



中国德国商会
German Chamber of Commerce
in China



Business Confidence Survey

Presentation of Results for 2012

Ulrich Walker
Chairman of the Board of Directors



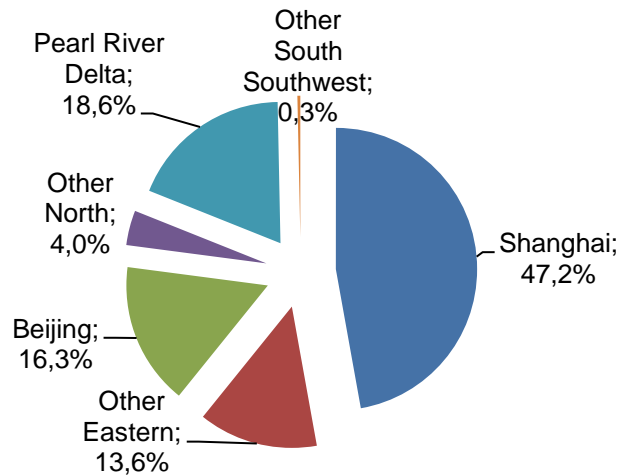
Agenda press conference

- ① Part 1 - Results Business Confidence Survey
- ② Part 2 - Sales and Distribution Channels

Survey Overview

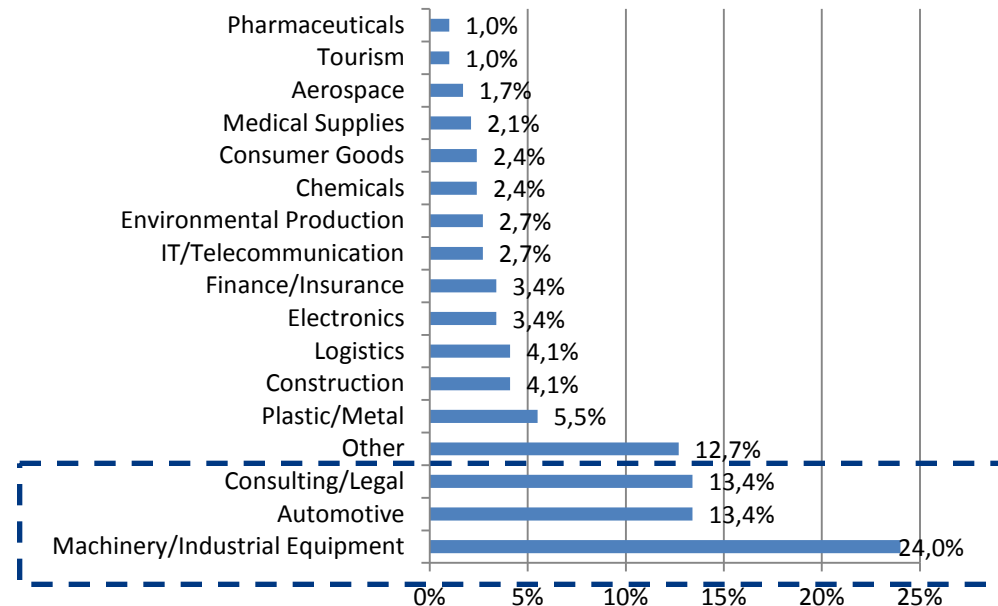
- 319 responding companies of total 1.900 German company members in China
- Response rate of 16.8%

