

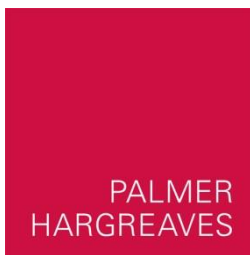


Palmer Hargreaves – Fast Track into the Aftersales Auto Market in China

Founded in the UK, Palmer Hargreaves is a full-service integrated marketing communications agency with expertise in the automotive aftersales market. After in-depth research into the Chinese market, the company decided to establish a presence in the PRC by setting up a Wholly Foreign Owned Enterprise (WFOE) in Shanghai in 2014. The process, however, ended up being rather complex: HR, legal and cultural matters required the support from experts from both the EU and China. Nevertheless, it also endowed Palmer Hargreaves with the necessary credibility to succeed in the local market. Shortly after the establishment of the WFOE, Palmer Hargreaves won a six-figure contract with Porsche in China; and its Shanghai office has already expanded to eight permanent staff members after only one year.

Type of business:	Automotive aftersales and marketing communication
Operation history in China:	1 year
Company size in China:	Eight employees, including UK secondments and Chinese nationals
Target market:	Automotive manufacturers

First Experience in China



<http://palmerhargreaves.com/>

Palmer Hargreaves opened a representative office in Shanghai for the aftersales market in China

With existing international clients in China, there was a clear potential market for Palmer Hargreaves to enter China

Palmer Hargreaves was established over 30 years ago and is a full-service integrated marketing communications agency with offices in the UK, Germany, Russia, and China. It provides a range of marketing solutions from strategic development and fully integrated campaigns, to tactical promotions and one-off activities.

The company specialises in multi-languages and multi-markets. Its clients include: Porsche, Bayer, Audi, ABB, Datsun, Deutsche Telekom, VW, Mercedes-Benz, Mazda, Avis, Hitachi, Isuzu, Skoda and Ford.

Understanding the potential of the fast growing automotive market in China, Palmer Hargreaves realised that it was uniquely positioned as an expert in automotive aftersales. Its existing automotive clients indicated that if it opened an office in China, there would be contracts readily available, as they already cooperated on global contracts, including Asia. The company has been able to operate within a fairly short time period by taking the decision to set up an office in China and focussing the wider company's resources, including senior management and offices in the UK, Germany and Russia on the project. Palmer Hargreaves decided that if they were going to set up in the mainland, it should be a wholehearted commitment, rather than a cautious entry.

Additional factors that motivated Palmer Hargreaves to explore the Chinese market were:

The automotive market in China is the largest in the world and generates other related businesses such as aftersales marketing

- In 2010, China overtook the USA as the largest car market;
- Car penetration is still only predicted to reach 15% of the total population by 2020;
- There is a rapidly growing market for second-hand cars;
- Many first-time car buyers have limited or no aftersales experience;
- Palmer Hargreaves is specialised in customer services;
- A number of the company's existing automotive clients were already operating in China;

The company began by conducting its own research that found that most of its existing clients had already entered the Chinese market. Palmer Hargreaves approached the market with an open mind, learning from each step and reacting quickly and proactively to the findings and advice, seizing opportunities and putting into practice learning points. It was therefore an organic process rather than a rigidly structured approach.

After conducting initial research, the company decided it needed a more in depth understanding of the local market. It commissioned UK trade support agencies (UK Trade and Investment – UKTI – and the China-Britain Business Council – CBBC–) to conduct further research into the Chinese automotive sector and to identify potential partners as well as setting up meetings with them.

After conducting the initial market research and visiting China, Palmer Hargreaves understood better the potential business opportunities and took the decision to set up its WFOE in Shanghai.

Revised Business Decision after the First Visit to China

Choosing the right business entity in China is crucial

After its first visit to China, Palmer Hargreaves revised its business plan and decided to speed up its entry into the Chinese market. It had previously discussed setting up a Hong Kong holding company; however, and in order to better serve its client base in Shanghai, the company decided to establish a WFOE in that city, where opportunities appeared to be most immediate.

