ESTABLISHMENT ABROAD TO CHINA
AT TACTEL

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Abstract
This article serves as a short summarized version of a master’s thesis which constituted the final element of the author’s Master of Science programme in Industrial Engineering and Management at Lund’s Faculty of Engineering, Sweden. The study identifies factors that are crucial for Tactel’s establishment decision, which are: customer/market, supporting universities, advanced infrastructure (including airports), clusters and local cost variations. Based on these five factors the importance of three cities arises, Beijing, Nanjing and Shenzhen. Depending on which and how many business areas the company chooses to penetrate the establishment options vary between export and subsidiaries. An export method is a short-term solution and with an increasing market activity in China subsidiaries will become more favorable.

Introduction
Today China has become a key market for many Swedish companies. China with a population of over one billion people shapes a very challenging market for companies in general. With a totally different political system and culture, Swedish companies need to carefully analyze the market before entering.

One of the fastest growing industries in China is the telecom industry and today we see around 19 percent of the world’s mobile subscribers in this nation. With such a massive market at hand China has succeeded in building up enormous international and domestic enterprises. Some of these companies are China Mobile that single handedly own over a half a billion mobile subscribers, ZTE has been estimated as the third world largest GSM supplier and Huawei which have recently expanded throughout the world.

In 2008 the Chinese government revised their tax subsidy system and decided to support companies within one of three categories: innovative, high-tech and environment friendly.

Problem discussion
Since 1700, the majority of the telecom market and its development has been located in the western world. However, a new era has begun and the telecom market is now globalised and tends to create a new center in Asia, especially China. Therefore, China has become a key market for the telecom company Tactel and is vital for their continued growth. Due to the fact that the company does not have any experience in entering the Chinese market it has become even further vital for the company to explore their possibilities and different aspects that are of importance for an establishment.

Research approach
The establishment is viewed from three different perspectives: In general, high-tech and service perspective. This will create a comprehensive study that examines a wide range of aspects that are relevant for Tactel.

The general model discusses the value of shaping the expansion decision around factors such as: transportation costs, production costs and the market demand. While the high-tech model studies the influence of clusters, universities and infrastructure in a long-term strategy, the final model discusses the requirements a service oriented company needs to be able to successfully compete against local enterprises in the targeted market.
When entering China, every company needs to go through a registration process, this meaning they need to determine which company formation they are applying for. Most commonly, companies establish a limited company or a representative office. Others may choose to enter through an export method, franchise, license or joint venture. All these methods have different strengths and weaknesses.

Empirical findings
Over the last decade China has been one of the fastest growing markets in the world. Around 2008 there were over 600,000 foreign companies established. A lot of these companies would not have been the same without their market shares in China, but there is also at least a bulk of companies who have experienced failures. The Chinese market is not filled with promises, in fact the business environment is most challenging and especially for foreign enterprises. Almost all international companies experience difficulties when merging their own culture with the Chinese culture. A study made by the World Bank Group compares the ease of doing business in different countries, where China is ranked 89 while United States is ranked 4 and Sweden at 18.

One of the main problems in China for international enterprises is the shortage of qualified white-collars. The reason behind this phenomenon is that both professional and international firms are increasing at a high pace. Over the last few years, the Chinese government has invested to improve China’s universities. Today we find world leading universities in China, such as Tsinghua University, Hong Kong University of Science and Technology and Beijing University.

Traditionally China is considered as a low income country. However, the income level between cities and region may vary. By looking at the statistics on GNP/capita the east coast region has significantly higher income level and some cities go as far as over 30,000 USD in GNP/capita (Hong Kong, Macao). Other coastal cities such as Beijing, Shenzhen, Shanghai, and Nanjing have a GNP/capita between 7,000-13,000 USD.

Ever since the reform in China so called the open door policy, the country has had an average economic growth on 9 percent each year. The regions with the highest growth are located in the east, from south to north.

Map 1.1; Regions with the highest growth are marked.

In addition these regions hold the country’s most developed infrastructure and clusters, they are also known as China’s frontline in development. The nation’s largest airports are also located within these regions and some major airports in China are Beijing international Airport, Shanghai Pudong international Airport and Hong Kong international airport.

Today, the Chinese telecom market is considered as the world’s largest telecom market (in terms of users). The market has contributed to the upcoming of the world’s largest operator, China Mobile. Other companies with the same magnitude are Huawei and ZTE. These gigantic companies have their home base in China and the majority of their R&D based in China as well.
Analysis
The three establishment models cover up a wide range of factors for the company Tactel. Due to Tactel’s business nature the transport costs consist of travel costs, due to the fact that their products are digital. The production costs on the other hand have a greater impact on the decision. Tactel is mainly built on human resources and therefore a major part of the firms expenses are staff expenses. In China the average income varies and by avoiding high income cities unnecessary expenses can be prevented.

It is often crucial for service oriented companies to be close to their customers. By looking at some potential customers for Tactel, cities like Shenzhen, Chengdu, Beijing, Hong Kong and Nanjing become interesting because major companies as China Mobile, Huawei and ZTE have their R&D centers located there.

For a high-tech company clusters have a great influence in a company’s competitiveness. The most successful clusters in China are located within the coastal regions and core cities like Beijing, Shanghai and Hong Kong have world leading clusters. Another factor which is essential for the competitiveness for a high-tech company is the access to skilled personnel. In China, a high concentration of first-class universities can be found in Beijing, but there are also first-class universities in Nanjing, Shanghai and Hong Kong.

A key factor for the company Tactel is their ability to innovate and large airports contributes to the development of innovation and communication. Regions with the largest airports in the country are positioned in Beijing, Shanghai and Hong Kong. These are the cities with the most favorable infrastructure, but other coastal regions also provide infrastructure at a satisfaction level.

Traditionally companies choose between three different company formations when entering China, these are export, representative office and subsidiaries (WFOE/FICE). For Tactel the agenda is the same, depending on the business activity different formations fit. With a high activity subsidiaries become more favorable.

Conclusion & Recommendation
The most important aspects Tactel needs to consider when entering the Chinese market are:

- Customer & Market
- Supporting universities
- Advanced infrastructure (including airports)
- Clusters
- Local cost variations (GNP/capita)

With these aspects in mind three cities become optimal; Beijing, Nanjing and Shenzhen. Beijing has a high concentration of first-class universities, access to the nation’s largest airport and has moderate salary levels. Nanjing with the most favorable business environment in terms of staff costs, a close position to Shanghai and access to a first-class university. Last Shenzhen, two potentially major customers have their headquarters located in Shenzhen and because of the services Tactel is offering the decision level is often on a national basis, therefore key persons are most likely to be positioned within the headquarters.

When entering a new market risks are always involved, by using an export formation the company Tactel can explore the market demand and reduce the risks and the investment funds needed. Although it is very important for the company to establish a subsidiary if there is an actual market demand. The reason for this is that a subsidiary will enhance customer and market presence, open possibilities for a wide business scope, offer access to Chinese personnel and in a global strategy provide new competitive edges for the company.