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[Macleans.ca - World](#)**Sometimes Only Fools Rush In**

Where savvy businesses take a slow and cautious approach

By Joel Baglole

DOING BUSINESS IN CHINA isn't for the faint of heart. Corporate transparency is poor, regulations are loose and evolving, and government officials are known to interfere with foreign firms. But with a population of 1.3 billion, China is nevertheless an irresistible lure to companies hoping to cash in on its increasingly consumer-driven marketplace.

Wayne Farmer has seen plenty of foreign companies get burned in the attempt. The former Ottawa political assistant is managing director of Islemount Capital Advisors, a Hong Kong-based boutique private equity firm that helps individuals and companies raise money to do business in China. He cites the experiences of two U.S. multinationals as a cautionary tale. Hormel Foods Corp., the Austin, Minn.-based packaged meat producer best known for making Spam, built a state-of-the-art factory in Shanghai. It then discovered that few Chinese were willing to pay a premium for a brand they didn't know and breaking into the market was slower than expected. On the other hand, Pillsbury Co. knew that few Chinese consumers own ovens, meaning there would be a limited market for its instant-bake products such as croissants and buns. So in 1997 Pillsbury bought into steamed dumpling manufacturer Wanchai Ferry and today has one of the top food brands in China.

The lessons? Companies should be prepared to adapt to the market. And despite China's consumer revolution, many global brands remain unknown to the burgeoning middle class. "Companies have to have patience," Farmer says, "and build their brand from the ground up." He also recommends that companies start small and look to break into a specific city or region rather than entering China with a national strategy. That's because most of China's economy is regional, with many trade restrictions between provinces.

While the marketplace presents one set of challenges, China's regulatory framework offers another. Companies need to be aware, Farmer says, that China's legal system is still being developed. "A lot of foreign companies spend hours with their lawyers building protection clauses into contracts that, at the end of the day, aren't recognized," he says. As well, copyright and patent enforcement is still haphazard, he adds -- a serious issue considering that China is one of the world's biggest copy and counterfeit markets. The lack of legal recourse when things go wrong means contracts don't mean the same thing as in Canada. "A contract in China is not an ironclad, fixed document," Farmer says. "It's more of a road map to provide guidance."

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