal factors.

Investment tolerance was low - that means no fixed office, no legal entity, no local technical support, no back-office staff, no inside sales support. Based upon our experience in China, we accepted the project with a budget considerably lower than most firms would budget for such an endeavor.

The Solutions

Staff: Faced with the recruiting challenges, we brought on a known new team member from another industry but with strong sales/relationship skills and began the professional-development process. Staff development will always need to be a focus in Asia.

Strategy: We developed a sharp strategy and mission for China that aligned very well with the 12th 5-year plan and that was highly differentiated against the entrenched suppliers and was very appealing to clients, creating significant goodwill and competitive advantage.

Localized MarCom: Primarily in this case we localized printed materials including about 10 printed

pieces and several PowerPoint files specifically designed based on the firm's value-proposition, localized fully to meet local clients' needs.

Do the Work: Despite the limitations in resources from the client, we conducted perhaps around 150 face-to-face client meetings in 12 months for them.

The Results

Business results include:

Orders: Two delivered orders were secured, and two additional orders were in process by client-Purchasing. An additional offer has been accepted by client technical-decision-maker and was just subject to commercial negotiation with Purchasing. Total orders expected from the one-year effort totalled over USD500,000 for highly technical products normally subject to lengthy evaluations.

Technical Support: We established a technical support relationship with a 10-person engineering services-provider to fill the technical support gap.

Partner Development: We developed partner/reseller relations with two partner/resellers. We additionally developed close relations with an industry supplier who relies more than 50% on their partners who agreed to share all of their partner connections along with referrals to us. We have engaged one of their referrals, and one has accepted though the client has not yet accepted.

Competitors: We engaged two significant competitors and hired one of their junior staff on friendly, agreed basis.

Client Relations: We built and developed over 70 new B-2-B relationships and perhaps over 200 new P-2-P direct relationships.

Industry Relations: We engaged and built relations that have resulted in referrals, free trade-show space and so on with more than three major, established market-space providers including Kvaser, The Mathworks and Freescale Semiconductors, and with one client.

JV Partners: We developed two offers for business development JVs.

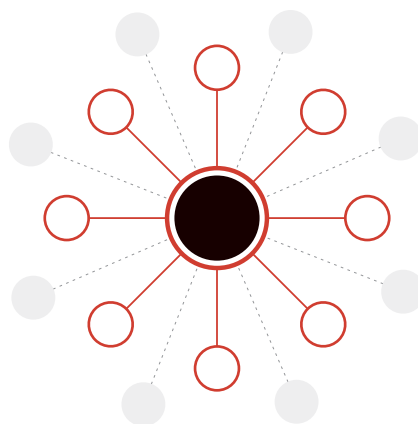
Manufacturing Partners: We developed three offers for manufacturing partnerships.

Opportunities Pipeline: We built >70 new leads/opportunities.

OUR TEAM

The Raineight Team and Network

Our business model operates on the basis of a **core team** who is involved in most client projects and on the basis of an **extended team** that is brought in as required for specific assignments. This approach controls



costs to you and allows us direct relationships with over 300 Automotive firms in China as well as trusted introductions and touch-points to nearly any Automotive firm in China.

Our Core Team

Management

Tracy Crawford: *American, CEO and Founding Partner.* Tracy has over 20 years business experience in the global Automotive industry including over 9 years experience living in China for new business development.

Tracy is a strategist at heart and by experience and also specializes in marketing, China start-up, and has built several successful new businesses in China. He has worked for two Fortune 500 companies and several other market leaders. Tracy holds an undergraduate degree from Georgia Institute of Technology (Georgia Tech) in Electrical Engineering with minor studies in Product Design. He has also completed selected graduate courses at University of Berkeley in California in marketing, strategy, and finance.

Kristina Kang: *Chinese, Operations Director and Founding Partner.* Kristina is our “feet on the street” with contacts to multiple individuals in over 300 Chinese Automotive organizations. Most of Kristina’s contacts are at senior levels from Director, to GM to CEO. Kristina leads our business development and partner development efforts with over 8 years of experience. Kristina holds an undergraduate degree from East of China Normal University in Business Operations Management.

Business Development

Terry Zhao: *Chinese, Senior Economic Development Consultant.* Terry has over 8 years experience and relationships with over 100 Chinese and International Automotive organizations. Terry has worked for the second largest Chinese State Owned Enterprise (SOE) Automotive engineering services firm. Terry has extensive experience with foreign governments’ trade missions, including hosting senior international executives and local and international government officials and extensive experience with international economic development efforts. Terry holds an undergraduate degree from Tsinghua University in Automotive Engineering and is completing his masters there in the same subject.

Jason Liu: *Chinese, Senior Business Development Consultant.* Jason has previously worked with one of the world’s largest trade-show organizers and is highly connected to local Chinese middle and senior technical and business managers. Jason connects to over 500 local & international firms and is able to work effectively at both the technical and business level with his relationships. Jason holds an undergraduate degree from Anqing Normal University, in Environmental Science.

Localization

Soee Lee: *Korean, Localization Creative Director.* Soee has more than 15 years experience working on local and localized MarCom for major international clients including Apple, Lufthansa, J&J, Pepsi and many others. She holds an undergraduate degree in Visual Communication Design from Dankook University and has also been awarded the Silver Prize for Calendar Design ‘Bird of Korea’ Computer Design Festival and the Gold Prize for ‘Beauty of Korea’ web site (1997).

Gorden Xie: *Chinese, Localization Web Development Director* with more than 15 years experience. Gorden can adapt your existing website to be localized with all local language content. Gorden holds an undergraduate degree from the College of Computer Science of East China University of Science and Technology.



Let us help you!
Contact us!

Kristina Kang 康莉

Primary: kristinaspinsky@hotmail.com

Secondary: kristina@raineight.com

Mobile: +86 138 1690 7016

Skype ID: kristinaspinsky

Tracy Crawford

Primary: crawfordt900@yahoo.com

Secondary: tracy@raineight.com

Mobile: +86 137 7429 4425

Skype ID: Tracy.Crawford

LinkedIn: cn.linkedin.com/in/crawfordtracy

<http://raineight.com>