Location of companies



Q1: Company location n=319

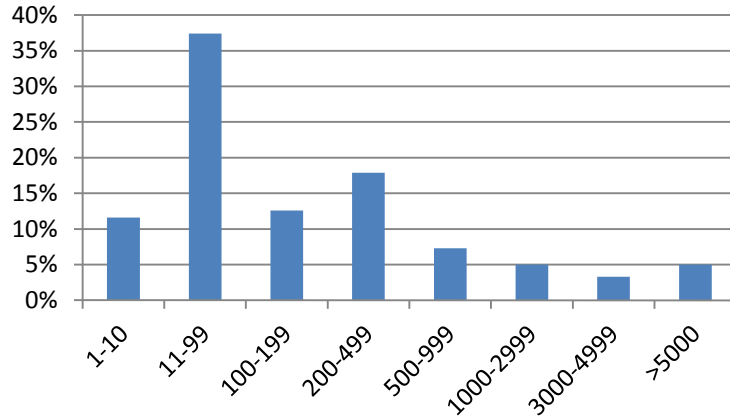
Industry of companies



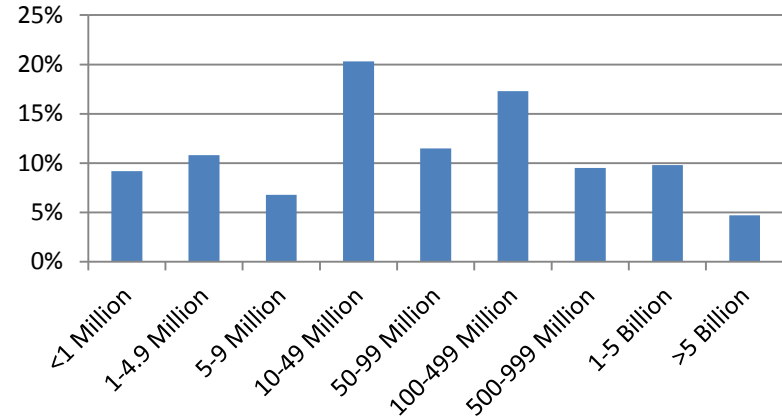
Q7: Main industry n=294

Survey Overview

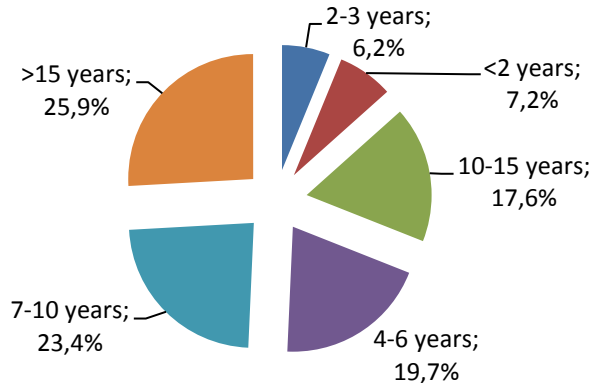
Size of companies



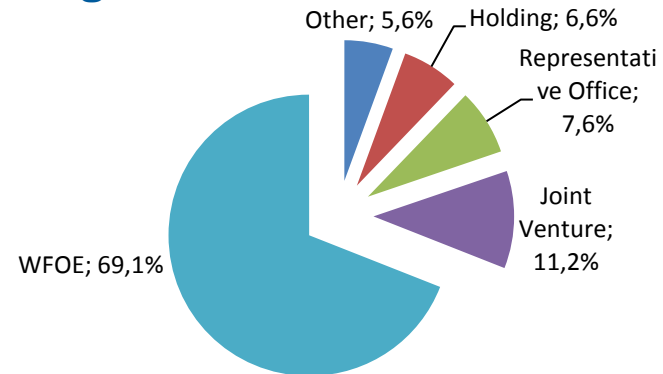
Turnover of companies



Market presence

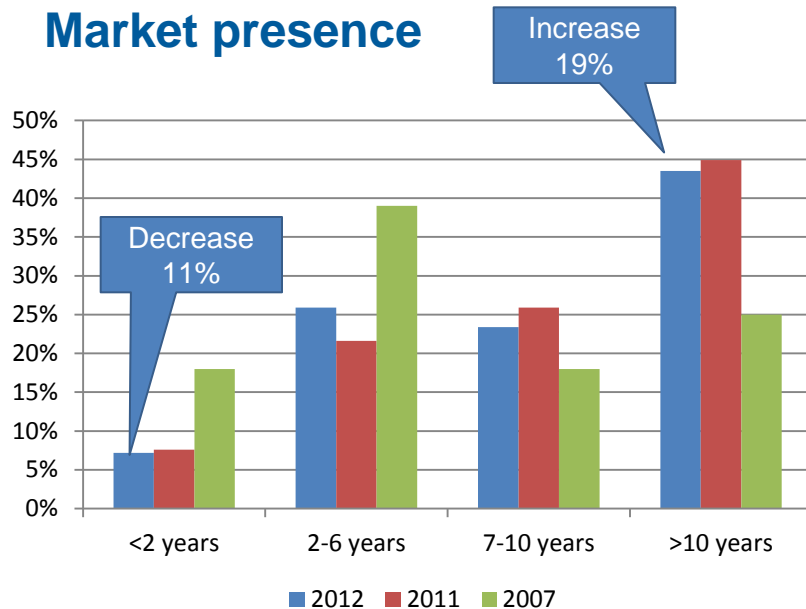


Legal Form



Changes in company structure

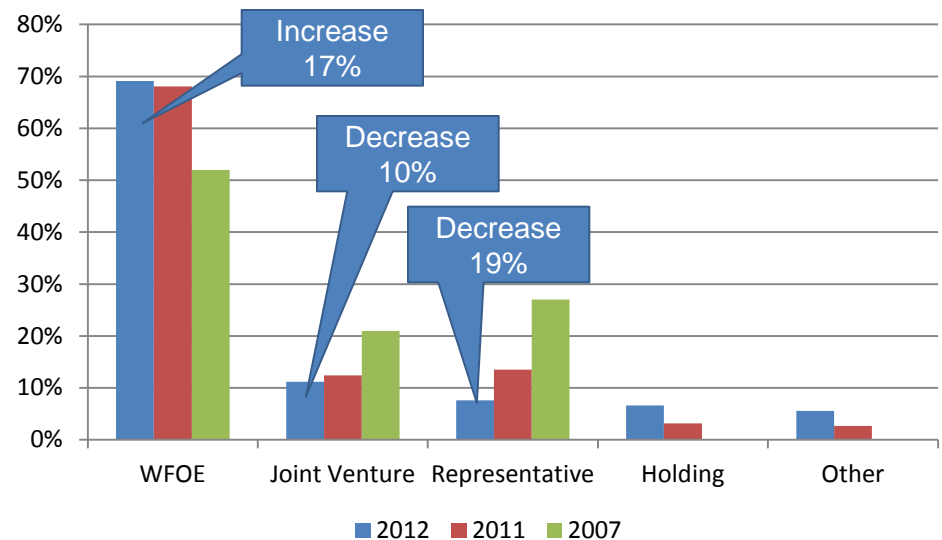
Market presence



Q9: Market presence in China n=290

- Companies getting more experienced

Legal form



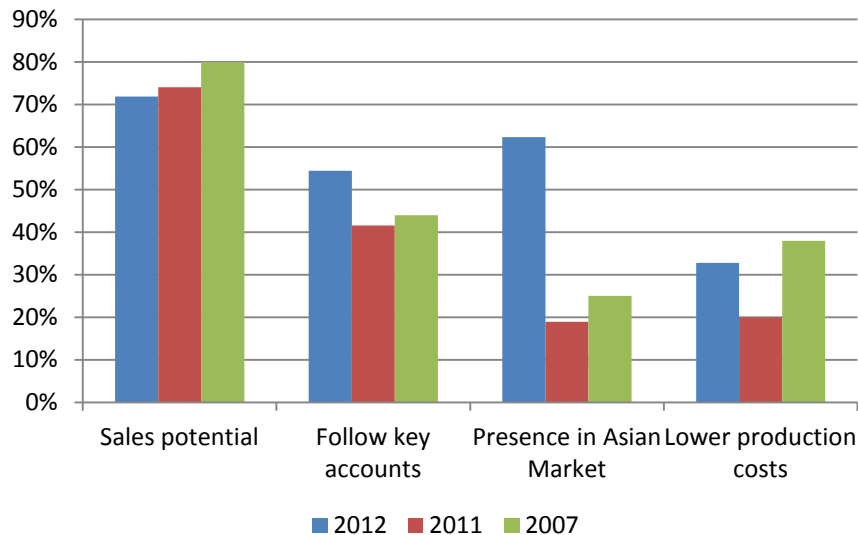
Q4: Legal form n=304

- Legal structure dominated by WOFEs
- JVs and ROs becoming less attractive

Market Attractiveness

Most important motives for market presence

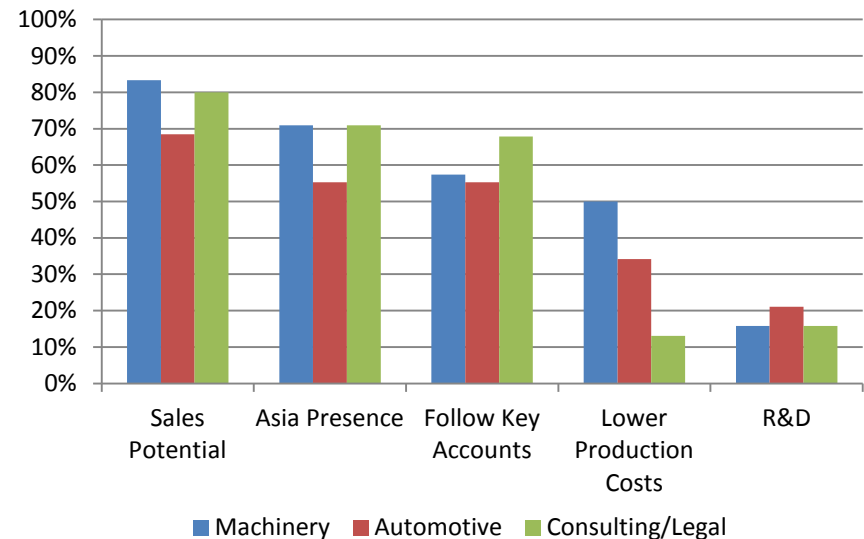
Comparison 2007 - 2012



Q11: Most important motives for market presence n=271

- Sales potential remains the main driver
- China becomes more attractive as cornerstone for Asian markets

Comparison industries

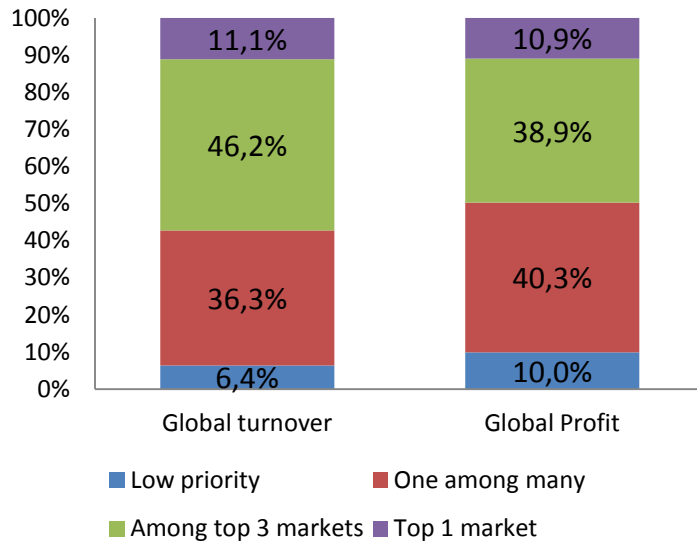


Q11: Most important motives for market presence n=271

- Machinery sees most sales potential
- R&D for Automotive more interesting

Market Attractiveness

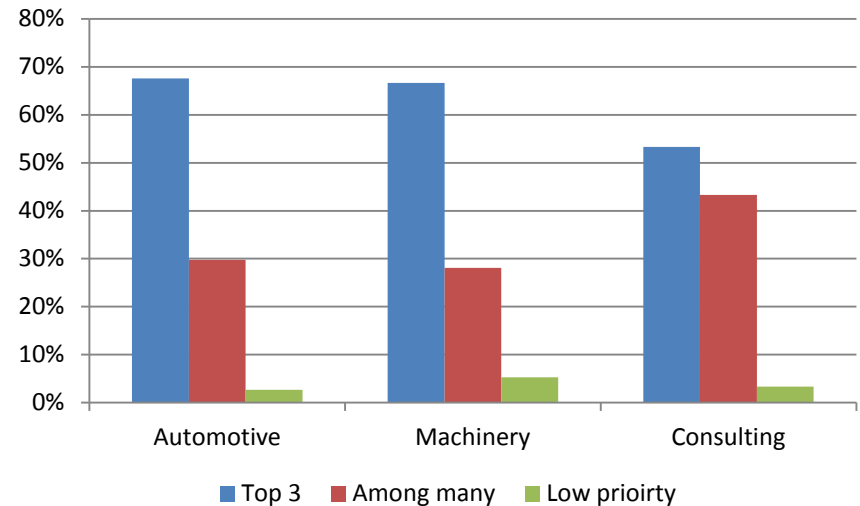
Turnover & Profit China in comparison with mother company



Q13: Importance for mother company n=266

- For almost 60% Top-3 market

Importance of China in comparison of industries



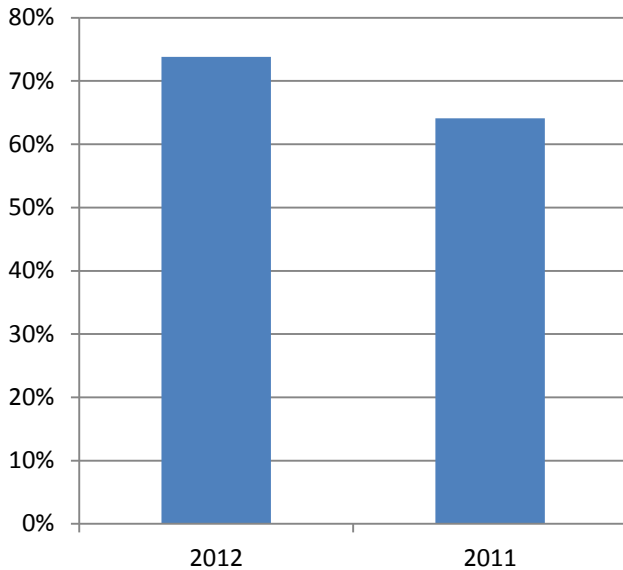
Q13: Importance for revenue of mother company by revenue

