



TOWARDS A SECOND HOME MARKET STRATEGY

Is your China organization empowered for future growth opportunities?



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Due to its continuous outperformance (further accelerated by COVID-19), the Chinese market has become the **biggest, fastest growing and most important sales market** for numerous multinational companies.

But to sustainably participate in domestic growth opportunities, **enterprises increasingly need to become more China-centric**. We have recently witnessed a trend of foreign firms willing to further invest in their China **footprint, capabilities and value chain** – gradually establishing a second gravity center for their global businesses.

For China to truly become a “2nd home”, MNCs need to build an organization that is **supported by the headquarters** and involved in global processes, while at the same time also being **agile and empowered** enough for quick decision-making and local execution.

When aiming to pursue a 2nd-home-market strategy, key questions to consider regarding your **organizational readiness** include:

- ▶ Are all stakeholders from both the HQ and local subsidiary aligned on a **joint vision and strategy**?
- ▶ What is the **maturity of your China organization** across the value chain? What kind of **global governance** frameworks exist?
- ▶ What kind of **functional capabilities** are needed or need to be enhanced in China?
- ▶ In which areas (products, processes, digital tools) is further **localization** required?
- ▶ What are local “**growth enablers**” and what kind of **cross-functional alignment** do they require?
- ▶ How can **the China organization be empowered** to successfully implement organizational development initiatives?

A NEED FOR LOCAL EMPOWERMENT

Previously only treated as a source of cheap products for other markets and an upcoming niche growth story, **the Chinese market is now the major revenue driver for many enterprises.** The more exposure foreign firms have in China, the more they understand that **this dynamic country requires a unique strategy and market approach.**

In most cases, this can only be achieved by committing to **more localization** – be it adapting products, building up capable local teams, or giving more decision power to the China management. In our consulting practice we observe that **this process can be challenging for many deep-rooted companies** but is required to sustain growth in an increasingly competitive market environment.

“Foreign businesses need to think in a more Chinese way.”

Daniel Berger,
Partner
EAC Shanghai

STRATEGIC LEVERS & FUNCTIONAL ENABLERS

In order to get clarity on strategy and transformation needs, EAC developed a **matrix-based approach to map and cluster required actions connected with strategic targets.** The process connects management view and functional expertise in an approach that is **strongly driven by workshops and 1-on-1 exchange facilitated by EAC.**

	Value Proposition			Value Creation			Value Delivery		
	Market Insights	Product Mgmt.	Product Dev.	Sourcing	Manu- facturing	Distri- bution	Marketing	Sales	Service
Growth Level I									
Growth Level II									
Growth Level III									
Growth Level IV									

For example, if a strategic growth lever is developing a new sales channel, the matrix summarizes all enabling actions that are required from the relevant functions, e.g. marketing activities, adapted products, service capabilities, etc. **This approach can thus help to create cross-functional commitment and responsibilities.**

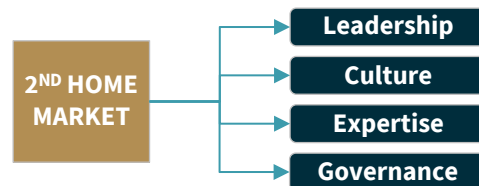
ASSESSING ORGANIZATIONAL MATURITY

Multinational companies often face challenges when their **China organization is growing organically but working structures and global alignment processes cannot keep up**, due to:

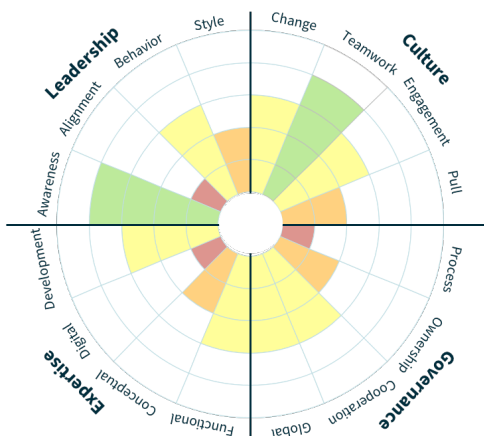
- Few clearly defined internal (and cross-functional) processes
- Immature and inefficient organization structure
- Lack of established global governance and decision-making systems

However, these **common issues usually arise slowly and on a working level first**, not receiving the top management attention that would be required. In addition, there is a lack of data and cross-company evaluation to determine the most problematic areas where the company needs to invest.

