

## China: Swiss Survey Reveals Confidence of SMEs.

Despite the oft-cited dominance of state-owned industry and preference toward local players, new information indicates that small-to-medium foreign enterprises are more confident than their larger counterparts in the Chinese market. This confidence can be seen in the answers of respondents to the [2014 China Business Survey](#), a recent joint survey conducted by Swiss Center Shanghai, China Integrated, and the China Europe International Business School (CEIBS). This survey is the first of its kind, analyzing responses given from Chinese and foreign companies of varying size, doing business in China. This is also the first time that a business survey has been able to analyze a sizeable sub-sample of foreign SMEs in China.

The results of this survey indicate that some findings on European and American companies can also be used to estimate and confirm Swiss companies' trends. Globally speaking, Swiss, European and American companies in China are doing well. On average they doubled their average profit growth expectations from 2012 to 2014.

### EU & Swiss SMEs: More Successful in China than Larger Firms.

About 31% of Swiss respondents to this survey can be classified as Small and Medium Enterprises (**SMEs**) defined as companies with **less than 300 employees globally**; and close to 31% are large companies with over 10'000 employees worldwide.

By comparison, other western SMEs are much less represented with only 18% of European and 2% of American companies having less than 300 employees.

This survey cannot confirm that the firms which responded are representative in terms of size of the total Swiss, European and American population. (It cannot be ruled out that small Swiss companies could have answered the survey more than EU and US ones, therefore giving a biased picture.)

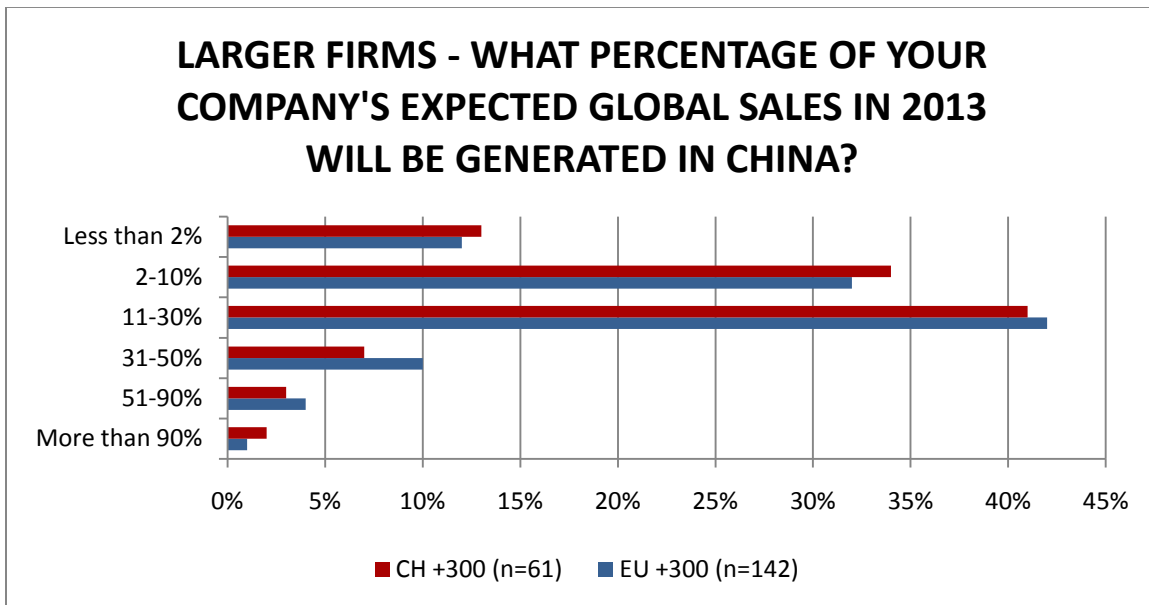
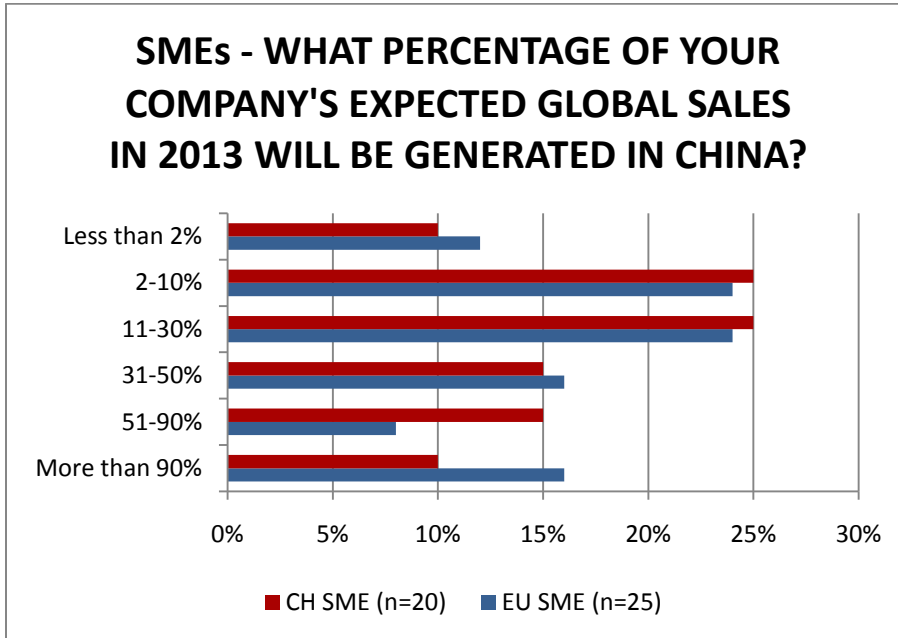
Still, this difference which was uncovered in 2013 persists in 2014 and creates grounds on which to believe that **Swiss SMES have been comparatively faster at establishing themselves in China** than their counterparts from Europe and America.

