

The great step forward

China's awakening consumer markets look very tempting to foreign businesses. But those wishing to invest should pull their socks up, says Jason Ramey

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THE SITUATION Immediately after the global crisis hit, many Western companies that previously had aggressive expansion plans in China through mergers and acquisitions put on the brakes and have been holding off on their plans until the dust has settled. Currently, these management teams may be re-visiting their expansion plans, but perhaps with a more careful and systematic approach. However, if history repeats itself, many of the companies may still underestimate the actual time and commitment it will take to close a quality transaction in China and they may not fully appreciate the importance of certain key matters, such as understanding cultures within China, differences in due diligence for Chinese companies, the Chinese target's location and negotiating the deal.

JASON RAMEY, a partner with the Grant Thornton International member firm in the US, is currently on secondment to Grant Thornton China

THE RECOMMENDATION As management teams are refining their merger and acquisition plans in China, the following are some of the key reminders, based on practical experience they should consider.

■ **Know the culture** – This does not mean just knowing Chinese culture. It means understanding there are many cultures within China and they should not automatically assume that someone from Hong Kong or someone who simply speaks Mandarin understands the cultures across China. China has many cultures within the vast country and it is often helpful to seek advice from someone who understands the local culture as well.

■ **Due diligence is different** – Performing due diligence in Western countries is very different from performing due diligence in China. As part of the long due diligence process, management needs to understand the records more than likely lack transparency and there are probably multiple sets of books, undisclosed tax liabilities and other accounting misstatements. Also, remember the importance of knowing who has title to major assets, reviewing the quality of customers/suppliers, employee relations and skills, business licenses, and reliability of the supply chain.

■ **Location** – China has made huge progress in upgrading its transportation infrastructure over the past decade, but there is still a long way to go. The target company's location is therefore of importance for transporting products and attracting both local and international talent.

■ **Negotiating the deal** – This may be the most challenging and time-consuming aspect of 'closing' the transaction. Nothing is agreed until everything is agreed and a common surprise to Western firms is that often, after an agreement is signed, the Chinese party will continue negotiating the deal. This should be understood and expected before the negotiation begins.