- Market most important for Automotive and Machinery

Market Attractiveness

Development of Chinese competition

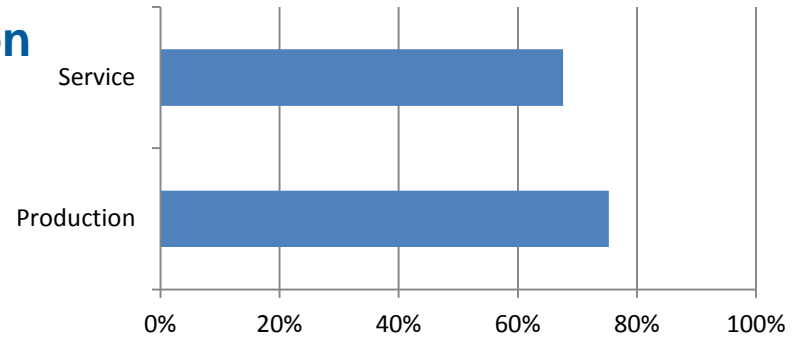
Comparison 2011 - 2012



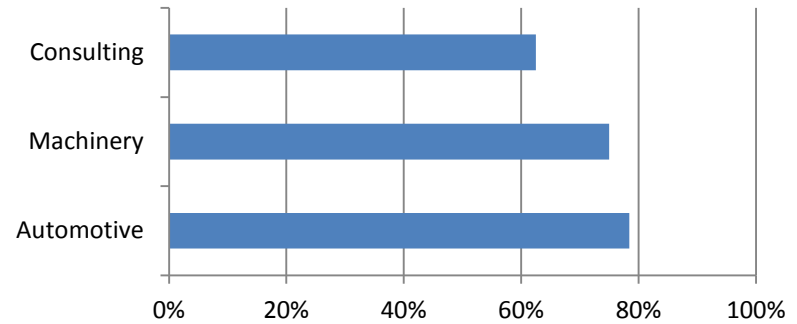
Q22: Development of increase in Chinese competition n=254

- Competition from Chinese companies significantly increasing (+10%)

Comparison by company activities



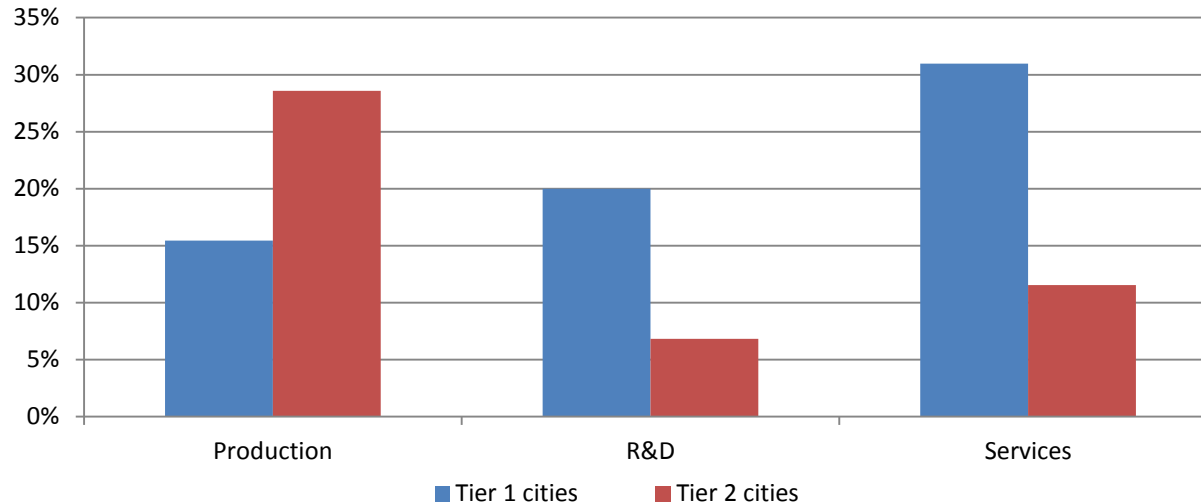
Comparison by industry



- Competition increased most for Automotive supplier
- Production under more pressure than services

Market Attractiveness

Future attractiveness of current location for business activities (Comparison by city type)

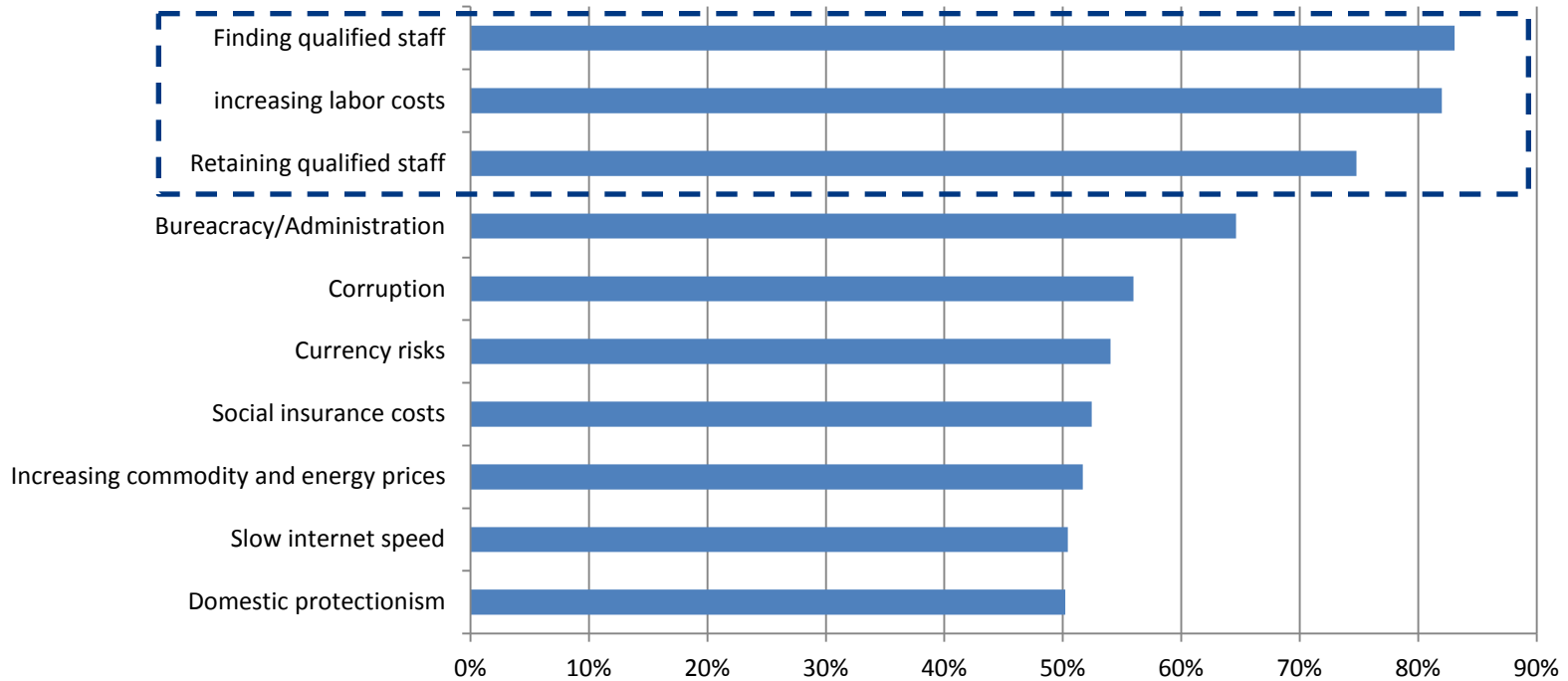


Q23: Current location seen as very attractive by activity n=249

- First Tier cities more attractive for future R&D and Services
- Second Tier cities more attractive for production in the future

