

# Results of the Sino Benelux Business Survey 2016

MOORE STEPHENS

# Disclaimer

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- The results of the Sino Benelux Business Survey (2016) only reflect answers given by companies on questions asked through the Moore Stephens Consulting (Shanghai) Co., Ltd. Business Survey. The Survey took place in March 2016 and an open dialogue organized with Councilwise Asia took place in April 2016.
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# Sino-Benelux Business Survey

Since 2013, Moore Stephens Consulting China has investigated the performance, opportunities and challenges of companies active in China.

This year, in collaboration with the Benelux Chamber of Commerce in Shanghai, Beijing and PRD and with 1421 Consulting Group, we investigated how the changing economic environment in China has influenced Benelux companies in China.

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**BENCHAM**  
BENELUX CHAMBER  
OF COMMERCE  
IN CHINA



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# Survey Demographics

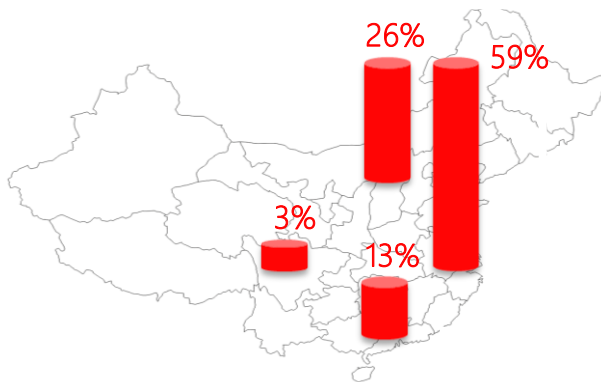
*Which companies participated in the Sino Benelux Business Survey this year?*

# Geography of the participants

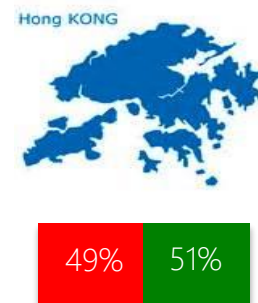
Parent Company



Region in China

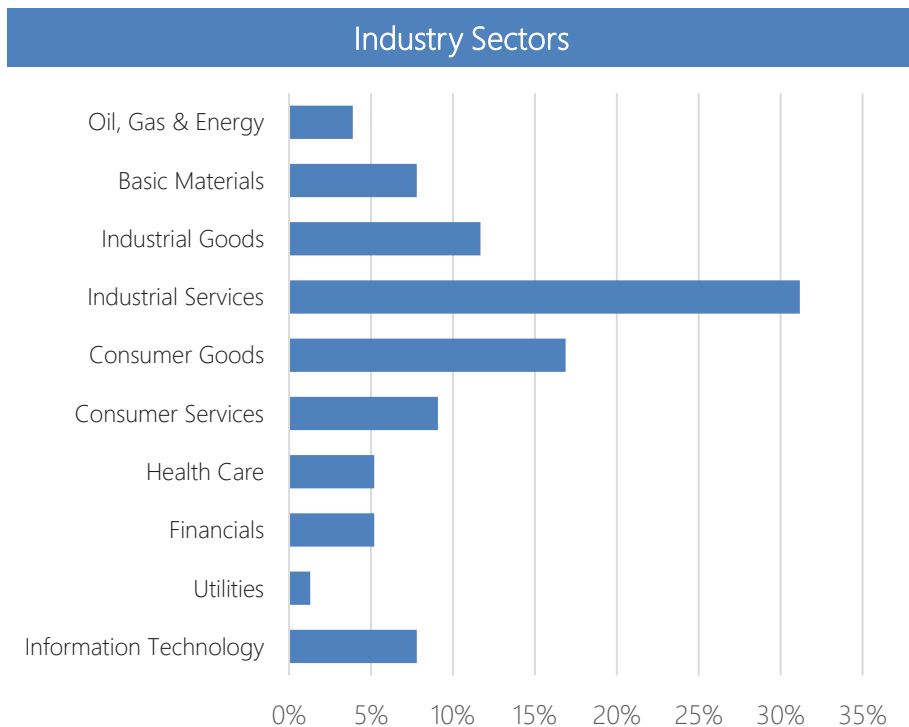


Use of Hong Kong Structure



- In total, 73% companies are subsidiaries of Benelux companies. The other 27% are related to the Benelux by the manager or shareholders.
- Participants are spread across China but were mainly located in East China (59%) and North China (26%). Pearl River Delta represents 13% of the participants while West China only represents 3%.
- 51% of the participants also have a Hong Kong structure.

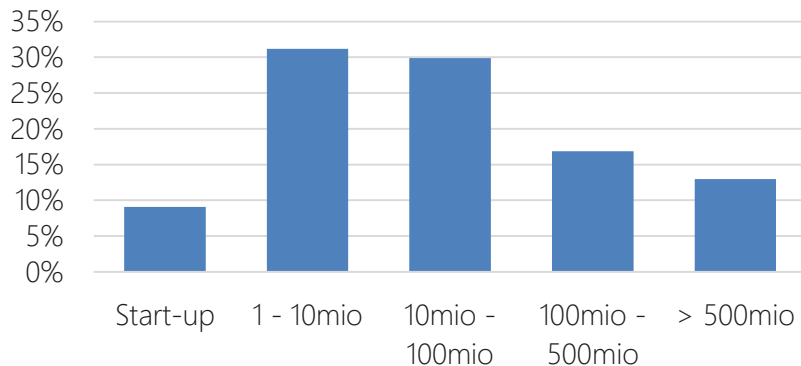
# Industry sectors represented



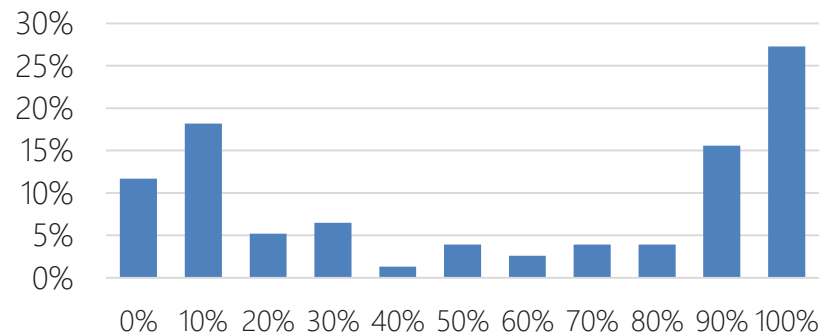
- Companies related to the industry (Industrial goods and services) are the main group with 43% of all participants.
- Still 26% of the participants are active in Consumer Goods and Consumer Services.
- Most of the participants are B2B businesses, rather than B2C businesses.
- Except for the Utilities, the survey gathered a couple of companies for each industry.

# Revenues categories

Revenues in China (RMB)



% of Revenue to Domestic Customers



- Most of the participants are small to medium-sized enterprises (SMEs) in China (based on revenues generated in China only) with revenues ranking from RMB 1mio to RMB 100mio. Only 13% of the participants are to be categorized as a large enterprise in China.
- There seems to be a clear U-shape among the participants in terms of focus on the Chinese market. Companies either accounted their revenue from Chinese customers (approx. 47%) or from customers outside of China (approx. 35%)
- On average, the participants of the business survey across the years have been active in China for 9.5 years.