These results are also consistent with the fact that Swiss SMEs, due to the small size of their domestic market are more adapted and geared towards internationalization than their counterparts.

Company size of 2014 respondents is generally consistent between 2013 and 2014, at least for the EU and Swiss ones, allowing us to compare the evolution between the two years with some confidence.

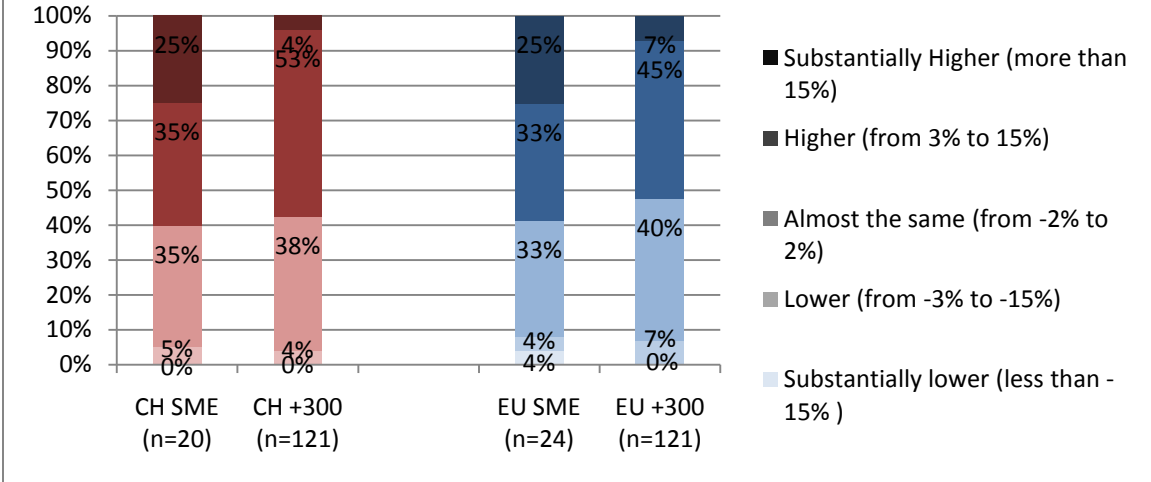
**China, contrary to its portrayal in the media, is becoming a venue for SME success.**

Swiss and European SMEs in China are now more than ever seeing higher percentages of global sales being generated in China.



