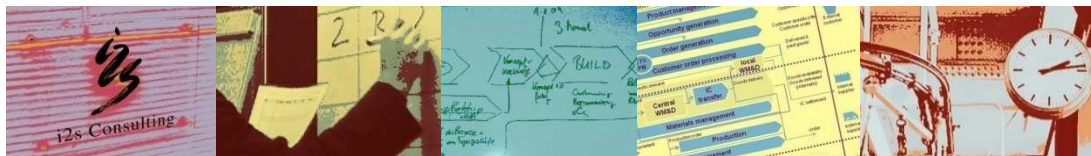


ERP Goes China

Management Summary

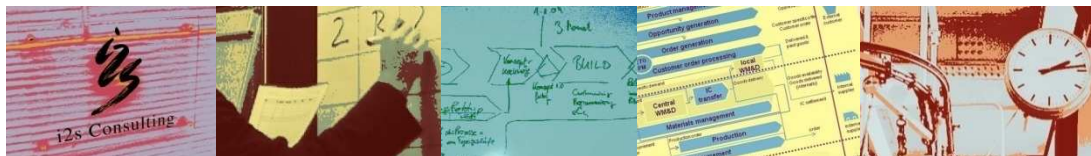
Dr. Eric Scherer, Frank Naujoks, Philipp Drack
i2s research, Zürich



MANAGEMENT SUMMARY

Content

1. License agreement and copyright
2. Overview
3. Reasons to move to China
4. Consequences to the supply chain
5. „From the Market entry“ to „the optimized processes“
6. four main obstacles for German speaking companies in China
7. Dominating factors for an ERP Projekt in China
8. i2s research – the authors



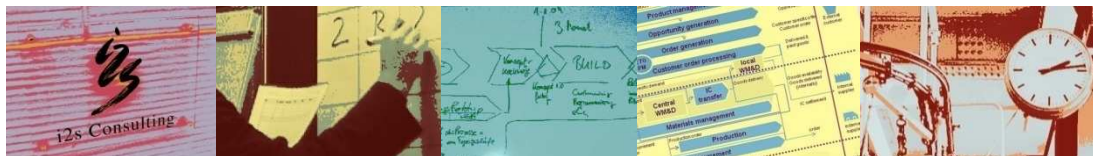
LICENSE AGREEMENT AND COPYRIGHT

The report of this study as well as all results are subject to license agreement and copyright restrictions. All rights are reserved regarding reproduction in any form, including publication as full or in part in any foreign language or any means of electronic. The rights for copying, printing, any reproduction and public presentation are strictly reserved. The study must not in parts or as a whole be reproduced, copied or reproduced by any electronic means. Single figures and limited excerpts may only be used in their complete and unaltered version for internal purposes, or may be forwarded to internal employees. The usage for commercial purposes in connection with advertising, sales materials or other commercial efforts is not allowed unless separately covered by an explicit license agreement. Should there be a request for publishing, reproduction or an interest in exploitation and marketing of the study the explicit approval for each instance of use is needed.

In this case please contact i2s research through info@i2s-consulting.com.

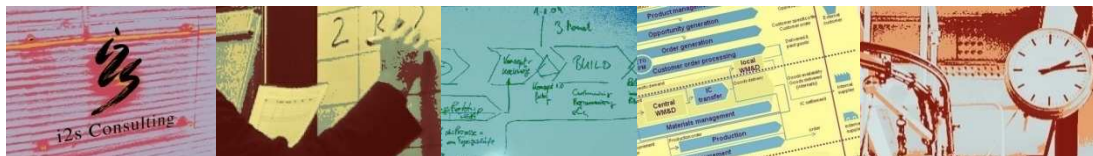
Limited warranty

i2s consulting, GmbH does not assume any responsibility for any errors appearing in the actual paper. All data and results in the study are based on statements of the participating business organizations.

