A Chinese evolution

Continue growth in China's technology, market share

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Years ago, a visitor to China would see dirt roads inhabited by goats and other farm animals, bicycles and surrounding farmland. My, how far they've come.

Now, automobiles, paved highways and high-speed trains are a common sight, says Timothy Weckesser, Ph.D., president and CEO of Sino Consulting, an industrial market research and direct sales firm that completes work for U.S. companies in China.
"In 30 years we've gone from 'Sold in China' to 'Made in China' to 'Designed in China' to 'Dreamed up in China'," Weckesser says, quoting Tom Friedman, author of The World is Flat, during his presentation on the topic "The Chinese Aftermarket Outlook" at the Global Automotive Aftermarket Symposium, May 18-19, in Chicago, Ill.

But in his own words, Weckesser sums up China's giant leaps in terms of travel. Upon his first visit to the country 25 years ago, he landed in the Beijing airport and it took more than three hours along a pothole-filled road flanked by sheep and cattle to drive to Tianjin. About six years later, the Beijing-Tianjin Expressway cut his commute down to two hours. And in late 2009, a newly completed train transformed the ride to 28 minutes.

"That can sum up what happened in China over the last 30 years," he says.

A changing China

The Asian powerhouse's influence continues to grow exponentially in the marketplace.

"I feel a little bit privileged to have actually watched this unfold," says Weckesser, who notes his early visits to China were met with few to no hotels and residents wearing Mao suits and riding bicycles.

China has gone from being a joint-venture manufacturer to "a high-tech market with a deep mixture of central industrial planning together with the private sector," Weckesser says.

Once viewed as a low-cost labor country, China is now losing the stigma as the tax field is being leveled. "For over 25 years, U.S. and other foreign companies had tremendous tax advantages, much greater than domestic companies who were at a disadvantage," Weckesser says. "Now everybody's taxed the same."

The country's gross domestic product even managed to thrive throughout the recession with the help of an immediately implemented stimulus plan to continue driving growth, Weckesser says. "The result was that the effect was felt very quickly in the first quarter of 2010, and they began to revive, and they had record years. It was just really unbelievable," he says. "As a result of that quick comeback of the Chinese economy, it helped to pull a lot of the rest of the world out as well. China is way ahead," he says.

Manufacturing maven

The country's production power and sheer population size and vehicle use are driving factors in building the country's success in the automotive industry, Weckesser says. "In 2009, to some people's surprise, including mine, [China] became the No. 1 producer of vehicles in the world and the No. 1 consumer of vehicles in the world. So it is by far now the largest automotive vehicle market," he says. The country does not need to rely on export — almost everything produced there is consumed there. China was once — not too long ago — "all bicycles," Weckesser says. "Now it is a sea of automobiles," he says.

In 2009, China outsold the U.S. in vehicle sales: 13.6 million to 10 million. And despite more than one-third of those sales going to domestic companies, it is not just business housed in China that are seeing sales and profit spikes, Weckesser says.

"When General Motors was going belly up in the United States and everyone was complaining about the bailout, nobody talked about what GM was doing in China. They had spectacular success," Weckesser says. "In 2009 when we were going through the height of the recession, GM's sales jumped 67 percent in China."

China's success in building sales and profits over the last 30 years is nowhere near a stopping point, insiders say. WIth fewer than five in 1,000 people owning a vehicle in the country, there is tremendous opportunity for market growth.

McKinsey & Company, estimates the automotive market in China will grow 10 fold between 2005 and 2030.

But the growth is not all positive for the country, Weckesser says. Some drawbacks are surfacing.

Growth glitches

Although the automotive boom is great for the Chinese economy, it may not be so for the environment. Pollution is a large concern.

Manufacturers once fueled by coal-burning power plants have since upgraded to modern, cleaner technology, reducing much of the air pollution once seen in the country. But with the ever-expanding number of cars on the road, carbon pollution is starting to erode the progress once made.

Yet advancements in electric and hybrid vehicles continue, and China is often lauded as the country with the most advanced battery technology in the world. So pollution solutions may not be far off. Consolidation has also managed to elude much of the Chinese market thusfar. The country is home to more than 100 car makers, of those 52 are considered significant.

