



Competing with China: From Cost Challenge to Strategic Imperative

How companies can respond as Chinese competitors redefine the basis of competition

By Michel Brekelmans



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For many years, Chinese competition was relatively straightforward to understand. Chinese manufacturers were able to combine lower labour costs, scale and increasingly sophisticated production capabilities to offer products at prices that were difficult for Western companies to match.

That model has evolved. Across sectors ranging from healthcare and industrial products to automotive, electronics and consumer goods, Chinese companies are increasingly competing on a much broader set of dimensions. They combine scale with speed, increasingly sophisticated manufacturing, vertical integration, customer responsiveness and rapid innovation. In many industries, they are also becoming more effective at building global brands, developing customer relationships and moving into adjacent products and markets.

I recently had the opportunity to explore these dynamics with the CEO and executive leadership team of a global medical

consumables company during a strategy offsite in Guangzhou, China. The starting point was to understand why Chinese competitors are becoming increasingly successful internationally and, more importantly, what this means for companies that have traditionally competed from a Western cost, technology or brand position.

While the discussion was focused on medical consumables, the underlying questions are relevant to leadership teams across a much broader range of industries.

The Chinese competitive model is changing

The success of Chinese competitors cannot be explained by low labour costs alone. Many of the structural advantages that originally supported Chinese manufacturing have been reinforced by years of investment, creating increasingly powerful competitive ecosystems.

Chinese players benefit from massive scale advantages that are hard to replicate for players in smaller markets

Scale remains important. China's large domestic market has allowed companies to build factories, supplier networks and technical capabilities at volumes that would be difficult to achieve in smaller markets. These capabilities can then be leveraged when companies expand internationally.

Manufacturing ecosystems provide another advantage. Chinese companies increasingly control or closely coordinate tooling, components, materials, assembly, packaging and logistics. Dense supplier networks and close proximity between engineering and manufacturing can shorten development cycles and make it easier to respond to changes in customer requirements.

Speed is becoming equally important. Shorter decision chains and a willingness to experiment allow many Chinese companies to move from customer feedback to product modification and production considerably faster than traditional Western organisations. Rather than waiting for a fully developed product or business case, they are often prepared to test, learn and adapt.

Commercial responsiveness is another area where the difference can be striking. Many Chinese manufacturers have built their business models around OEM, private-label and customised production. Low minimum order quantities, rapid sampling, flexible specifications and willingness to modify products make them

attractive partners to customers that may have very different requirements.

Finally, many Chinese companies continue to pursue innovation and adjacencies aggressively. Once a company has developed expertise in a particular technology, manufacturing process or customer relationship, it can use that capability to move into neighbouring products and markets. The result is a competitive model that is dynamic rather than static.

Exhibit 1: Chinese competitors are increasingly winning on multiple dimensions—not just cost

Traditional perception	Emerging competitive model
Low cost	Cost + scale
Large factories	Integrated ecosystems
Manufacturing efficiency	Manufacturing + speed
Product replication	Rapid innovation & iteration
Price competition	Commercial responsiveness
Domestic focus	Global expansion

The implication for Western companies is important. The competitive challenge is no longer simply to close a manufacturing cost gap. Chinese companies may be creating advantages simultaneously across cost, scale, speed, innovation, customer responsiveness and supply-chain control.

That makes a direct replication strategy difficult. The more productive question is where a Western company can create distinctive advantages of its own.

The response should start with a clear choice about where to compete

One of the most important conclusions from the work was that there is no single “China strategy”. Different companies will have different starting positions, and the appropriate response will depend on the extent to which their products are commoditised, the importance of customer relationships, their manufacturing economics and the markets in which they compete.

For some businesses, the priority will be to close the productivity gap. For others, it may be more attractive to move up the value chain, differentiate the product, deepen customer relationships or focus on markets where quality and service are valued more highly.

The strategic objective is therefore not necessarily to beat Chinese competitors at everything they do well. It is to identify the dimensions on which the company can build a defensible advantage and then allocate resources accordingly.