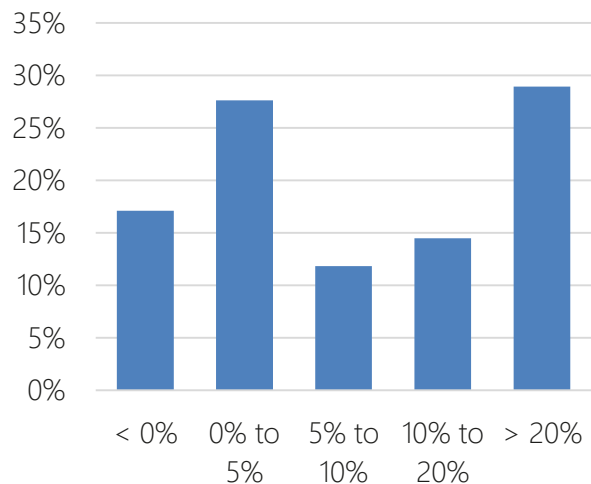


# Overview 2015

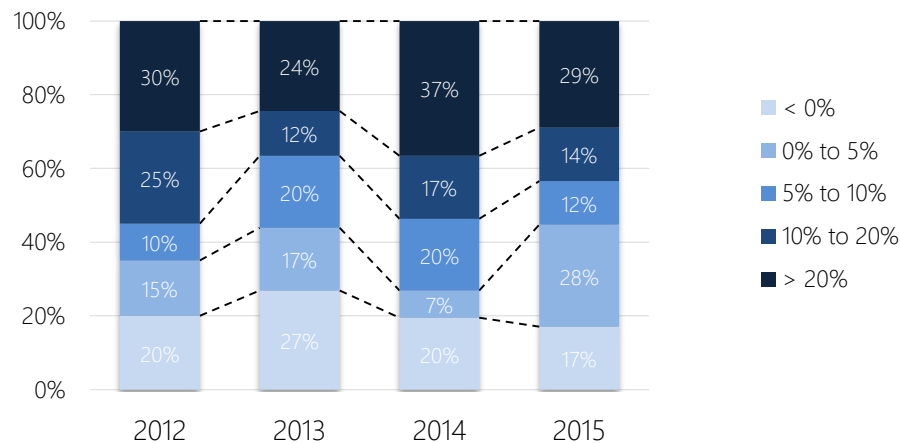
*What was the overall business performance in 2015 and what were the drivers of this performance?*

# Revenue Growth

Revenue Growth (2015)



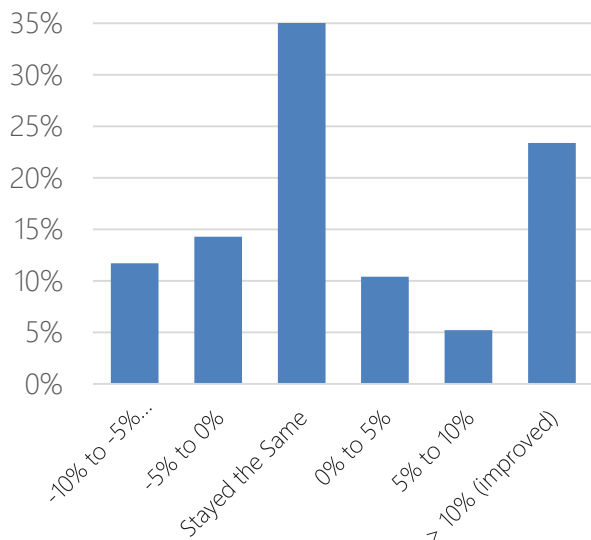
% Revenue Growth Trend



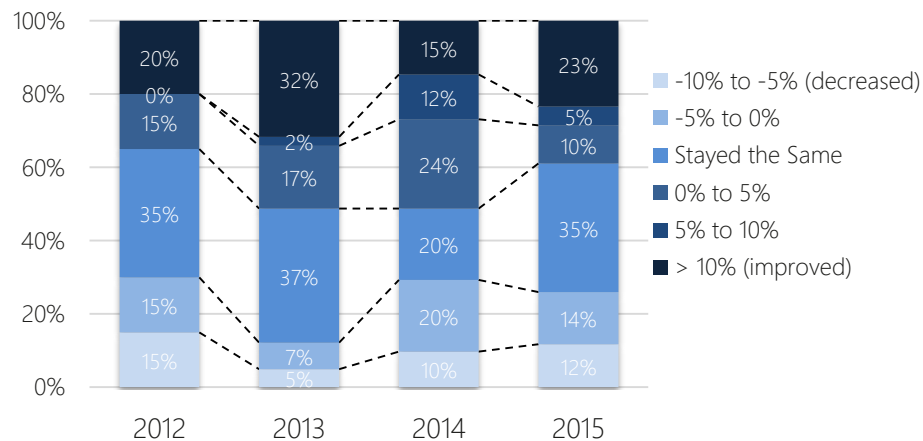
- Approximately 55% of the participants outpaced GDP growth rate of the Chinese economy in 2015.
- Compared to previous years, there is a slight erosion of number of companies experiencing revenue growth equal or above 5%.

# Change in Operating Margin

% Change in Operating Margin (2015)



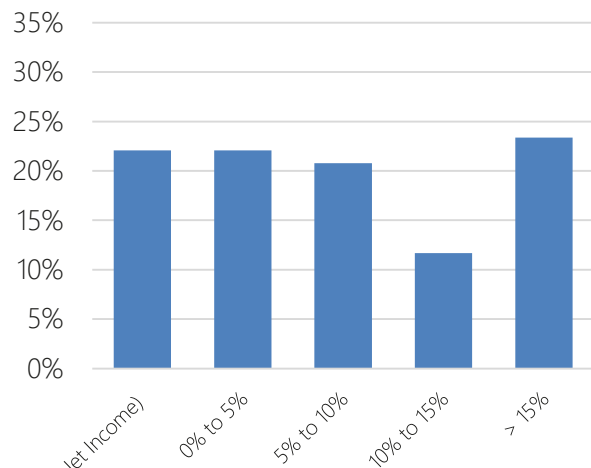
% Change in Operating Margin trend



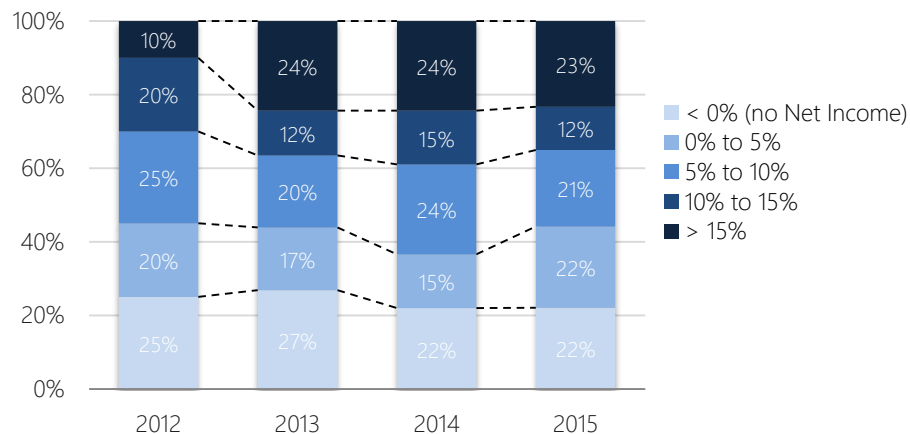
- 73% of the participants indicated that their Operating Margin either remained the same or improved in 2015.
- Compared to 2013 and 2014, less companies saw their Operating Margin improve.

# Profit as % of Revenue

Profit as % Revenue (2015)

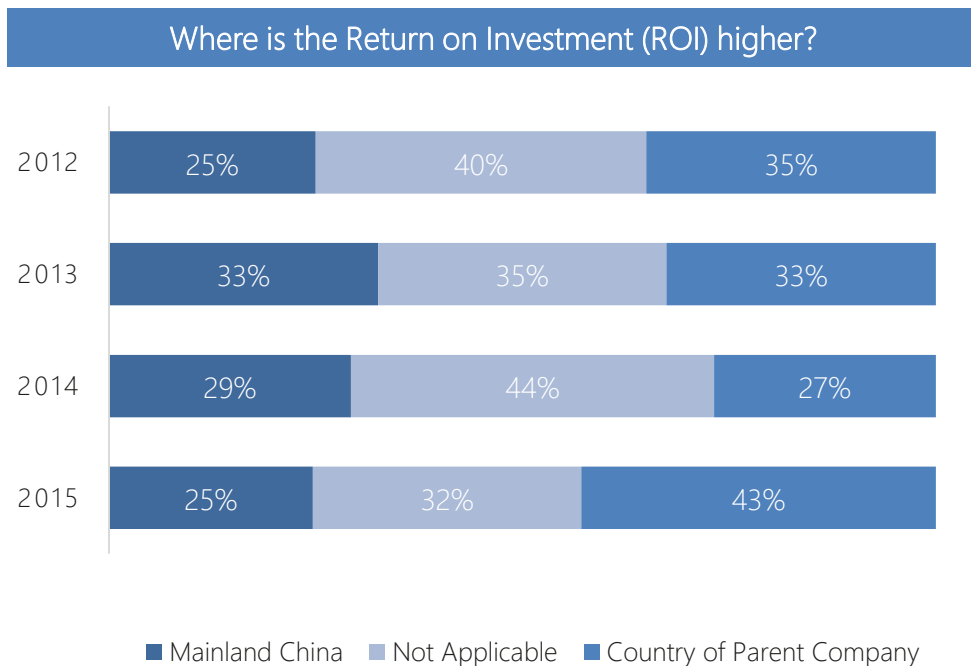


Profit as % Revenue Trend



- 56% of the participants indicated a profit of 5% or higher in 2015.
- The profit rate distribution over year is very stable.
- Each year, between 22% and 27% of the companies are not profitable in China. But still more than 55% of the companies have profit above 5% of the turnover.