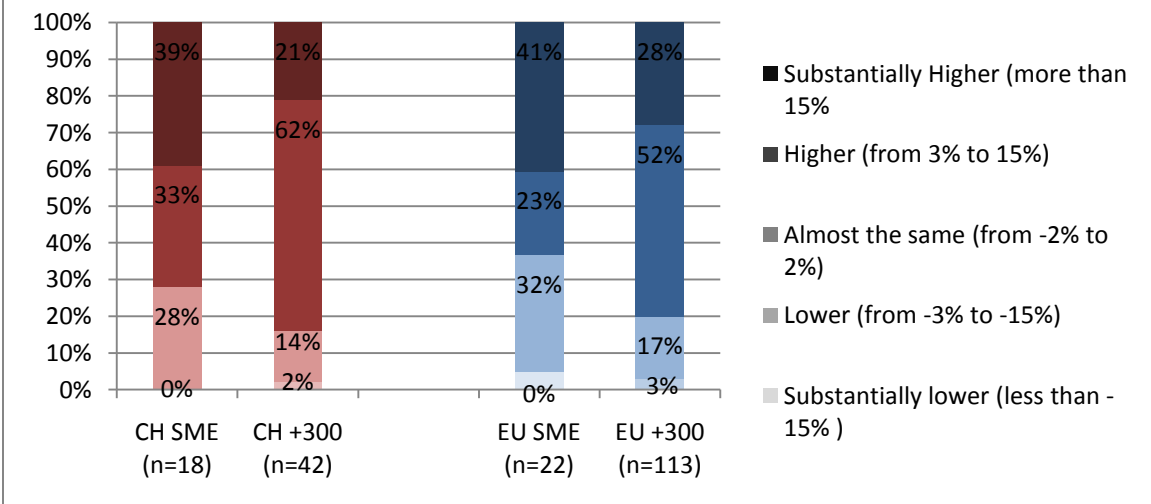
And while all companies see their sales and profits improving in 2014 on average, **respondents from SMEs see their sales increasing significantly faster** than their colleagues in larger firms.

### SMEs vs. LARGER FIRMS - HOW DO YOU EXPECT YOUR COMPANY'S CHINA PROFIT FOR 2014 COMPARED TO 2013?



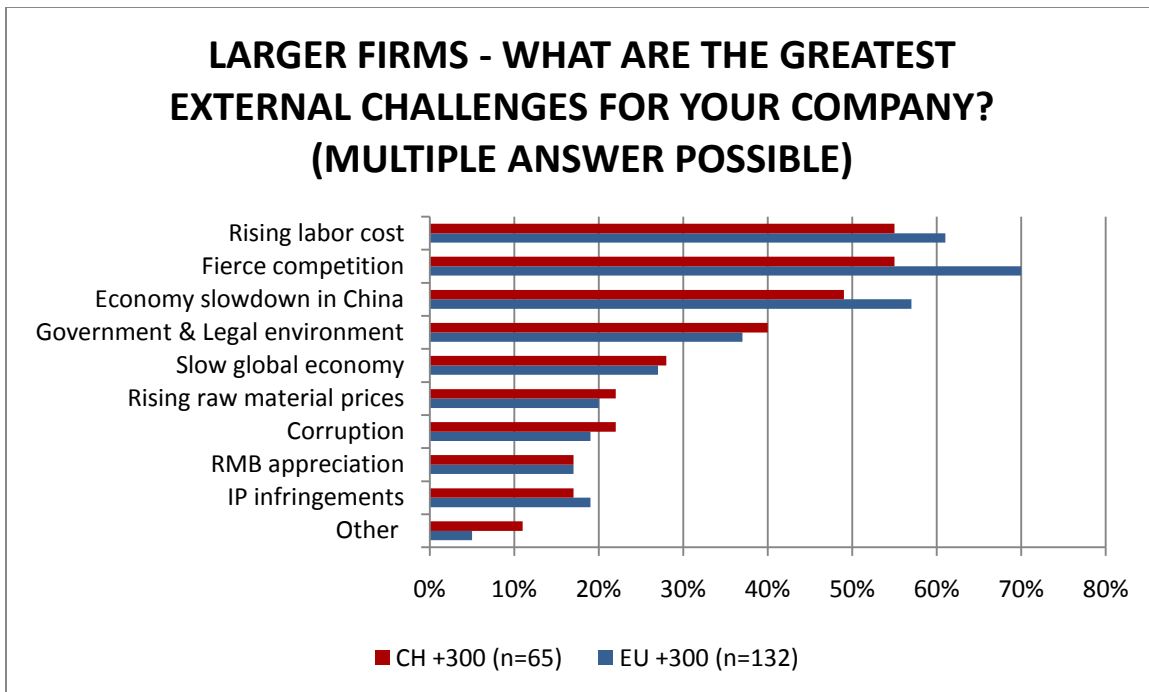
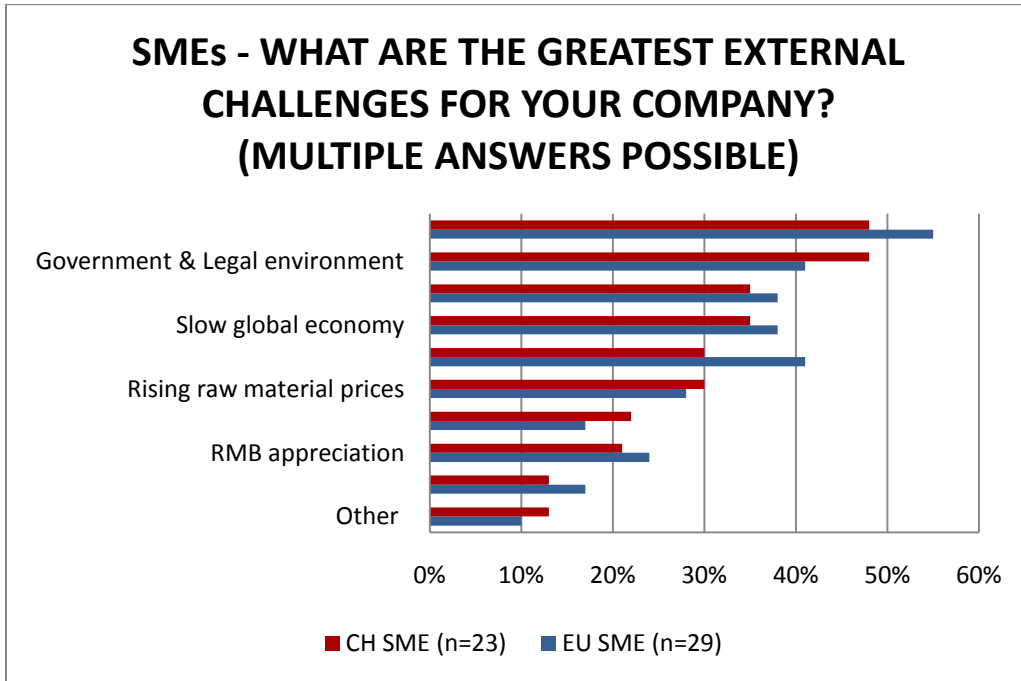
In terms of sales growth the picture is more uneven with more SMEs doing much better than larger firms while at the same time a larger number are not doing as well.