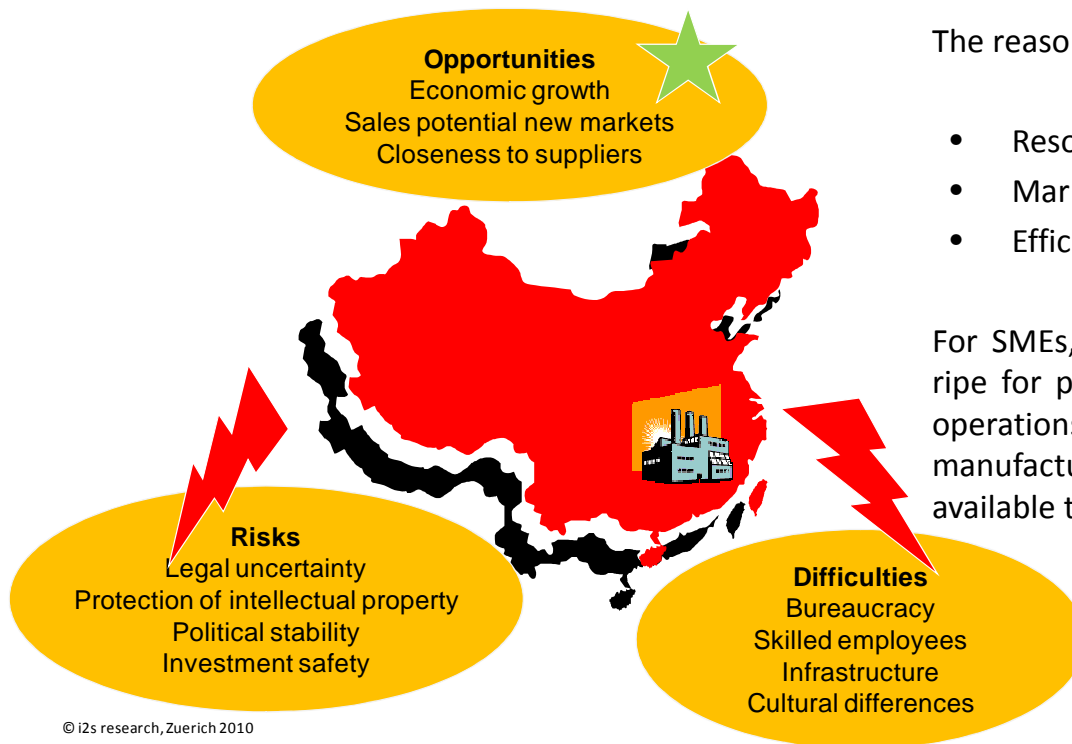


MANAGEMENT SUMMARY

Globalization is having a far-reaching impact on the business world. In a business environment marked by globalization, the world seems to shrink, and other businesses halfway around the world can exert as great an impact on a business as one right down the street. SMEs (Small and Medium-sized Enterprises) are going through a transition phase and are generally restructuring their strategies and capabilities to remain competitive and grow in the emerging world trade environment. Companies have to follow this trend and operate on a global base, e.g. with subsidiaries and factories in China. We have been observing the trend of German-speaking and other European SMEs moving to China for quite a while. One of the main challenges for companies moving abroad is the need to establish an efficient ERP system. The IT department has to provide solutions for the guiding principle “system follows strategy”.



MANAGEMENT SUMMARY



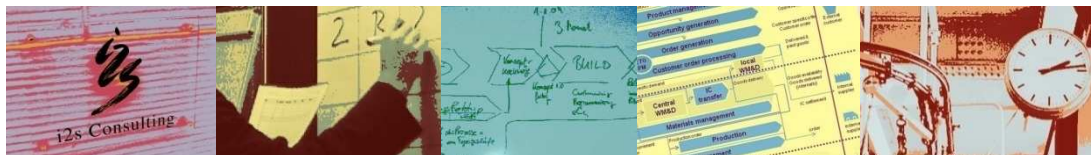
The reasons why enterprises move to China are mainly:

- Resource seeking
- Market seeking
- Efficiency seeking

For SMEs, two prime areas of the global economy are ripe for picking: selling to new markets and setting up operations abroad. Once the exclusive domain of large manufacturing enterprises, these opportunities are also available to SME manufacturers.