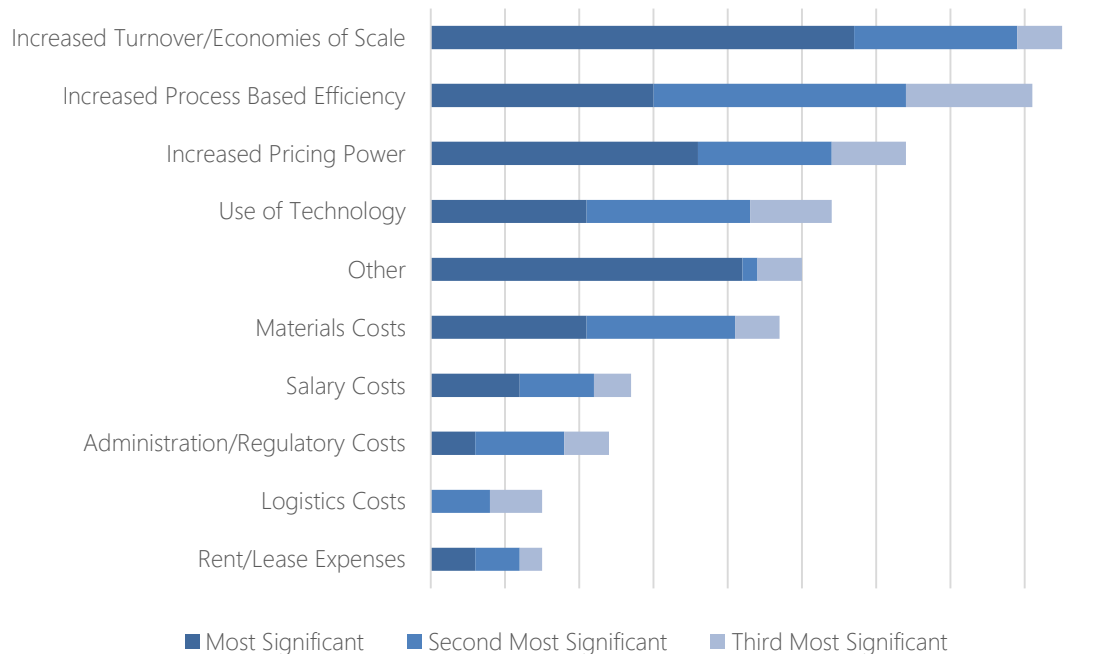
# Return on Investment in China



- The results in 2015 largely indicate that the participants estimate the ROI to be higher in the country of their parent company (43%) compared to China (25%).
- Since 2013, there is a clear trend that illustrates that the ROI in China has decreased relative to the Parent Company's home country.

# Positive Drivers in 2015

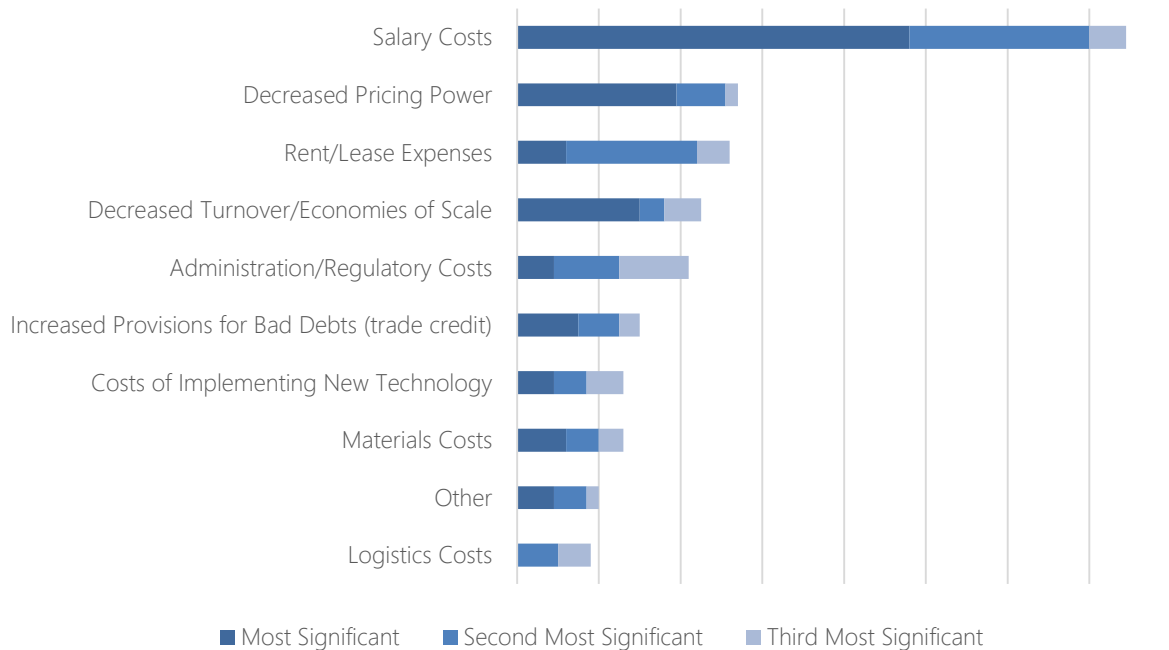
## Most Significant Positive Drivers



- 'Increased Turnover'/Economies of Scale' is the most positive driver according to participants in 2015.
- When combining 'Increased Process Based Efficiency' and 'Use of Technology', the results indicate that particularly automation has also had a positive impact on their business in China.
- Total of 7% of the participants whom indicated 'other' explained that they experience no positive drivers in 2015.

# Negative Drivers in 2015

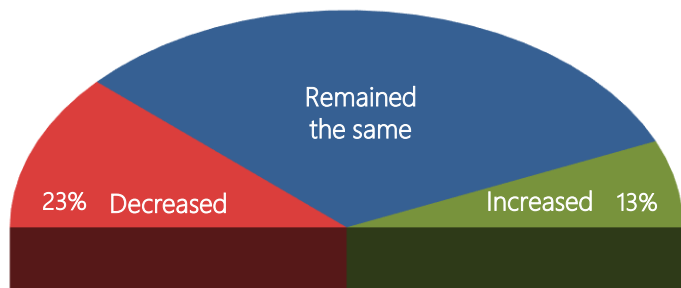
## Most Significant Negative Drivers



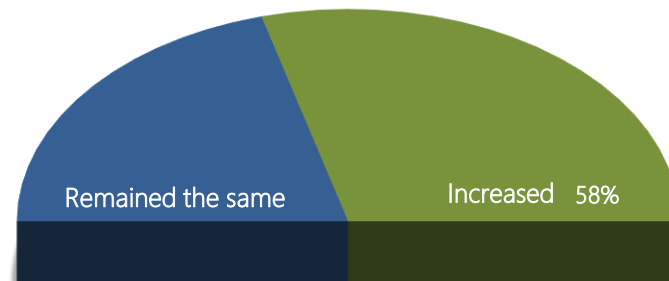
- Salary Costs are the most significant negative drivers for companies in China. This has been a consistent result for the last 4 years of the Survey.
- In general, higher prices (salary, rent/lease, material, etc.) seem to have the most important impact on the results.

# China Context

Do you feel the support by the Chinese Government...



The enforcement of Rules & Regulations...