Business Challenges 2012

Top 10 challenges

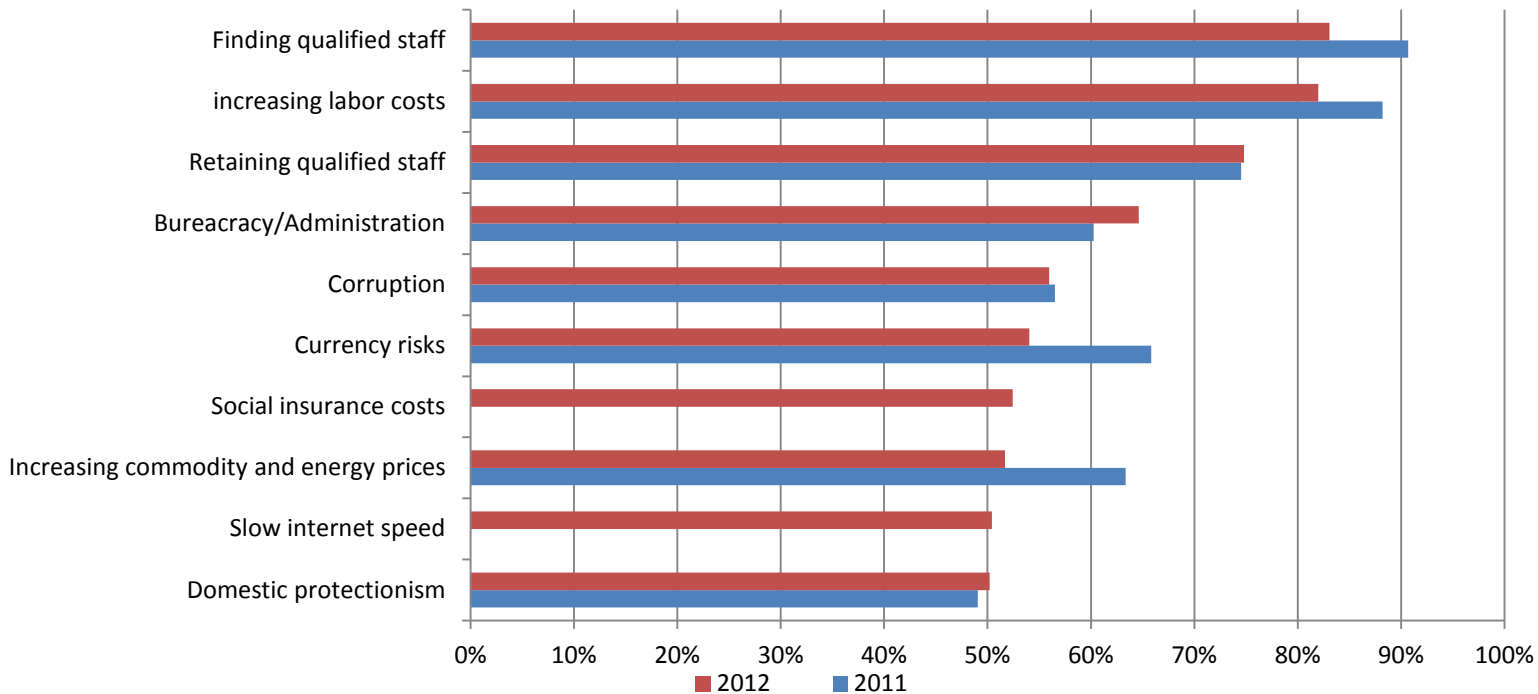


Q21: Top 10 Business challenges

- Ranking of major business challenges remains unchanged to 2011
- IPR not among Top 10 anymore (ranks only 13th)
- Top 10 items asked for are a major problem/problem for over 50%

Business Challenges 2012

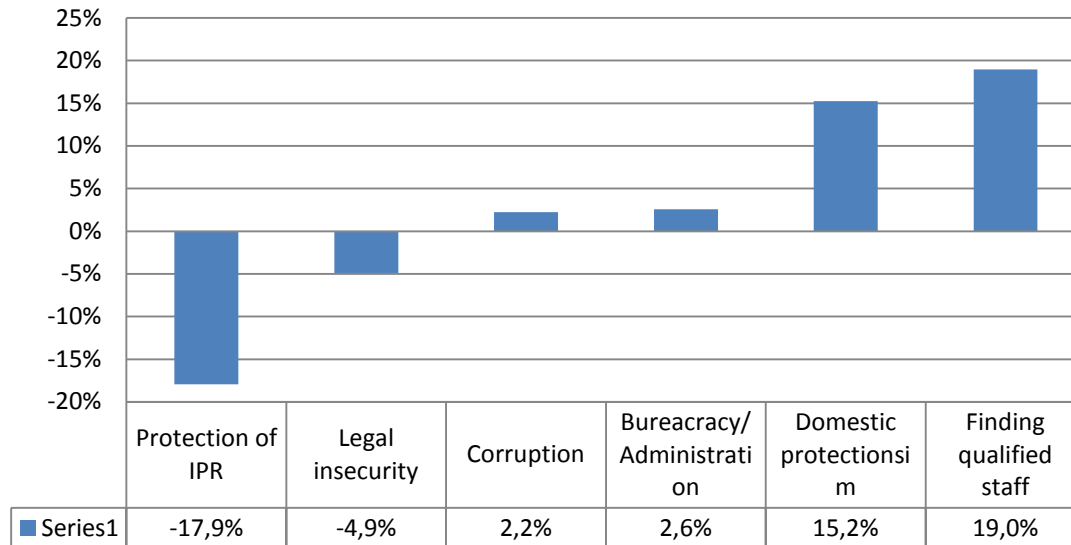
Changes compared with 2011



- Finding qualified staff & increasing labor costs still first but smaller challenge
- Currency and Energy/commodity prices considered to be less pressuring

Business Challenges 2012

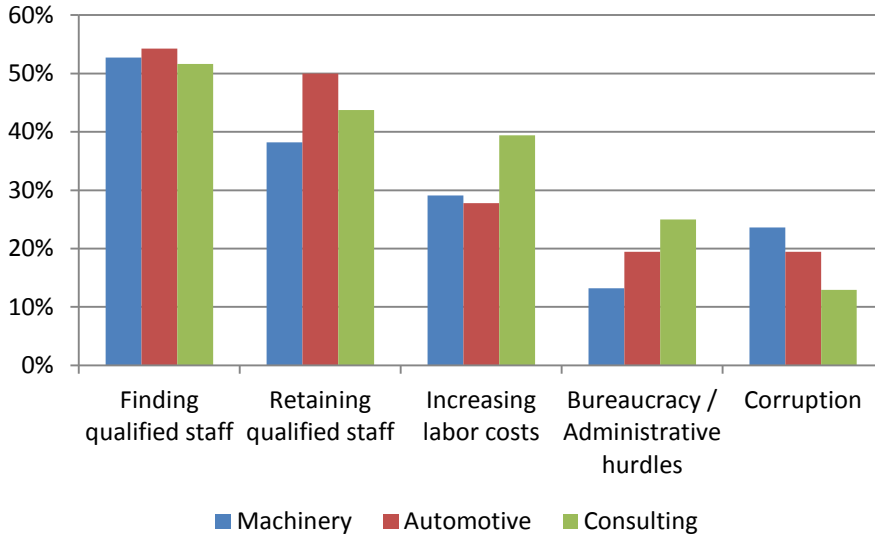
Changes of major challenges compared to 2007



- Legal environment improved
- Protectionism and HR-pressure increased

Business Challenges 2012

Comparison industries

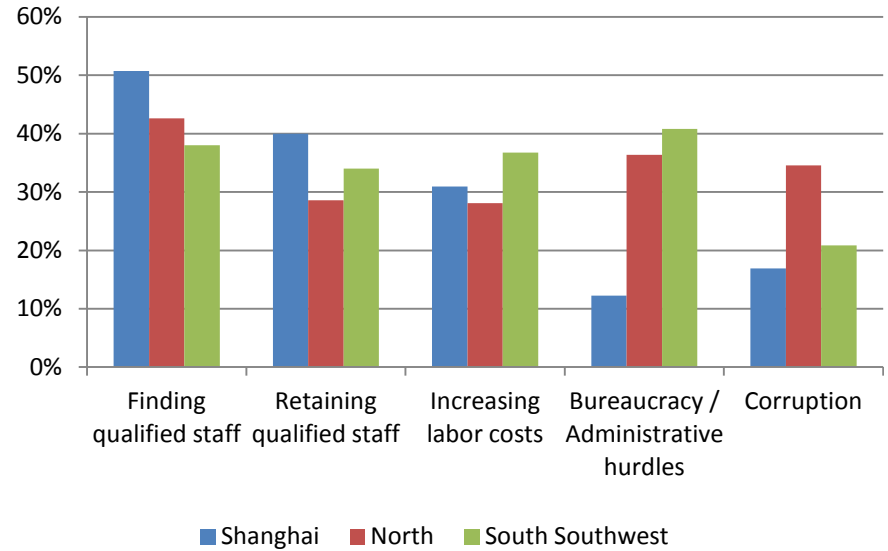


Q21: Top 10 Business challenges by industry

Comparatively more of an issue:

- Consulting - increasing labor costs
- Automotive - retaining qualified staff

Comparison regions



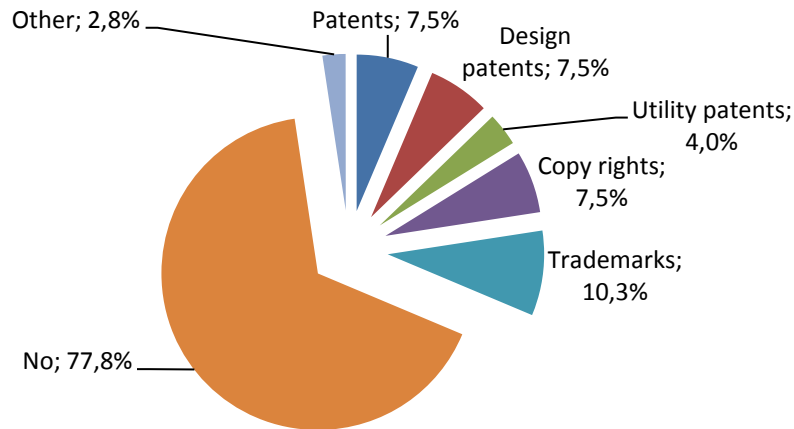
Q21: Top business challenges by region

Comparatively more of an issue:

- South & Southwest – bureaucracy & labor costs
- Shanghai – finding & retaining staff

Business Challenges 2012

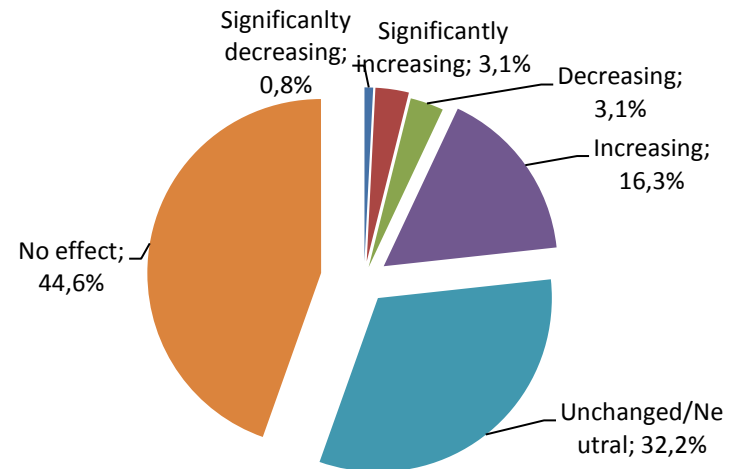
IPR confrontations initiated by local companies