Take for example selling to new markets in developing nations in Asia and the former Soviet-bloc states. While conventional wisdom says that these regions are most likely to be the origin rather than the destination of manufactured products,

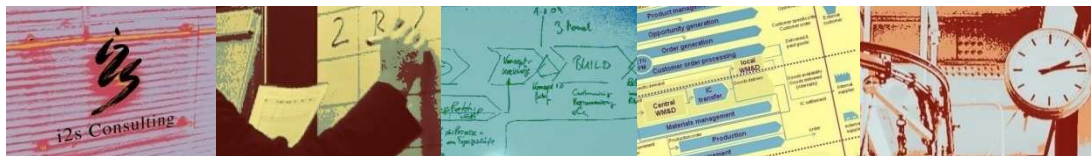
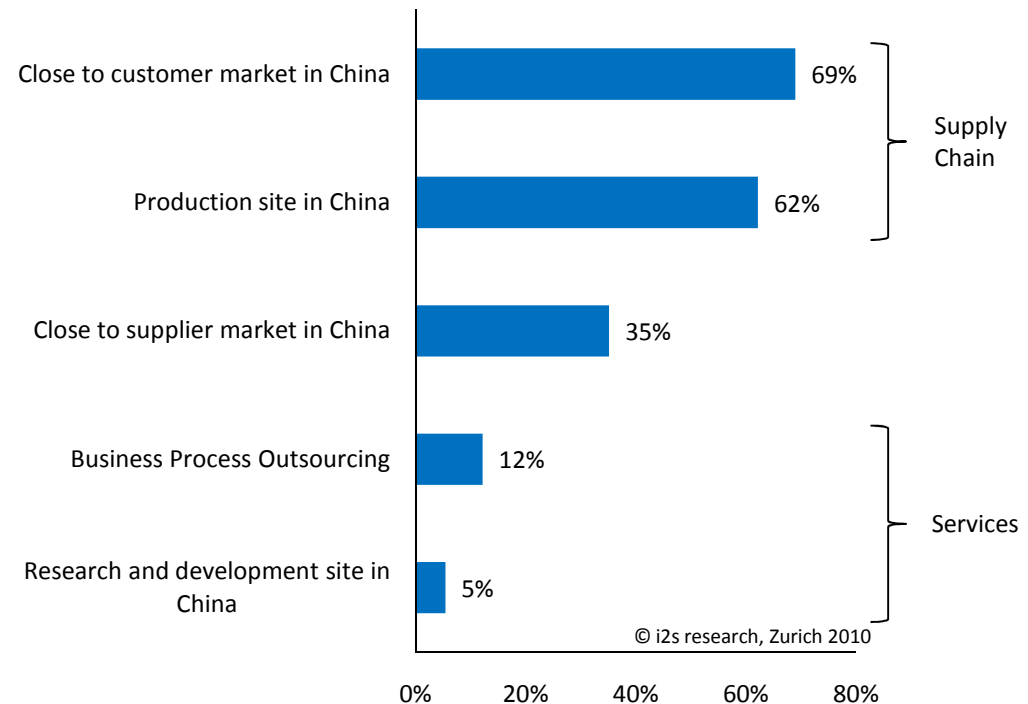
increasing consumer demand in these markets cannot be met by domestic manufacturers. Foreign supply relationships are the most common forms of internationalization, while exporting is the next, and some establish foreign subsidiaries and branches.