- The participants indicated that in 2015 the support by the government remained largely the same. However, more participants indicated a decrease in support by the government, rather than an increase of government support.
- The most significant result is that the majority of participants indicated that the Chinese government has become stricter in enforcing rules and regulations. None of the participants indicated a more lenient approach to enforcement.

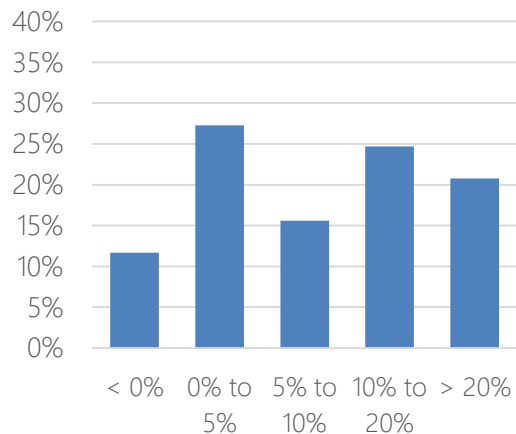


# Onward Expectations

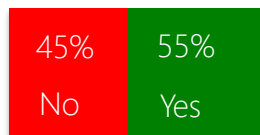
*What are the main expectations for 2016 and how will this be affected by the changing economic environment in China?*

# Expectations on Revenue Growth

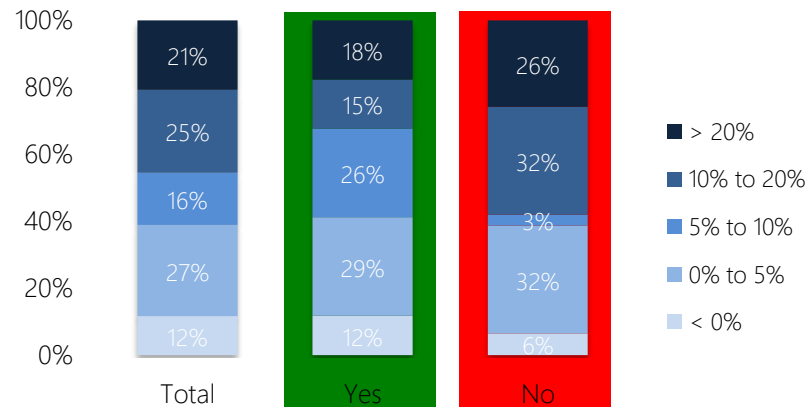
Revenue Growth Expectations



Influenced by the changing economic environment?



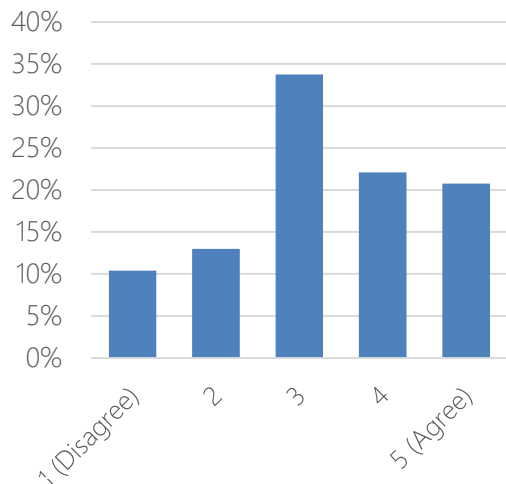
Revenue Growth as of economic environment



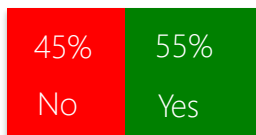
- Still more than 45% of the participants expect their revenue to grow equal or above 10% in 2016.
- A total of 55% have indicated that the changing economic environment in China has affected their revenue growth expectations.
- Participants who indicated that China's changing economic environment had no influence on revenue are particularly more positive about revenue growth expectations than those who were impacted by changing conditions.

# Expectations on Operating Margin

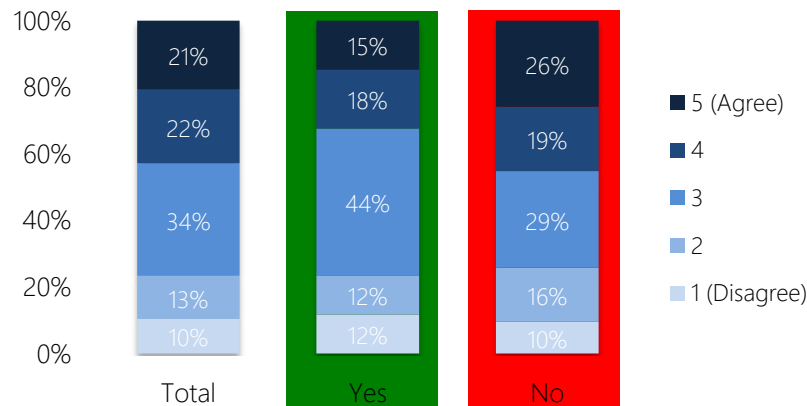
Operating Margin Increase



Influenced by the changing economic environment?



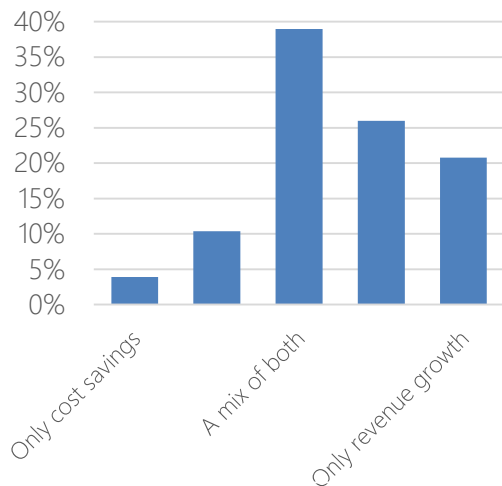
Operating Margin as of economic environment



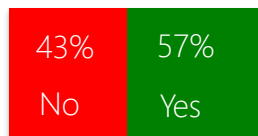
- 75% of participants expect their Operating Margin to either increase or stay the same in 2016.
- 55% indicated that the changing economic environment in China did affect their Operating Margin expectations.
- Participants who indicated that China's changing economic environment had no influence expect their operating margin to increase in 2016.

# Expectations on Profitability Influencers

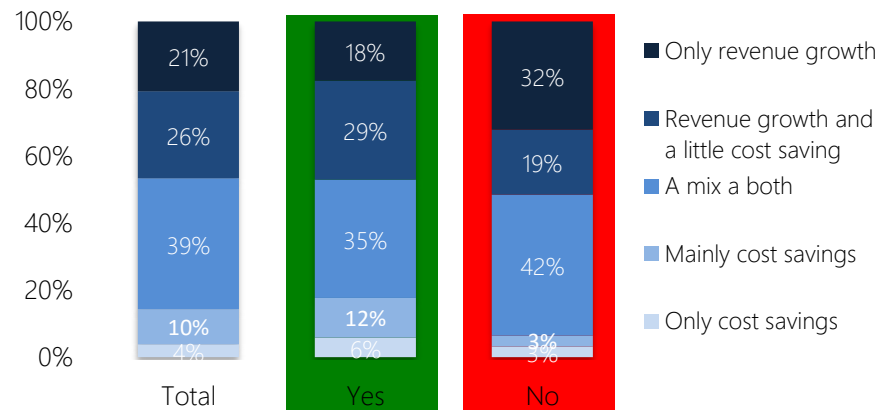
Profitability Influencers Exp.



Influenced by the changing economic environment?

