



Counterstrategies for Rising Business Costs in China:

Best Practices sharing

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Today's Speakers



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INTRO



China GDP: economy grew, but 'more pain will come' as coronavirus, lockdown pressures weigh on outlook

- China's economy grew by 4.8 per cent in the first quarter of 2022 compared with a year earlier, up from the 4 per cent growth seen in the fourth quarter of last year
- Retail sales fell by 3.5 per cent in March from a year earlier, while industrial production grew by 5 per cent last month and the surveyed jobless rate rose to 5.8 per cent



Frank Tang in Beijing and Orange Wang
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[Why you can trust SCMP](#)



The current situation in China is complex

*“China’s erratic policies are terrifying investors
The folly of zero covid has turned former evangelists
into fierce critics”*

The Economist

*“China Danger Strikes Fear Into Global Investors
Stumbling on Fed”*

*“Investors are increasingly nervous over Xi’s
Covid Zero policy”*

Bloomberg

“China's economy is going backwards”

CNN

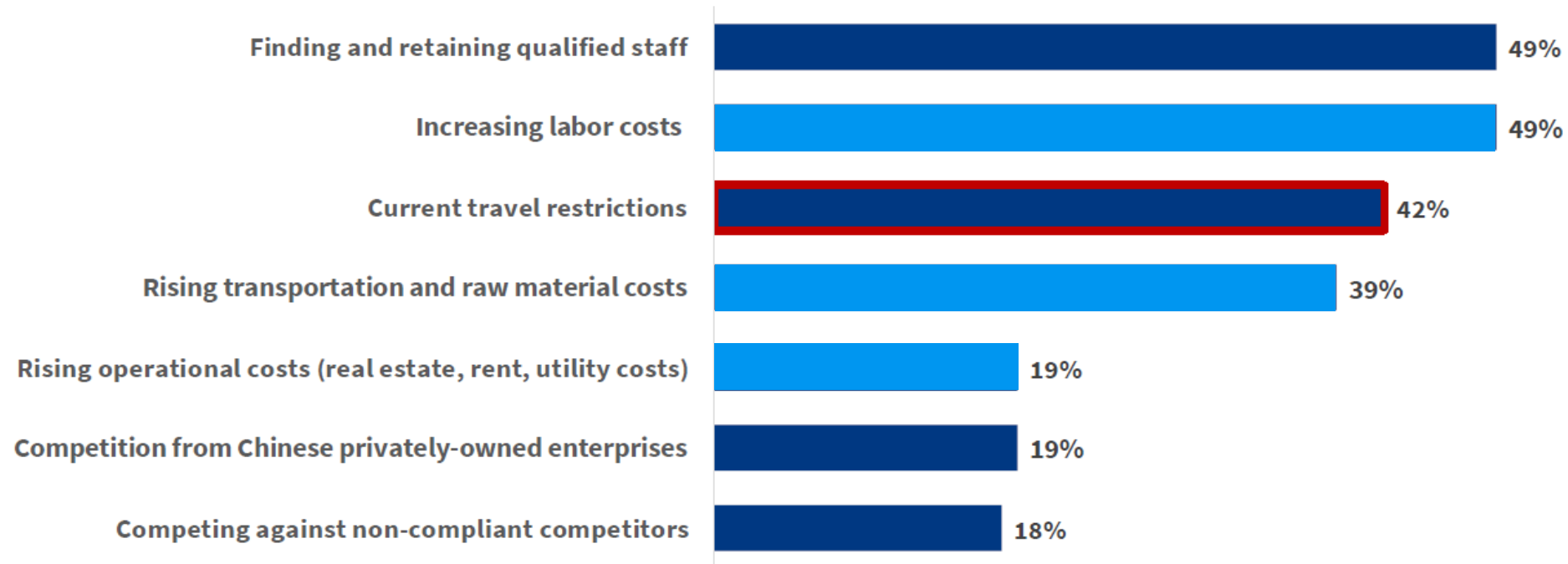
Fast, precise, too tough? Lockdowns risk stalling China's economy

Strict response to virus buckles supply chains, hits consumers and sends unemployment soaring



CURRENT TRAVEL RESTRICTIONS AMONG TOP OPERATIONAL CHALLENGES

Please select your top 3 operational and macroeconomic business challenges. (n=546)



