# Video transcript: David Robb on learning from Chinese firms

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Any country has a wide spread of practice and performance, and you will find bad practice in China just like you will here, but there are some stand-out companies, stellar ones, that we need to keep our eye on and find out how they are doing that, why they are doing that.

One of the manufacturing firms in China that has done particularly well, and in fact made money in their first year – quite surprisingly for that time – was a company called Ottobock. This is a German maker of prosthetics. So, there are industrial accidents going on around the world and in China. And they entered the China market not to use low labour costs to export. They used that manufacturing footprint partly to supply the market. But they were there for a much bigger play, which was to work out how they could take their model to other parts of the world, into other developing areas like Africa and South America – where they are now. So what they did is set up a fabrication unit just on the outskirts of Beijing. People would come with their limbs severed to different parts of the country – to clinics in Sichuan province for example – and be measured. And then those measurements would be faxed to the Beijing operation (this is back in the 1990s). They would make them on these three-dimensional lathes and then distribute them by courier back to those particular parts of the country. That operations model is now something they have implemented in other parts of the world. They also had remarkable human resource management, in my opinion. The manager at the time – who is still in China – Roger Dutton, a Kiwi, was clearly very interested in his staff and their development. He ate with them, and was just a guy who really enjoyed being there and was interested in the development of his people.

So that is in manufacturing. The second company is a much better known brand in New Zealand, having purchased Fisher & Paykel Appliances. So, Haier you may think of as an appliance brand. But it is far more than that. It is a distribution company. The Holy Grail of China is getting into the rural market. How do you get products in there, how do you service them? Haier has had that platform and it has now developed it to the extent that it now rents it to competitors, including foreign competitors. So about 10% of the volume going through that is competitor products. So that is a new business model that a manufacturing firm has taken to expand its footprint in China and to stave off foreign competition in a way.

Moving on from the manufacturing and distribution sector into the service field, one of the standout companies in my opinion is Yihaodian, which translated means the "Number One Store", which began in Shanghai about 2008. And in the ensuing years they have been one of the fastest-growing firms in Asia. Now they have about 10,000 employees, sell about five million different products and they have just surpassed Amazon in terms of their volume per year. They are not up there with Alibaba yet, but they are very much an emerging player that is doing some great things in their distribution network. Many companies have started creating their own structure. We don't have the likes of FedEx in China that are able to get to the door, so they are doing last-mile delivery. And it is the last-mile delivery, and the customer satisfaction that comes from that, which typifies their company performance, and also how they reward their staff. So, all the staff members, even the back-office people and IT, are rewarded based on the customer experience, which they monitor very frequently. So here is a company which takes a single metric and puts it right up front. And I often wonder about New

Zealand companies and educational institutions and how they would do that. To what extent we would take our employee remuneration metrics and base it on something so customer-centric.

You can move further down into the restaurant trade. I think there are companies like Gung Ho Pizza, run by a couple of New Zealanders in Beijing, that is doing some great things with people. The way they train their employees coming in, the way they go and visit the parents of longstanding employees back in the rural villages. There is another company that does Sichuan hot pot, that now has about 100 in its chain, called Hai Di Lao. This company is now a Harvard Business School Case study. People all around the world are studying how this company does so well with its customers, who wait several hours to have their meal because they are being entertained during this period. And part of that is the staff members are being given a huge amount of discretion, autonomy, to make things right for the customer.

New Zealand companies can benefit by looking at and finding out about Chinese companies, by considering the fact that they are now holding both very strict and strong cost-competition models there around lean, for example, and automation. They have done all kinds of things there to try to mitigate the very high costs, as we find the same thing with the high New Zealand dollar. But they are not only doing that, they are now starting to move into innovation. That has again been the big thing for China. Not just to be the factory of the world, but to be the design house of the world, the R&D centre of the world. So you have the likes of Microsoft and Procter & Gamble setting up their R&D centres there, pulling in these new graduate engineers, scientists and so on. So those innovations are not just product, like the Huawei and the Lenovo type innovations, but they are around the process of the operations and also the business model. And those innovations, as we know, don't come out of the boardroom necessarily. They also come from the people who are in the companies. So how Chinese companies, stellar, exemplary Chinese companies are treating their staff is in my opinion one of the key things we can be learning about their operations. The models, the people behind it, being able to compete on more than one dimension.

So if you are a New Zealand company sourcing from China, operating in China, or, as we are going to find more and more, competing with Chinese companies abroad and in our own market, it is incredibly important to look at how those Chinese companies are doing well. Twenty years ago, 30 years ago, we looked at Japan, we looked at just-in-time and lean. The spotlight has gone off Japan now, but there are things going on in the Chinese market and in Chinese companies which New Zealand companies and individuals and students of business need to be starting to take notice of.

Watch video (6:35)