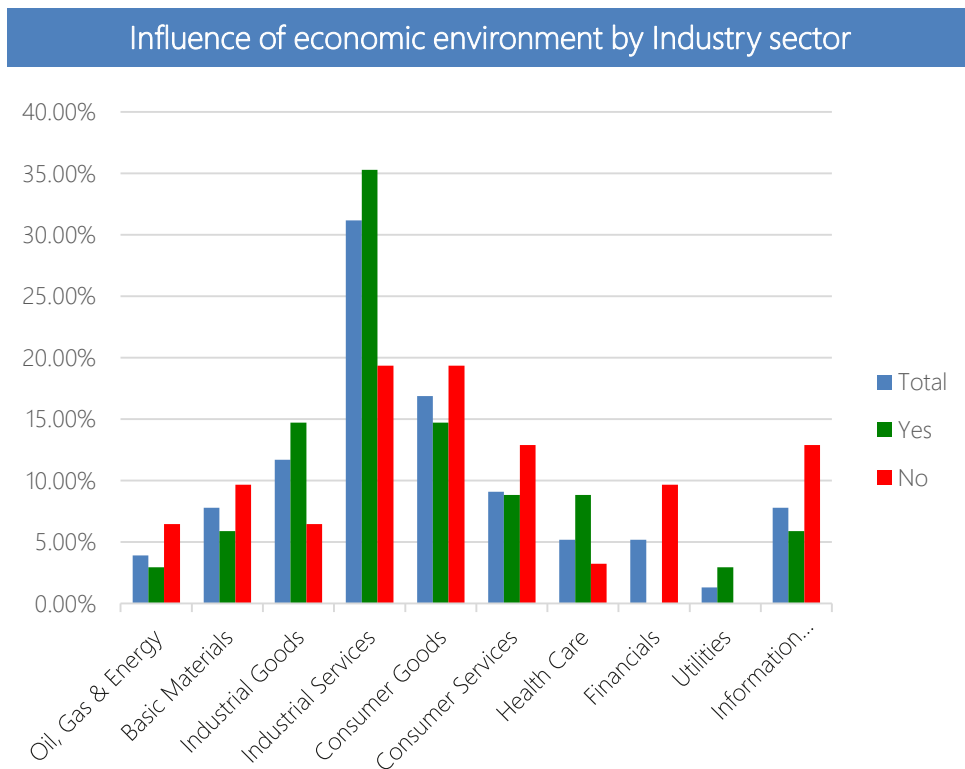


Profitability Infl. as of economic environment



- 85% of participants indicated that their profitability will mostly be influenced by revenue growth in 2016.
- 57% indicated that the changing economic environment in China has affected their Profitability influencers expectations.
- Participants who indicated that their expectations are influenced by the current economic situation are slightly less confident that revenue growth will positively influence their profitability.

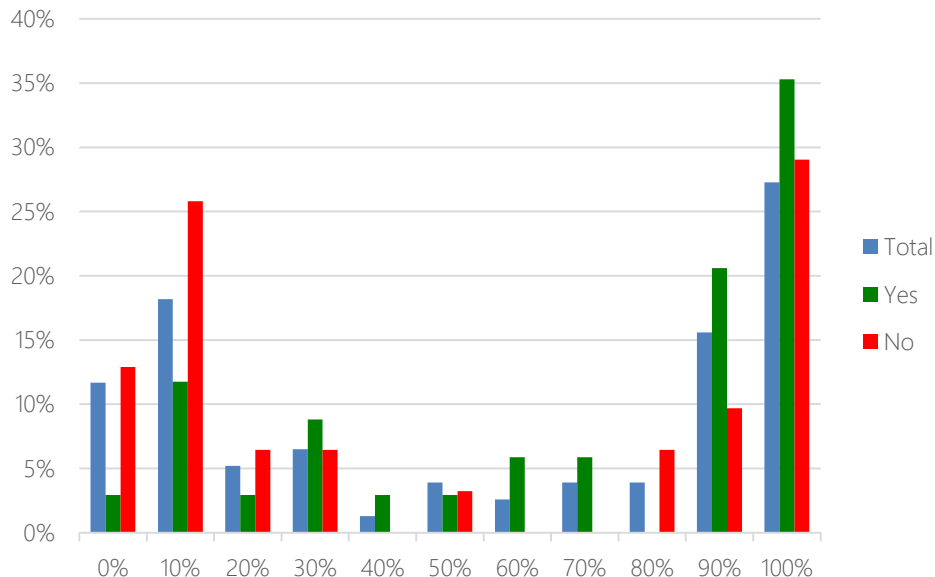
# Which industries are impacted?



- Based on previous questions, we have investigated which industries participants experienced the most influence of the changing economic environment in China.
- 'Industrial Goods', 'Industrial Services' and 'Healthcare' are the industries where participants indicated they were most affected by the changing economic environment. These industries are more pessimistic regarding their expectations.
- 'Consumer Goods', 'Consumer services', 'Financials' and 'Information Technology' are less affected by the economic environment and participants in those industries have a more positive outlook on the Chinese economy.

# Which markets are impacted?

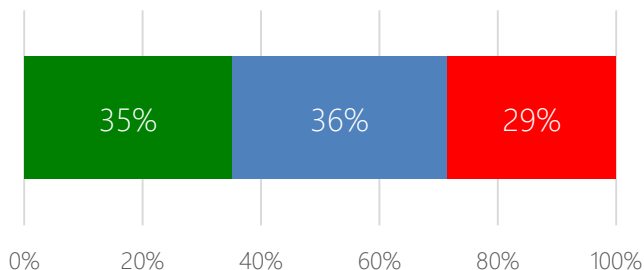
Influence of economic environment by % of Revenues from Chinese Customers



- The results indicate that the participants engaged in business with customers outside of China (0% to 20%) are less affected by the economic environment and are more positive in their expectations.
- On the other hand, the participants engaged in business with customers inside of China (90% to 100%) are more affected by the economic developments in China.

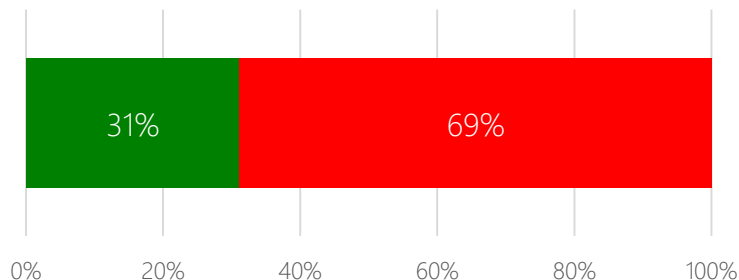
# Relationship with Headquarters

Have you experienced more questions from your headquarters about the economic situation in China?



■ Yes ■ Same as before ■ No

Does your headquarters expect you to take immediate action on the Chinese entity related to the new economic context?



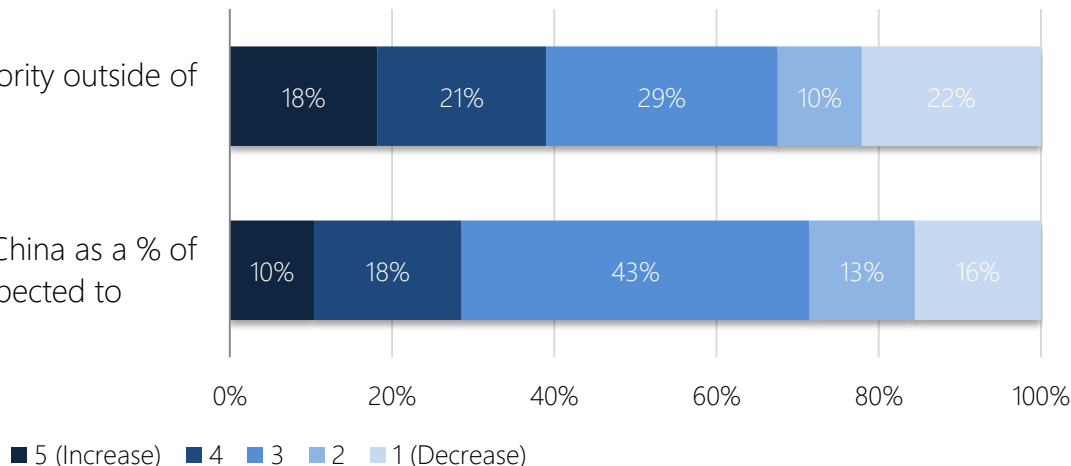
■ Yes ■ No

- Participants were evenly distributed in terms of whether they fielded more questions from headquarters about the state of the Chinese economy.
- 69% of the participants indicated that their headquarters does not require them to take immediate action to respond to the changing environment.