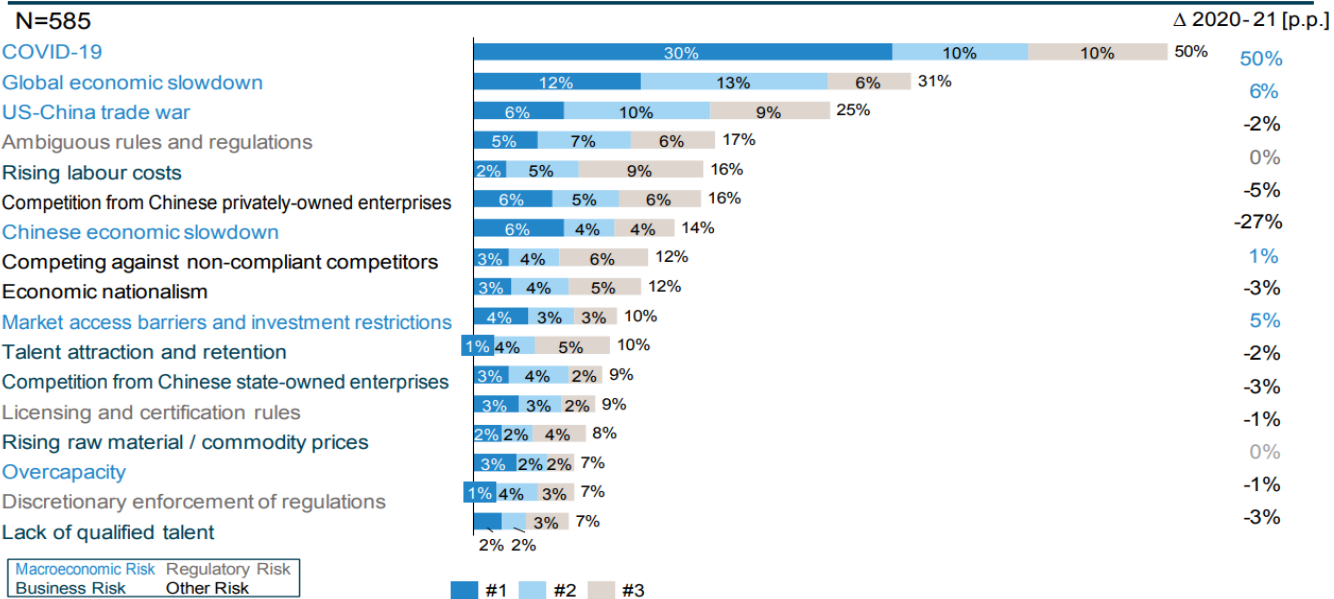
COSTS!!



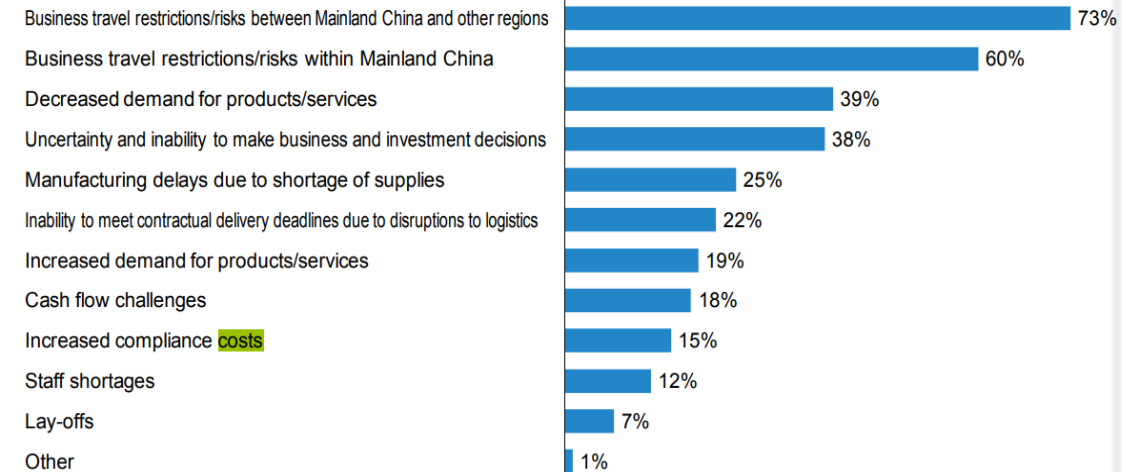
The European Union Chamber perspective

Figure 1: COVID-19 dominates challenges

Please rank the top three business challenges that you selected as significant above ¹⁾



N=585



China's "Factory gate" prices are on the rise

01

02

Companies globally are grappling with supply issues as economies emerge from the pandemic.

