



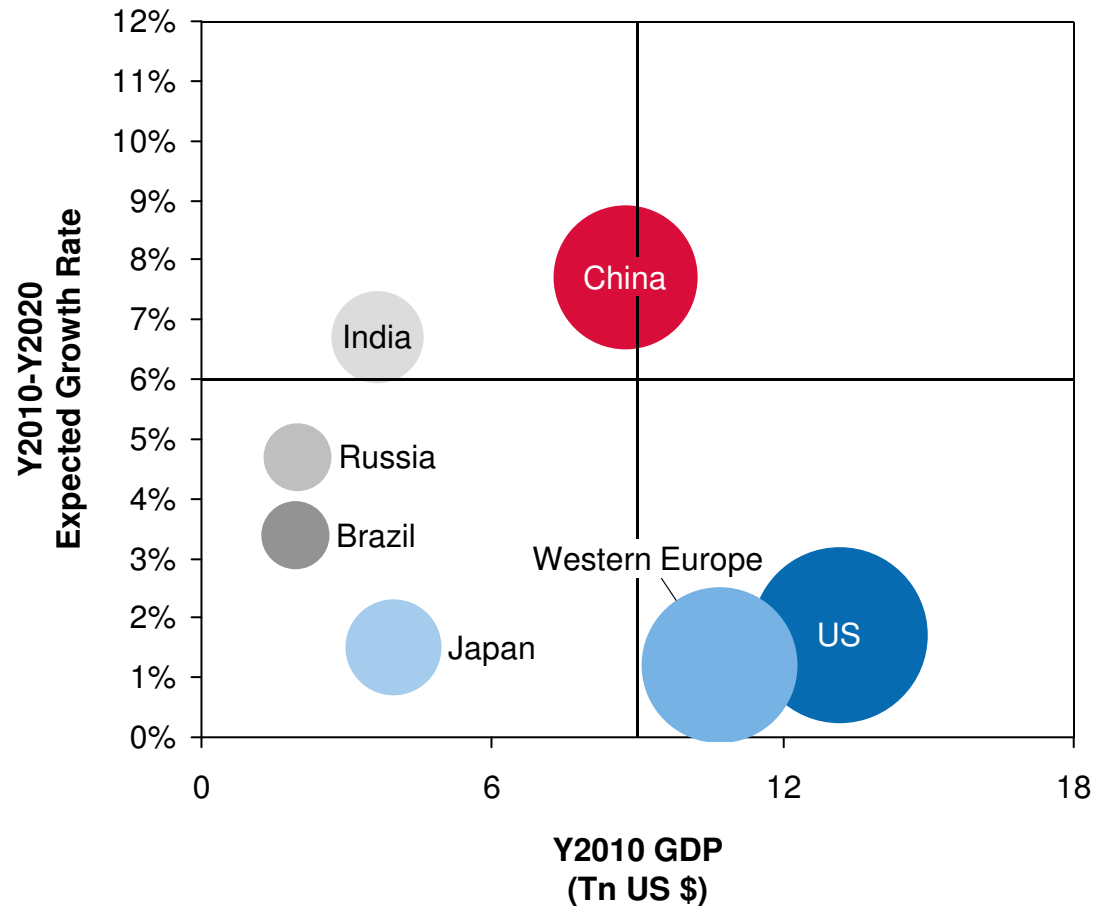
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Internationalization Trends of Chinese Firms - Opportunities for Finnish Industries?

Team Finland China Day Annual Seminar

The recent re-emergence of China as a global economic and geopolitical superpower has been astonishing