# Is China the Number 1 market?

The Chinese market is our #1 global priority outside of our home market

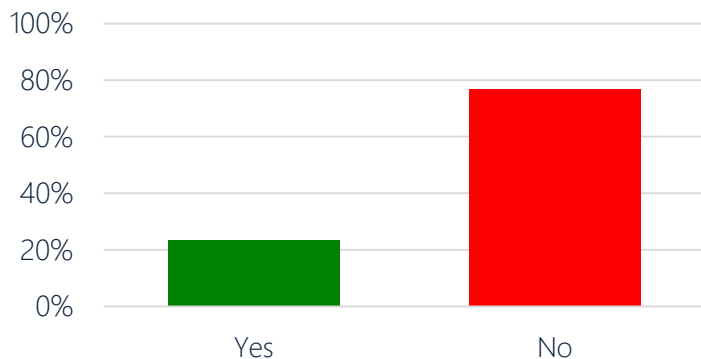
Our parent company's investments in China as a % of our total foreign investment is expected to



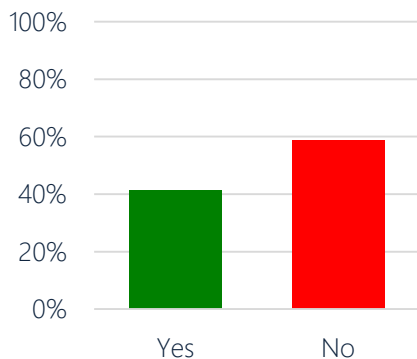
- 39% of the participants indicated that the Chinese market is increasingly the no.1 global priority market outside of their home market.
- Only 28% indicated they expect an increase in investment in China. However, many participants (43%) indicated no significant increase or decrease of investment in China.

# Stay in China?

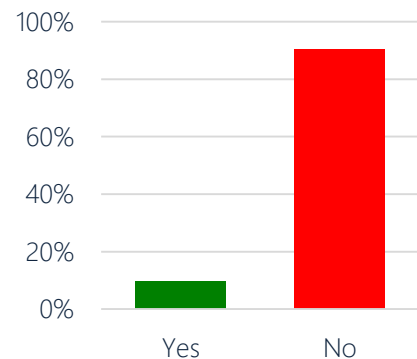
Do you consider moving your Chinese activities to other Asian countries?



Companies influenced by the economic environment:



Companies NOT influenced by the economic environment:



- 73% of the participants indicated they had no intention to move their business activities to other Asian countries as a result of the changing economy.
- When comparing the results of participants whom experienced impact of this development, 41% indicate they would consider moving operations while 59% wanted to remain in China.
- Of those who experienced no impact of the changing economy, 90% would certainly remain in China and only 10% had considered moving operations to other Asian countries.

# Statements on economic environment

I expect that the downturn in real estate, infrastructure and industry in 2016 would further deteriorate the economic environment in China



I believe that the stimuli of the government on domestic consumption in 2016 will improve the economic environment



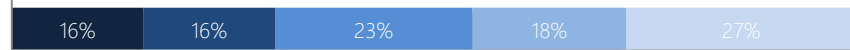
I believe my industry sector will grow faster in 2016 vs 2015



I believe that the 'New Normal' on the long run would positively impact the Chinese economy



I expect to make additional investments in R&D in 2016



I believe that financing arrangements will be available if needed in 2016



I expect to make additional capital investments in 2016



I believe that the receivable collection period and bad debt expense will decrease in 2016



I believe that the regulatory environment will improve and the cost of compliance will decrease in 2016



■ 5 (Agree) ■ 4 ■ 3 ■ 2 ■ 1 (Disagree)

# Main Challenges in 2016

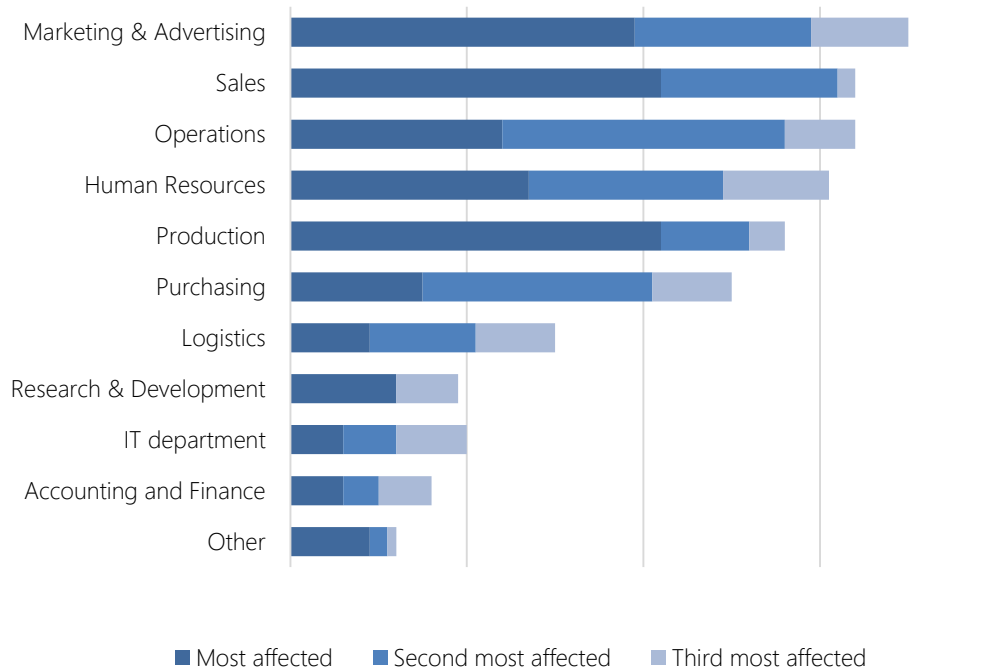
## Main Challenges in 2016



- Participants expect Managing Labor Costs to be overall the most important challenge in 2016.
- When comparing the most significant challenge with the second and third most significant, Managing Sales Volumes / Meeting Sales Targets is certainly to be a significant challenge for 2016.

# Influence of lower growth on departments

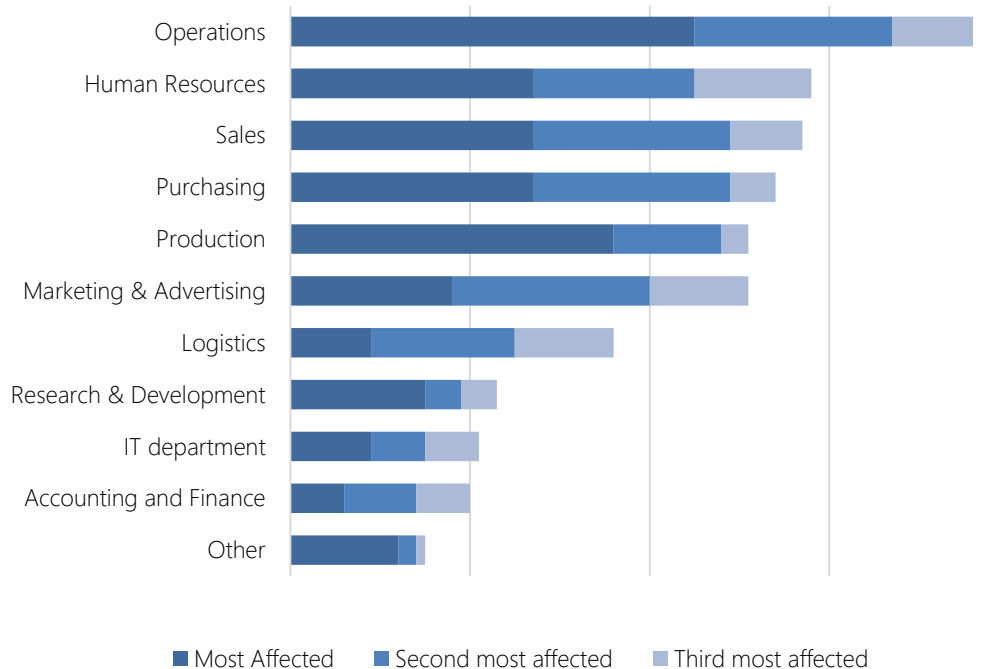
## Most Affected Departments



- In a context of lower growth, the participants have indicated which department would be the most affected by cost reduction.
- Overall, they believe that the Marketing & Advertising department would be most affected.
- Other most affected departments are Sales, Operations, Human Resources and Production.
- Least affected will be R&D, IT department and Accounting & Finance.