Exhibit 2: Companies can respond across the value chain—not through a single strategic move

1 Productivity Initiatives & Manufacturing Transformation	5 Customer Intimacy & Commercial Differentiation
2 Move Up the Value Stack – From Product Supplier to Solutions Partner	6 Manufacturing Footprint Diversification
3 Customer Segmentation & Premiumisation	7 Partnerships, OEM Models & Ecosystem Leverage
4 Accelerate Innovation Cycles	8 New Market Opportunities & International Expansion

Our work identified eight broad strategic responses that companies can consider. They are not mutually exclusive, and most companies will ultimately combine several of them.

1. Continuously improve manufacturing productivity

The first response is to keep improving the economics of the existing business. Automation, lean manufacturing, procurement, supply-chain optimisation and digital operations can all help reduce conversion costs, improve asset utilisation and increase flexibility.

The objective should not be to assume that a Western manufacturer will permanently achieve the cost structure of the most efficient Chinese competitor. In many industries, Chinese companies have structural advantages in scale, labour, supplier ecosystems and vertical integration that are difficult to replicate.

The objective is instead to keep the gap as small as possible through continuous productivity improvement.

This distinction is important because productivity should not be treated as a one-off cost programme. Leading companies increasingly embed continuous improvement into the operating model, creating a permanent capability to find and capture further efficiency.

2. Move up the value stack

The objective is to make the customer's decision less about comparing one product with another and more about the overall value of the solution

As physical products become easier to replicate, differentiation can increasingly come from what surrounds the product.

Rather than selling individual consumables, for example, companies can provide procedure-based solutions, workflow integration, inventory management, training, digital services or other capabilities that help customers improve their own operations. The objective is to make the customer's decision less about comparing one product with another and more about the overall value of the solution.

This can also create greater customer stickiness. Once a supplier becomes embedded in a customer's workflow, supply chain or operating processes, switching becomes more complicated than simply changing product suppliers.

3. Premiumise selectively

A second way to reduce exposure to Chinese competition is to focus selectively on applications where customers value performance, safety, reliability, comfort or sustainability rather than simply the lowest unit price.

This does not mean abandoning commodity products. It means recognising that not all parts of the portfolio have the same strategic attractiveness. Specialty applications, higher-specification products and clinician- or user-preferred features can create differentiation that is more difficult to commoditise.

The experience of companies such as Ansell illustrates the potential. By shifting a greater proportion of its portfolio toward surgical, life sciences, cleanroom and higher-performance

protection products, Ansell has reduced its exposure to the most price-sensitive parts of the market while strengthening its position in segments where product performance matters more.