MANAGEMENT SUMMARY

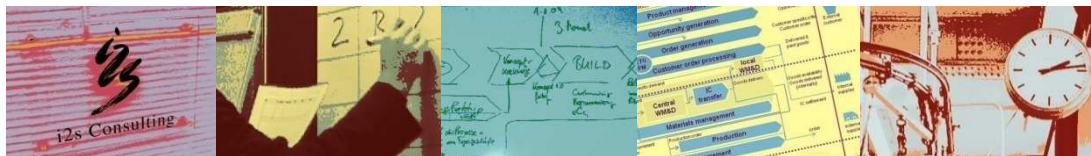
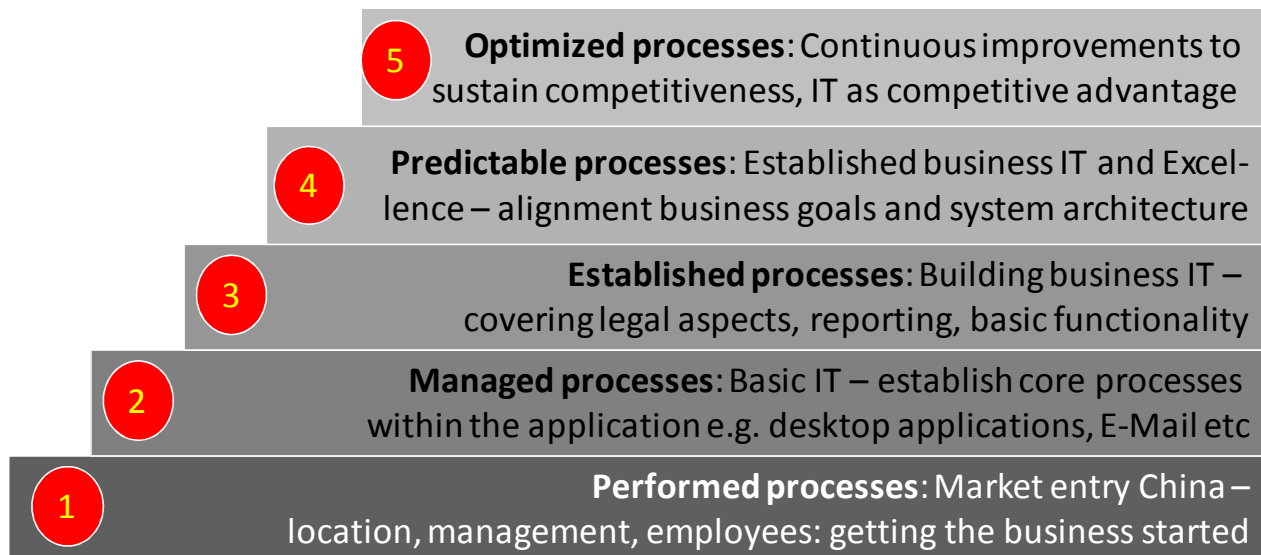
There are (mainly) two consequences for the supply chain:

- Chinese production plants are no longer only a workbench and supplier of rather simple parts, but part of an international supply chain – even for SMEs
- The Chinese market is no longer a market for bargainers that offer out-dated technology but a high-tech market expecting state-of-the-art technology, maintenance and service.



MANAGEMENT SUMMARY

It is our belief that, due to increasing regulations, a growing sense of entitlement in the Chinese market – both as supplier and purchaser – and the gradual shrinking of the enormous wage advantage in China, a more professional approach towards automating business processes is necessary. In the end Chinese subsidiaries have to be incorporated in global consolidated companies in terms of processes as well as information. ERP systems are in the long term, and in many cases in the intermediate term, a good way to assure this integration – in some cases maybe a necessity.