03

Major power shortages in the last year.

04

Rising raw material prices are a particular concern for companies in the building materials business, as well as iron and steel

05

China's factory inflation hits 13-year high as materials costs soar

The general rise in costs is a problem for business owners and the general public!!



This affects business in a negative way

What is the **solution?**



What is cost management?



Why is it important?



How to efficiently do cost management in a manufacturing company

Cost Contention and Lean Management Strategies for SMEs in China

One of the biggest problems foreign companies face in china is **increasing cost of doing business.**

What is the solution?

What is Cost Management?

Cost control?

Cost Reduction?



How to achieve this and maintain or **IMPROVE** the quality of your operation?



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Main strategies for Cost Management



Cost Contention and Lean Management Strategies for SMEs in China

Strategies:



IT

1. Optimize your China Accounting System (erp) to improve the efficiency of your company.
2. Digitalize everything as much as possible 'Digital expense management'
3. Improve your HR and payroll management

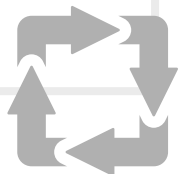


HR

Keep your structure lean as far as headcount goes. Remember that the highest fixed costs in companies, are normally HR related.

Corporate Sustainability

A concept that is an evolution of Corporate social responsibility, with a focus on environmental friendly practices.



IT Strategies



ERP -Enterprise Resource Planning

Why is this a Cost control Method?

1. Too many people in offices
2. Inefficient and bloated operations
3. Purchasers get money 'under the table' from suppliers
4. Other departments run their own games to take more money home
5. No, follow-up of the business cost drivers



Holidays



Expenses



Notifications

Digitalization vs. digitization vs. digital transformation



Digitalization vs. digitization

Digitization refers to the conversion of information from analog to digital formats.



What is digitalization?

Digitalization refers to “using digital technologies to change a business model and provide new revenue and value-producing opportunities”.

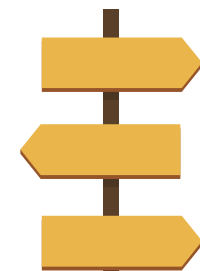
includes every activity and process that’s made possible by digital technologies. Digitalization in business has brought many companies to success.

From automating their marketing activities to processing their orders, businesses have fully leveraged digital technologies.



Digitalization vs. digital transformation

Digital transformation refers to much wider use of digital technologies and cultural change. It’s more about people than it is about digital technologies. It demands core changes in the organization



Impact of Digitalization on your business

Increased efficiency of all operations

Fewer human errors

Safer data storage in the cloud.

Reduced operational costs.

Enables data analysis

Digital Transformation is the final Goal that makes you achieve efficiency!!

Real Case

01

CHALLENGE

Client in the manufacturing sector from Dongguan with Complicated invoice management, diversion of critical resources Issuing official invoices (fapiaos) to customers.

- With an increase in the number of fapiaos, the time spent in managing that issuance process also was growing.
- Because Fapiaos in China must be issued through the central government Golden Tax System (GTS). Users need to login, enter the details...the process involves several steps , which take time.

02

Solution

Modifying ERP systems to automate invoice management to save time and reduce human error.

- We configured the client's ERP system to store information in the correct format which could be easily delivered to the GTS.
- We created a file that permitted integration between the ERP and the GTS tool, allowing information to be transferred directly between the two systems.
- Once a request to issue a fapiao is made in the GTS, details about the issued VAT number are written back into the client's ERP and stored there, creating a seamless two-way information sharing process.