"It's too many for that market. Consolidation is necessary. The government is pushing mergers and acquisitions because they know there are too many producers," Weckesser says, especially with the government's continued aggressive pursuit of electric and hybrid advancements.

And despite the sheer number of automakers, only a handful — such as China First Automobile Group Corp. (FAW), Dongfeng Motor Corp. (DMC) and Shanghai Automotive Industry (SAIC) — are considered major players in the market. Weckesser anticipates most of the other manufacturers will be absorbed through consolidation.

Although companies may be looking to combine in China, outside of the country the focus is on expansion. The biggest challenge is brought by the U.S. market. "The Chinese tend to go around the world and come to the U.S. last because it is the most difficult, the most demanding market with the highest standards and the most government relations," Weckesser says.

Because of cultural differences, he anticipates seeing more passive and minority investment in U.S. companies, while leaving management structures as they are.

Infiltration advice

But what about those U.S. companies that are looking to grow their businesses in China?

The country's auto parts market has seen incredibly growth in the past — as high as 2,000 percent from 2002 to 2008, Weckesser says. "The lesson here is that if you want to sell to China anymore, you really have to be at the high end of the market. Chinese manufacturers are getting better and better," he says, and they occupy between 60 and 80 percent of the country's market. It is only at the high end of quality where Western companies can really get into the market effectively.

"When companies talk about getting into the market, one of the first things I add is 'How are you differentiating? Is what you make difficult to make?'," he says. "It it's not really difficult to make, it's going to be hard to develop a market in China."

And as with most other businesses, it is often about location, location, location. In 2004, China designated eight cities as auto parts export bases: Changchun (Jilin province), Shanghai, Tianjin, Wuhan (Hubei province), Xiamen (Fujian province), Wuhan (Anhui province), Taizhou (Zhejiang province) and Shenyang (Liaoning province).

Utilization of these cities, along with partnerships with what China dubs 4S shops, can determine a company's success in the country. OEMs purchase parts from suppliers and distribute them to regional logistics centers, and 4S shops — privately or collectively owned under license from the OEMs — order parts from these centers. The 4S shops also serve as repair centers. "If you want to sell in China, these are your two targets — the auto cities and the 4S shops, wherever they are," Weckesser says. Four main options exist to establish operations in China, he says. Direct export from the U.S. to China with no operations in-country is the fastest and most direct method. Companies can also set up a China representative office to house and help build a steady sales team, Weckesser says. "It's pretty easy to to do. And then you can hire people there who can act as your sales reps and your eyes and ears and your intelligence in the market," he says.

A third option is a joint venture contract. "We deal with some companies that have actually bought the equipment for a Chinese supplier, and the U.S. company owns the equipment and they have the rights to all of the product from that equipment, but they don't own the company and they have no equity in the company," Weckesser says.

Lastly are the wholly foreign-owned enterprises (WFOE). "It is a nice time for a Western manufacturer to be looking for the gems that they might be able to acquire if the Chinese company is willing to be acquired," Weckesser says.

Overall, regardless of the way a company begins business in China, success is anticipated. A 2008 survey by the American Chamber of Commerce in China reveals that 65 of American companies in China report being profitable, while 9 percent say they are very profitable. "So you've got three quarters of the U.S. companies that are working there now doing very well in China," Weckesser says. "And there's a real comfort level."

The annual Global Automotive Aftermarket Symposium, held over two days at the Hyatt Regency O'Hare in Rosemont, Ill., focused on the theme of "Aftermarket Next: Insights on a New Generation of Customers and Employees." The event's net proceeds benefit the GAAS Scholarship fund, which helps contribute to the education of young people pursuing an automotive aftermarket career. In addition to Weckesser, featured speakers included Mark Seng, vice president of R.L. Polk & Co.; Tony Cristello, senior vice president, BB&T Capital Markets; Richard Alameddine, vice president marketing and engineering, Tenneco; Alicia Smales, vice president of marketing, Snap-on Tools; Ron Rossi, director of market research, Automotive Aftermarket Industry Association, and Bill Haas, vice president of the Automotive Service Association, among others.

Chris Miller also contributed to this article.