

A nighttime photograph of a city skyline, likely Shanghai, featuring the Oriental Pearl Tower and other skyscrapers. The image is overlaid with a semi-transparent blue filter. A white diagonal line runs from the top left towards the center. The title text is centered in white.

# Sino Benelux Business Survey 2017 Report

MOORE STEPHENS

# Disclaimer

- This document has been prepared by Moore Stephens Consulting (Shanghai) Co., Ltd.
- The results of the Sino Benelux Business Survey (2017) only reflect answers given by companies on questions asked through the questionnaire and interviews conducted with Benelux senior management and entrepreneurs. The Survey took place in March 2017 and in cooperation with 1421 Consulting Group 12 interviews were conducted across Beijing, Shanghai and Shenzhen during the same month.
- Moore Stephens Consulting (Shanghai) Co., Ltd. is not liable for the use of the information included in this document.

# Sino-Benelux Business Survey

In collaboration with the Benelux Chamber of Commerce in Shanghai, Beijing and Pearl River Delta (PRD) and with 1421 Consulting Group, we investigated the performance and expectations of Benelux businesses in China and researched how companies deal and adapt to changes within their environment.

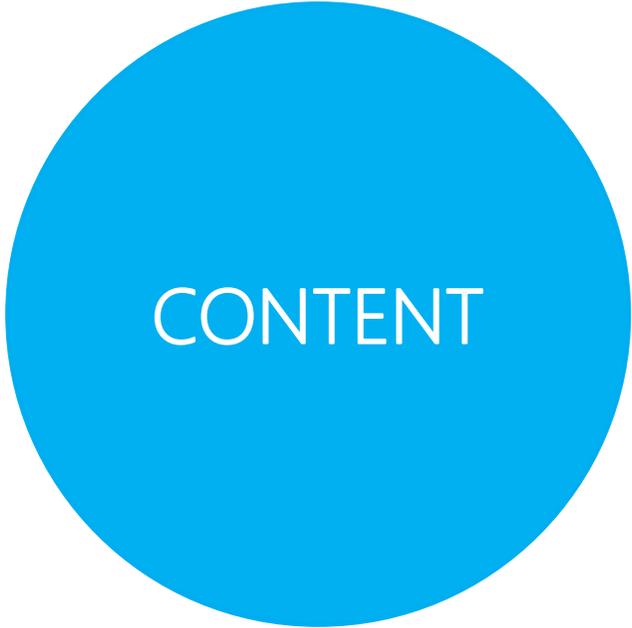
We organized both an online questionnaire that was shared by mail, newsletters, WeChat and LinkedIn and interviews that took place face to face or by phone.

In total 68 companies participated in our questionnaire and 12 entrepreneurs and senior managers have been interviewed mainly across Shanghai, Beijing and PRD.

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**BENCHAM**  
BENELUX CHAMBER  
OF COMMERCE  
IN CHINA



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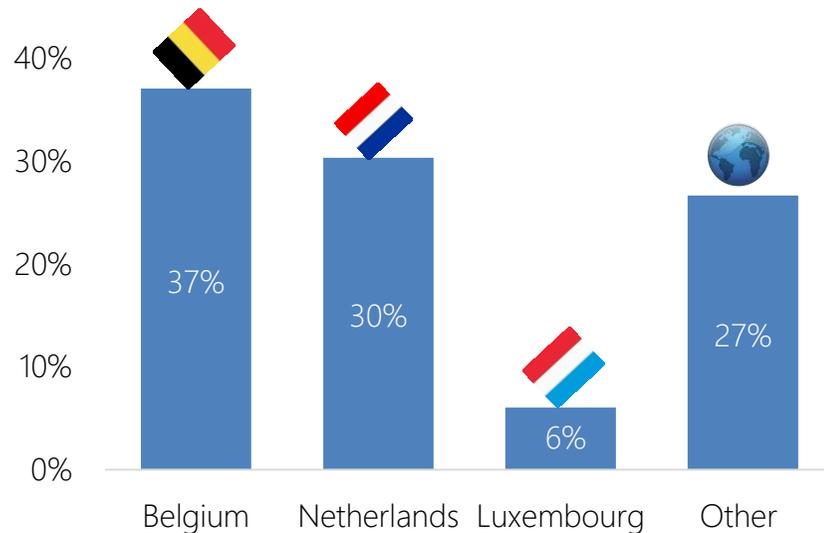


# Questionnaire Demographics

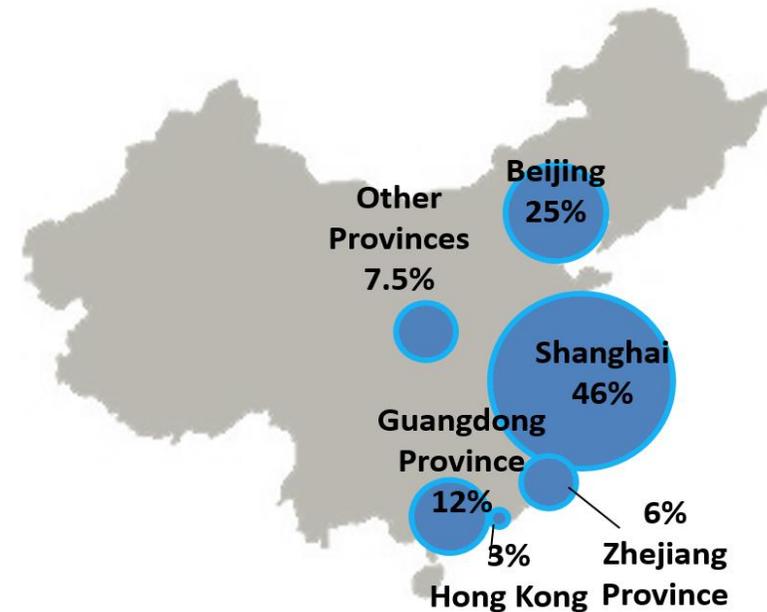
*Which companies participated  
in the Sino Benelux Business  
Survey this year?*

# Geography of the respondents

## Parent company



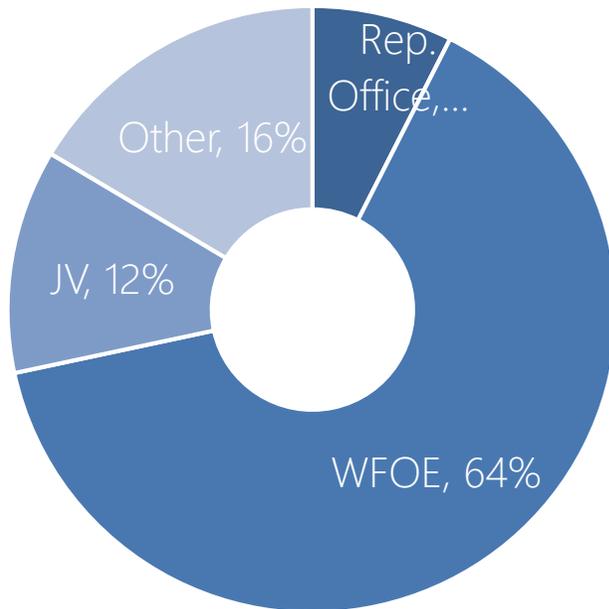
## Region in Mainland China



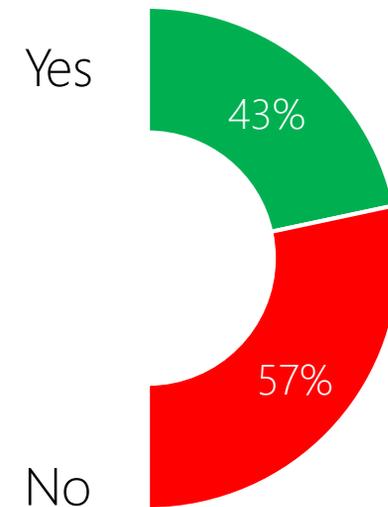
- On average the respondents had **9.7 years** of formal operations in China.
- In total, **73% of the respondents** are subsidiaries of Benelux companies; the remaining 27% of respondents have either strong relations with the Benelux market or have management from Belgium, the Netherlands or Luxembourg.
- Similar as last year's business survey, **mostly companies** from first-tier cities in China have taken part and which is in line with reality of business in China.

# Entry modes in China

## Company structure



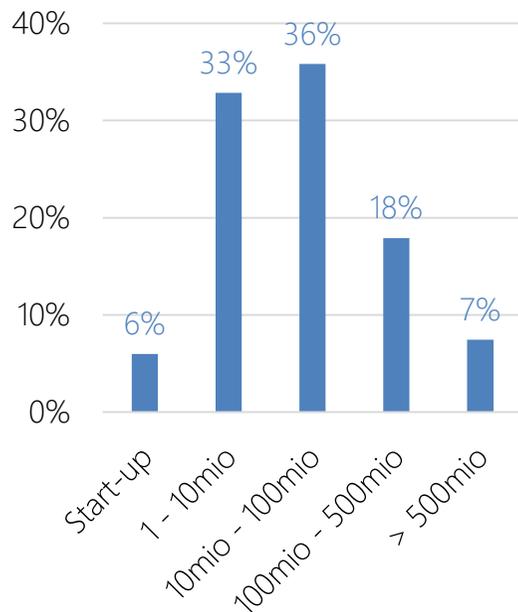
## Use of a Hong Kong Limited company?



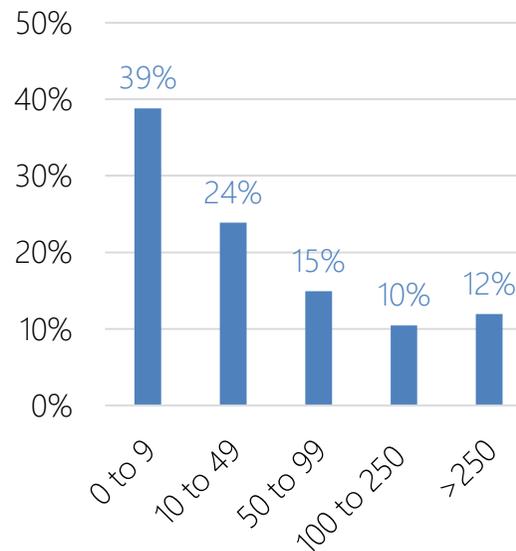
- A total of 76% of the respondents have entered the Chinese market via either a **Wholly Foreign Owned Enterprise (WFOE)** structure or a **Joint Venture**
- 'Other' company structures include: domestic enterprises; foreign establishments (i.e. Dutch B.V); and management contracts.
- Less than half of the respondents have made investments into China via a Hong Kong Company.

