

Title: "Who Should You Be Doing Business With in China?"

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At nearly every China business conference I've attended, at least one speaker mentions that the most important thing to remember when doing business in China is "due diligence, due diligence, due diligence." But then they rarely go on to tell you how to do due diligence in China, though they often mention "it's very difficult." Useful and affordable information on Chinese companies is available, and collecting it should be your first priority when considering a business relationship with a Chinese entity. A few hundred dollars up front in your own office could spare you a wasted (and much more expensive) trip to China by exposing a trading house passing itself off as a real manufacturer, or even worse, a scamming company.

You may have been contacted via the Internet by a company in China or have found one on a free search site such as Alibaba.com. A word of caution on identifying a partner this way – these sites do not impartially qualify the companies they list – if the Chinese company pays a fee, then the site 'qualifies' them. Some of the worst fraud cases US officials have seen have come out of US companies establishing relationship with companies they've found on sites like these. Also be wary of a company which has sent you an unsolicited email, or has a flashy Web site but nothing else – this also does NOT mean they are a legitimate or otherwise suitable business partner for you. Although China is an alien culture for many of you, you can level the playing field by doing what you would do when considering a business partner in the US – check them out via an unbiased outside service in a freshly investigated report (not one pulled off a database which may have been compiled months or even years prior).

In the US you may be used to using Hoovers.com or Dun & Bradstreet. Though English language online equivalents covering Chinese companies are not yet that comprehensive and therefore frequently a waste of time, there are some useful subscription sites to order credit reports such as Skyminder.com. If you would prefer to just order one or a few reports at a time and therefore don't want to be burdened with a subscription, try the US Department of Commerce for an International Company Profile (ICP) Report (<http://www.buyusa.gov/china/en/icp.html>), or go straight to their Chicago- based source for these reports, Global Business Information Services, Inc. (Glo-BIS.com).

Before you even go that far, you might want to just type the phone number of the Chinese company into a search engine and see what comes up. I had a client on the phone ready to order a report from us; I Googled the phone number he gave me, which promptly returned 27 hits saying the company was a scam. I suggested he do the same and it saved him from having to order a report on the company.

"Pay now or pay more later" – this should be your mantra. If you don't pay to have at least the company's registration with the Chinese authorities checked (under \$50), you may end up paying a lot more when they don't deliver on what they've promised you, or worse.

A Business Registration Report/Company Profile is the absolute minimum you should do to check the registration and ownership of the company. A freshly created Business

Credit Report (around \$200) is the next step, and will show you the registration information, ownership, litigation record, last three year's financial data, Trademarks/Patents, and a comparison of that company to others in its industry in China. The International Company Profile (\$600 from the US Department of Commerce) includes all the previous information, plus indication of the firm's reputation, their suppliers, clients, a field visit to their site, recent news reports or developments relevant to the company, and more. If you don't want the company to know you're looking into them, confirm with the researchers before you place the order, because some companies are not too discreet.

The most thorough method of checking the background of a potential business partner in China is to have an unbiased service conduct an in-depth due diligence examination of the company. The cost of such an examination ranges from around \$2,000 – \$20,000, depending on how deep you would like to go. Chinese companies tend not to be very forthcoming with information sharing, and it may harm your future relationship with them if they think you are 'poking your nose into their business.' Hiring an outside service or a law firm to conduct the investigation for you offers you a chance to 'save face' with your potential partner in China – you can just blame the nosiness of the outside service for their insistence the company open their doors and books to inspection. Depending on the level of investigation, it may be necessary for the Chinese company to be aware that you are having their background checked.

China is developing rapidly and there are three main types of business partners you may find: the old style State Owned Enterprise which will tend to follow a slower negotiating track and may not be as interested in their bottom line; the newly privatized SOE, where the company leadership is under the gun to make a profit or go under - they may not necessarily know how to best be successful, but they want to succeed; and the entrepreneurial firm, which will tend to move faster than most American companies. Recognizing what type of company you are dealing with (which should be revealed in any due diligence report you order on them) will help you decipher the most appropriate method for interacting with your Chinese partner.

The bottom line: there is quality, affordable information on Chinese companies, and getting it can help your chances of success in China. We had a customer learn from one of our reports that the Chinese company which had sent them an unsolicited email for an order of nearly US\$500,000 worth of specialty machinery had a stellar rating. Our client was able to finalize the agreement within weeks, without a trip to China, was paid on time, and already has follow-on orders. In another case, we were able to stop a client from making a contract signing trip to China by revealing that the company he intended to meet was a scamming company. Business can be tough anywhere in the world. Make it easier on yourself by learning the facts about your potential business partners before you waste any time or money establishing a relationship with them.

Article Courtesy of Louise Kern, Managing Director, www.Glo-Bis.com