Therefore, **EAC has developed a comprehensive framework for assessing a company's organizational maturity** and providing 360-degree feedback. In our model, organizational maturity is measured in **four areas**: leadership, culture, expertise and governance. Each area again has four sub-dimensions, which can be specified based on each client's need.



Data is collected via self-assessment across functions and regions, resulting in a **unified data-based picture for prioritization of further improvement measures**.



Heatmap of Organizational Maturity

Advantages of this Assessment:

- ▶ Involvement of the entire organization – from leadership to functional teams – fostering deeper thinking about organizational maturity
- ▶ Cross-regional feedback, where the HQ can rate China and vice versa
- ▶ “My voice is heard”: issues can be raised by employees bottom-up in an anonymous way
- ▶ Known but previously unquantified existing challenges are clearly laid out
- ▶ HR department can subsequently identify measures to improve most critical areas

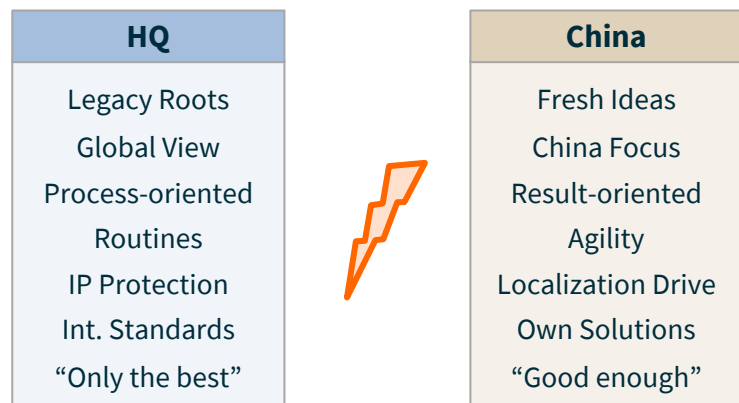
GLOBAL GOVERNANCE

However, empowering and enabling the China organization usually is not enough. At the same time, the **Chinese team also needs to be integrated into global processes and governance framework.**

Key strategic questions include:

- What **freedom of decision-making** is needed to cater to the Chinese market? When/ when not is HQ involvement mandatory?
- How can the China organization prepared to act more independently and take ownership? Where is increased **local empowerment and autarky** necessary to drive growth?
- How does the organization in China interact systematically with the HQ? How are **cross-regional processes** designed?
- Which **alignment and decisions platforms** are needed between China and the HQ?
- How can global strategy and processes be **cascaded down** into the functional teams in China?
- What kind of **China understanding** exists in the HQ? In which way does the HQ have to adjust?

DIFFERENT PERSPECTIVES



In order to align diverging perspectives between the HQ and China and to prevent potential conflicts, **companies need to deeply think about their global governance systems** – both on a management level as well as in day-to-day working processes.

EAC as a neutral outsider with experiences in both Europe and China can support this effort by **facilitating communication and providing a fresh external view based on best-practice insights.**

EAC CASE STUDIES – OUR LATEST PROJECT EXAMPLES



CHINA GROWTH CHECK

- Identification of key functional enablers based on defined growth strategy
- Prioritization & action plan development
- China organization maturity assessment
- Alignment across functions in collaboration with HQ



ORGANIZATIONAL READINESS

- Outlining of inefficiencies in organizational structure, business process & interfaces
- Analysis of functional capabilities to achieve organizational readiness for future business model



CHINA AS ASIA HUB

- Organizational design for APAC distribution center
- Mapping of new volume streams
- Integration of Asia distribution center in Group structure



PRODUCT LOCALIZATION

- In-depth inquiry of localization need for machinery producer in terms of “design-to-value”
- Supplier search for purchasing localization

> 25 YEARS CONSULTING EXPERIENCE
> 50 COUNTRIES
> 2,000 PROJECTS

= OUR EXPERTISE



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