BUSINESS

Integrating world's innovation resources

GOING GLOBAL |
M&As help Weichai to evolve from an engine-maker to conglomerate

By **ZHAO RUIXUE** in Jinan
zhaoruixue@chinadaily.com.cn

Weichai Group, a State-owned enterprise or SOE based in Weifang, East China's Shandong province, has metamorphosed from an engine-maker until 2009 into a conglomerate now, with a global presence across powertrain systems, intelligent logistics, automotive, construction machinery and luxury yacht sectors.

Its desire to evolve into a leading innovation-driven company is taking it into the clean energy sector next.

Its strategy toward that goal is to integrate global resources via mergers and acquisitions, and establish innovation centers at home as well as abroad, said Tan Xuguang, Weichai's chairman.

Last year's sales revenue was 236.05 billion yuan ($35.14 billion), up 7 percent. Forty percent of it was generated overseas as Weichai's products are sold in more than 110 countries and regions.

Tan said sales revenue is expected to reach $100 billion by 2025 after merging with China National Heavy Duty Truck Group, also known as Sinotruk, an SOE headquartered in Jinan, capital of Shandong province. Incidentally, Tan, 58, was appointed chairman of Sinotruck in September 2018.

"Standing on the shoulders of giants, we integrate the world's leading innovation resources into ours to build Weichai into a world-class company," said Tan at the plenary session of the Shandong delegation during the annual session of the 13th National People's Congress in Beijing on March 6.

"Our efforts at integrating global resources focus on optimizing Weichai's business structure, instead of just expanding our business scale overseas," he said.

Weichai is tapping into the marine market through strategic restructuring of the Italian Ferretti Group, the world's largest luxury yacht manufacturer, Tan said on March 20 in Rome.

Tan was awarded the Leonardo International Award in recognition of his outstanding contribution to economic exchanges between China and Italy the same day.

In 2012, Weichai bought a 75-percent stake in debt-laden Ferretti.

In August last year, Weichai picked up a 19.9-percent stake in Canada's Ballard Power Systems Inc, a leading global provider of innovative clean energy and fuel cell solutions.

Weichai and Ballard also decided to set up a new joint venture in Shandong to develop and produce fuel cell products. The venture would mark Weichai's diversification into the clean energy sector.

Workers assemble hydraulic products at the Linde Hydraulics factory in Aschaffenburg, Germany. Weichai bought a 70-percent controlling stake in Linde in 2012, which has since grown to 90 percent. PROVIDED TO CHINA DAILY

Weichai staff at an event celebrating successful export of the first engine made by a Weichai-invested Indian factory in 2016. PROVIDED TO CHINA DAILY

Weichai's five overseas acquisitions have all reported positive results since 2017. For instance, annual revenue of Kion Group, a leading German forklift-maker, hit a new high last year growing 5.2 percent to 8 billion euros ($9.05 billion). Weichai Power, a subsidiary of Weichai Group, backs Kion.

In 2012, Weichai bought a 25-percent stake in Kion and a 70-percent controlling stake in Kion's subsidiary Linde Hydraulics. The stakes have since grown to 45 percent in Kion and 90 percent in Linde.

"Kion's cooperation with Weichai Power is one of the best examples of a win-win result for Chinese investments in German companies," said Gordon Riske, Kion's CEO, on Feb 28.

Riske further said that Kion values the cooperation with Weichai as the latter has opened a door for Kion to the Chinese market, and Weichai's investments in the new emerging sectors will also benefit both Weichai and Kion.

Supported by Weichai, Kion acquired the Luxembourg-headquartered Dematic, an automation and supply chain optimization company, in 2016, a move Weichai believes can drive its business toward sustainable growth.

"The strategy of going global to team up with famous brands will help Chinese companies complete their product portfolio and upgrade their business structure," said Zhang Lin, a scholar with the Institute of World Economics and Politics, which is affiliated to the Chinese Academy of Social Sciences.

When going global, Chinese companies need to pay attention to some risks, such as those brought by the regulatory policies, the political environment, laws, cultural integration and finance, said Zhang. Many Chinese companies have gone global recently, and a few of them even made successful acquisitions abroad.