# Type of companies

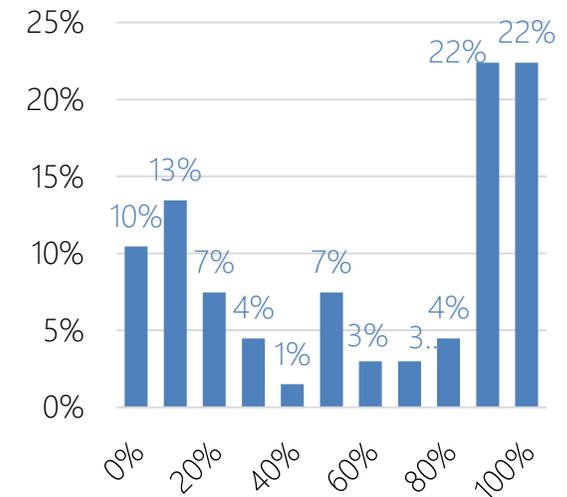
## Size by revenue



## Size by employees

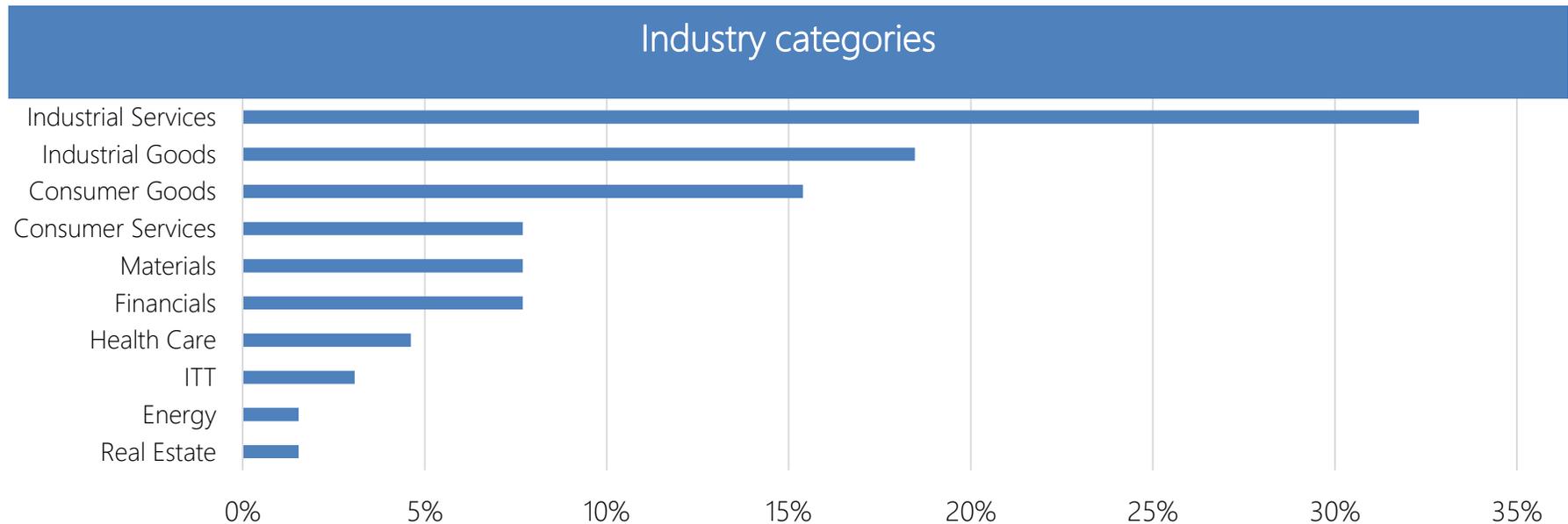


## % of revenue from customers in China



- Based on revenues and employees within China, **2/3 of the respondents can be considered as SME.**
  - A total of 69% of the respondents have a revenue size from 1 to 100 million RMB;
  - A total of 63% of the respondents have less than 50 employees in China;
- Compared to last year's survey, **more companies indicate to be focused on Chinese customers.**

# Industry sectors represented



- As of last year's survey, Industrial Goods & Services are the most represented industries with approximately 50% of the respondents. Also 25% are related to Consumer Goods & Services;
- When cross-comparing these results, **3/4 of the respondents** within Industrial Goods & Services **are making 50% or more of their revenue within China.**
  - In the Industrial Goods category, all respondents have revenues higher than 10 million RMB and a total of 33% of the respondents in this category make 90% or more of their revenues with Chinese customers.
  - Within the Industrial Services category, only 38% of the respondents have revenues above 10 million RMB but a total 67% of the respondents make 90% or more of their revenues with Chinese customers.

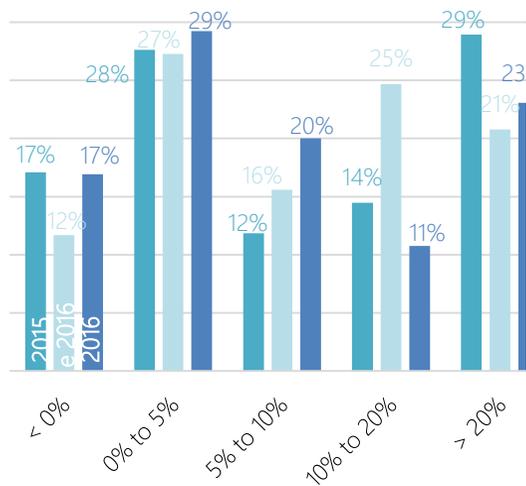


## Overview 2016

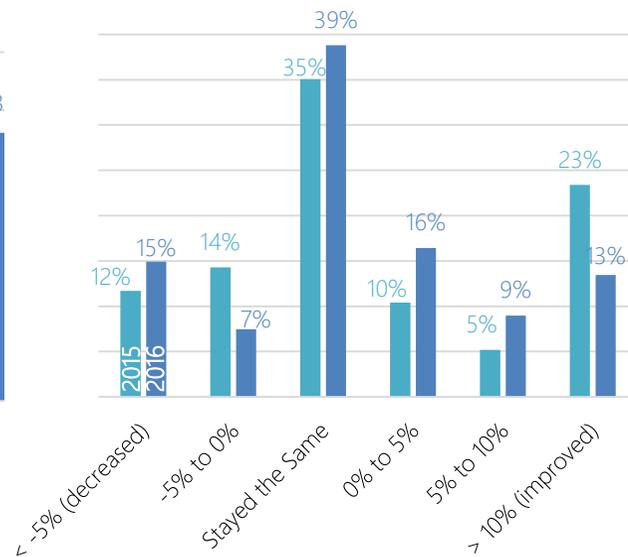
*What was the overall business performance in 2016 and what were the drivers of this performance?*

# 2016 Business performance

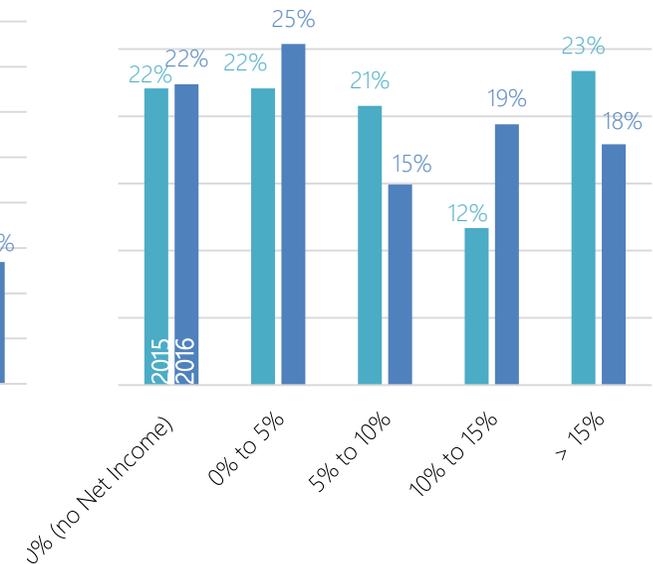
## % Revenue growth



## % Change operating margin



## Profit as % of revenue

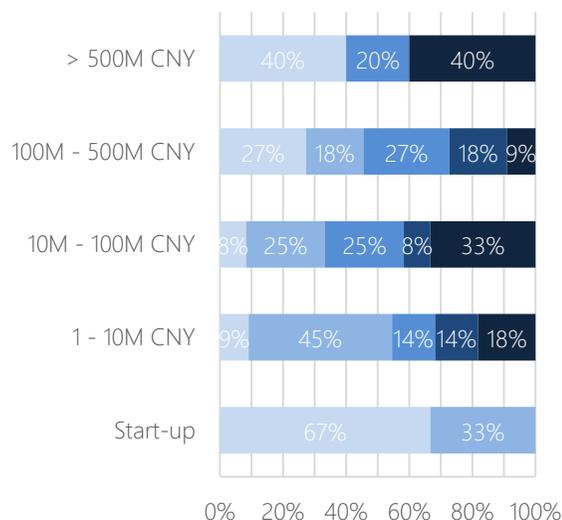


- 54% of the respondents have revenue growth above 5% in 2016.
- Similar to last years survey, most of the respondents indicate their operating margin to stay the same or to improve.
- A total of 52% of the respondents have profits above 5% of their revenues in 2016.

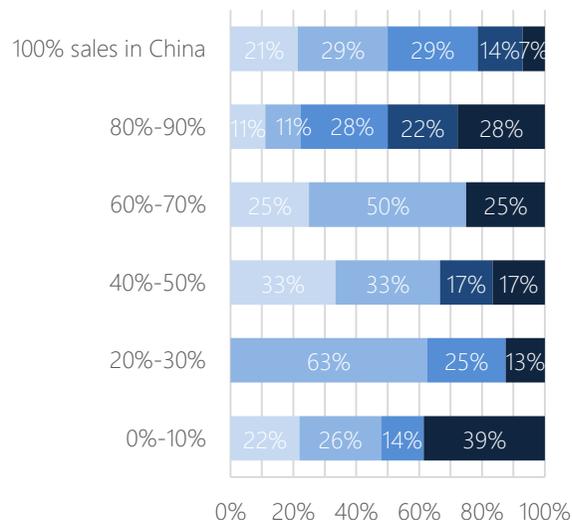
- 2015 results and 2016 expectations figures come from the 2016 Business Survey
- 2016 results come from the 2017 Business Survey

# Revenue growth per type of company

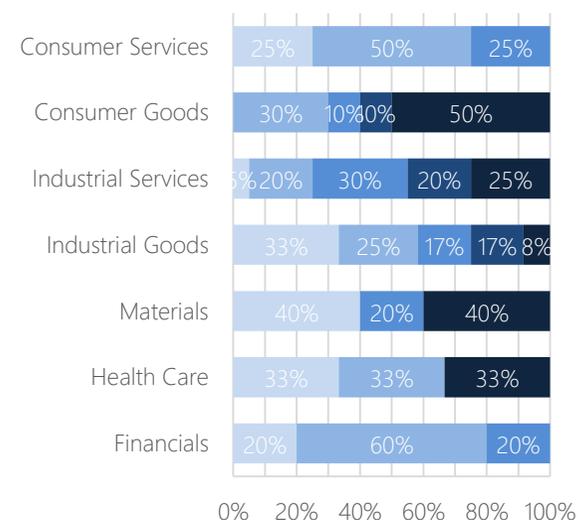
## Revenue growth per size



## Revenue growth per sales in China



## Revenue growth per sector

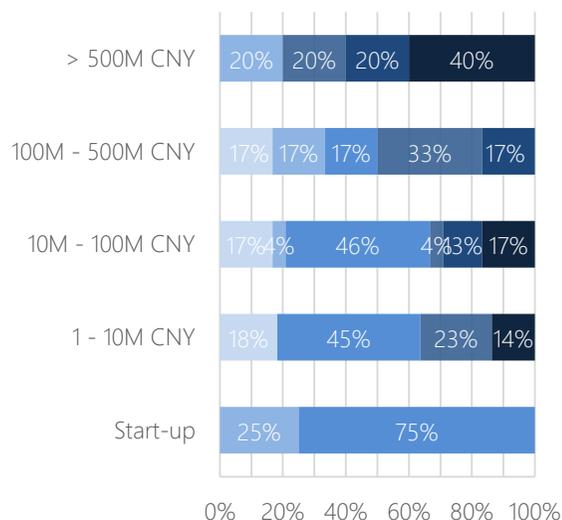


Legend: < 0% (lightest blue), 0% to 5% (light blue), 5% to 10% (medium blue), 10% to 20% (dark blue), > 20% (darkest blue)

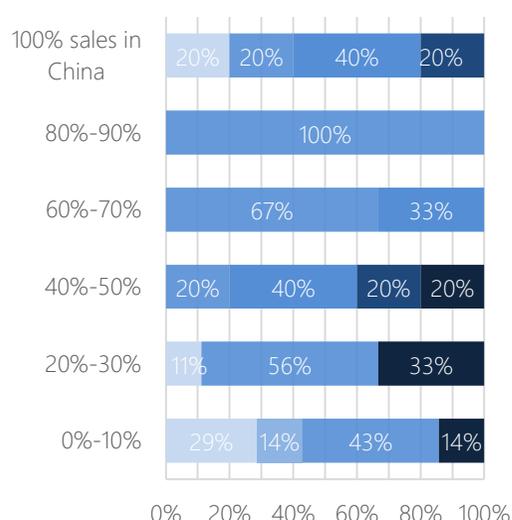
- Respondents from the **Consumer Goods** Industry indicate strong growth in 2016; approximately **50%** of the respondents indicate to have revenue growth of more than 20%.
- **67%** of the **start-up companies** (with revenues of less than 1 million RMB) indicate to have experienced a decrease of their revenues in 2016.
- Companies focused on Chinese customers have mostly indicated positive revenue growth rates; However, 39% of companies focused solely on customers out of China indicate to have grown with more than 20%.