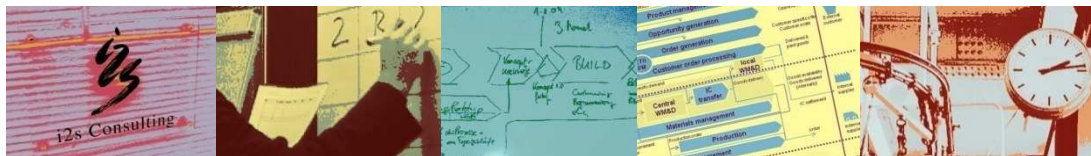


MANAGEMENT SUMMARY

We observe four main obstacles that German speaking companies are facing with their IT / ERP strategy:

- Projects take too long to cope with the fast-changing market conditions in China
- Companies in China are growing much faster than in Europe – and management is not used to handling such fast growth
- IT (especially license costs and maintenance) are more expensive than the Chinese employees operating IT
- Cultural differences between a Chinese and a European workforce complicate HR management. Chinese employees are usually well educated but lack experience of Western business behavior.

If German, Austrian, or Swiss (GAS) companies want to globalize their business, the strategy “we do it like home” has to be questioned. In Germany, Austria, or Switzerland (GAS) there seems to be a lack of understanding and knowledge concerning these topics. Large vendors with a long history of international business and production plants outside of Europe typically have that sort of knowledge – yet for common SMEs this information is not very helpful because they usually lack the organizational back-office capacities of large enterprises. Typical Swiss characteristics like perfection and quality might not be the ideal driver for a rapid globalization and a proper alignment of the IT systems.



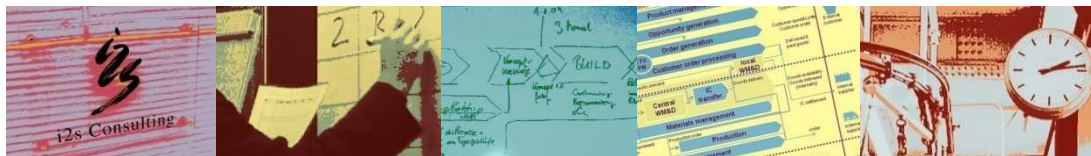
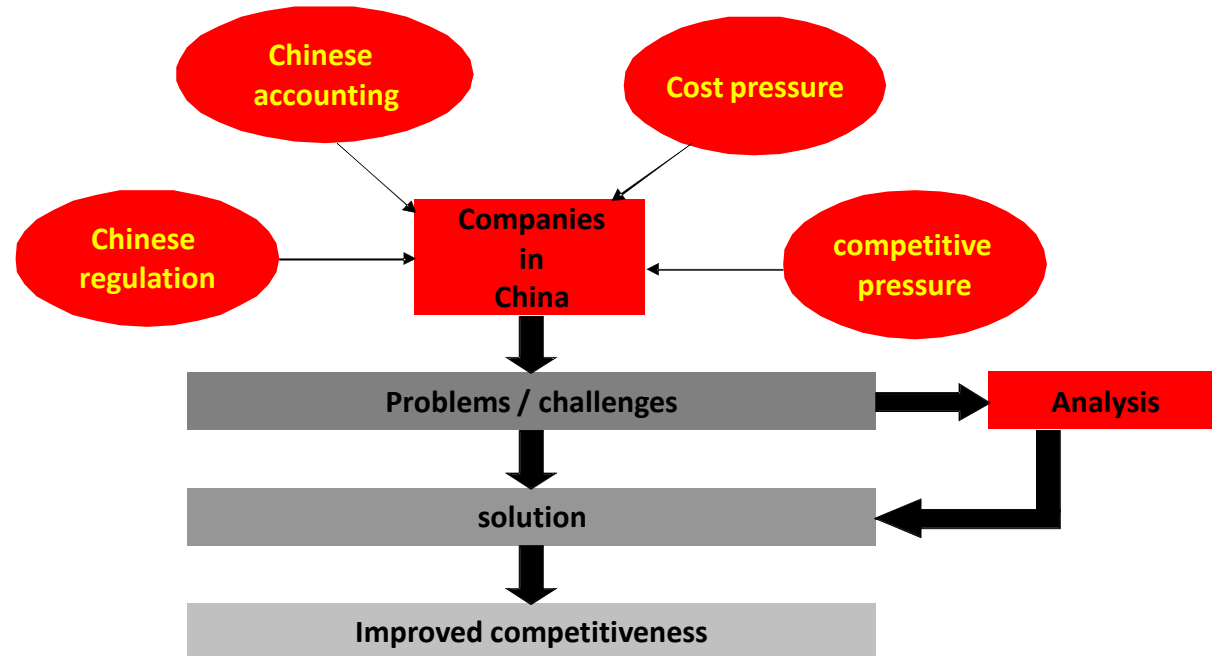
MANAGEMENT SUMMARY