Tan said the key is to integrate resources and complement each other to achieve common prosperity.

Tan still remembers the first time he and his colleagues went to acquire French marine engine developer and producer Moteurs Baudouin in 2009, the company's first overseas acquisition. They were confronted with angry workers who held "Get out, Chinese" posters.

After Tan promised trade unions at the century-old French company that no workers would be laid off and salaries would not be reduced, agreements were reached.

Weichai invested 8 million euros to restore production at Baudouin. It pumped more into the French company's research and development work to upgrade its products.

Weichai mastered advanced technologies and made huge inroads into the global market since 2009, said Tan. Meanwhile, Moteurs Baudouin, which was once on the verge of bankruptcy, began making profits after being acquired by Weichai.

By setting up a jointly run plant with Baudouin in Weifang in 2012, the technologies of producing advanced engines have been introduced into China. And engines produced by Baudouin and Weichai have been sold not only across France but in countries and regions in Southeast Asia and North America.

In addition to M&As, Weichai has set up innovation centers in Tokyo in Japan, and Stanford and Chicago in the United States, to strengthen its research and development. The company has invested more than 15 billion yuan over the past 10 years on innovation, its officials said.

It has also exported its advanced technologies to Ethiopia and Myanmar to support local industrial upgrades, and built production plants in India, Thailand and Belarus.

Tan said in the following 10 years, Weichai will integrate global resources to strengthen its position in the sectors of fuel cells, solid oxide fuel cells and lithium batteries.

Measures sustain consumption upgrade

BEIJING — As usual, Zeng Quande's birthday party this year was full of foreign flavors, such as German beer, Russian wine and Belgium candy. The white-collar worker in Southwest China's Chongqing municipality had bought them at a local exhibition and trade center for branded commodities.

"Our generation has become accustomed to buying foreign products. The center is convenient for consumers," said Zeng, a bank clerk. The center Zeng visits frequently has 35,000 types of commodities imported from 40 countries and regions, through China-Europe container trains, ships and other means.

After 40 years of reform and opening-up, for Chinese citizens like Zeng, it is no longer a luxury to purchase foreign brands of food, wine, cosmetics, and smartphones, thanks to booming e-commerce, fast logistics, more imports and growing income.

Consumer spending contributed 76.2 percent to China's GDP growth last year, making it the largest driver of the country's economic growth for six years in a row.

And the trend is expected to continue with a slew of support measures ranging from individual income tax cuts and developing elderly and child care sectors to preferential policies on the purchase of new energy vehicles.

The country will use a combination of measures to increase urban and rural personal incomes, boost capacity for consumption and use multiple avenues to increase the supply of quality products and services, according to the Government Work Report delivered to the annual session of the National People's Congress, China's top legislature, on March 5.

To stimulate consumption of goods and services, big cities like Beijing and Shanghai have rolled out plans and policies to expand and upgrade commerce facilities, such as building more suburban boutique hotels and shopping malls, and hosting domestic and international expos.

Beijing will upgrade key shopping streets such as Wangfujing, boost fashion consumption and encourage the debut of global products in the city.

The city also plans to construct shopping centers near airports, and promote winter sports consumption along with the hosting of the 2022 Winter Olympics, according to the city's development and reform commission.

Shanghai will also build novel and world-class shopping streets and make the city a favorite choice for consumers to buy products from high-end brands, according to the business hub's action plan for boosting consumption from 2018 to 2020.

"With a domestic market and a population of nearly 1.4 billion, China has incomparable advantages in economic growth," said Chen Lifen, a researcher with the Ministry of Commerce.

Last year, retail sales, a main gauge of consumption, rose 9 percent from one year earlier, down from 10.2 percent in 2017. But sales of many kinds of quality products increased remarkably, a clear sign of consumption upgrade.

For instance, the retail sales share of smart washing machines expanded 39.8 percent last year, according to the National Household Appliance Industry Information Center.