# Operating margin per type of company

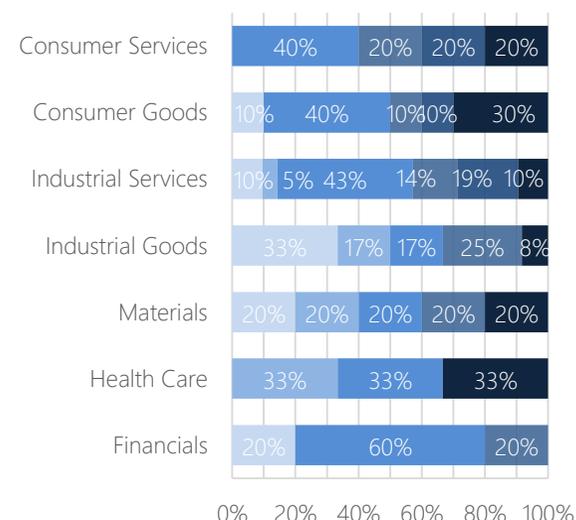
% Change operating margin per size



% Change operating margin per sales



% Change operating margin per sector

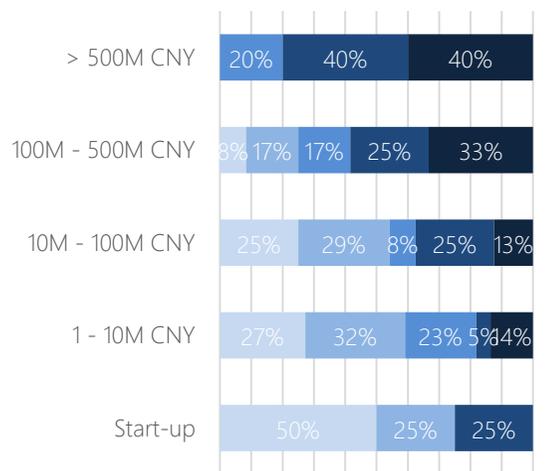


■ < -5% ■ -5% to 0% ■ stayed the same ■ 0% to 5% ■ 5% to 10% ■ > 10%

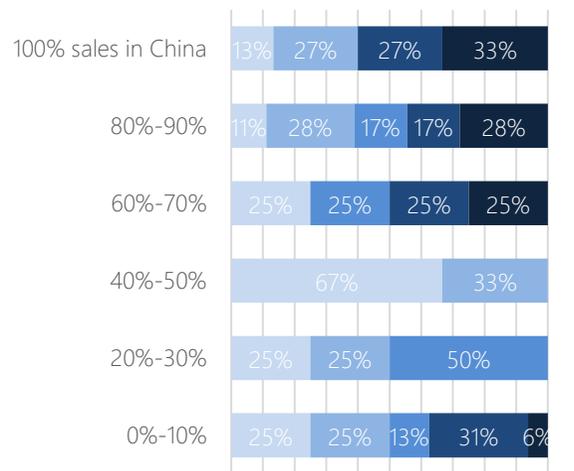
- 60% of the respondents with revenue above 500 million RMB have seen their operating margin increasing with more than 5%. On the other hand, all companies with revenues under 1mio RMB indicate that their operating margin remained the same or decreased.
- Respondents focused on sales outside the Chinese market are particularly positive about their operating margin. For companies focused on the Chinese market, the operating margin mostly remained the same.
- Respondents from the Consumer Goods & Services and Healthcare industries have their operating margin increased the most compared to other industries.

# Profit as % of revenue per type of company

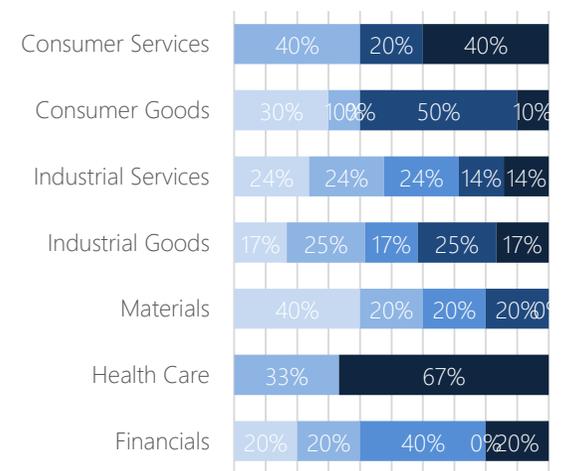
## % Profit per size



## % Profit per sales in China



## % Profit per sector



0% 20% 40% 60% 80% 100%

0% 20% 40% 60% 80% 100%

0% 20% 40% 60% 80% 100%

■ < 0% (no Net Income) ■ 0% to 5% ■ 5% to 10% ■ 10% to 15% ■ > 15%

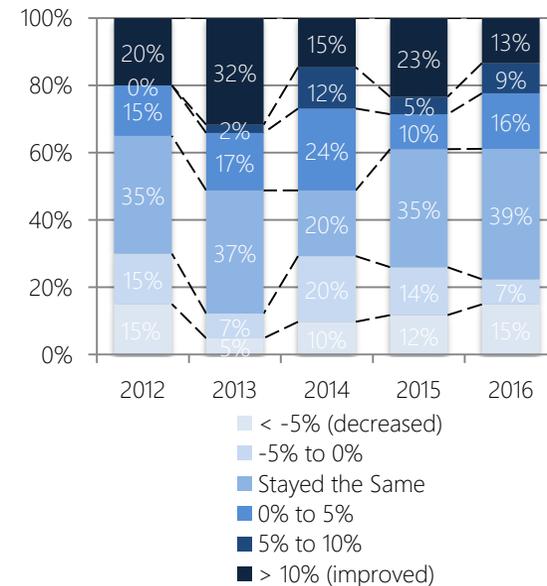
- Larger size companies (revenue above 100 million RMB) indicate to be more profitable; 50% of start ups companies are making losses.
- Respondents selling only or mostly to Chinese customers show to have higher profit rates; 60% of the respondents selling 100% to customers in China had a profit margin higher than 10% in 2016.
- The industries with respondents having the highest profit margins were Consumer Goods & Services and Health Care.

# Compared to previous business surveys

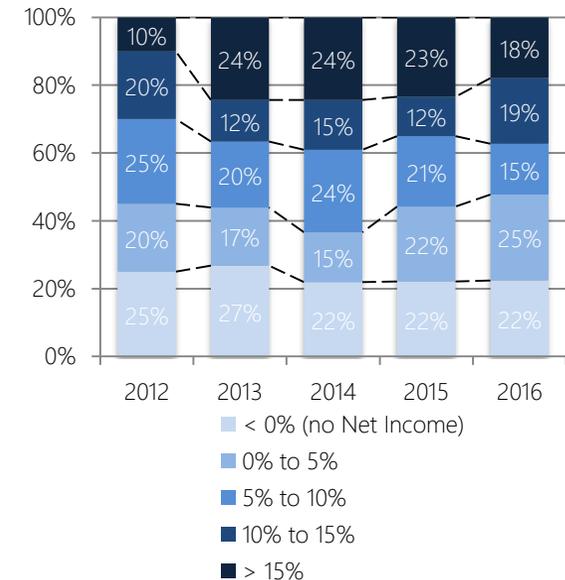
## % Revenue growth



## % Change operating margin



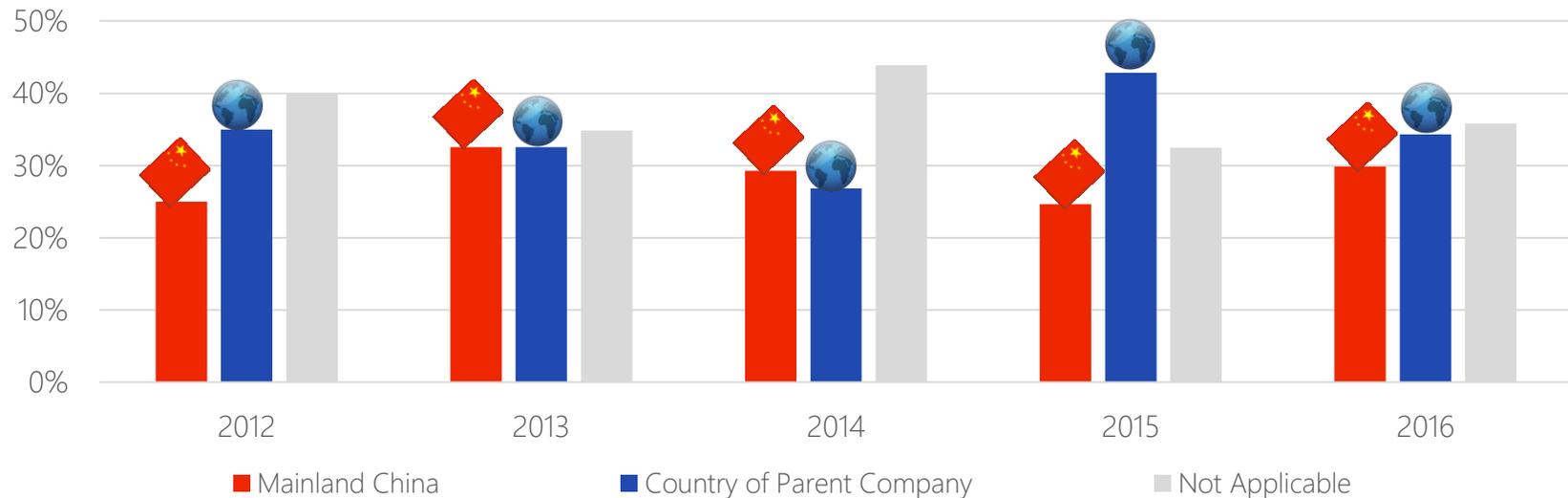
## Profit as % of revenue



- Over the past 4 years, there is a decreasing trend of companies with high growth rate, high positive change of operating margin and high profit. Meanwhile, the percentage of companies experiencing negative growth, decrease of operating margin and losses remain almost identical.
- The percentage of companies having growth between 0% and 5% is increasing. The same happened for the percentage of companies experiencing no change in their operating margin and experiencing a profit rate between 0% and 5%.

# Return on Investment

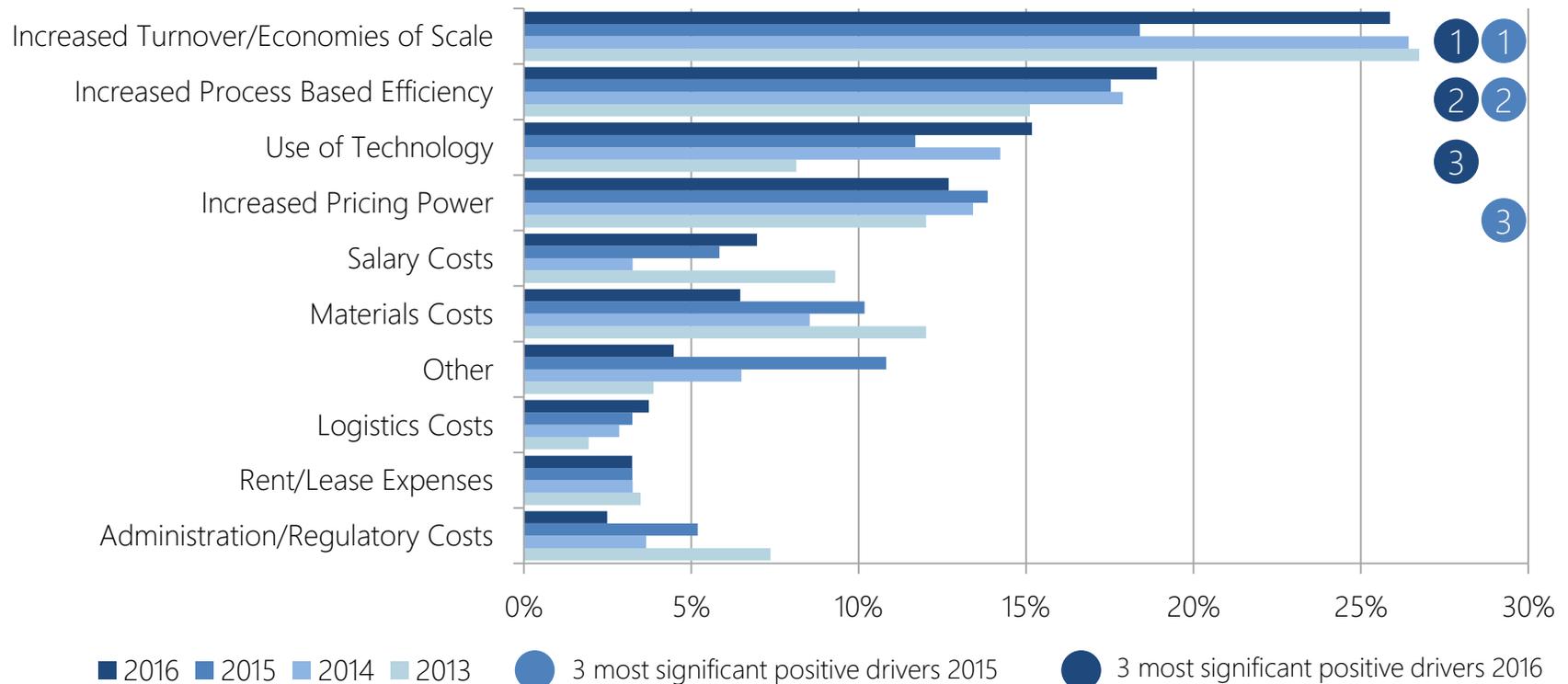
Return on Investment was greater in...