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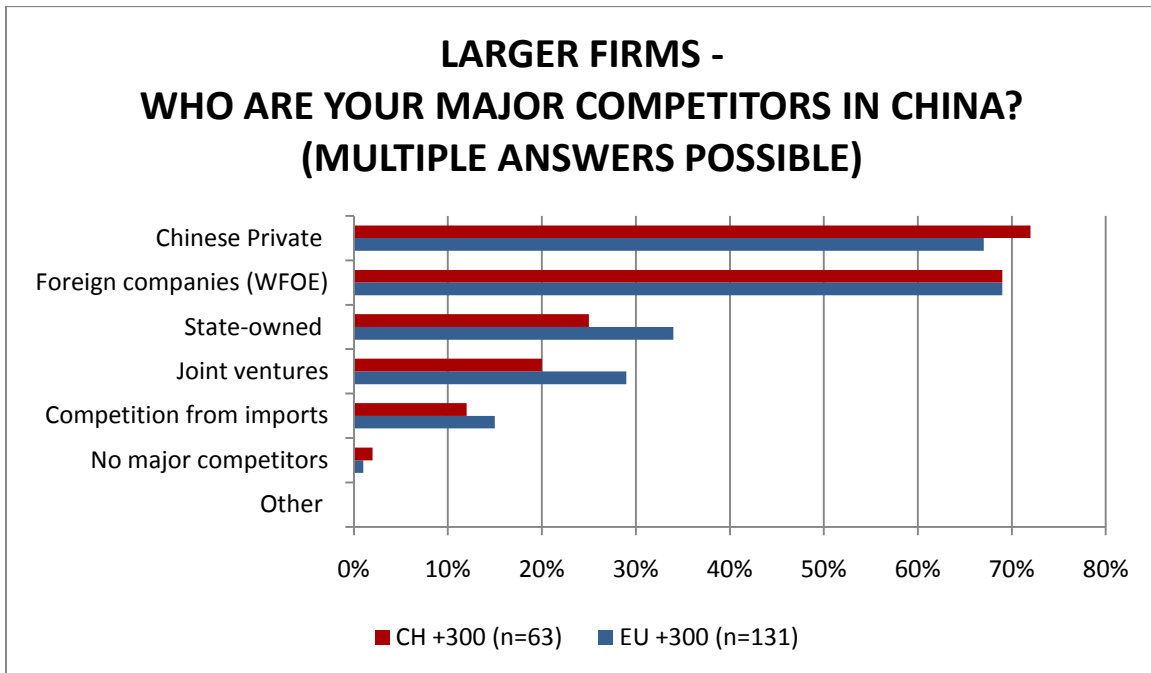
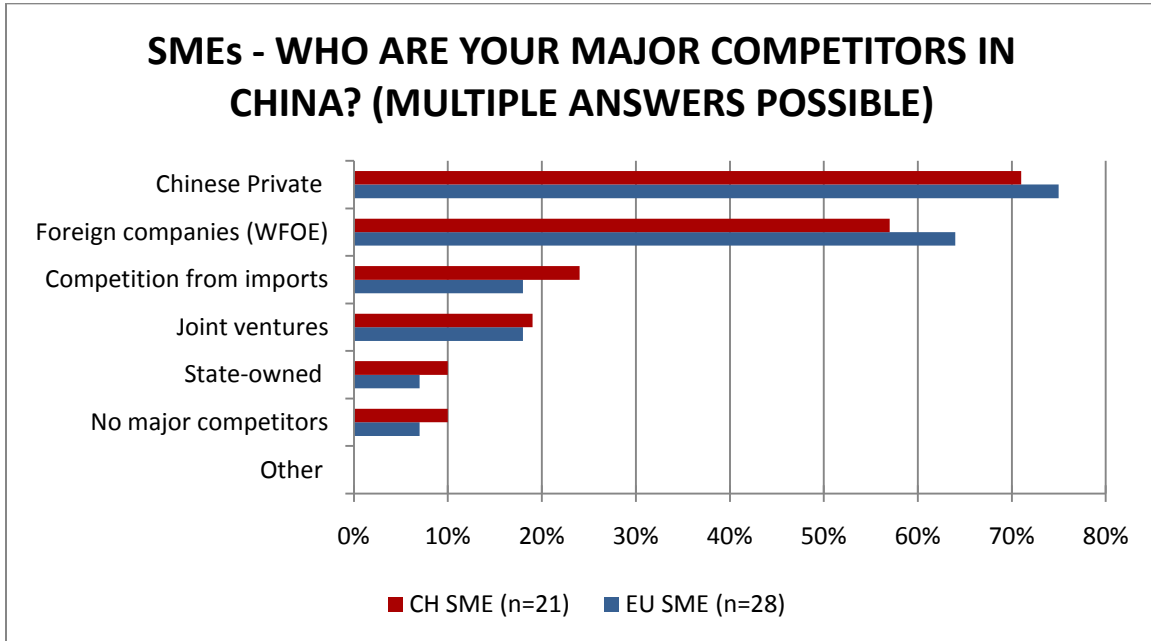
A possible reason for the success of SMEs is probably an environment that is less competitive for them. Indeed **“Fierce Competition”** comes quite a few steps lower in the ranking of external challenges they face when compared to the larger firms. In addition