A key reason for Palmer Hargreaves being able to take the decision quickly to set up in China was the requirement of the business plan to expand internationally. Senior management made the commitment and were key drivers in making it happen – it was a core focus of the group.

Having local representation is essential as relationships and face-to-face meetings are key in Chinese

Eleanor Bacon, (Operations Manager), who oversaw the business set up in China, shared the logic behind the business model:

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business culture

“We wanted to be operational as quickly as possible and to hold a permanent position in the marketplace to show our commitment to the Chinese market. We quickly realised that service businesses need to have significant local representation, as relationships and face-to-face meetings are important in Chinese culture.”

Establishing a WFOE is followed by a complex process and better guided by local lawyers.

“We felt that the significant investment required to establish a WFOE was warranted considering the compelling meetings we were having with potential clients. Establishing the WFOE was a complex process and we needed to be guided very closely by local lawyers.”

The First Task for the China Office

The first task was to develop the Chinese business for both new and existing clients.

A director in charge of Palmer Hargreaves Chinese business explained that the first task was to develop Palmer Hargreaves’ Chinese business for both new and existing clients, to develop projects and propositions in line with the agency’s ‘3C-approach: Coaching, Consultancy, and Communication.

The Local support is important when exploring and seeking new business in China.

Palmer Hargreaves’ previous experience of setting up local offices in Germany and Russia gave them a good understanding of the need to pay particular attention to local culture, rules and regulations and most importantly of the need to be very flexible and open-minded. Once the decision had been made to set up the office in China, the end-game was to achieve this as soon as possible.

The company decided to be 100% committed to China, like in Germany and Russia, realising the importance of being “in the market” and hiring local staff. It generated its knowledge of the market by hiring both local staff that understood Chinese consumers and its clients’ needs locally, and international staff that also understood its clients’ needs at a global level. This was important to ensure that it provides clients with an international standardised service linked to the Chinese market.

After several months of developing relationships, Palmer Hargreaves won a six-figure contract with Porsche China, and delivered the programme in Mandarin. Key to its success was combining its aftersales expertise in the automotive sector, experience in global projects and demonstrating understanding of the local culture.

Following the success with Porsche China, Palmer Hargreaves currently has four significant projects underway, and is developing its business in China for both new and existing clients.

Market Challenges and Business Model

One of the greatest challenges was to understand what was required to achieve Palmer Hargreaves’ objectives. This meant finding best options for setting up in China (e.g. payroll, WFOE process, work visa process and invoicing) and seeking advice on the best options; lawyers

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and accountants were key to getting it right, using both teams in the UK from the perspective of the UK holding company and local China-based experts for their local knowledge.

Time difference means everything takes longer to achieve than previously expected.

According to Ms Bacon, time differences meant that everything took much longer to achieve than previously expected. There was also a great deal of paperwork and forms required for all processes, especially for visas and for establishing the WFOE.

As Palmer Hargreaves wanted to fast track its move to China, a challenge it faced was that it needed local knowledge and skills much faster than envisaged; this would have been impossible to achieve within the time frame by recruiting a whole new team.

Palmer Hargreaves worked with lawyers and accountants both in the UK and in China to achieve their own setting up's objectives. Expert advice is very useful in aiding for the decision process

The company therefore partnered with a communications agency based in Shanghai to enable it to deliver work locally and appropriately with regards to culture and language.

“We had been advised that hiring in China is difficult but we found it surprisingly easy and positive. We now have a team of eight full-time employees in our office. “

Practical tips for your first visit to China

China is a very different country, compared to most European countries with regards to culture, business behaviour and language. Thus, preparing your visit well in advance can help to upgrade your business image in China and consequently lead to successful trading.