- The results on ROI are evenly distributed across various industries in this survey.

# Positive drivers in 2016

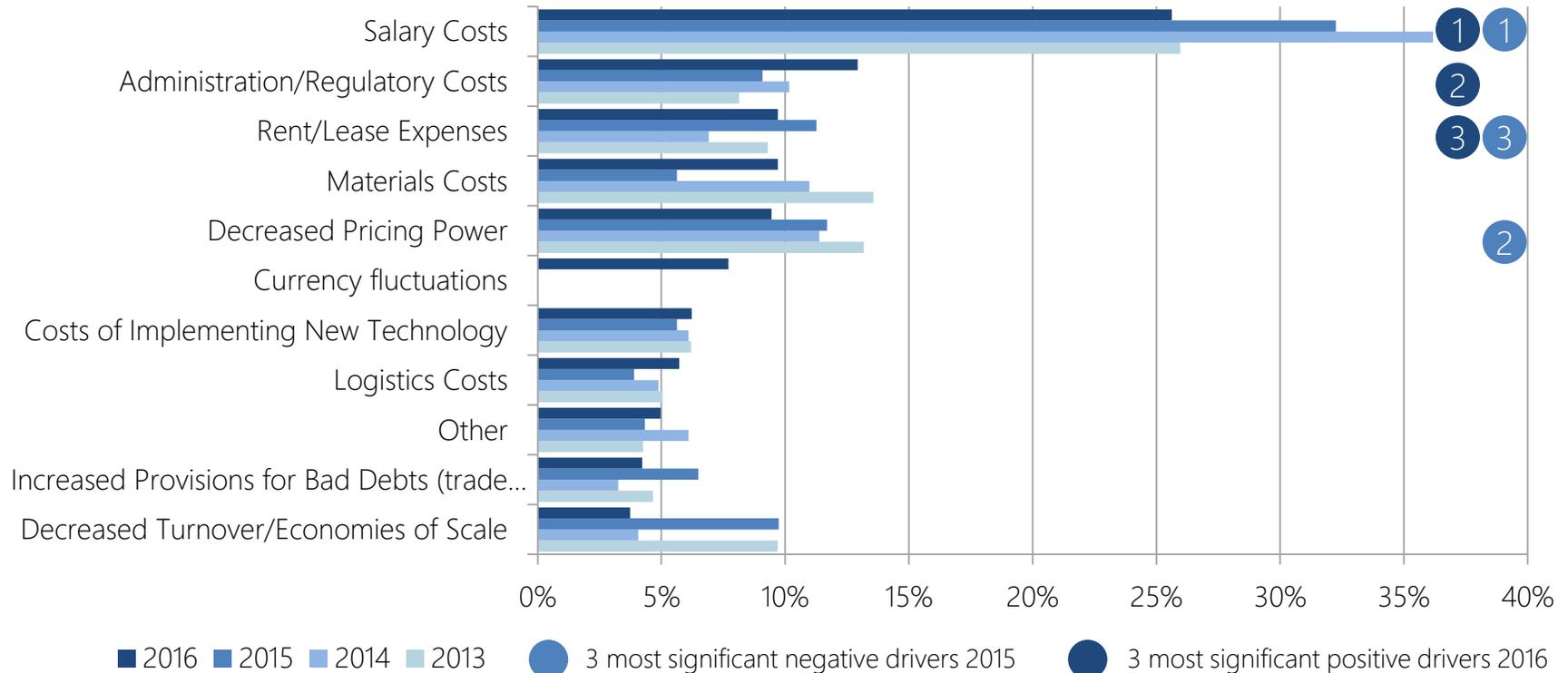
## Most significant positive drivers



- Several respondents mentioned in the category 'Other' that strategic developments within their company and in the Chinese market have benefited them in 2016. While in last year's business survey, most of the respondents within the category 'Other' had indicated there were no positive drivers.

# Negative drivers in 2016

## Most significant negative drivers



- Within the category 'Other', some of the respondents indicate that internal costs within their organization have increased, as well as purchasing- and environmental costs.
- Currency fluctuations was not asked in the previous surveys.

# Statements about 2016

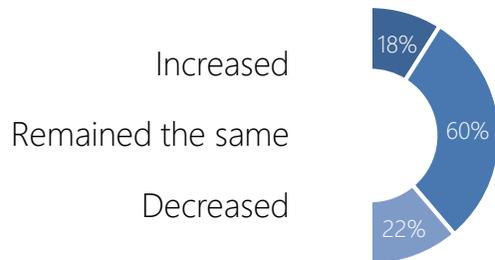
I feel that the Chinese government support to my company has...



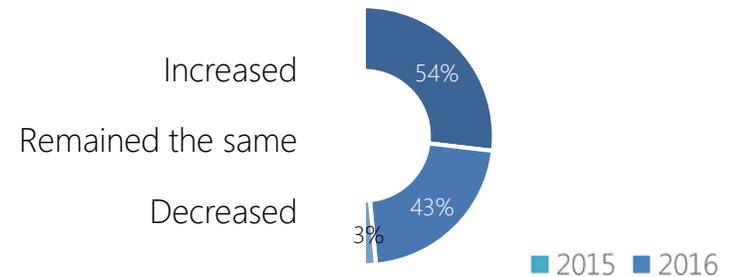
The enforcement of rules & regulations within China has...



Communication gap between Chinese and expatriates has...



Foreign exchange control in China has...



- Most of the respondents indicate that overall the enforcement of rules & regulations has become stricter. The respondents explained that particularly 'control' on regulations has increased

■ 2015 ■ 2016

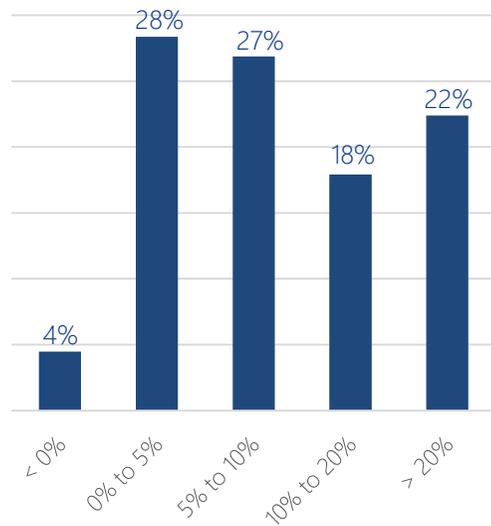


# Onward Expectations

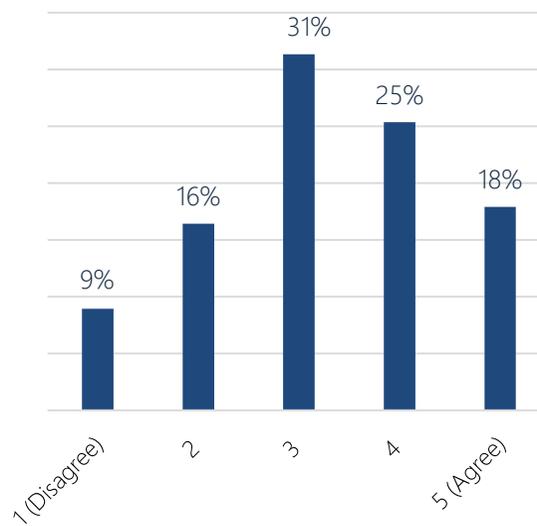
*What are the main expectations and challenges for Benelux businesses in 2017?*

# 2017 expectations

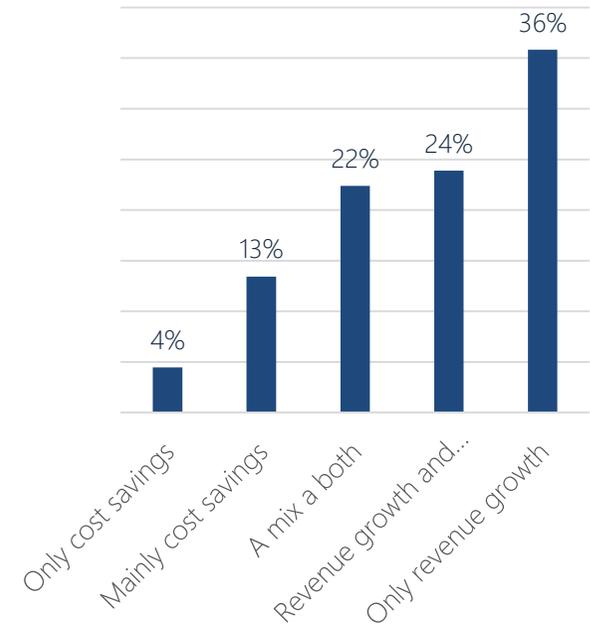
## % Revenue growth expectations



## Operating margin increase



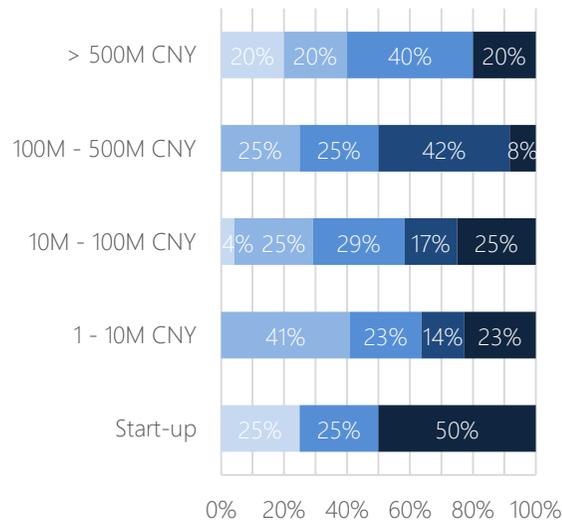
## Profitability influencers expectations



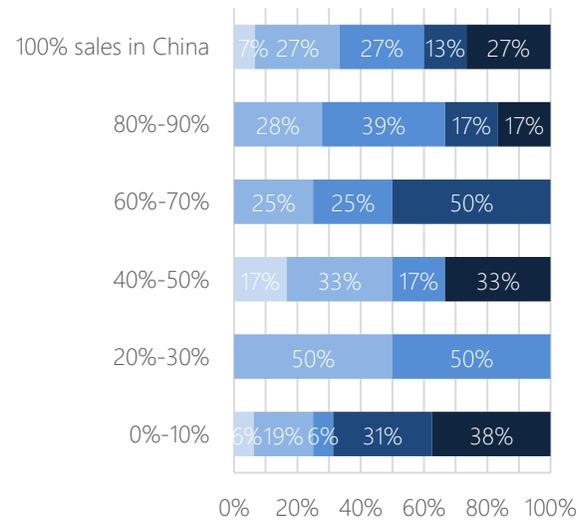
- **67% of the respondents** expect their **revenue growth to be higher than 5%**. This is more positive compared to last year's business survey, wherein 61% of the respondents expect their revenue growth would be above 5%.
- 75% of the respondents expect their operating margin either to remain the same or improve in 2017.
- The respondents mostly expect their profitability to be influenced by revenue growth in 2017.