# Influence of lower profit on departments

## Most Affected Departments



- In a context of lower profit margin, the participants indicated which department would be the most affected by cost reduction.
- Overall, they believe that the Operations department would be most affected.
- Other most affected are Human Resources, Sales, Purchasing and Production.
- Least affected will be R&D, IT department and Accounting & Finance.

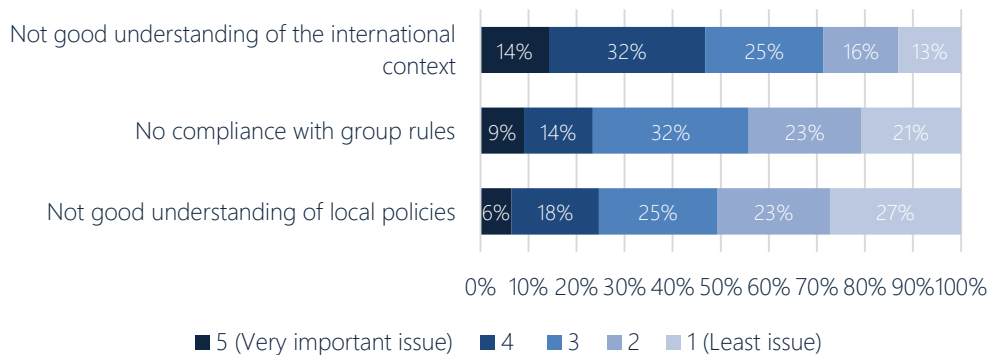


## HR & Knowledge

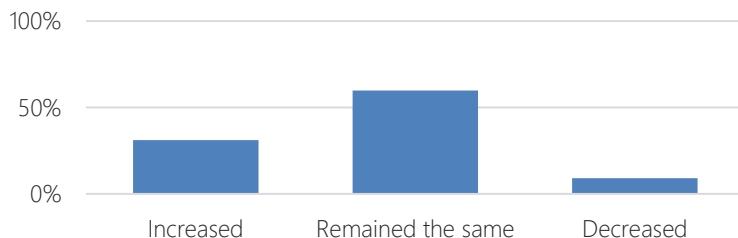
*What are the thoughts and ideas of the participants on HR and other related topics in China?*

# Employees in China

## Main issues with employees in China



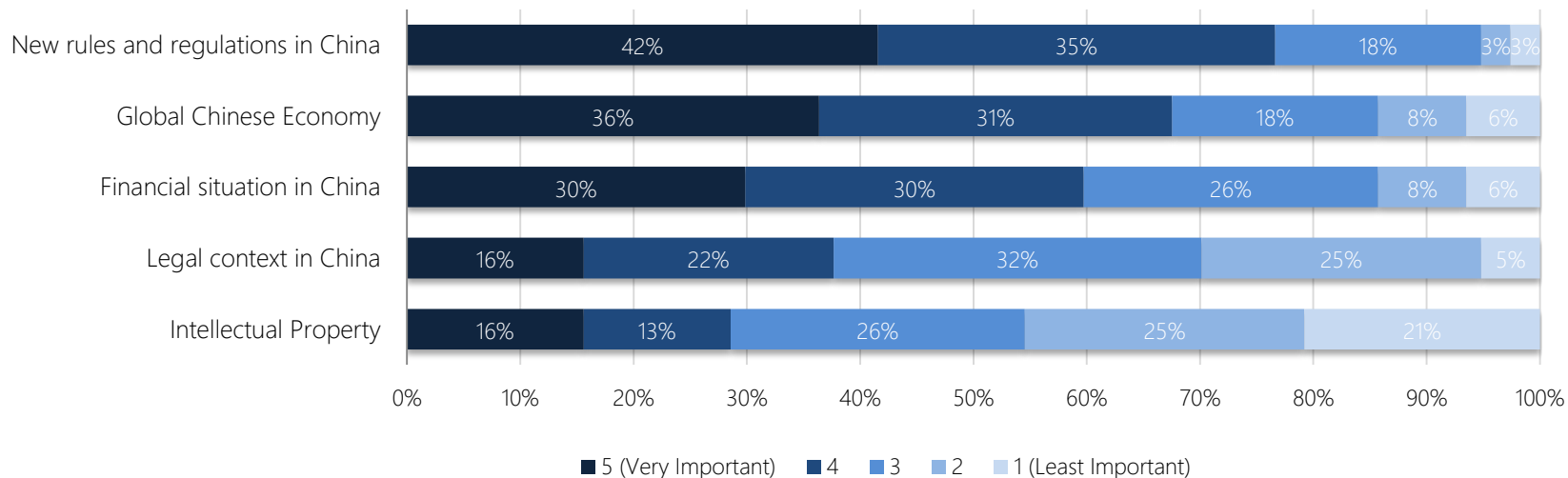
## Ratio of local Chinese vs. foreign employee



- Overall, the most important issue with employees in China is a poor understanding of international context.
- Others mentioned issues such as consistency in service delivery, while others reported having no issues with their staff in China.
- According to the participants, the ratio of local compared to foreign employees largely remained the same (60%). However, 31% of the participants indicated an increase of Chinese local employees.

# China Topics of Interest

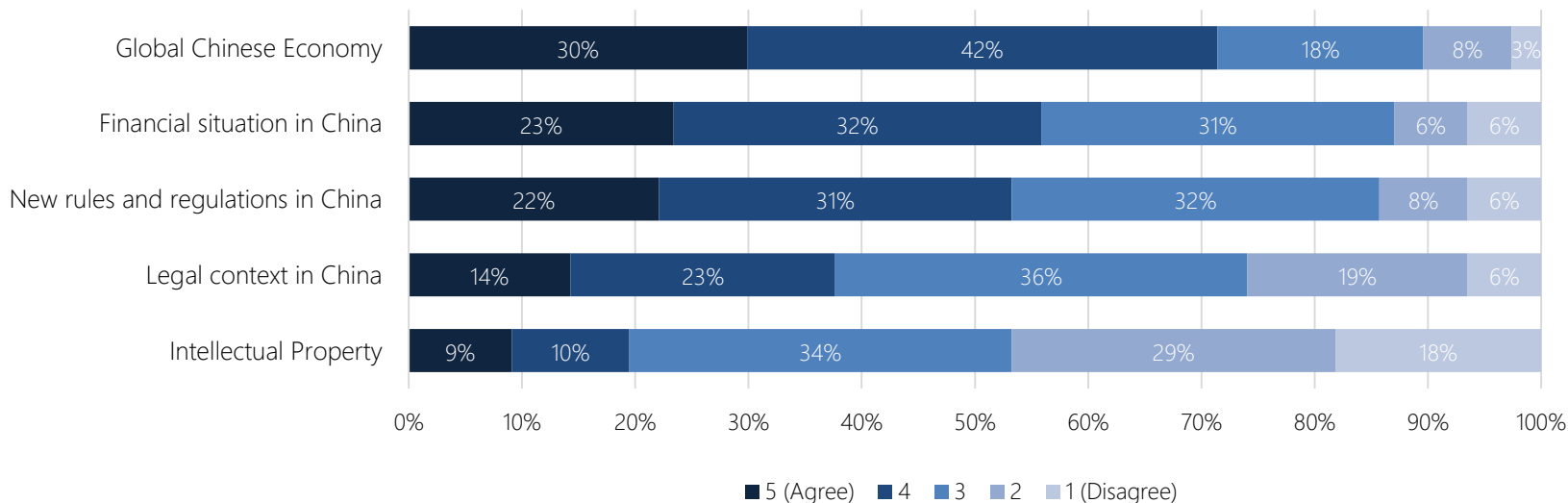
What China topics would you be interested to learn more about this year?



- When asked about their interest in China related topics, participants were most interested in learning about new rules and regulations.
- Other topics of interest are the Chinese 'real estate bubble' and policy making of the Chinese government.