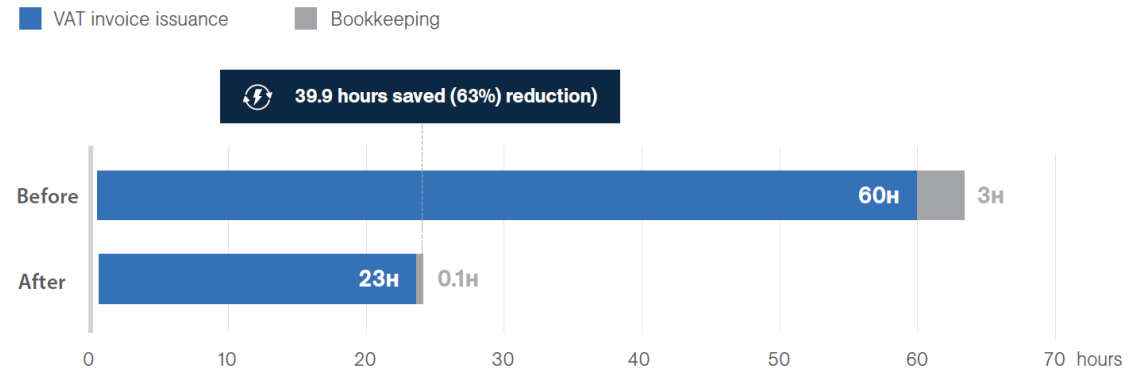
03

Outcome

Client was able to cut out the redundant manual labor – saving on time, manpower, and unnecessary costs

However!!! Please be aware that the initial investment in ERP is substantial. The cost reduction takes a while to be felt.

Monthly Time Saved on VAT Invoice Management (average 150 invoices issued per month)





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Specific HR considerations



Other Strategies: Relocate your Business



Where to relocate your business?



What are the considerations (risks) to have?

Tax, HR, Legal

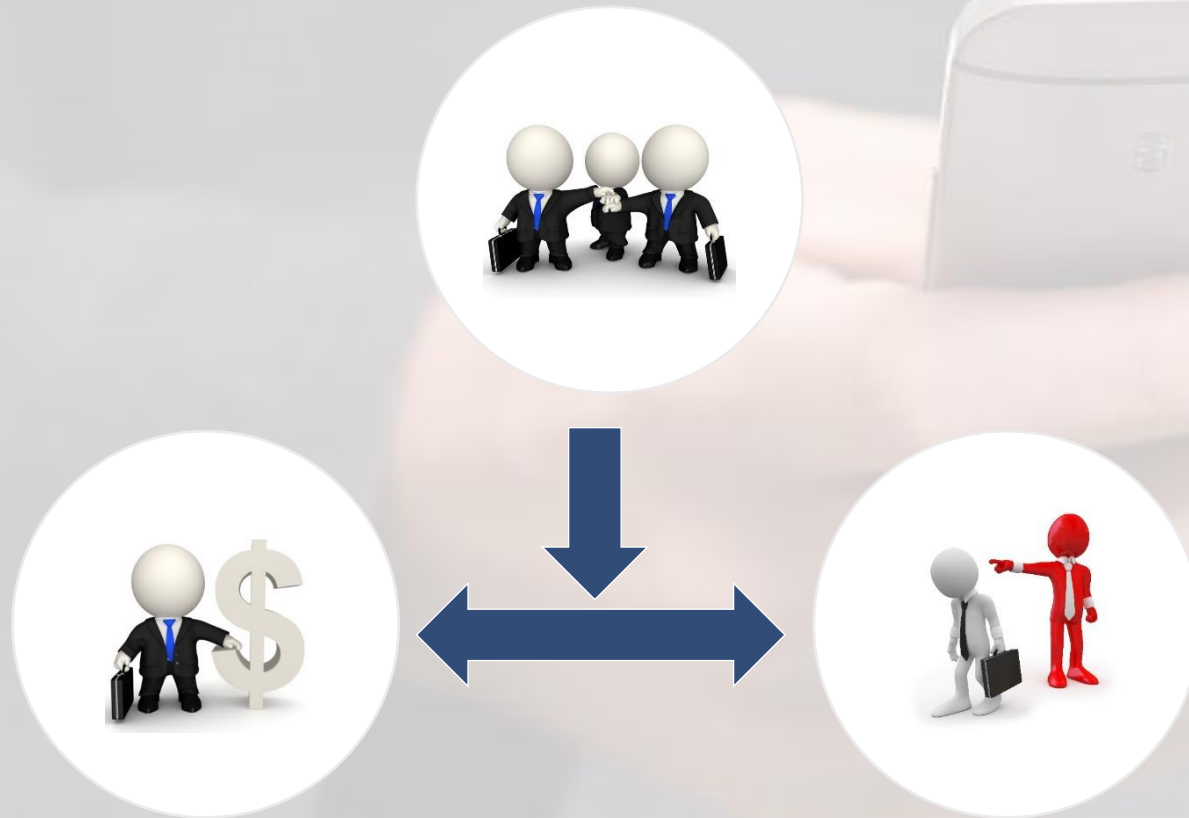
To select a good location,
its important to remember
the [6 Commandments](#)