# Revenue growth expectations per type of company

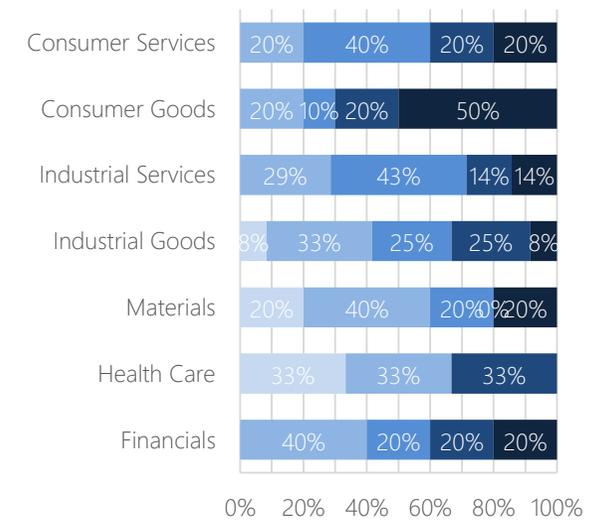
Growth expectations per size



Growth expectations per sales in China



Growth expectations per sector

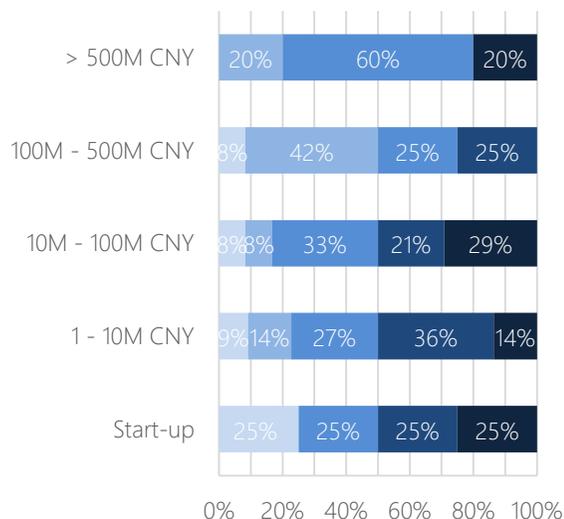


Legend:   
■ < 0%   
■ 0% to 5%   
■ 5% to 10%   
■ 10% to 20%   
■ > 20%

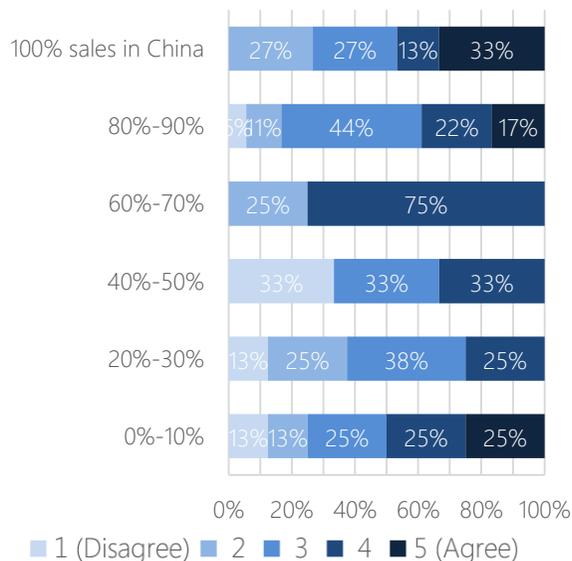
- 80% of companies from the Consumer Goods sector expect a revenue growth of more than 5% in 2017.
- Start-ups within our survey are more positive about their revenue growth expectations in 2017 compared to 2016 with 75% of them to expect revenue growth of more than 5%.
- Companies almost exclusively focused on overseas markets are generally positive about their revenue growth expectations.

# Operating margin increase expectations per type of company

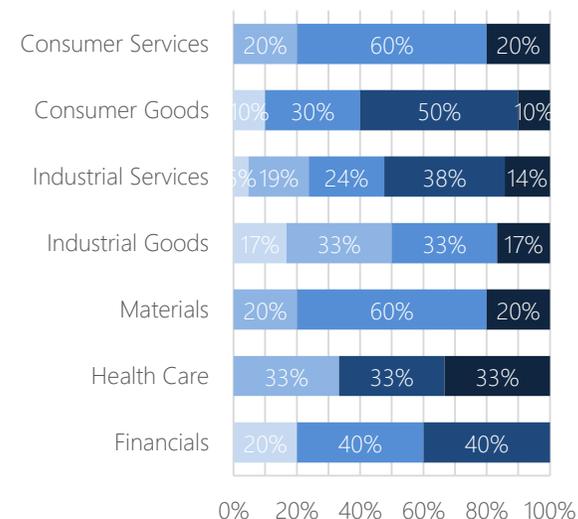
Operating margin expectations per size



Operating margin expectations per sales



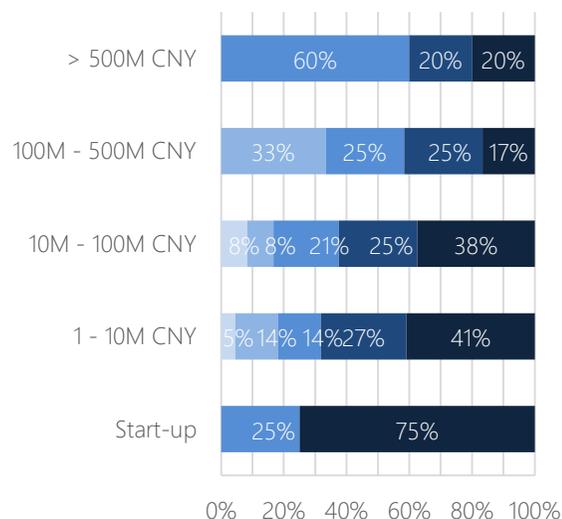
Operating margin expectations per sector



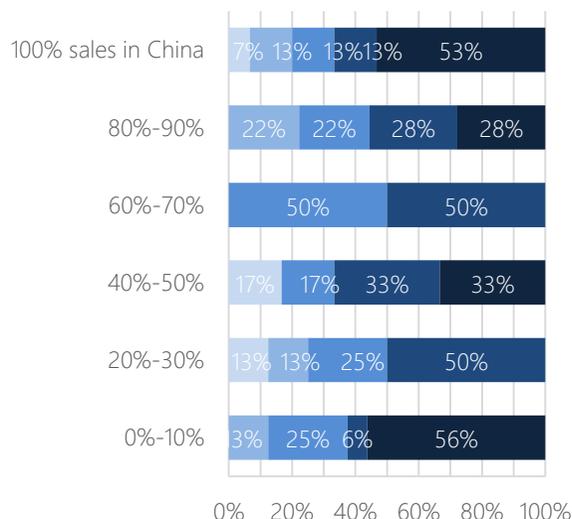
- While larger companies experienced positive change in their operating margin in 2016, they are more balanced about their expectations in 2017.
- An increase of operating margin is mostly agreed on by companies within Healthcare and the Consumer Goods sectors; the Industrial Goods sectors mostly expects operating margin to decrease or remain the same.

# Profitability influencers per type of company

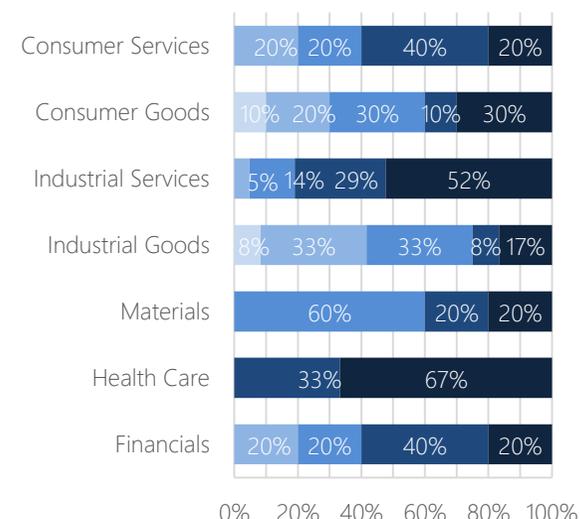
Profitability influencers expectations per size



Profitability influencers expectations per sales



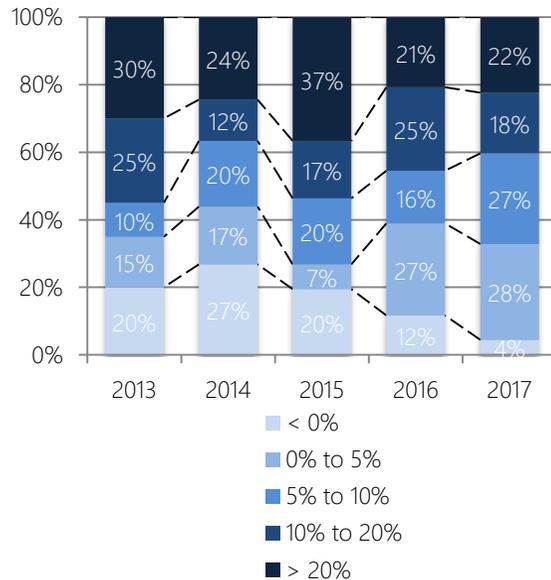
Profitability influencers expectations per sector



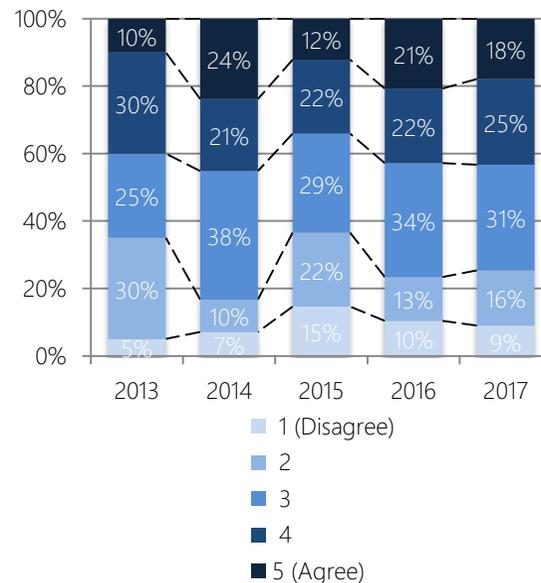
- There is a general consensus that **revenue growth is the main profitability influencer**.
- However, some companies are expecting cost savings to be a positive influencer for the operating margin. These companies are mostly:
  - SME companies (with revenues between 1 and 100mio RMB);
  - Companies having a mix of sales to Chinese customers and customers out of China;
  - Companies from Consumer Goods, Industrial Goods and Financials sectors.

# Compared to previous Business Surveys

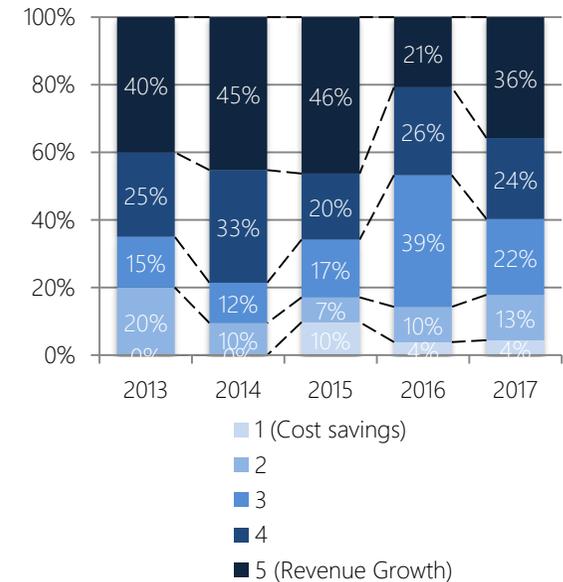
## % Revenue growth expectations



## Operating margin increase expectations



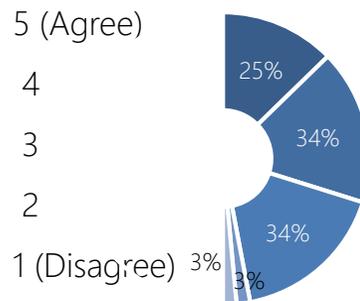
## Profitability influencers expectations



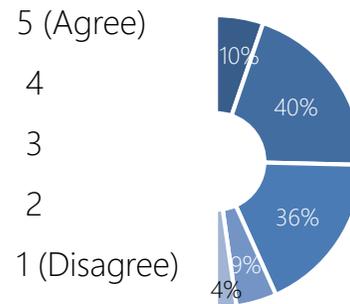
- Benelux companies are mostly confident about revenue growth, operating margin and profitability influencers.
- This year's results show that **confidence in terms of revenue growth slightly increased** compared to 2016 with the percentage of companies expecting a decrease of their activity to shrink.

