

# CHINA'S NEXT GLOBAL GIANTS

**THE WORLD'S SECOND-LARGEST ECONOMY IS HOME TO A HOST OF PROMISING BUSINESSES THAT ARE LOOKING TO COMPETE IN THE GLOBAL MARKET. FAYE CHUA EXPLAINS**

Chinese businesses have become household names and started to take a major chunk of the global market. The rise of names such as internet auction site Alibaba.com, PC vendor Lenovo and consumer electronics company Haier already attest to this fact.

Alibaba floated on the New York Stock Exchange in September, with its shares rising 38% to \$93.89 above the initial asking price on the first day. As a Chinese business, this is something of a first. Jack Ma, its owner, now tops China's rich list, closely followed by Wang Jianlin and family of Wanda, the real estate and entertainment business.

Ten years ago, this growth in China's businesses would not have seemed feasible. But in recent years, the UK high streets have been invested in, or bought out heavily, by Chinese business. Superdrug is Chinese-owned, as is one of the UK's prestigious high street brands – House of Fraser. In early April, Sanpower Group, the Chinese conglomerate, bought a massive 89% stake in this UK department store.

What this shows is just how international Chinese business is now. China's main fashion house, Bosideng, has a presence on fashionable South Molton Street in London's West End. Meanwhile, Chinese automotive company Geely bought Manganese Bronze

Holdings, the manufacturer of London's iconic taxis, for £11m last year.

## Looking to the future

The Association of Chartered Certified Accountants' (ACCA's) report, *China's Next 100 Global Giants*, which was published in September, identifies China's next wave of global business giants. It lists the 100 companies that have the potential to be the next Alibaba or Lenovo by 2020.

These fast-growing Chinese businesses have the right mix of characteristics to emerge as global giants from across different regions and a range of sectors. They are also set to challenge global market share over the next three to five years, with companies such as film and record company Huayi Brothers Media Corp – China's equivalent of Warner Bros – among the top 100.

The report, authored by Professor Andrew Atherton, deputy vice chancellor at Lancaster University, assesses the likely next big global players from China by taking a close look at how they got to where they are today and their future potential to compete against established giants in China and other markets.

Our research shows that these Chinese companies' potential does not just relate to their balance sheets; it also relates to their growth. Their future growth trajectories are based on sustained annual levels of growth during 2008-2012. The majority of the top 100 companies we have identified have doubled in size and, in some cases, quadrupled. They are clearly doing something right, but the question remains about how sustainable they can, and will, be.

## The right recipe for growth?

The analysis drew out common characteristics among the 100 companies, including clear and coherent business strategies and close performance monitoring. In-depth industry knowledge, as well as an awareness of customers' needs, also featured highly among the 100 businesses. They have built very strong foundations in their own domestic market and, in some cases, taken a dominant position, which acts as a solid launch pad for going global.

The analysis did not just look at revenue for the year; it also looked at revenue growth during 2008-2012, as well as domestic dominance and international presence. Business models and strategy were also factors in scoring the companies for the purposes of the research.



Top of the ACCA *Next Global Giants* list was Hengtong Optic-Electric, an electronics company based in Suzhou. China's growing banking sector also featured prominently in the analysis. Other companies named in the report included IT services provider iSoftStone Holdings, video surveillance products supplier Hangzhou Hikvision Digital Technology Company, travel agency CTRIP and enamelled wire maker Zhejiang Shangfeng Industrial Holdings Company. (See case studies box, below.)

### The 'middle six' banks

Banks were examined as part of the research, with the findings revealing that China's 'middle six' banks are snapping at the heels of the state-owned behemoths. These rapidly growing banks are already among the world's largest. They are showing significant

growth rates and are increasingly engaged in international markets.

The 'middle six' banks – Industrial Bank, China CITIC Bank, China Minsheng Bank, Shanghai Pudong Development Bank, Hua Xia Bank and Ping An Bank – are critical to the other businesses that have been identified as China's next 100 global giants. This is because they have tended to fund those types of emerging enterprises and they are dynamic funders of future economic growth. The 'middle six' banks are among the world's 100 largest banks, so they are major financial institutions in their own right. But while the 'middle six' have a growing international presence, they are yet to reach the size of China's huge state banks.

Like the other businesses in the report, the 'middle six' banks share common characteristics, including

a strong business model as well as financial innovation. All six have shown significant growth rates of between 24% and 29% per year consistently over five years.

### Location, location, location

The emerging 100 businesses are active in a variety of sectors and are located across China. Many have their headquarters in Beijing, Shanghai or the coastal provinces of Guangdong, Zhejiang and Jiangsu, reflecting the extent of economic development in these parts of China. The overall geographical spread, however, is wider, with businesses located in the west, north, east and southeast of the country.

The diversity of the 100 businesses does not simply relate to where they are located, but also to the sectors

of the economy in which they operate. The list is not markedly dominated by manufacturing and production businesses; technology, internet and service businesses are also well represented.

These types of businesses reflect the growing importance of services and the internet in China. The broad range of sectors indicates an increasingly diversified business base within the country and points to the emergence of businesses that are likely to compete on design, innovation and service, as well as those specialising in cost-efficient assembly and production.

### The role of the finance professional

Perhaps the challenge for organisations operating outside China is how to conduct business with these upcoming global giants. International investors should also be keeping a keen eye on these big names.

Finance professionals working in China have a massive role to play in the strategy and future outlook of China's businesses. They will be driving these companies towards their continued growth and global aspirations. Meanwhile, finance professionals working in other markets can make the trade and finance links necessary to ensure that business activities are done ethically and sustainably across borders. ↗

To see *China's Next 100 Global Giants* in full, visit [www.accaglobal.com/content/dam/accaglobal/PDF-technical/futures/pol-afa-cngg-chinas-next.pdf](http://www.accaglobal.com/content/dam/accaglobal/PDF-technical/futures/pol-afa-cngg-chinas-next.pdf)

## CASE STUDIES

◆ **iSoftStone Holdings is one of China's leading IT providers. It was founded in 2001 in Beijing and is now listed on the New York Stock Exchange. The company's revenue in 2012 was RMB2.434bn, which equated to around \$390m in July 2014. iSoftStone's business activities include consulting, IT services and business process outsourcing. By 2012, more than a third (36%) of its revenue had come from markets outside China. The US was its largest market, followed by Europe and Japan.**

◆ **Hangzhou Hikvision Digital Technology is a global leader in the manufacture and supply of video surveillance equipment. It has an extensive global network of distributors and overseas branches in Brazil, Italy and South Africa, as well as a global marketing network spread across 13 countries. Around one-sixth of its revenues come from markets outside China. The company claims to have more than 1,000 staff in its R&D and technology development departments.**

◆ **Travel agency CTRIP offers a range of services, including air flights, train tickets, hotel bookings, package tours and corporate travel. It has grown between 20% and 30% each year over the past five years and now accounts for half of all online travel business in China. There has been significant growth in tourist travel to countries outside China, so CTRIP has developed its offer in popular destinations for Chinese tourists, such as Hong Kong, Japan, Macau, Southeast Asia and South Korea.**

◆ **Zhejiang Shangfeng Industrial Holdings manufactures wires, fans and related equipment, including refrigeration and freezing equipment. The company has not yet developed a strong international presence, but its sales are growing in markets outside China. It supplies products to Chinese companies that are undertaking infrastructure projects overseas and also acts as a subcontractor. Shangfeng's annual revenue in 2012 was more than RMB2.5bn.**



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