

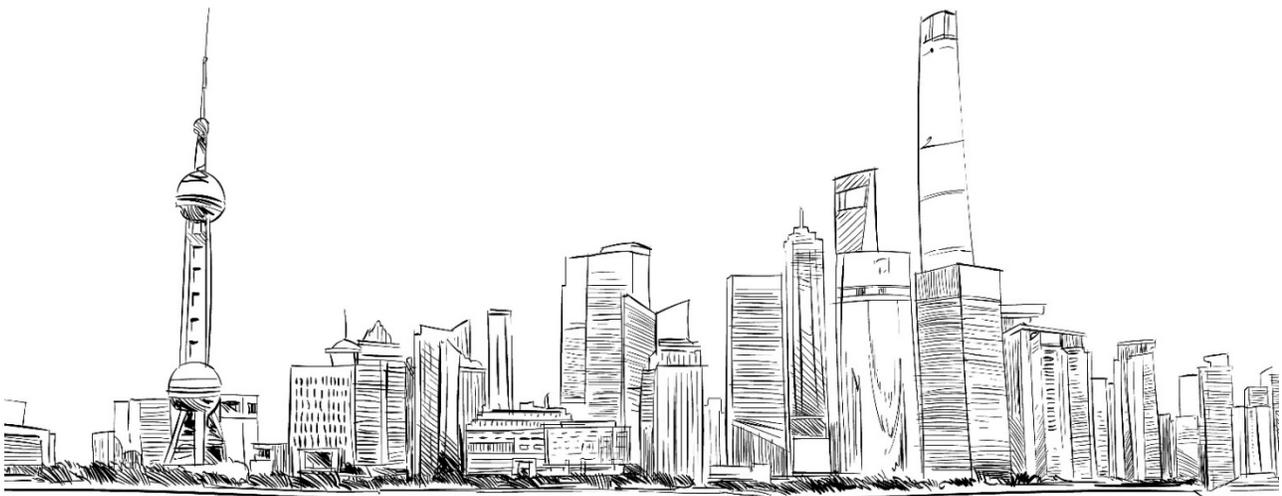


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Reasons why startups and SMEs should consider a virtual office in China

Prepared by:
Woodburn Accountants & Advisors



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Woodburn Management Consulting (Shanghai) Company Limited
47/F Hong Kong New World Tower, 300 Huaihai Zhong Road, Shanghai 200021, China
T: +86 21 5116 2893
E: info@woodburnglobal.com
W: woodburnglobal.com



Do you want to expand into a new market, like China, with minimal initial office expense and hassle? Perhaps you are just doing market research in China, or your ecommerce site is attracting overseas customers and you'd like to learn more about the new potential opportunity before committing, or you are considering sending an employee or two abroad to open up the Chinese market.

Setting up a physical office is expensive and time-consuming. Rather than finding office space, purchasing office equipment and furniture, hiring a receptionist, and setting up utilities, setting up a virtual office is cheaper, faster, and easier. Having a virtual office is a great first step to operating and legitimizing your company in China.

Woodburn recently spoke with Tim Hecker and Cath Smith concerning their new startup operation in Shanghai and about the benefits of using a virtual office abroad. Tim explained his personal story, from which the idea his China subsidiary stemmed. Tim and Cath also offered great insights into the types of companies that use virtual offices and why those companies choose to use a virtual office.

Tim's Story:

Tim started a company in Germany that initially sold products only within Germany. When he started selling in the UK he quickly discovered that his British customers were averse to buying German products from a German company. Feeling confident that his products would meet British customers' standards, Tim decided to set up a UK address and phone number, which gave his British customers the perception that they were buying from a local company. After conquering the UK, his company expanded to other locations, particularly Shanghai in China. Because of his success in the UK, Sven set up a local address and phone number in each new market.

What is a virtual office?

A virtual office provides communication services, including phone and address, to individuals and companies without the expense of a physical office. Most virtual offices include mail collection, generally a shared receptionist who signs for and accepts letters and packages, scanning and storage, and disposal services. Furthermore, many virtual offices offer phone services that include a live receptionist, an automated answering system, or call forwarding services.

What type of companies (or individuals) use a virtual office? Why should a company in China use a virtual office?

Many different types of companies can and do use virtual offices instead of physical offices. Online sellers who use an ecommerce site, like Amazon or eBay, are often encouraged or even required to provide their buyers with a local address for returns and exchanges. Startups, individuals, and SME's often use a virtual office when they don't have the budget or need for a physical office.



Virtual offices are appropriate for companies that are setting up an entity in a new market and companies that are not ready to set up an entity. In most countries, the virtual address will suffice as a legal business office address, which is required for entity creation and registration. However, in China virtual offices are considered illegal and as such providers do offer “addresses for registration purposes only” which is similar to a type of virtual office concept. On the other hand, companies that choose not to register an entity in China can still use the virtual address as their business address. This makes a virtual office a great option for startups and small companies in all stages of their business expansion.

There are many other reasons individuals and companies use virtual offices rather than a physical office. Some of the most common reasons are as follows:

1. Market Validation:

Using a virtual office is a great way to test out a new market, like China, without setting up a local physical office. Many small companies send an employee or two abroad to test out the new market, and to save money, have these employees work from their temporary housing abroad or from the physical office of the virtual office provider in a co-working type space. You can use a virtual office whether or not you create a local entity.

2. Prestigious Address:

Some companies will use a virtual address because they need a prestigious address. There are many reasons a company would need a prestigious address. It could be that a company wants to be associated with other companies within its industry that are generally located in the same area, e.g., banks. A small company may want to appear larger than it is and that it can afford a prime downtown location in a major city.

3. Customer Trust:

Sometimes location can make or break a company. This reason is closely related to prestige, in that often prestige leads to customer trust. Would you think more highly of a fashion designer located in New York City or Kansas City? Would you trust a company that works out of a home office? If you cannot afford the ideal location or even a physical office space, a virtual address in that location is the next best thing.

4. Perceived as a Local Company:

Tim’s story described above is a great example of the importance of a local address. Many customers prefer to do business with local businesses for several different reasons. It could be that they prefer to support their local economy or maybe they like the convenience of local shipping and return options.

5. Local Address Requirement:



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A local address could be required for several different reasons. Many ecommerce sites, e.g., Amazon and eBay, encourage or require their sellers to provide a local address for return and exchange purposes. It is similar in China whereby you do need to register a local entity in order to purchase space on the Tmall platform, for example.

Most countries require companies to register a business address when they register a company. Generally, when you register an entity, you are required to register a local address. Most virtual office addresses comply with this requirement, except in China where you will need to have a different service from the providers. Furthermore, in some countries, a personal residential address does not comply with the registered address requirement, so a virtual office address is the only thing that will suffice.

You should speak with an advisor to determine your entity and address registration requirements in China.

Privacy Protection:

Individuals and small companies that work from home often use virtual addresses to protect their privacy. Rather than posting, giving away, or shipping from their personal address and phone number, they will use a virtual office address and phone number.

Setting up an office might not be the most glamorous part of running a business, but it is an important business decision. There are many things to take into consideration when determining whether to set up a physical office, a virtual office, or even to work from home. Your decision will ultimately depend on your company but should take into considerations the reason discussed above and your advisor's thoughts on entity creation.

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