# Respondents mostly agree that...

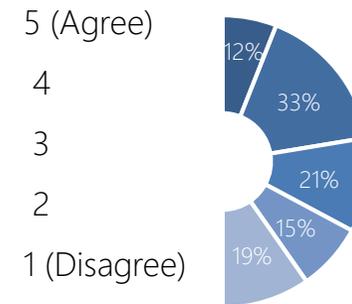
There will be more opportunities in 2017 to increase revenue outside the Tier 1 and Tier 2 cities in China



The changing economic environment in China on the long run would positively impact the Chinese economy



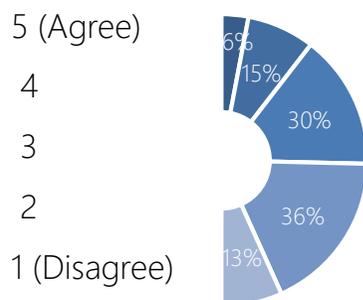
The recent technological innovations and developments in China will have positive impact on their business in 2017



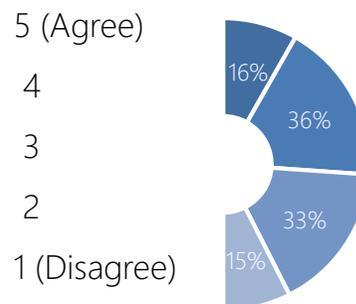
- Overwhelmingly, the respondents expect more opportunities for growth outside of traditional markets such as Beijing, Shanghai or Guangzhou; only 6% disagree with this statement.
- Most respondents do expect the development towards domestic consumption to positively impact the Chinese economy on the long run.
- Respondents agree that recent technological developments and innovations will positively impact their business in China; only 34% disagree with this statement.

# Respondents mostly disagree that...

The current world geopolitical changes will have a negative impact on the activity of their company in China



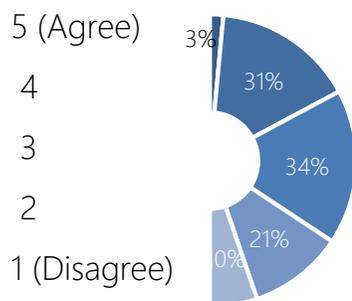
The regulatory environment will improve and the cost of compliance will decrease in 2017



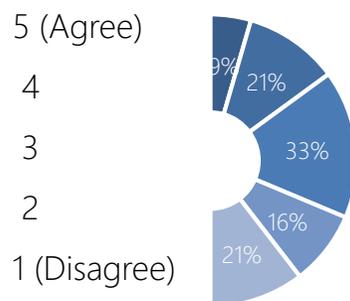
- Interesting result is that respondents in this survey do not expect international geopolitical developments to affect their business in China; only 21% agree with this statement.
- Very much in line with the results of last year's business survey, most respondents expect the regulatory environment to become more complex and cost of compliance to increase.

# Balanced view on the following statements

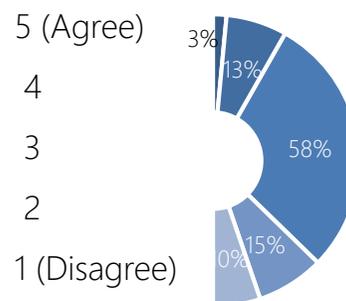
The fluctuation of the Yuan will have a negative impact on my company in China in 2017



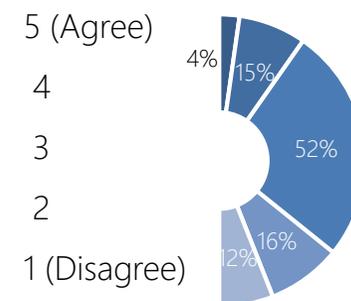
They expect to make additional capital investments in 2017



The implementation of the new Transfer Pricing regulations in China will affect my pricing strategy



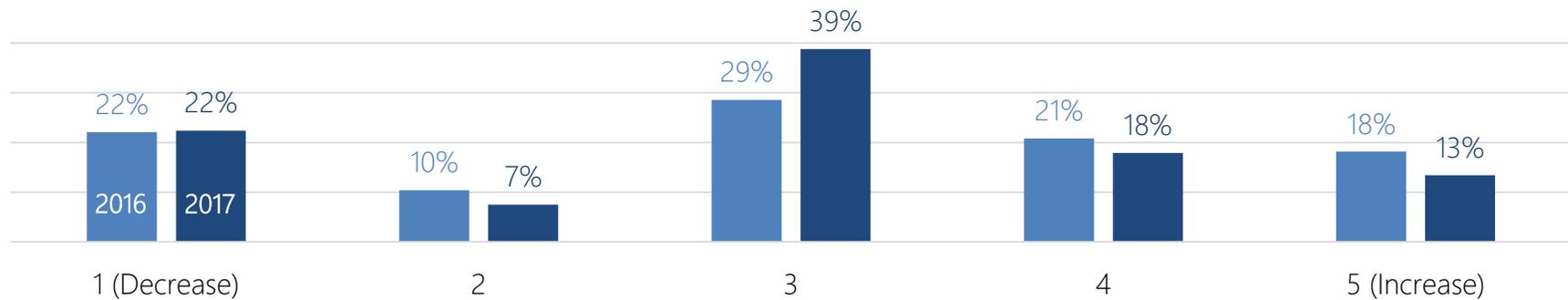
The receivable collection period and bad debt expense will decrease in 2017



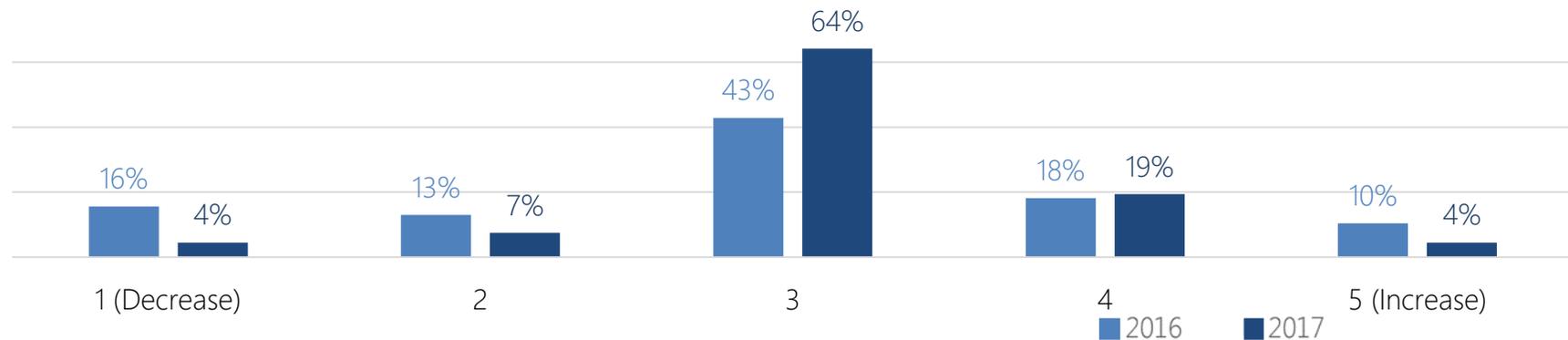
- In terms of fluctuation of the Yuan and expectations to make additional capital investments in 2017, the respondents neither strongly agree nor disagree with these statements.
- 58% of the respondents have no strong idea whether new Transfer Pricing regulations will impact their pricing strategy. Please note that these regulations are very recent (2016) and not many SMEs have been exposed to Transfer Pricing risks in the past.

# Investment into China

Outside of our home market, China is expected to be our #1 global priority



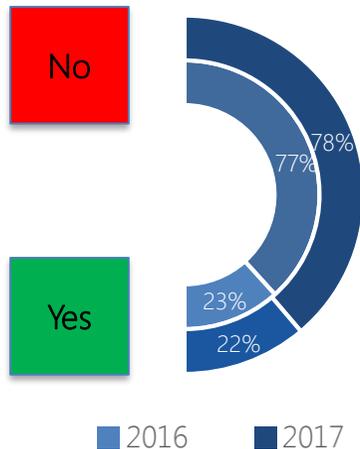
Parent's company investments in China as % of our total foreign investment policy should ...



- 2016 figures refers to SBBS 2016
- 2017 figures refers to SBBS 2017

# Stay in China?

Do you consider moving your Chinese activities to other Asian countries?



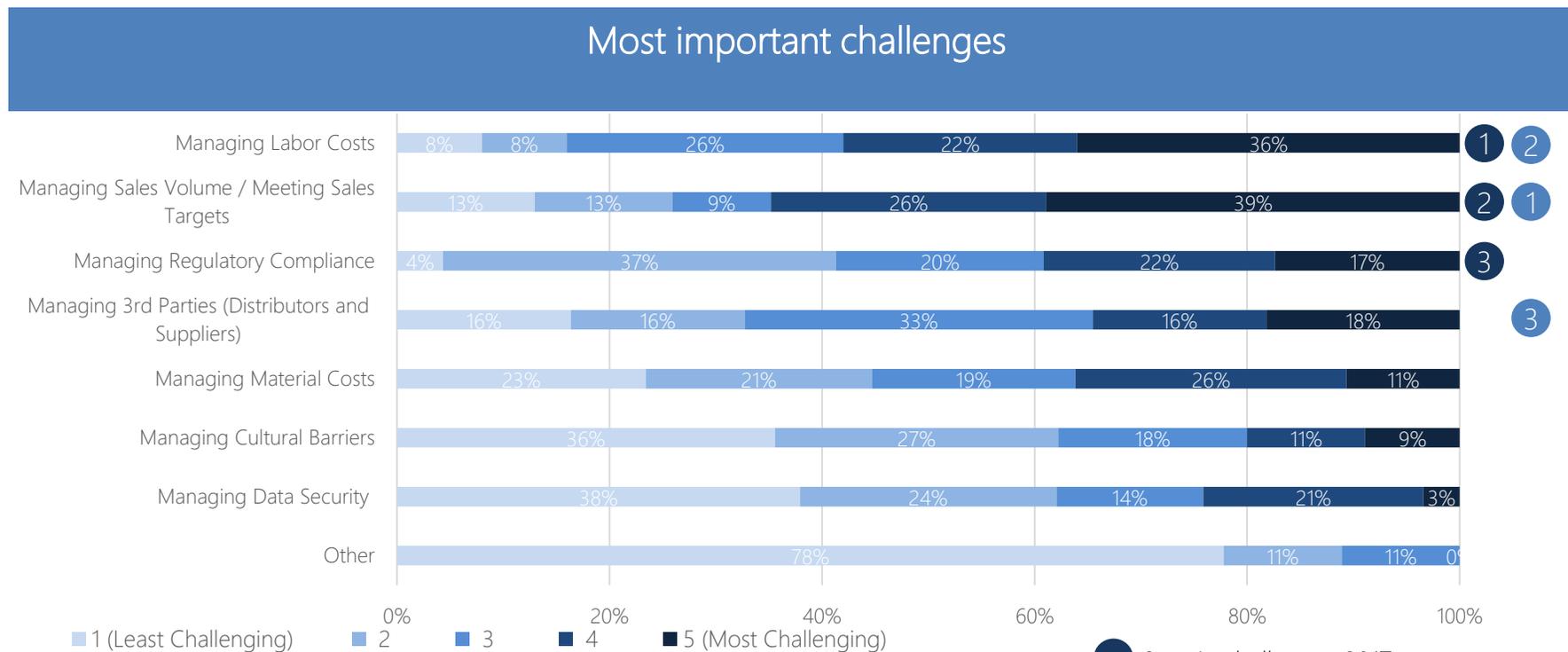
## Main Reasons for KEEPING Activities inside of China

- Most respondents explained the main reason to stay in China to be:
  - A strategy focusing on the **attractive Chinese market**;
  - A business model and **products dedicated to the Chinese market**.
- Other respondents have indicated that moving outside of China would **result in a decrease of their product quality**; China offers a political stable environment and offers the availability of various top level technologies.

## Main Reasons for MOVING Activities outside of China

- Respondents are concerned about the **rise of costs** in China.
- Several respondents also indicated the growth of **neighboring markets** (i.e. ASEAN) to be a reason for moving activities.
- Another reason is the **slowdown of the Chinese economy**, which would encourage them to leave the Chinese market.