Consumption and industrial upgrades have become the new driver of growth in the home appliance sector, said Song Jingxue, research head at the center.

Among this year's main projected targets, the government aims to create over 11 million new urban jobs and ensures personal income growth is basically in step with economic growth. The government will adopt an employment-first policy this year.

"A lot of jobs are offered, but some posts demand work experience. So there are both opportunities and challenges," said Ji Yongxiang, a graduate in accounting from Hebei Agricultural University, at a job fair in Cangzhou, a coastal city of Hebei province.

XINHUA

BRI spurs Italy to embrace China

ROME — Tourists from China are greeted with welcome signs in their own language upon landing at Rome's Fiumicino Airport, the largest and most dynamic air hub in Italy.

Going all out to impress their Chinese customers, Italian tourism personnel eye greater opportunities in closer Italy-China commercial and tourism exchanges.

In 2017, Italy registered some 1.5 million Chinese tourists, according to the Chinese Tourism Academy, a public entity under the Ministry of Culture and Tourism.

Altogether, they generated in 2017 over 5 million overnight stays, up 12.4 percent year-on-year, according to Italy's National Institute of Statistics.

Industrial personnel are working head over heels to enhance their services and adjust to the changing tourism market, especially the changing appetite of Chinese visitors.

"The profile of Chinese tourists has changed in latest years, in line with the rapid evolution of the Chinese population, and of its average income," Jacopo Sertoli, president of Shanghai-based Welcome Chinese Company, said, adding that recreation is becoming more important for Chinese.

Meanwhile, "the interest of Italians toward China has evolved and partially changed in recent years, and our offer has adjusted accordingly," said Laura Grassi, chief manager of Italian tour operator Chinasia, the first and the oldest Italian operator to manage outbound flows to China since the early 1980s.

Chinasia has gathered much expertise over more than three decades. "At the beginning, China tours mostly attracted Italian people from the middle-high class, well educated, and with an average age of 40," Grassi said.

Today, clients have various profiles. "We have the young student, who is possibly able to speak a little Chinese and wants to have an experience; we have many couples, and families with children as well," she said.

Not surprisingly, Italy is stepping up education to train personnel for the tertiary sector.

At the European University located in the northwest of the Italian capital, the bachelor's and master's degrees in tourism management constitute key educational offers, with special emphasis on Chinese culture-related education.

"Our graduate school students must take cultural anthropology, because it is crucial for them to learn about habits, traditions, and tastes of emerging tourism inflows," said Alessandra Romano, director of European University's Master's in Tourism Management program.

The master's program focuses more on "market niches" than mass tourism, as explained by the professor, "where high-level professionals and managerial roles are more required".

He said: "Yet, we do believe there is already a 'niche' of very high-level Chinese travelers, who have higher needs, and this is a crucial opportunity we cannot miss."

Italy's hopes in the sector are high in terms of growth and of employment, especially considering the sluggish domestic economy lately.

Tourism contributed some 13 percent to the Italian gross domestic product in 2017, according to a February report by a branch of the National Research Center.

People employed in the industry comprised about 14.7 percent of Italy's workforce in 2017, and some 250,000 new jobs are expected by 2023, according to a recent survey by Florence-based Center for Tourism Studies.

Chinese tourists pose for pictures with a joint patrol team composed of police officers from Italy and China. XINHUA

However, industry experts are not yet satisfied, and are expecting to unleash greater potential through the China-proposed Belt and Road Initiative.

"This (the BRI) is something we really should concentrate on doing well," said Marina Lalli, head of the tourism branch of Italy's major business group Confindustria.

"Up to now, we have mainly drawn tourists from Asia — and from China especially — who wanted to see Italy for its way of life and style, but this is not enough anymore.

"We cannot just count on the fact that we have a beautiful country, nice weather, and good food... The interests of tourists are evolving, and the sector goes more and more digital.

"As such, we need to know really well the Chinese market and how it works, to cater to its needs and demands.

"It is very simple: we just cannot lose that market, and let the big numbers from China come to Europe and visit Italy only a few days as a second destination."

XINHUA