

Structuring Deals and Operating Companies in China

By William R. Dodson

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What could a utilities conglomerate and an engine components maker possibly have in common? Successful and long-lived investments in the China market.

Alliant Energy International is a US\$6 billion American utilities company that has successfully established eight electrical energy plants in the south of China. John Clarke, Manager, International Operations-China, explained that Alliant has succeeded in its China investments through joint venture structures in which Alliant has majority ownership of 70% to 80%. Alliant has 20-year contractual arrangements with its partners, and retains Board and Budget control. It also has key-employee nomination and approval rights in its Chinese joint ventures.

Typical contracts Alliant maintains in its Chinese investments include China Joint Venture articles of association; asset transfer; business transfer, lease agreements, service agreements, and power purchase agreements among others. Other, less tangible factors that make up a China deal with Alliant include: strong local economics, progressive government leadership and strong partner relationships.

Alliant maintains a representative office for itself and its Chinese partner Peak Pacific. The joint venture maintains an administrative and operations staff of about 50. Though the business currently has five key expatriates, the enterprise is transitioning to Chinese Nationals.

The engine component maker Synchro-Start Products, Inc. made its first foray into China in 1995. Patrick Cavanagh explained the company had to move into the Asian market to defend its North American customer base. Cavanagh is Vice President and General Manager of the Synchro-Start Products, Inc. The company also foresaw significant revenue growth potential from investing in China, much of it from the low cost of Chinese labor.

Agricultural applications dominate the company's buyers in China, where total production of engines for agricultural use exceeds seven million per year. The components the company sells are highly price sensitive, and has local and State-Owned Enterprises (SOEs) as competition.

The company soon realized in 1995 when it began exploring the China market for sales that its current inventory had no place in the Chinese consumer market. So, the company opened its first plant in China in 1997 to develop components to meet the unique requirements of Chinese buyers.

Synchro-Start Products, Inc. used several promotional channels to raise awareness of their offerings: exhibitions, advertising and customer seminars. In time they chose to discontinue the seminars because, "there were too many academics in the audience asking questions," Cavanagh said. Another lesson they learned was that they "needed an engineer at the exhibitions who spoke Chinese and knew the products and applications well," he added.

Cavanagh suggested several recommendations for getting started in China:

- ☒ Survey the market thoroughly
- ☒ Understand the customers
- ☒ Create product awareness

- ☒ Develop a manufacturing capability
- ☒ Establish your own sales team
- ☒ Commit to the country for the long term, and
- ☒ "Make a profit from the beginning," i.e., don't accept loss-making activities.

Today, Synchro-Start Products supplies over 60 OEM's with a market share worldwide of over 50%.

*William R. Dodson is Managing Director of Silk Road Communications, L.L.C., an international markets research consultancy that advises companies on how best to develop their businesses for success in China and the West. He is a Managing Editor of **The China Alert**, a contributing editor of the American Management Association's (AMA) **MWorld Journal of Business Management**, and writes the weekly column "The Cultured Business", found at www.silkrc.com He can be reached at wdodson@silkrc.com or +1 (847)722-7817.*