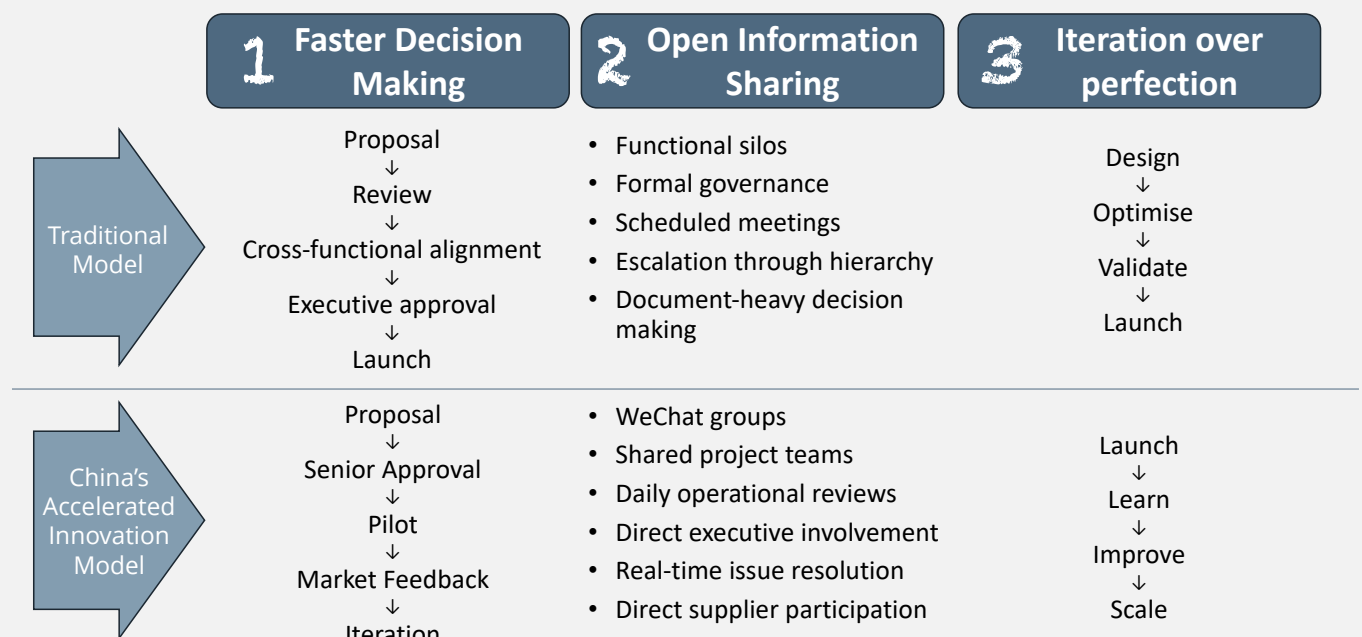
4. Accelerate the pace of innovation

In many sectors, Chinese competitors are demonstrating that speed can itself become a competitive advantage. The issue is not necessarily that Western companies lack good ideas; it is that their processes can make it difficult to turn those ideas into customer solutions quickly.

Companies can respond by shortening product-development cycles, involving customers earlier, using rapid prototyping and experimentation, simplifying approval processes and giving local teams greater decision-making authority.

Thermo Fisher provides an interesting example of this approach. Its innovation model increasingly combines customer collaboration, local market capabilities and continuous product iteration. The lesson is not simply to spend more on R&D. It is to build an innovation system that can learn and respond faster.

Exhibit 3: Why do Chinese firms operate at a faster pace? The traditional versus accelerated innovation model



5. Build deeper customer intimacy

Manufacturing and product innovation are not the only ways to differentiate. As products become more similar, relationships, trust and customer knowledge can become increasingly valuable.

Strategic account management, clinician engagement, consultative selling and value-based selling can move the relationship away from a transactional procurement discussion. Companies that understand the customer's workflow, economics and clinical requirements can often create value beyond the physical product.

Stryker is a good illustration. Its substantial commercial organisation, close clinician engagement and consultative approach allow it to build relationships at the level of the hospital or healthcare system rather than around an individual product. This can increase share of wallet and make customer relationships considerably more difficult to displace.

6. Rethink the manufacturing footprint

Manufacturing footprint decisions were traditionally driven primarily by cost. That calculus is changing as companies and customers place greater value on supply security, geopolitical resilience and continuity of supply.

***Customer proximity
can be a key
differentiator when
supply security is
critical***

China+1 strategies, regional manufacturing hubs, dual sourcing and nearshoring can all reduce concentration risk. In healthcare, where a supply disruption can have clinical consequences, this can become a genuine commercial differentiator rather than simply an operational consideration.

Fresenius Kabi provides a particularly relevant example. The company has invested heavily in US manufacturing and logistics infrastructure and has made domestic production a visible part of its commercial proposition. Its "More in America" positioning demonstrates how manufacturing footprint can be translated into a customer-facing promise around supply assurance.

The broader lesson is that resilience needs to be credible. Capital investment in manufacturing capacity can provide customers with evidence that supply continuity is more than a marketing claim.

7. Leverage the Chinese ecosystem rather than simply competing against it

There is another option that is sometimes overlooked. Western companies do not necessarily need to replicate the entire Chinese manufacturing ecosystem themselves. They can selectively use it.

OEM sourcing, strategic partnerships, joint development and complementary product relationships can provide access to Chinese manufacturing scale, supplier ecosystems and product-development capabilities while allowing the Western company to retain control over customer relationships, brands, regulatory capabilities and market access.

This requires a different mindset. Chinese manufacturers can be competitors, but the same ecosystem that creates competitive pressure can also become a source of competitive advantage if accessed selectively and managed carefully.

Cardinal Health's Presource business illustrates the principle. Cardinal does not need to manufacture every component in a procedure kit itself. It can combine externally sourced products with its own specification, assembly, packaging and customer relationship, effectively becoming the solution owner while leveraging external manufacturing capabilities.