Q19: IPR confrontations initiated by local companies n=252

- less than 25% have been confronted with IPR issues by Chinese companies

Expected effect on competitiveness through increase patent registration of local companies

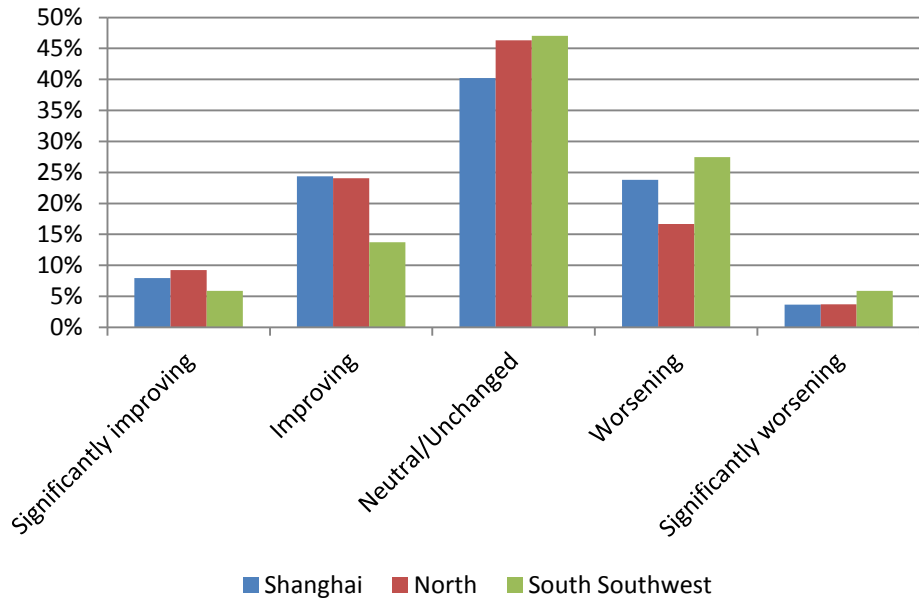


Q20: Impact on competitiveness of patent registration of local companies n=258

- 77% expect no changed impact
- 19% see increasing challenge

Business Outlook

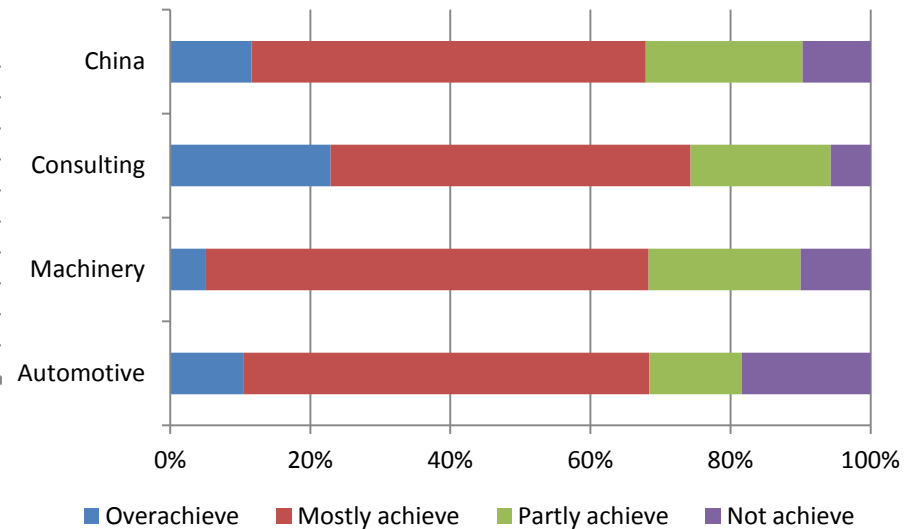
Economic conditions compared by region



Q14: Economic conditions n=268

- 1 out of 2 companies don't expect change
- Overall trend slightly optimistic
- South region most restraint outlook

Business targets by industry

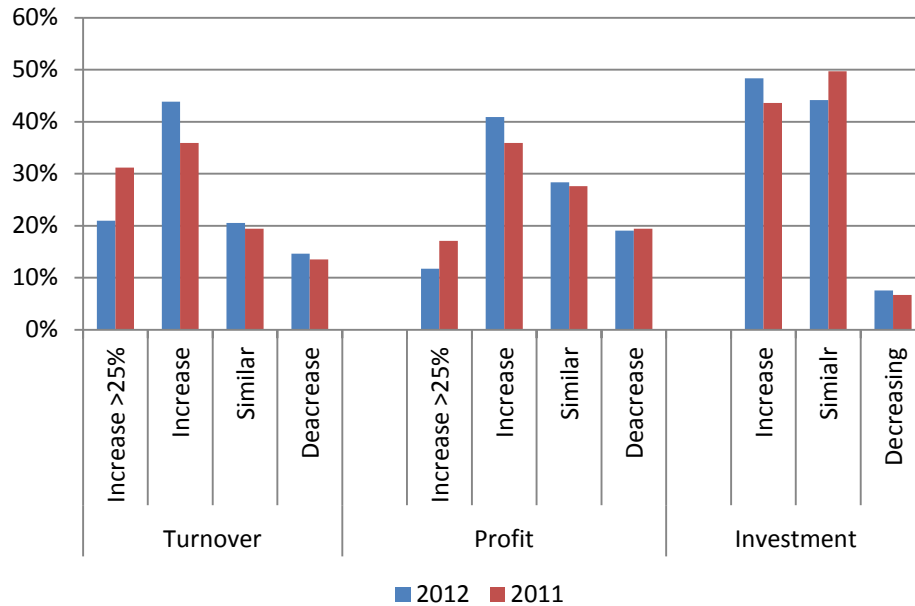


Q15: Business targets by industry n=268

- Over 70% will mostly reach their targets
- Consulting most overachieving
- Automotive more challenged with achieving targets

Business Outlook

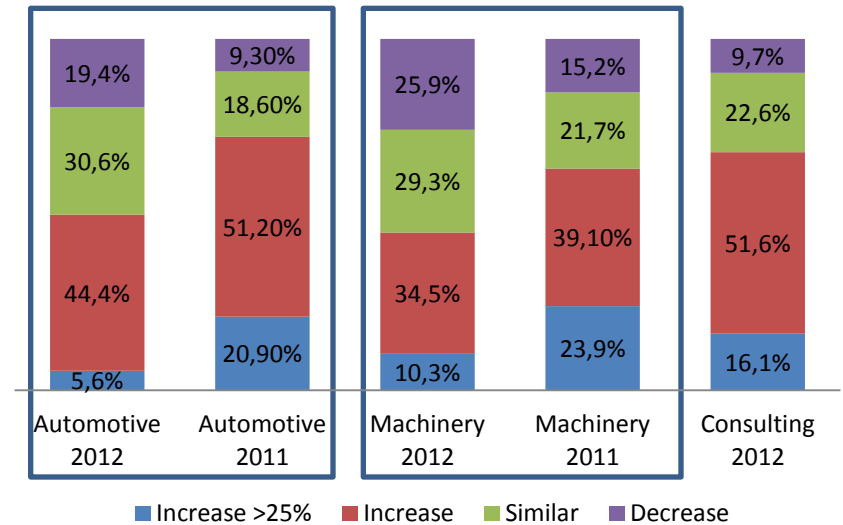
Expectations Turnover, Profit & Investment



Q16: Expectations for 2012 n=261

- Majority expects still increasing turnover, profit – but more leveled
- More investments planned

Comparison industries profit development



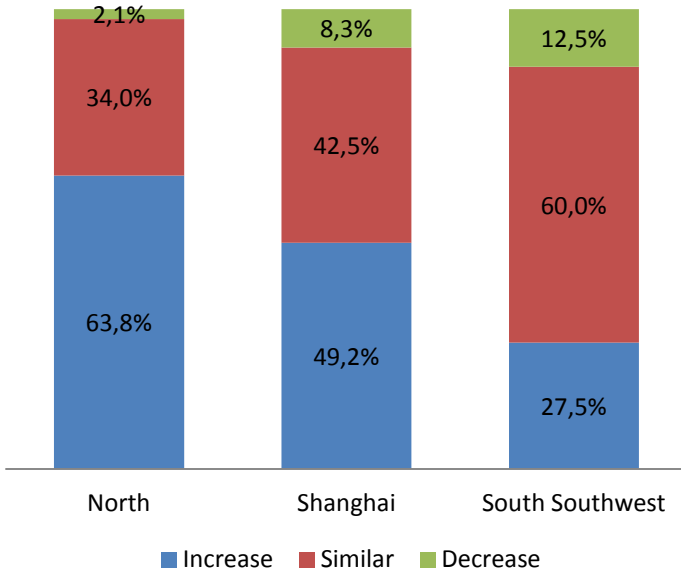
Q16: Profit Development for 2012 n=261

- In Automotive & Machinery less companies expect increasing profits
- Consulting above average expectations

