

Suppliers can reap big benefits from China's hi-tech boom

The boom in China's hi-tech manufacturing has made the country a major market for vacuum technology. While challenges abound for foreign suppliers, the rewards can be great for those that can master the Chinese way of doing business.

China has the fourth largest economy in the world (in terms of gross domestic product) and has enjoyed an annual growth of about 9% throughout the past decade – more than double the global average. The country is home to a booming hi-tech sector, including a massive semiconductor industry, which is a big end user of vacuum technology.

The main opportunities for foreign suppliers are in the high-end vacuum market, which serves China's semiconductor, metallurgical, solar-cell, medical, optical and other hi-tech industries. This high-end equipment is still largely made by US, European and Japanese firms, according to Kuno Herrmann, sales and marketing manager for Pfeiffer Vacuum. He estimates that this market is worth some €80 m per annum.

Although foreign companies have been selling in China for decades, the vacuum market took off about five or six years ago, says Frédéric della Faille, vice-president of sales at Alcatel Vacuum Technology. As a result, most leading vacuum suppliers have responded by opening sales offices and service centres there.

"Having a 'presence' is very, very important," said Ting Zhang, founder and CEO of China Business Solutions Ltd, a UK-based business consultancy. A Chinese presence allows a firm to build trust by being closer to potential customers, and a local office can deliver more and better training and support to customers. "Before, there was very little need for this kind of upkeep," said della Faille, because many vacuum users in China simply threw out their pumps after a few hundred hours and just bought new equipment.

Indeed, convincing buyers to invest in higher-quality vacuum equipment that will last has been a key challenge. Many Chinese customers look for the lowest bid, even though the higher initial costs of a well designed system are usually offset in the long run by a longer lifetime and significantly more efficient operation. "We have made this argument successfully in other parts of the world," said Mark Fitch of Vergason Technology, but "it often falls on deaf ears in China".

Understanding and adhering to industrial regulations in China can also be a major challenge for foreign vacuum sup-

Michael Schirber surveys the rewards and challenges of doing business in China.



Shenzhen: central to China's hi-tech boom.

pliers. Local interpretations of the law can vary significantly throughout the country, so a firm must develop good working relationships with people in administrative positions. "The most popular buzz word for foreign business people in China is 'guanxi,' which means 'connections,'" says Zhang. Oerlikon Leybold Vacuum got guanxi by retaining a business consulting firm that had been working in China for some time. "You need to know someone there who understands the regulations and knows how to haggle," explained Christina Steigler of Oerlikon Leybold.

Another way of dealing with the intricacies of the Chinese system is to hire locally. Although there is a large pool of skilled workers in China, Steigler's experience is that few of them are able to speak English. Also, once a qualified Chinese employee

has been identified, retaining their services can be difficult because employee turnover rates are often as high as 30%, according to Zhang.

After establishing a presence in China, the next step for a company is to start a manufacturing operation there. While this could be done through joint ventures with established Chinese businesses, many firms have legitimate concerns that their intellectual property will not be respected.

To minimize the risk of patent infringement, Oerlikon Leybold has been operating its own manufacturing site in China since 1997. According to Steigler, the facility has lower production costs than plants in the West and can avoid certain import fees. In addition, she believes that the "made in China" mark is a selling point with local companies, although it is less important for multinational customers.

Making it in China is not easy, and some vacuum companies have already failed. The lack of a suitable infrastructure for supporting foreign manufacturers is still a problem, according to Herrmann. However, the overall situation for manufacturers is improving in China, says Zhang, with many regulations being updated, a growing awareness about intellectual property rights and a greater number of young people learning English.

Despite the problems, Herrmann believes that the high-end vacuum will enjoy an annual growth rate of at least 10% in the foreseeable future. He is confident that more foreign companies will start production in China. "It's only a question of when," he said.

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