Cost Metrics
Supply Chain
Connectivity

Work Force
Legal Environment
Incentives



Transfer VS Termination



Distinguish the valuable employees from other staff

- Which employees are key to ensure operations?
- Which employees are managing valuable assets?
- Which employees no longer add / protect value?

Diverse Options of Mass Lay-off

Termination due to company's closure

Termination due to objective circumstances that have undergone significant changes

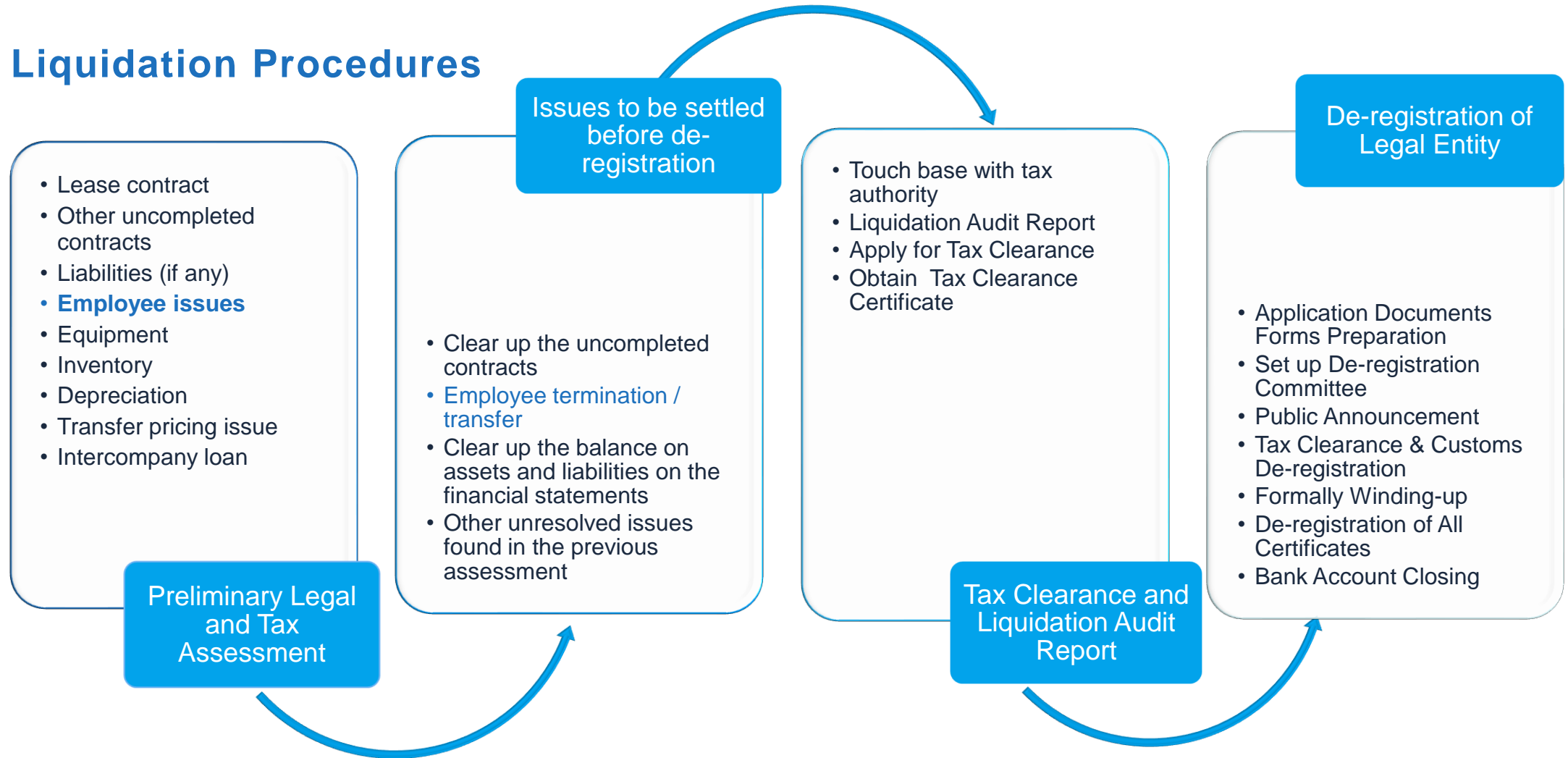
Termination by negotiation

Economic Dismissal

Options of mass lay-off could be considered during relocation process

Termination Due to Company's Closure/relocation

Liquidation Procedures



Termination Due to Company's Closure

Legal Ground

Article 44 of PRC Labor Contract Law

Under any of the following circumstances, a labor contract shall be terminated:.....

(5) the employer's business license is revoked, the employer is ordered to close down, the employer is revoked or the employer has decided to dissolve prematurely;

Article 43 of PRC Labor Contract Law

An employer which unilaterally rescinds a labor contract shall notify the labor union of the reason beforehand. Where the employer violates the provisions of laws and regulations or the labor contract, the labor union shall have the right to require the employer to make correction. The employer shall study the opinion of the labor union and notify the labor union in writing of the outcome.

Severance Pay

Article 46 of PRC Labor Contract Law

Under any of the following circumstances, the employer shall make severance pay to the worker:.....

(6) the labor contract is terminated pursuant to the provisions of item (4) or item (5) of Article 44;



Termination Due to Company's Closure

Legal Ground

Article 36 of PRC Labor Contract Law
Upon negotiation and consensus between an employer and a worker, a labor contract may be rescinded.

Severance Pay

Article 46 of PRC Labor Contract Law

*Under any of the following circumstances, the employer shall make severance pay to the worker:.....
(2) the employer has proposed rescission of labor contract to the worker pursuant to the provisions of Article 36 and has negotiated and agreed with the worker on rescission of labor contract*