and very interestingly, SMEs rank their external challenges lower than their larger counterparts, with the exception of “**Government & Legal Environment**”. For example “**Rising Labor Costs**” is mentioned as a challenge by 50% of SMEs but close to 60% of larger firms. “**Economy Slowdown**” is mentioned by less than 40% of SMEs and over 50% of the others.



This lower level of competition and challenges could well be due to the SMEs very nature of doing business: focusing on niches. Indeed, China's mass market is very attractive, but therefore also terribly competitive.

In other terms, the competition picture for SMEs and larger firms is not fundamentally different with the exception that more SMEs don't have major competitors, which is typical of niche businesses.



In terms of success factors, SMEs and larger firms do not differ fundamentally either, which again speaks in favor of the niche business advantage to explain the better success level.

SMEs pay even more attention to the quality of their products and management team and they tend to rely more on their network and partners, which is probably natural anywhere for smaller companies.

In this regard, SMEs hold an advantage over larger, less versatile companies in that internal challenges (HR, management, etc.) can be more efficiently navigated to allow for increased focus on core competencies (product or service quality, management quality) as well as externalities including competition. Further results of this survey show a majority of respondents stating that quality of product or services is the main success factor for their company, if the trends analyzed in this survey continue it would appear that foreign SMEs can look forward to increased success and prosperity in the Chinese market.

For more information on **how Swiss, EU, US and Chinese companies see the future of their business in China**, do not hesitate to check our [2014 China Business Survey](#) conducted in cooperation with [CEIBS](#).