Business Outlook

Origin of planned Investment

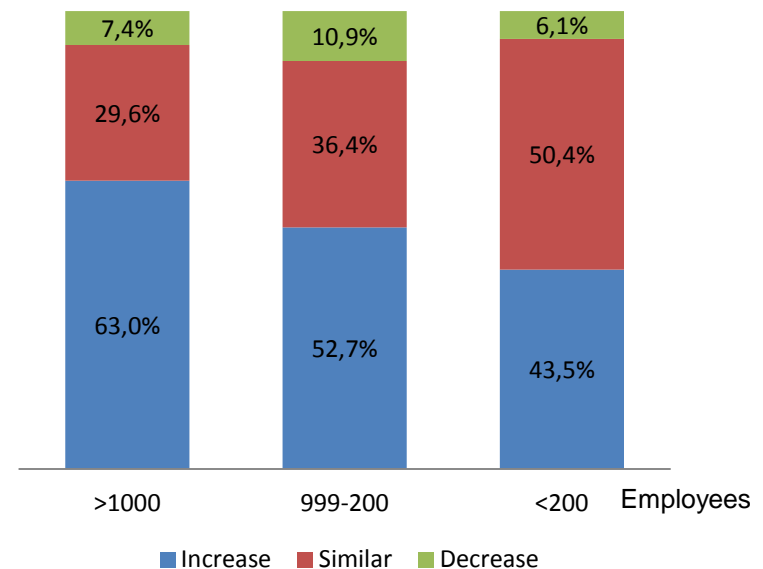
Comparison regions



Q16: Investment Outlook by company location n=261

- Investment outlook most optimistic in North - most pessimistic in South

Comparison company size



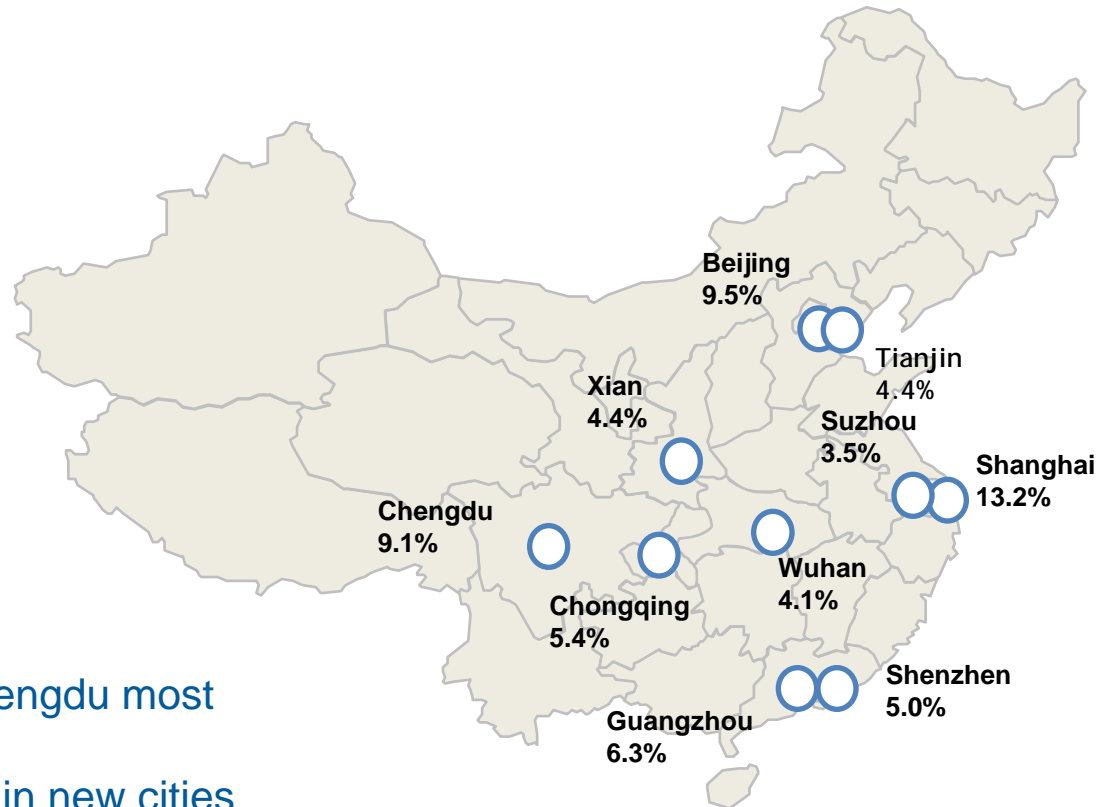
Q16: Investment outlook by company size n=261

- Increases in planned investment rise with company size

Business Outlook

Destination of planned Investment

Attractiveness of location for new investments



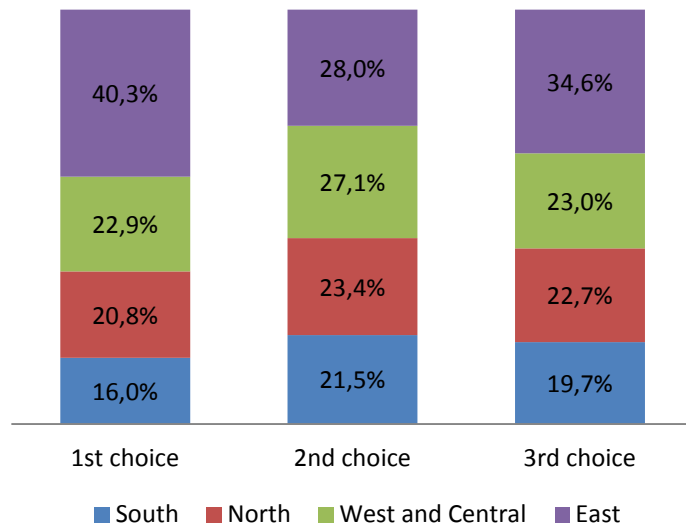
- Shanghai, Beijing & Chengdu most attractive
- 2/3 of new investments in new cities

Q17: New investment locations considered in next 3 years n=150

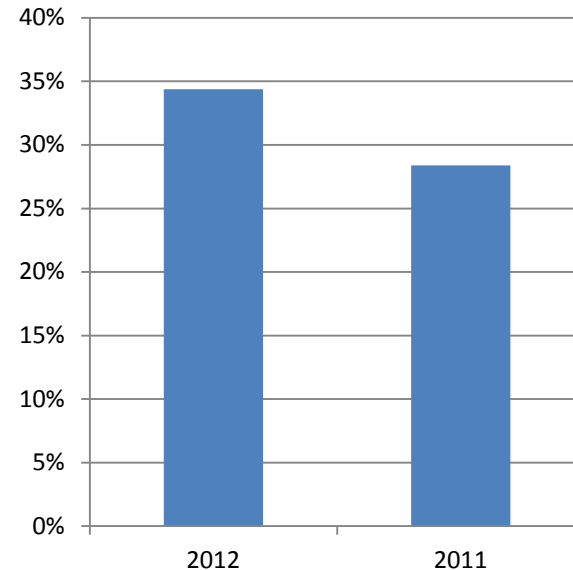
Business Outlook

Destination of planned Investment

Attractiveness of region for future investments



Attractiveness of Central & Western China for investments in new locations



- Coastal areas remain most attractive
- West and Central more attractive than North and South
- West and Central China becoming more attractive for investments in new cities



① Part 1 - Business Confidence

② Part 2 - Sales and Distribution Channels

In cooperation with





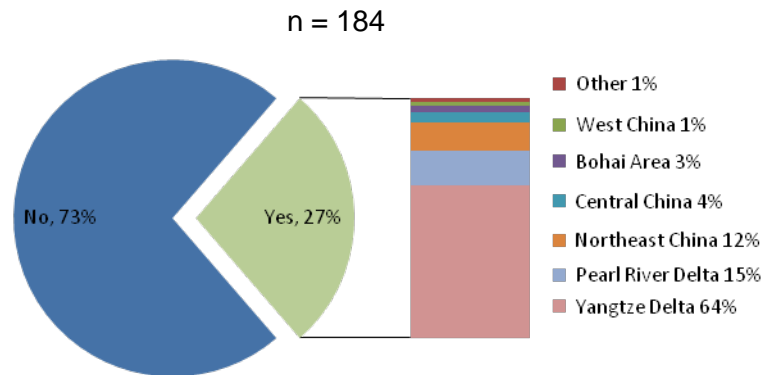
Key Findings

- ① Yangtze and Pearl River Delta were most important sales regions for German companies in 2011—yet greatest future growth potential in Central and West China
- ② Private customers (local and FIEs) are the most important customer segment in China - focus on domestic Chinese firms to further increase in future
- ③ Today, still strong focus on direct sales channel, however indirect sales channels will gain stronger importance
- ④ Direct sales channel in particular important for infrastructure business and large accounts where customer interaction and insights are crucial and complete value chain to be maintained in-house
- ⑤ Indirect sales channels are gaining importance especially to gain faster market access and overcome lacking market and customer know-how
- ⑥ Success factors for sustainable sales and distribution set-up in China: Increased efficiency, expansion of network coverage based on locally adapted products
- ⑦ Greatest challenges for sales and distribution in China: Find and retain right talents as well as competition in mid-markets and thereby increasing price pressure