# Update on China topics

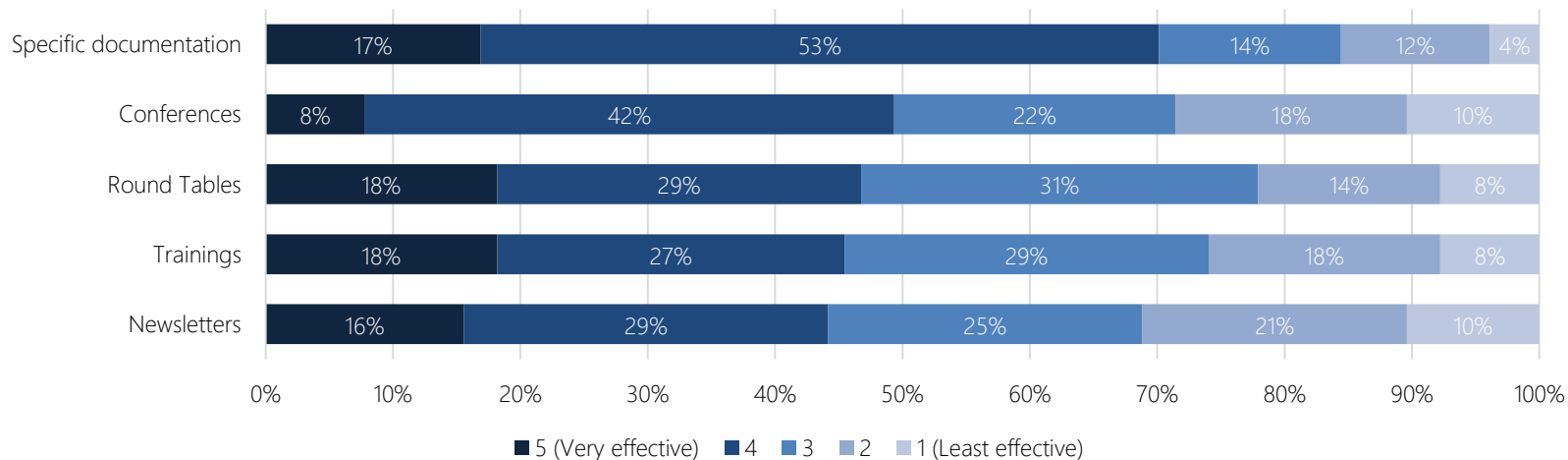
Do you regularly update your knowledge about the China topics?



- The participants mostly update their knowledge about the Chinese economy (72%).
- Though 77% of the participants are most interested in new rules and regulations, only 53% of the participants regularly sought to increase their knowledge about this topic.

# Effective ways to gain knowledge

What are the most effective ways to help you gain additional knowledge?



- The participants indicated that the most effective way to help them to gain additional knowledge is through specific documentation about certain topics and developments (70%).
- Newsletters were indicated as the least effective method to gain additional knowledge (31%).



# Out-of-China Opinion

*What do business managers based outside of China want to tell us about the current Chinese economy?*

# What is the main impact China has on your business today?

5 most voted statements by participants in the dialogue

1

"Both opportunities and challenges. Opportunities in business areas and a stronger focus on quality services. Challenges in a slowing economy with many uncertainties. "

2

"China is and remains an economic superpower with growing self-confidence and internal growths strengths. "New Normal" means for me that I will focus even more on getting the right / adjusted position and result in China. "

3

"We have to shift from servicing multinational companies only to more small and medium-sized Chinese companies. "

4

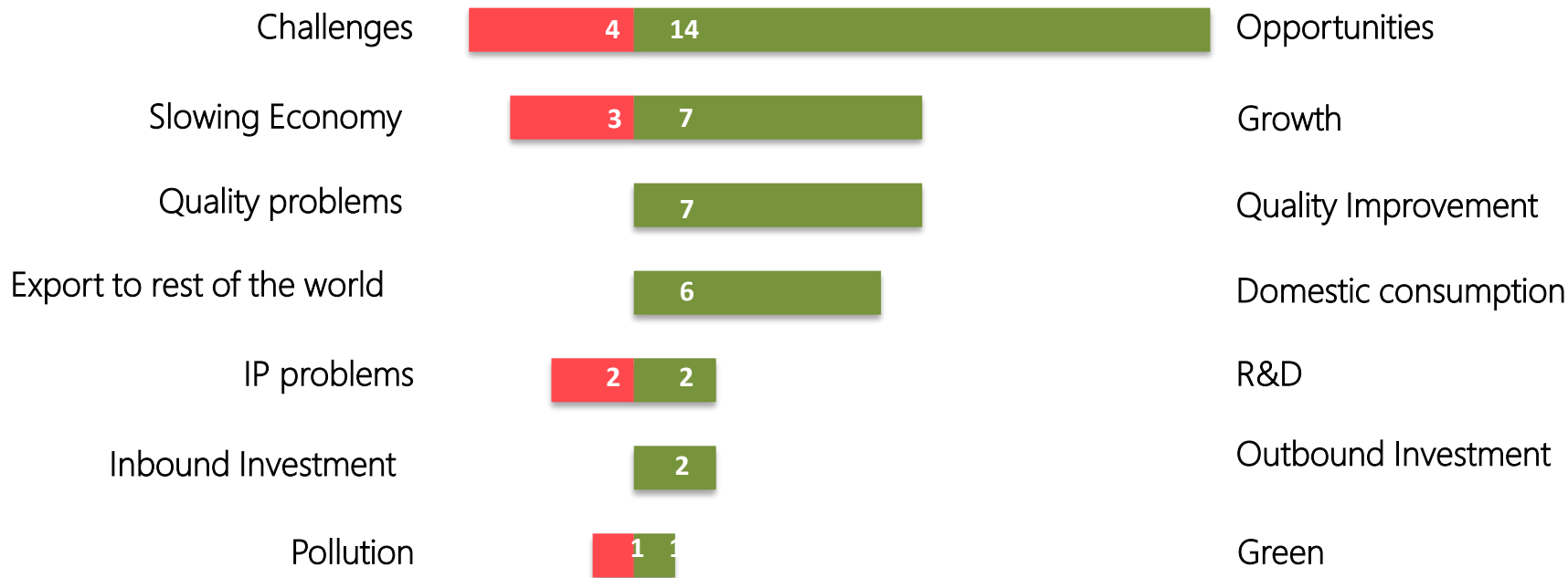
"The "New Normal" will make new rules, which means new research/investments. Domestic growth will strengthen Chinese economy, salary will be higher and gives us more opportunities for export. "

5

"Big market, lots of opportunities "

# Mostly positive wording!

Overall, the words used were very positive and many of the participants still believe that China provides opportunities for their business.



# Opportunities vs. Challenges

## Opportunities

- **Increased purchasing power** allows the Chinese consumers to spend more on consumption, and as a result create trade/commercial opportunities.
- **Increased interest in quality** products by Chinese consumers stimulates demand for products from overseas markets.
- Participants indicated that **turnover on Chinese clients is increasing** compared to other markets.

## Challenges

- Downturn of the Chinese economy has created **uncertainty in the markets** and their business.
- Due to rising salary/production costs, China is gradually **losing its manufacturing appeal**.
- Chinese government needs to undertake **serious action on sustainable development**, i.e. combatting pollution, intellectual property rights, promoting innovation and further reform its market economy.

- Companies based out of China are well aware of the changes currently taking place in China but mostly see opportunities growing for their business.
- As the structure of the Chinese economy moves towards an emphasis on domestic consumption, they see more opportunities to sell their products and services, and understand that this requires that companies adapt their business model to this new environment.



## Closing Remarks

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

# Closing Remarks

- Overall, Benelux Companies in China are performing well in a struggling environment. Even if some companies experience a slowdown of their business or losses in their activities, most businesses are doing well and some are still performing very well, beating the market with growth above 10% and nice profit levels.
- Still some challenges remain. Rising salary costs has been one of the major negative drivers of their business in 2015 and remain one of the most prominent challenges in 2016. Managing Sales volumes is a continuing challenge. Increasing rules and regulations still affect the business and participants are interested to learn more about it.
- More than half of the participants feel the effects of the changing economic environment. The influence on short term is not positive and particularly affects the industrial sector. Consumer-related companies are less affected but are not always selling to the Chinese customers. The right positioning (market, clients) in a changing economy is even more important and companies should better define their strategy in China for China.
- Companies outside of China, on the other hand, are overall more positive about the developments in China. They see much opportunities as a result of the increasing purchasing power of Chinese consumers and desire for more quality products from overseas. However, timing is of the essence in grabbing these opportunities.

# Moore Stephens Consulting

This presentation 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.

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# Thank You!

Do not hesitate to contact us at  
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