Exhibit 4: Strategic Response Option 7 - Ecosystem leverage: combining external manufacturing strengths with internal customer ownership

Core Objective: Leverage the strengths of Chinese manufacturing ecosystems while retaining control of customer relationships, brands and market access			
1. OEM Sourcing	2. Dual-Brand Strategies	3. Joint Ventures	4. Value-Added Partnerships
<i>Source products from Chinese manufacturers while retaining:</i> > Branding > Customer relationships > Distribution > Commercial control	<i>Operate across multiple segments:</i> > Premium Brand ▪ Service-intensive ▪ Higher spec products > Value Brand ▪ OEM products ▪ Price-sensitive cust.	<i>JV with Chinese player:</i> > Chinese Partner ▪ Manufacturing ▪ Supply chain ▪ Scale > Western Partner ▪ Brand ▪ Distribution ▪ Client relationships	<i>Partner with OEM's on strategic initiatives, e.g.:</i> > Joint product development > Adjacent products > Shared production programmes
 > Lower cost > Faster product expansion > Reduced capital requirements	 > Broader market coverage > Reduced share loss to low-cost competitors	 > Shared risk > Accelerated market entry	 > Increased flexibility > Reduced investment requirements

8. Change the market mix

Finally, companies should consider whether they are competing in the right markets in the first place.

Not all geographies, customer segments and applications are equally exposed to Chinese competition. Markets where regulatory requirements are demanding, clinical support is important or quality and reliability carry greater value may offer more attractive economics than highly commoditised segments.

Market with stringent regulatory or customer requirements may offer superior economics over commodity segments

This can mean expanding geographically, targeting specialised customer segments or moving into adjacent applications. For example, life sciences laboratories and cleanroom environments may offer different competitive dynamics from standardised, high-volume consumables.

Coloplast illustrates the broader principle. Rather than relying solely on manufacturing economics, it has built growth around specialist healthcare categories, strong clinical and patient support and expansion into markets where quality and outcomes are highly valued.

The lesson is not to copy Coloplast's specific market choices. It is to recognise that market selection itself can be a source of competitive advantage.

The strategic responses reinforce each other

The eight responses should not be viewed as a menu from which management selects a single option. In practice, the strongest strategies often combine several.

A company might simultaneously improve factory productivity, selectively premiumise its portfolio, accelerate innovation and deepen relationships with key customers. It might also use external manufacturing partners to broaden its product range while shifting its own resources toward higher-value activities.

The right combination will depend on where the company is most exposed and where it has the strongest opportunity to differentiate.

This is why the starting point should be a clear assessment of the company's competitive position rather than an immediate selection of initiatives. For leadership teams facing increasing Chinese competition, four questions can provide a useful starting point.

- 1. First, where are we structurally disadvantaged?** This may be cost, scale, manufacturing footprint, speed or access to supplier ecosystems. Understanding these disadvantages is important because not every gap can or should be closed.
- 2. Second, where can we differentiate?** Customer relationships, clinical expertise, product performance, regulatory capabilities, service and workflow integration may all provide sources of advantage that are harder to replicate.
- 3. Third, where should we compete?** The most attractive opportunities may not be the largest markets or the company's historical core. Customer segments, applications and geographies where its capabilities are valued more highly may offer better long-term economics.
- 4. Finally, what should we own and what should we leverage?** Some capabilities are strategically important to control; others may be accessed more efficiently through partners, OEM relationships or broader ecosystems.

These questions help shift the discussion from defending the existing business to actively shaping the company's future competitive position.

From defending against China to building a stronger competitive model

The rise of Chinese competition is unlikely to be a temporary phenomenon. Chinese companies continue to invest in manufacturing scale, technology, innovation and international expansion, while the ecosystems supporting them continue to mature.

For Western companies, the answer is unlikely to be a single cost-reduction programme or a race to replicate the Chinese model. The more sustainable response is to understand where Chinese competitors have structural advantages, identify where the

company can build distinctive strengths and then make deliberate choices about where to invest.

The most important shift may therefore be one of mindset. Rather than asking **“How do we beat Chinese competitors?”**, leadership teams should ask **“Where can we win, and what capabilities do we need to build to do so?”**

That shift creates a much broader strategic agenda—one that encompasses manufacturing, innovation, commercial capabilities, partnerships, portfolio choices and market selection.

Chinese competition is changing the basis of competition across many industries. The companies that respond most effectively will not necessarily be those that try hardest to defend yesterday’s sources of advantage. They will be those that deliberately build the capabilities and market positions that will matter tomorrow.

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