Regional Sales Breakdown

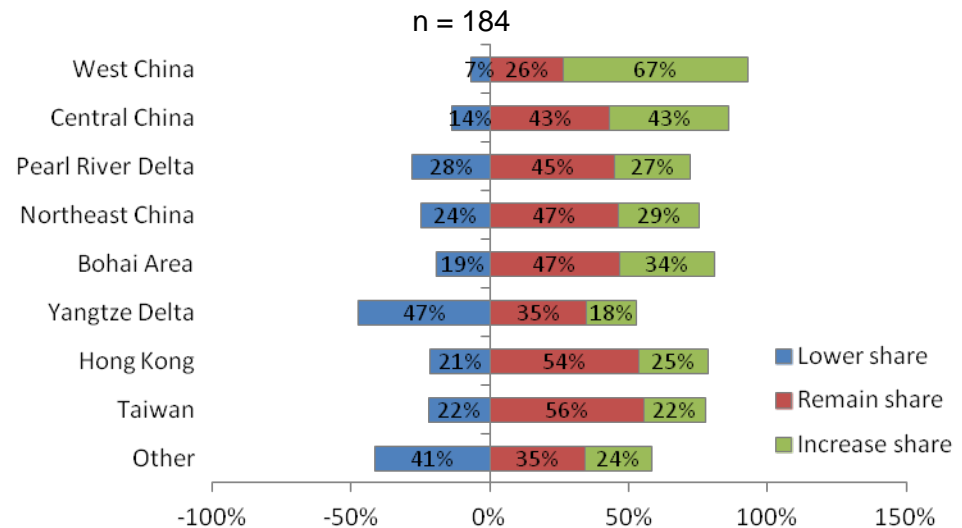
Yangtze and Pearl River Delta were most important sales regions for German companies in 2011– yet greatest future growth potential in Central and West China

Did you have a single most important region for your sales generation in 2011?



- Majority of German companies have sales operations all over China
- In 2011, a clear focus on Yangtze Delta and Pearl River Delta could be identified
- EAC project experience
 - Shift of production towards Central and West China
 - Set-up of smaller production entities in Central/ West China in addition to established ones along Coastal areas

Development of the sales share generated in the respective regions until 2015

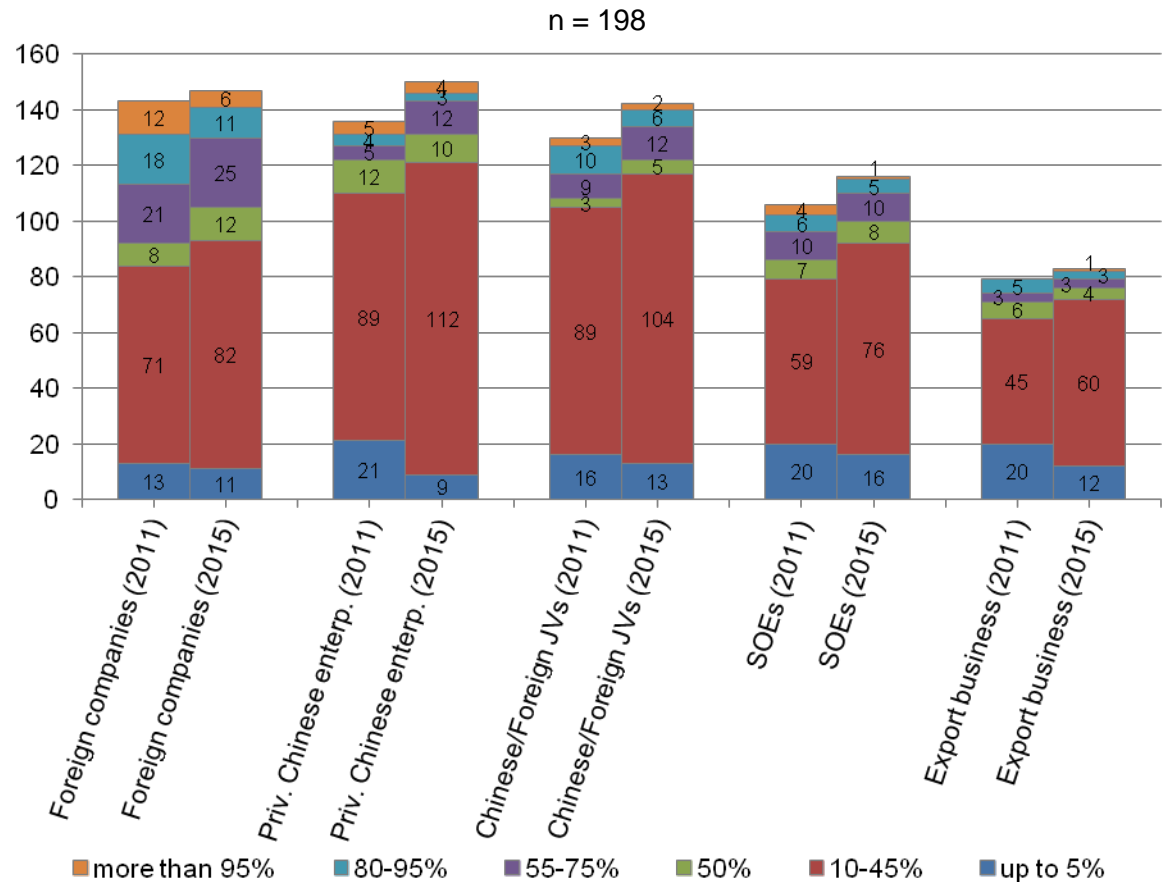


- Until 2015, Central and West China show greatest growth potential

Sales Breakdown by Customers

Private customers (local and FIEs) are the most important customer segment in China - focus on domestic Chinese firms to further increase in future

- Majority of sales generated from private industry enterprises
- German firms in China with highly diversified customer structure
- “Local for local”-sales, with German companies selling to private local enterprises shows greatest growth potential

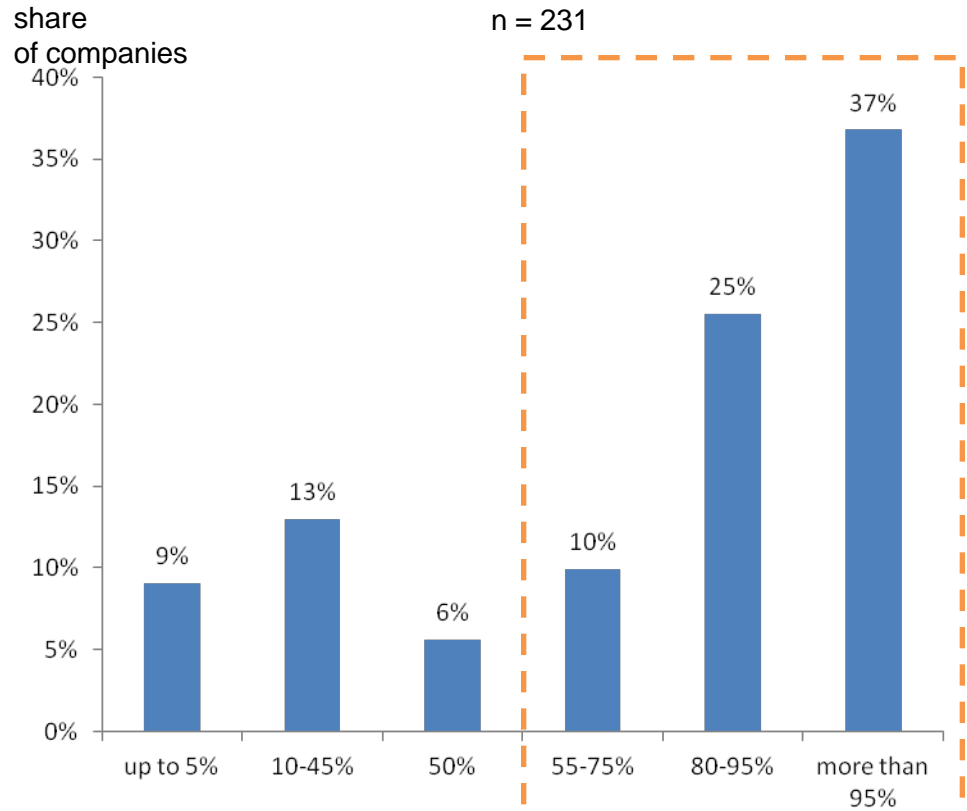


Usage of Sales Channels

Today, still strong focus on direct sales channel, however indirect sales channels will gain stronger importance

- Currently, strong focus on direct sales channel recognized as:
 - Distributor/ dealer structure was not established well enough in the past
 - Focus on few, economically important regions due to structural weaknesses in Central and West China
- For the future, an increasing importance of indirect sales channels, especially in Central and West China, foreseen due to increased localization and cost-cuttings
- EAC project experience
 - Identification of regional distribution channels for machinery company in Central/ West China