Termination Due to Objective Circumstances that have Undergone Significant Changes

Legal Ground

Article 40 of PRC Labor Contract Law

Under any of the following circumstances, the employer may rescind the labor contract by giving the employee a written notice 30 days in advance or by making an additional payment of one month's wage to the employee:.....(3) where the objective circumstances for which the conclusion of the labor contract is based upon have undergone significant changes and as a result thereof, the labor contract can no longer be performed and upon negotiation between the employer and the worker, both parties are unable to reach an agreement on variation of the contents of the labor contract.

Severance Pay

Article 46 of PRC Labor Contract Law

*Under any of the following circumstances, the employer shall make severance pay to the worker:.....
(3) the labor contract is terminated pursuant to the provisions of Article 40*



Real Case

01

European Company in the Automated packaging industry

- More than 50 workers
- Wanted to not renew contract with some of them and asked us advice
- We did a HR DD of all of the workers contracts and discovered that SS obligations were not met

02

Solution

- Negotiated with SS bureau to pay back in installments the missing obligations
- Started complying with the letter of the law with SS obligations for all 50+ employees

03

Outcome

- Avoided potential litigation
- Potential millions CNY in legal fees
- Certain million in severance packages for employees that were to be dismissed
- **VEREDICT: resources saved and enhanced efficiency of HR related process**



Final Summary-Key Findings.



Cost management is a holistic process

Digital transformation is the key to reduce your company's expenditures

Digital transformation (if done well) augments efficiency and reduces human error

Relocation of your business is a double - edged sword

Keep headcount at a necessary minimum and make sure there are no labor law /social insurance irregularities **(these are costly!!!)**



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Thank you!



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