

## How To CATch Mice?

With social and environmental 'blowbacks' spelling worries for the Olympics and more, perhaps Deng Xiaoping's well-acclaimed quote that "No matter whether it's a white cat or a black cat. It's a good cat so long as it catches mice" needs some amendment -- "... AND does not create a mess in the house". While higher costs and slower turnover will inevitably translate into credit crunch on both ends of sourcing, selling might be another way to catch the (Year of) Mouse/Rat.

By Shawn He Yuxun  
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Ying and Yang – The Wheel of Evolving Fortune; White Cat and Black Cat chasing the (Year of) Mouse/Rat occupying the Square in the Circle (China's Money Symbol).

Graphic Design by Shawn He

Every ascent inevitably sets the stage for its decline -- the very goal of working hard to succeed is so that you wouldn't have to work hard anymore. The wheel of fortune thus turns around and on...

A Chinese saying goes: "For 30 years the east side of the river thrives. The next 30 years the west side."

In the last century during a few 30-year periods, prosperity waves have rippled across from the east shore of the Pacific (USA: 1910/20s-40/50s) to the west (Japan and Asia Tigers: 50/60s-80/90s), and further west still (China: 1978- 2008).

Now westward again the 'trade winds' blow...

After the Lunar New Year holiday, tens to hundreds of thousands of Pearl River Delta-based factories, local or HK or TW-invested, are expected to go either belly-up, or ['up-valley' to western provinces, or even further west](#), like the Indochina East-West Corridor (i.e., Vietnam, Cambodia, Laos...) or the far far west, namely, Africa.

That is, following the tens of thousands that already have.

"Made-in-China" will surely get pricier in 2008 due to a growing list of woes: reduction/elimination of export VAT refunds...soaring energy/material prices... already rising labor costs further propelled by the [newly enacted Labor Laws](#)...a waning US consumer demand dampening producers' economy of scale...

The [quicken appreciation of RMB vs. the Dollar](#) certainly would not spell any relief in sight, either.

Although the recent power and transportation-crippling snow storms temporarily forced the government to [relax its credit squeeze imposed since Oct. '07](#), however, to counter overheating and inflation -- known in the 2008 national economic policy as "*liang fang*" (literally meaning "2 Preventions") -- China may need to continue with its interest rate *hikes* ([while the Fed with their cuts](#))!

Now consider catching the mice another way. With higher incomes and more 'bang' for the RMB, wouldn't it be a great time to sell into China?

But what sells in China?

Simply put, 'utility' and 'futility' (or 'vanity'), like everywhere else...

A [2006 UPS survey](#) of Chinese urban, middle class consumers found that they crave for US movie/music, skincare products, sneakers and jeans. But a [recent McKinsey survey](#) claims that they favor domestic products. How do we make sense of this seeming inconsistency?

For those who are shopping for 'utility', the key is "Price-performance Ratio". That explains the local brand preference given comparable quality.

For those who are shopping for 'vanity', the secret is "Conspicuous Consumption". That explains why US and other Western products (services included) do extremely well in certain categories and why China is the fastest growing market for luxury goods.

So it depends on what kind of product you are selling and who your target audience is. Are there domestic alternatives? Is there int'l competition? What's your unique selling proposition? Can you maintain that uniqueness?

If you are trying to sell 'utility', you'd better make sure that utility is not available or cannot be easily made in China (e.g. many metals/minerals, mid- to high-end medical devices, jumbo jets, or [a US degree](#)).

Better yet, can you enrich it with some 'vanity', like Starbucks and [NBA](#) (as opposed to just coffee and basket ball)?

In merger/acquisition transactions, while many deep-pocketed Chinese companies are willing to pay for established marketing and distribution capabilities, i.e., a 'utility' they cannot 'manufacture' themselves, well-established brands can also fetch a much better deal than the operations or products behind them (think IBM PC).

Although the Chinese always seem reluctant (if not outright resistant) to pay for consulting services, in reality exceptions abound:

Aside from the window-dressing need of large Chinese firms to routinely hire top int'l auditors, bankers, consultants and lawyers, I can recall from own experience an industrial park near Shanghai that paid McKinsey just under \$1 million for a feasibility study so as to enable them to better market themselves.

At a recent roundtable of ours, a financier who has helped dozens of Chinese companies get listed on Nasdaq through 'back-door listing' told me: "When those Chinese bosses hear the word Nasdaq, their hearts start pumping!"

Yes, when their vanity blood boils, they have no problem forking over millions.