Share of direct sales among German companies in China

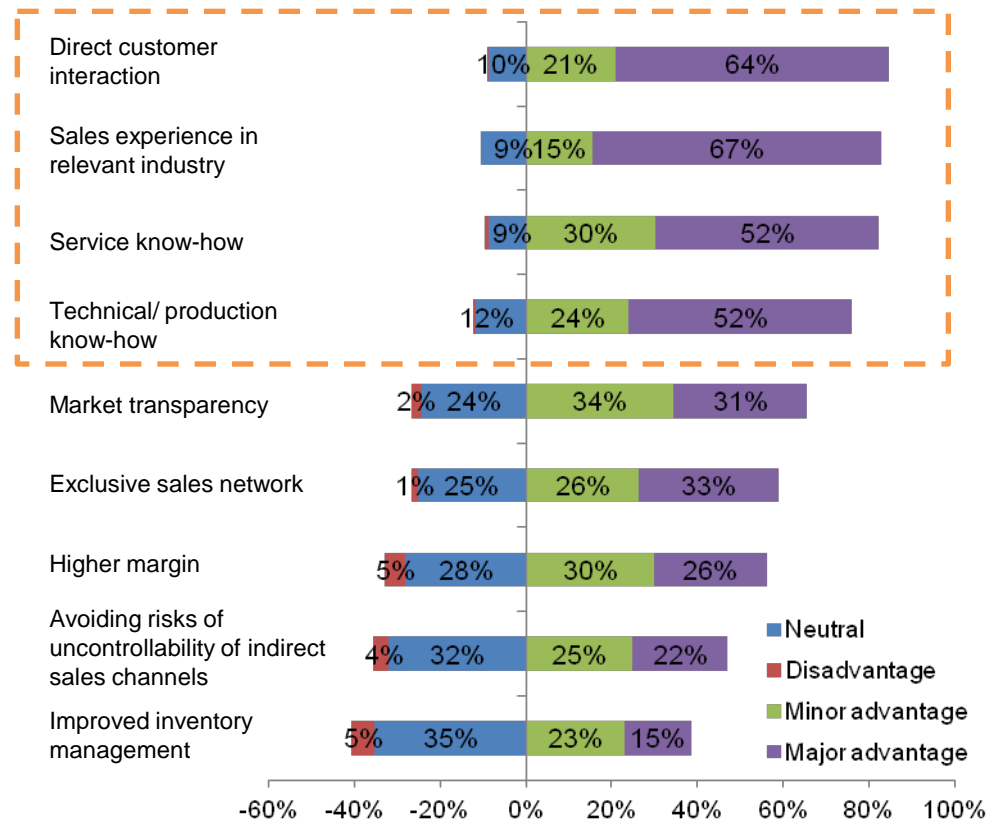


Direct Sales Model

Direct sales channel in particular important for infrastructure business and large accounts where customer interaction and insights are crucial and complete value chain to be maintained in-house

- Direct sales still preferred by majority of German companies
- Soft factors, such as mitigating risk of uncontrollability and improved inventory management are not perceived as specific advantage by majority of German enterprises
- EAC project experience
 - Direct sales will remain future key, especially for premium products sold to transparent customer groups (know-how and margin control)

Advantages for direct sales operations n = 221¹⁾

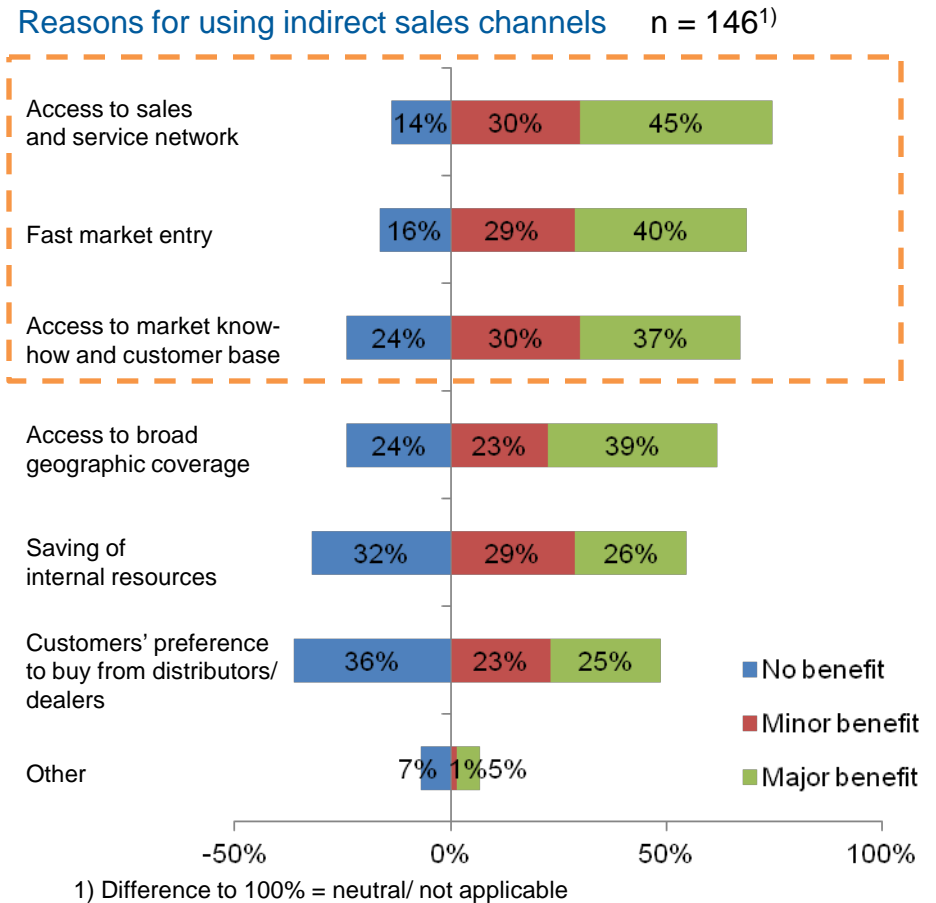


1) Difference to 100% = not applicable

Indirect Sales Model

Indirect sales channels are gaining importance especially to gain faster market access and overcome lacking market and customer know-how

- Due to size of China and growing economic importance of Central and West China, usage and/ or cooperation with distributors becomes increasingly important
- Especially fast access to distribution network, market and customer base identified as major advantages of indirect sales channels
- EAC project experience
 - Outsourcing of services to distributors to finance supply chain and better manage accounts receivable and/ or to mitigate risks, especially compliance issues



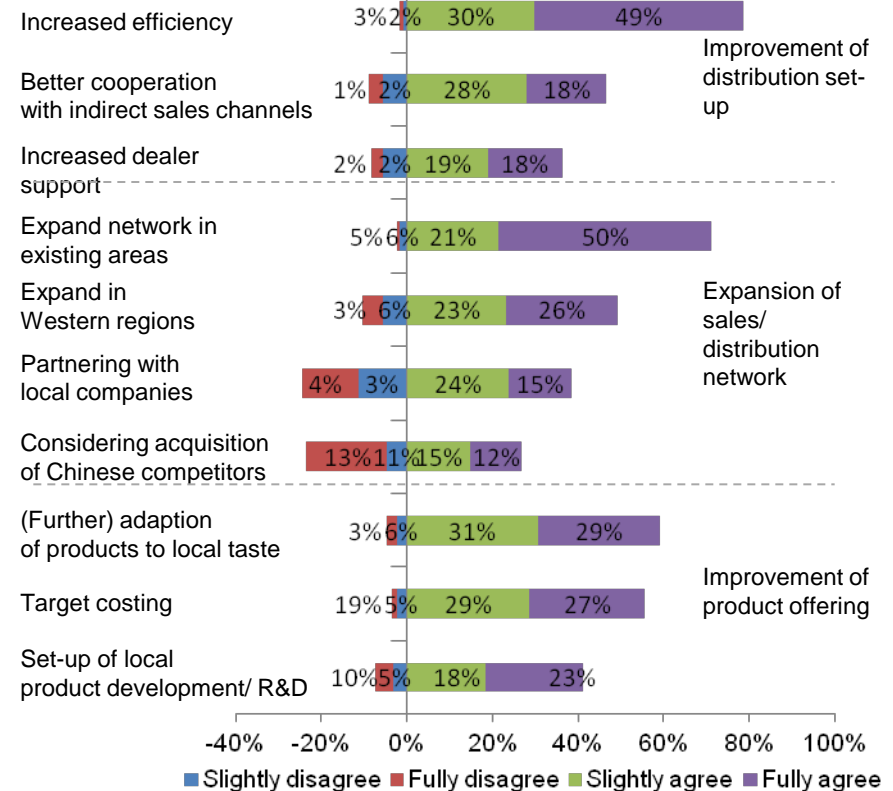
Sales and Distribution Set-up

Success factors for sustainable sales and distribution set-up in China: Increased efficiency, expansion of network coverage based on locally adapted products

- Majority of companies identified strong action demand for improvement of set-up
- Expansion of sales/ distribution network as one possibility to improve sales set-up
 - Network expansion in existing areas and West China as major concern
 - Partnering with or acquisition of local competitors seen as further potential step
- Improvement of product offerings regarded as fundamental way to strengthen sales activities
- EAC project experience
 - Reverse Engineering for local product adaption
 - Development of tailor-made solutions for mid-market products for Chinese market

Planned activities to strengthen sales and distribution set-up

n = 228¹⁾



1) Difference to 100% = neutral/ not applicable

Challenges of distribution set-up

Greatest challenges for sales and distribution in China: Find and retain right talents as well as competition in mid-markets and thereby increasing price pressure

- Greatest challenge for German companies is finding right sales people and management to successfully develop distribution set-up
- Additionally, German companies are increasingly challenged by local companies due to low product costs, but also improving product offering and quality
- EAC project experience
 - Restructuring projects of currently established sales and distribution set-up
 - Regional distribution concept to cover all provinces in China by using distributors

Major challenges for achieving sales and distribution goals

n = 230¹⁾