# Challenges in 2017



- 3 main challenges 2017
- 3 main challenges 2016
- In 2017, the ranking has been defined according to a weighted average.
- In 2016, respondents had to choose the 3 most significant challenges; a ranking has been defined through applying coefficients to the three most significant answers

- The position of the 2 most important challenges, managing labor and managing sales, has been inverted in 2017 comparing to the results in 2016.
- Different from previous years, managing of regulatory compliance has now become the third most important challenge. This is confirmed by the participants of our interviews.

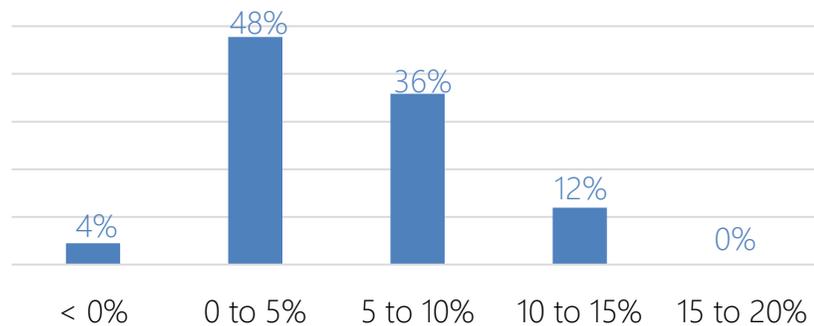


## HR & Knowledge

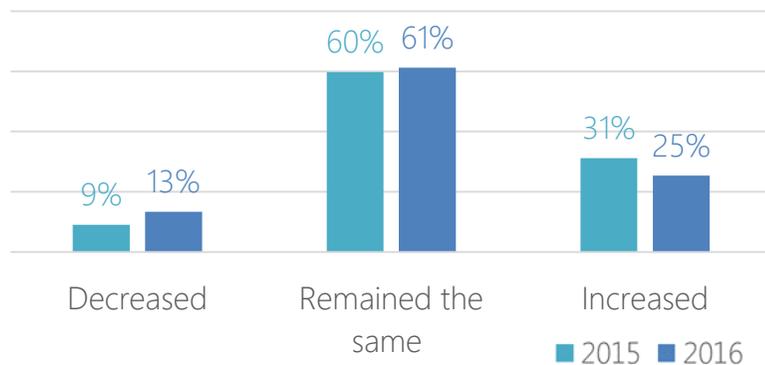
*What are the thoughts and ideas of the participants on HR and other related topics in China?*

# HR Developments

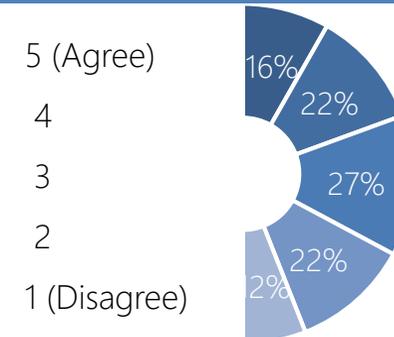
## Salary increase in 2016



## The ratio of local Chinese vs. foreign employees in 2015 and 2016 has:



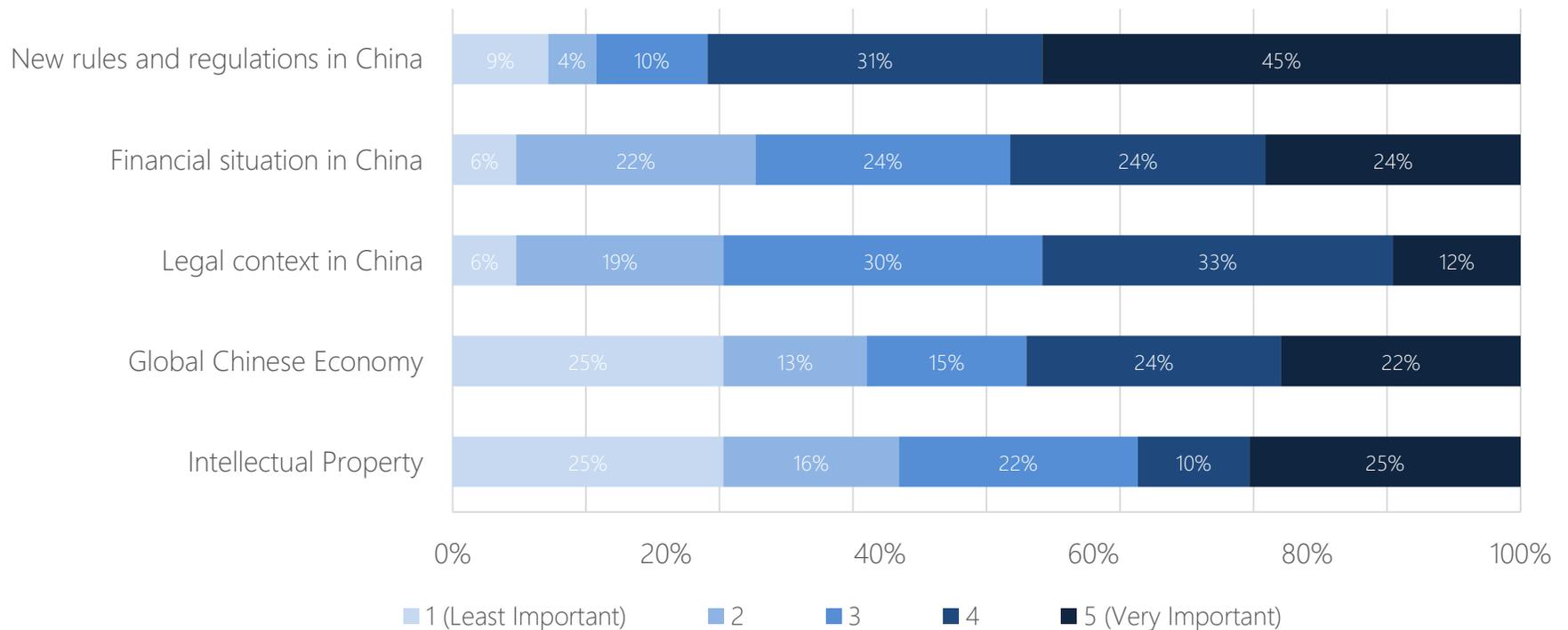
Do you think the new regulations which will be enforced nationwide starting from April 2017 on work- and residence permit will have an impact on your organization?



- 48% of the respondents have indicated that salary has increased only between 0% and 5% in 2016, while the average in the country was 6.8%.
- Larger companies provide a higher increase of salary to their employees.
- In the Energy, Financials, Healthcare, Consumer Services and Consumer Goods sectors, 60% or more of respondents indicate an increase of salaries above 5%.

# Topics of interest

## Most important Topics of Interest in 2017



- Similar to last year's business survey, the respondents indicate to be mostly interested in learning more about new rules and regulations in China.

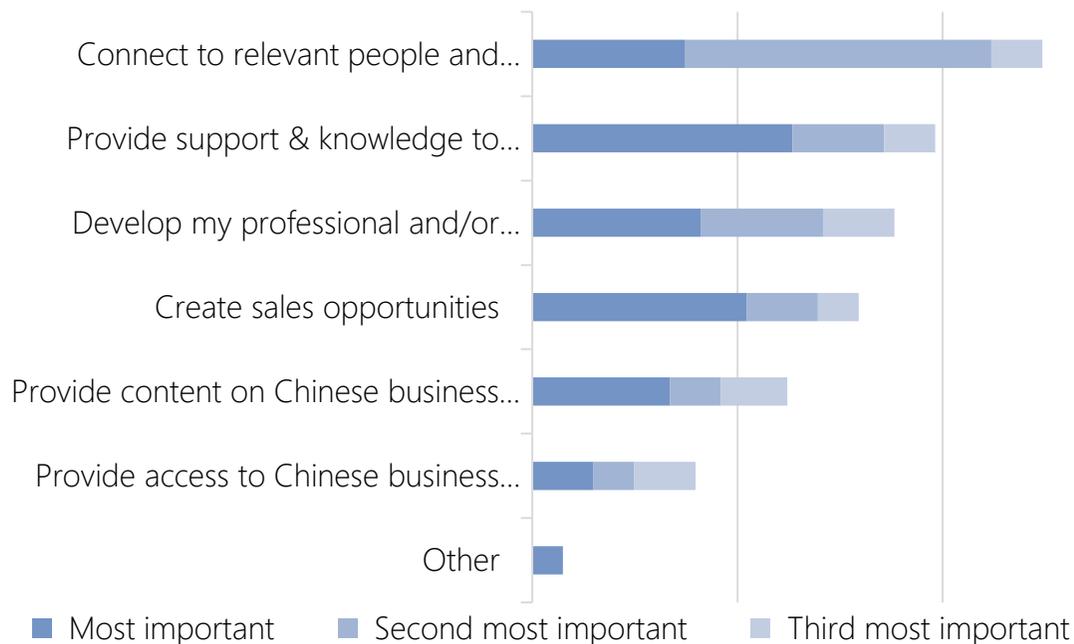


# Benelux Organizations

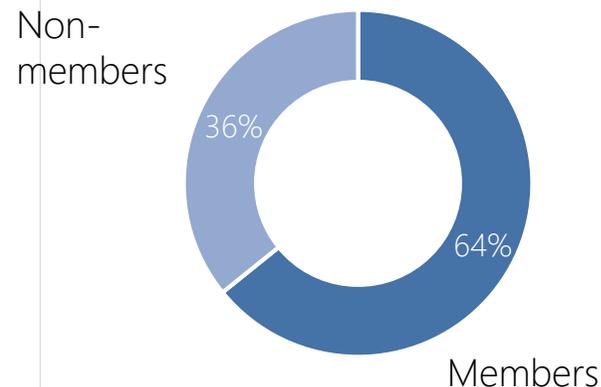
*What expectations do our respondents have about the Benelux Chambers of Commerce and Benelux Representations in China?*

# Benelux Chamber of Commerce in China

## Most important expectations



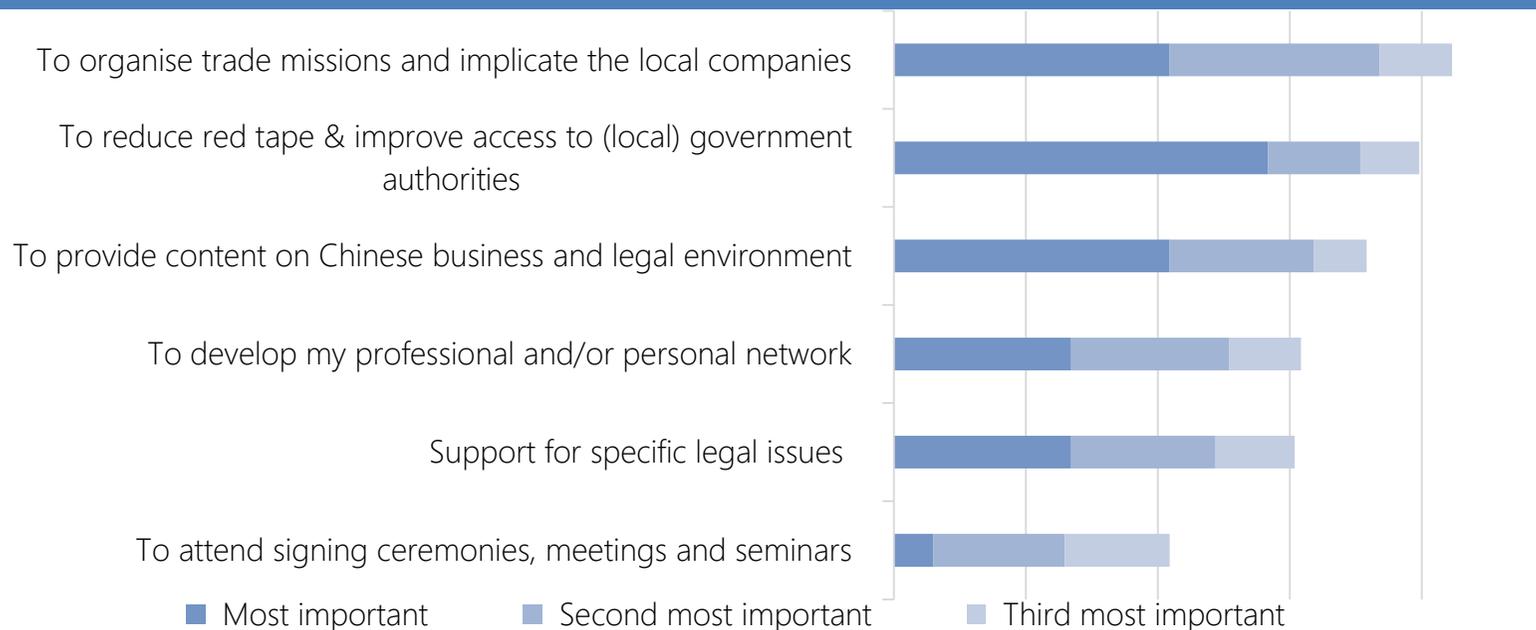
## Members of the Benelux Chamber of Commerce in China within this year's survey



- Approximately 2/3 of the respondents are members of the Benelux Chamber of Commerce in China (BenCham).
- Most respondents answered their expectation about the BenCham is to be connected to relevant people and organizations for specific issues in relation to their business. However, the most important expectation is to provide more knowledge and support to develop business in China, as well as to provide sales opportunities for their business.