We found that several dominating factors influence the success of an ERP project in China. These are language, report and table format, Business Process Reengineering (BPR), economic reform impact, and human resource problems. The failures of foreign ERP implementations should encourage a more localized strategy.

A tactic for Western companies should be to use a local ERP service company or a consulting

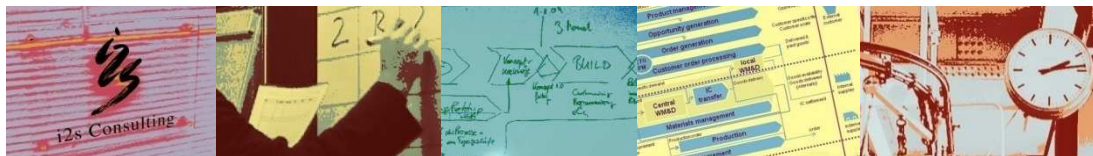
company that is more familiar with the Chinese culture (to guide firms who implement their systems). By switching to domestic service providers or international service companies familiar with the Chinese culture, user companies can mitigate the pressures exerted by Chinese culture, which values personal relationships.

A proper software evaluation process is critical for ensuring that the appropriate software is chosen to meet the business's needs. As part of the evaluation process, it is important to ensure that the software meets Chinese regulatory requirements and local language requirements, and that it is well-supported in China.



Content of the study

1.	Management Summary	7
2.	Methodology and database	12
3.	China: Focal point of globalization	13
4.	EXCURSUS "Open door cities" and "special economic zones"	23
5.	Local ERP market in China	25
6.	System follows strategy	34
7.	ERP projects in China	41
8.	Cultural characteristics and soft factors	59
9.	SME companies and further globalization	62
10.	Recommendations	63
11.	Learn more	66
12.	Appendix: Portraits of our Partners	68



i2s research – the authors

i2s is an independent analyst and consulting company based in Zurich, Switzerland. The core values of our work are independence and objectivity in our research and consulting business.

We take our independence very seriously. i2s does not sell technology, nor do we implement technology solutions or projects. But we provide insights and best practices especially for user companies based on our experience in enabling multi-national ERP projects.

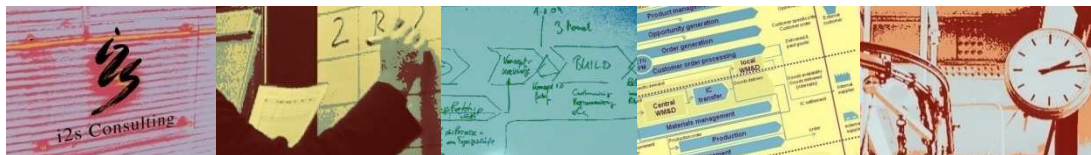
Dr. Eric Scherer
Managing Director



Frank Naujoks
Director Research



Philipp Drack
Research Analyst



«IT Investment without headache!»

intelligent systems solutions (i2s) GmbH

Frank Naujoks

Badenerstr. 808

CH 8048 Zurich

Switzerland

Tel. +41 44 360.51.30 – Fax +41 44 360.51.32

Mobile: +49 171 83 05 200

e-mail: naujoks@i2s-consulting.com

Internet: www.i2s-consulting.com

www.erp-z.info

- Webpage of the ERP satisfaction questionnaire

www.changebox.info

- The i2s knowledge warehouse
- Download of articles and publications