For the first few visits to China Palmer Hargreaves recommends:

- Allowing a sufficient amount of time for visits, meetings and the number of visas required.
- Bringing many business cards, already translated into Mandarin, as not every Chinese person speaks fluent English, especially decision makers who are often over 40 years old.
- Using apps to call taxis in major Chinese cities as a more efficient travelling method than standing in the street to call a taxi; using taxis can be challenging due to the language barrier with drivers, since not all Chinese taxi drivers can read addresses in English.
- Seeking advice from courier companies when sending important business documents to China.
- Hiring an English-speaking driver in China for local journeys.
- Choosing the right air route to get the best value.
- Paying attention to the visa process to China, as it could be problematic.

Best Practices and Advice

1. Setting up in China was much more time-consuming, and therefore more expensive, than forecast. China required the entire focus of senior management and other offices. Key to the success was the global approach to servicing the Chinese contract; a global operating committee supported China; the creative and artwork was designed in the UK and Russia. It was however essential to have the guidance of local experts; the first creative ideas would have been

inappropriate in China.

2. Given the complexity of China, and that certain steps required much more time, it is essential to have full management support. Ensure that senior management are committed to setting up in China from the outset. In Palmer Hargreaves' case, the Chairman and CEO launched the project and later had regular meetings with the operational team. The fact that expanding to a new international location was a core focus of the business plan, was crucial in avoiding spending time later justifying to senior management why they were in China. Once the decision had been reached to go into China, the entire organisation was committed and worked together to achieve it.
3. Invest time and resources when setting up an office in China, it is a complex process. The process required much more time, and therefore money, than anticipated; particularly regarding core business decisions such as whether to set up in Hong Kong, open a representative office or "WFOE". Issues such as payroll, contracts and visas take much more time than in Europe.
4. Seek advice from experts, including financiers and lawyers; this will ease your work in China, especially when setting up offices. Allow a large budget for legal advice.
5. File trademarks early and register a Chinese web domain! Make sure company documents are to hand, i.e. signed copies of accounts and the Certificate of Incorporation, as these are all required for the WFOE process.
6. Talk to as many people as possible in order to gain information about the market and how to enter it. Research will allow your company to make more informed and accurate decisions. In addition, networking will also prove to be valuable support when your company is established in China.
7. Ensure your company gains the support from European Chambers of Commerce, Trade Associations and Embassies/Consulates as they could offer assistance with market research, contacts, setting up meetings and crucially what is required for the visa process. In the UK's case this is the CBBC.
8. Learn and respect Chinese business culture and behaviour; this is essential for Western companies doing business in China. It is very important to make good first impressions.
9. Choose your location carefully. In addition to being "in the market" and therefore increasing credibility, Palmer Hargreaves chose Shanghai because most of its potential automotive clients are based in Shanghai. Shanghai also has excellent transport links with Beijing, where there is also a sizable automotive market and potential clients in related sectors.

The EU SME Centre helps EU SMEs prepare to do business in China by providing them with a range of information, advice, training and support services. Established in October 2010 and funded by the European Union, the Centre has entered its second phase which will run until July 2018.

The Centre is implemented by a consortium of six partners – the China-Britain Business Council, the Benelux Chamber of Commerce, the China-Italy Chamber of Commerce, the French Chamber of Commerce in China, the EUROCHAMBRES, and the European Union Chamber of Commerce in China. All services are available on the Centre's website after registration, please visit: www.eusmecentre.org.cn.

For this case study the EU SME Centre has partnered with the China Britain Business Council (CBBC). The publication aims to help EU SMEs gain an understanding of the challenges companies may face when accessing or expanding in the China market as well as offer practical tips on how to overcome them.

CBBC is the leading organisation helping UK companies grow and develop their business in China. CBBC delivers a range of practical services, including: advice and consultancy, market research, event management, an overseas market introduction service, trade missions and exhibitions, and setting up rep offices. For more information about what CBBC can do to help your business develop in China, please visit: www.cbbc.org.

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The EU SME Centre is an initiative implemented with the financial support of the European Union.