# Benelux Representations in China: *Embassies and Consulates-General*

## Most important expectations

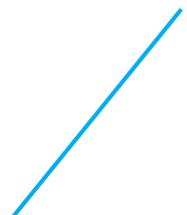


- Most of the respondents indicate to expect the Embassies and/or Consulates-General to organize trade mission and get in touch with local companies.
- However, most significant expectation from the companies is to support with reducing red tape & to provide access to local government authorities.
- Across Benelux countries, the opinion about the representations is very similar.



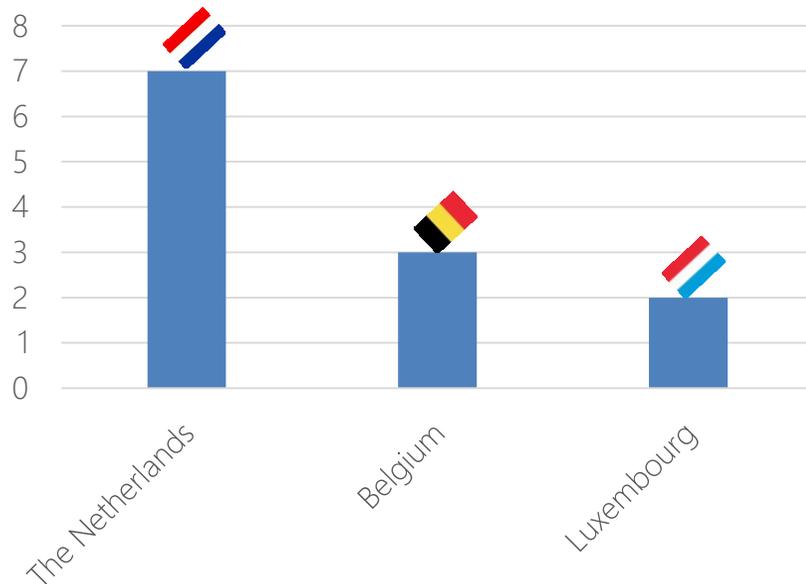
## Results of the Interviews

*What do entrepreneurs and business managers want to tell us about changes within China and how to adapt?*

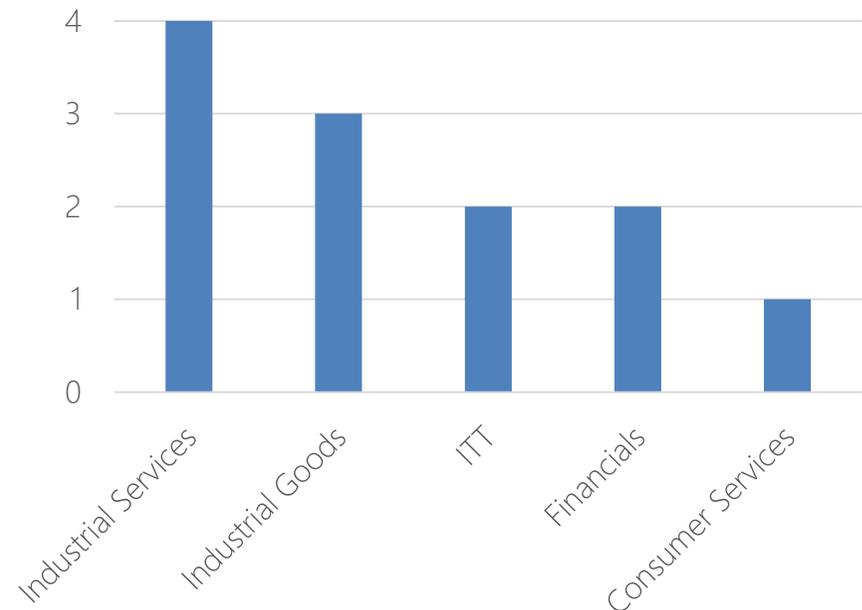


# Interviewees - Demographics

## Country of Origin



## Industry Category



- A total of 12 interviews have been conducted during March and early April 2017 with entrepreneurs and senior managers of Benelux companies across China.
- The goals of these interviews were to better understand how companies manage changes within their environment and to have a more in-depth understanding of the most pressing issues and circumstances for Benelux businesses.

# Framework: *Interview Questions*



# Changes in the Past and 2016

## Competition has become more intensive

- Interviewees have indicated to see more and more Chinese companies entering markets and gaining rapidly more market shares;
- Chinese companies dare to take risks/losses to gain market shares

Cited by 4 interviewees

*“We see in China a company starting with a new idea; three months later, already other competitors are popping up!”*

## Domestic consumer market has increased in China

- Interviewees see more and more the Chinese market developing towards a consumption based economy; for example, tourism is increasing rapidly within China

Cited by 4 interviewees

*“Foreign companies now really manufacture for consumption (driven purposes of the local market) in China, instead of only exporting their products.”*

## Experiencing increasing scrutiny by authorities

- Similar as in the results of the questionnaire, also the interviewees indicate that enforcement of rules and regulations have increased; e.g. foreign exchange, supervisions, etc.

Cited by 4 interviewees

*“For instance, making cross border transactions has becoming more and more difficult.”*

## Other opinions:

- More developments towards automation
- A rise of the costs (i.e. raw materials, supply chain and salaries)
- Increasing unfair competition through government support

Cited by some interviewees

# Upcoming Opportunities

## Innovative industries are emerging and some sectors should be modernized

- Interviewees have indicated many developments towards innovation, new technologies, growing importance of the renewable energies, medical devices, and health care sectors
- one interviewee has mentioned to expect developments towards modernization of the agricultural sector

Cited by 7 interviewees

*“E-commerce, renewable energies, medical devices, health care are doing well in China and are tomorrow’s opportunities.”*

*“The model of creating industry 2.0 or manufacturing 4.0 will still be of big demand.”*

## The domestic consumer market in China is expected to increase/develop further

- Interviewees indicate that consumption of goods, as well as consumer services would grow rapidly.

Cited by 5 interviewees

*“The consumption of products will continue to grow in China, and the consumption of services will expand at a larger scale”*

## Political stability will create opportunities

- Some of the interviewees perceive the political stability within China compared to other countries as an opportunity for foreign businesses.
- Europe may attract more Chinese business if seen as a more stable market

Cited by 2 interviewees

*“Uncertainty in the United States could have an open door effect for European companies, because Beijing government could choose cooperation with Europe over the United States”*

# Upcoming Challenges

Chinese market is moving really fast → foreign companies experience fierce competition from Chinese companies

- The interviewees mentioned that Chinese companies are improving their technological capabilities and are ready to enter new markets.
- Most of the interviewees sees the quality of their competitors improving.

Cited by 8 interviewees

*“Everything moves and develops so quickly in China, you don’t have time to make calculations [...] we must play with speed, engage on markets while it is not too late.”*

Geopolitical tensions can affect some businesses

- Some of the interviewees have indicated that recent tensions with neighboring countries could have negative impact on some foreign companies.

Cited by 3 interviewees

*“Our major concern is that China could get into a “fight” with another country and would back away from foreign people and companies.”*

Costs are rising and salaries increasing

Cited by some interviewees

*“Our actual margin has been going down, due to the rise of cost of raw materials.”*

Trend to protectionism can have negative consequences on foreign businesses

Cited by some interviewees

*“It becomes more difficult to start a business in China.”*

# Compliance Management

The interviewees have indicated either to (A) very carefully monitor and follow up on compliance internally or (B) use experts.

- i. Instruct staff to look after potential changes by contacting governmental agencies
- ii. Develop internal compliance capabilities

Cited by 5 interviewees

*“As manager, I periodically ask my secretary what has changed, and sometimes I come out of the blue asking her for a report”*

- i. Work with professionals and rely on their expertise
- ii. Engage in simulations and/or trainings to improve compliance management

Cited by 3 interviewees

*“You should outsource compliance to experts in the field, if not, you have to read all the textbooks and rules and it is impossible.”*

Work with the right local partner to access some restricted markets

Cited by some interviewees

*“For a solar panel project, 5 business licenses were required and difficult to obtain, instead of operating without them, we had to work with a Chinese Company, (“...”) to be compliant.”*

# HR Management

According to the interviewees, major issues and developments in terms of HR in China are (A) staff turnover, (B) higher salaries and (C) attracting skilled employees.

Provide a good working environment for employees

Cited by 3 interviewees

*“High salary is a major factor while attracting people but employees appreciate a good working environment so they are more willing to stay.”*

Build strong connections with staff

Cited by 3 interviewees

*“We try to hire couples, in all our departments we always have teams of two who are working together.”*

Offer career perspectives to employees

Cited by 2 interviewees

*“Attracting the right people is very difficult, you have to have a good package, a nice company culture and career opportunities.”*

Offer fringe benefits to employees

Cited by 2 interviewees

*“We want to make sure that we keep these people within our factory and due to this we have to offer a lot.”*

# Does China still Provide Opportunities to Foreign Enterprises?

## Yes because...

The Chinese market is huge and the Chinese middle class keep growing. There is enough room for both foreign and domestic companies.

Cited by 4 interviewees

Strong emergence of interests in new technologies.

Cited by 3 interviewees

Upcoming opportunities in specific sectors, (e-commerce, the renewable energies and the healthcare).

Cited by 3 interviewees

Chinese consumers remain very interested in quality products from overseas.

Cited by 2 interviewees

## No because...

Competition is tough, local companies are becoming "better": they improve the quality of products; they make big steps in terms of innovation...

Cited by 7 interviewees

A lack of knowledge among foreign enterprises and risk averse decisions diminish the ability to react in time to opportunities.

Cited by 3 interviewees

Protection of intellectual property remains an important challenge.

Cited by some interviewees

Increasing popularity of Chinese brands.

Cited by some interviewees

# Agility in Doing Business in China

General consensus among interviewees is that the business environment in China is rapidly changing with both opportunities and challenges.

In order to react to this changing environment and to manage these developments, companies need to be agile in doing business in China.

Regularly review and adapt business models.

Cited by 4 interviewees

*“To adapt to challenges, we must review our own added value according to the external situation.”*

Maintain a flexible strategy. Be proactive, look at the trends in the market and restructure when required.

Cited by 3 interviewees

*“In the past we had a plan A and a plan B, now we must have a plan A, a plan B and a plan C [...] we must think less linearly.”*



## Closing Remarks

*What are our thoughts on the results of the Sino Benelux business survey?*

# Closing Remarks

Benelux companies in China are still performing well. They are mostly positive on staying in China and continue to invest in this market. On the long run, depending on the sector of activity, they see **many opportunities to grow**.

Chinese economy is still growing and changing fast, competition is becoming tougher. Combined with rising of costs, it creates a **challenging environment** for Benelux businesses.

China is more and more a developed country with strict rules and regulation. Compliance on doing business and working in China is an important topic for foreign enterprises and will remain a challenge to manage properly by having the right information and right organization.

The way to do business in China is changing. People need to be flexible and adapt their organization to the local reality.

Companies already active in China have to adapt to this changing environment. They need to find the right way to reach their targets by looking for the markets opportunities, stay ahead of the challenging competition and manage the local compliance.

Companies willing to enter the Chinese market need to be well prepared with a good understanding of their market and the right information on how doing business in China.





# Moore Stephens Consulting

This report has been prepared by Moore Stephens Consulting, a professional service firm based in China and member of Moore Stephens International.

We provide a full range of financial services to foreign enterprises active in China and Hong Kong and assist our clients in navigating through all the challenges and complexities of China's business environment.

Do not hesitate contact us at [info@msadvisory.com](mailto:info@msadvisory.com)

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