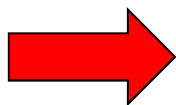
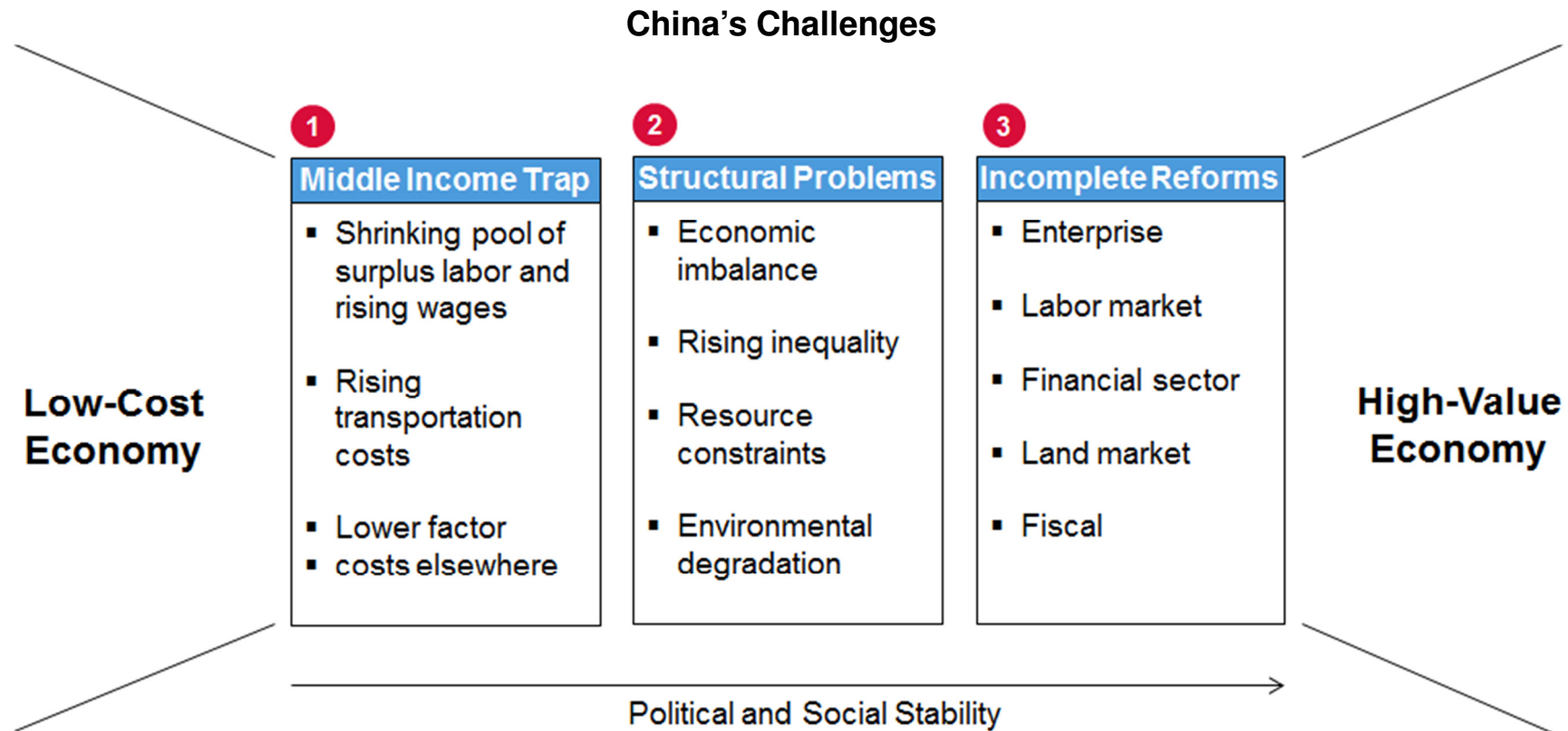
The Global Economy In Transition



- From irrelevant to must-win market in thirty years
- Deng's Faustian Bargain
 - Access to China's vast supply of surplus labor and potential demand from 1.5B consumers
 - in exchange for*
 - FDI and transfer of Western technology and other know-how
- Survival & Modernization instead of Democratization & Westernization

Source: Global Insight, World Coal Association, Worldbank, Thinkprogress, Booz & Company analysis

However, as the initial catch-up phase is ending, China must make the difficult transition from a low-cost to a high-value economy

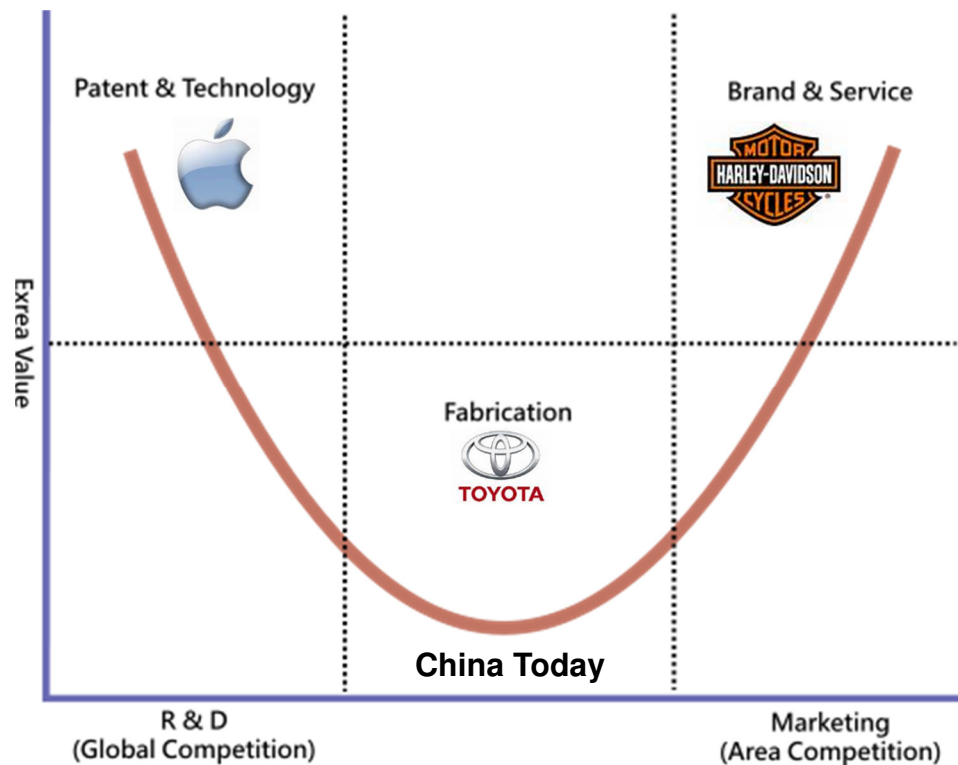


Are there win-win collaboration opportunities for Finnish companies to help China make the transition?

Source: Booz & Company analysis

To avoid getting caught in the “middle income trap”, Chinese firms must improve their capabilities and move up the value chain

Stan Shi's “Smiling” Curve

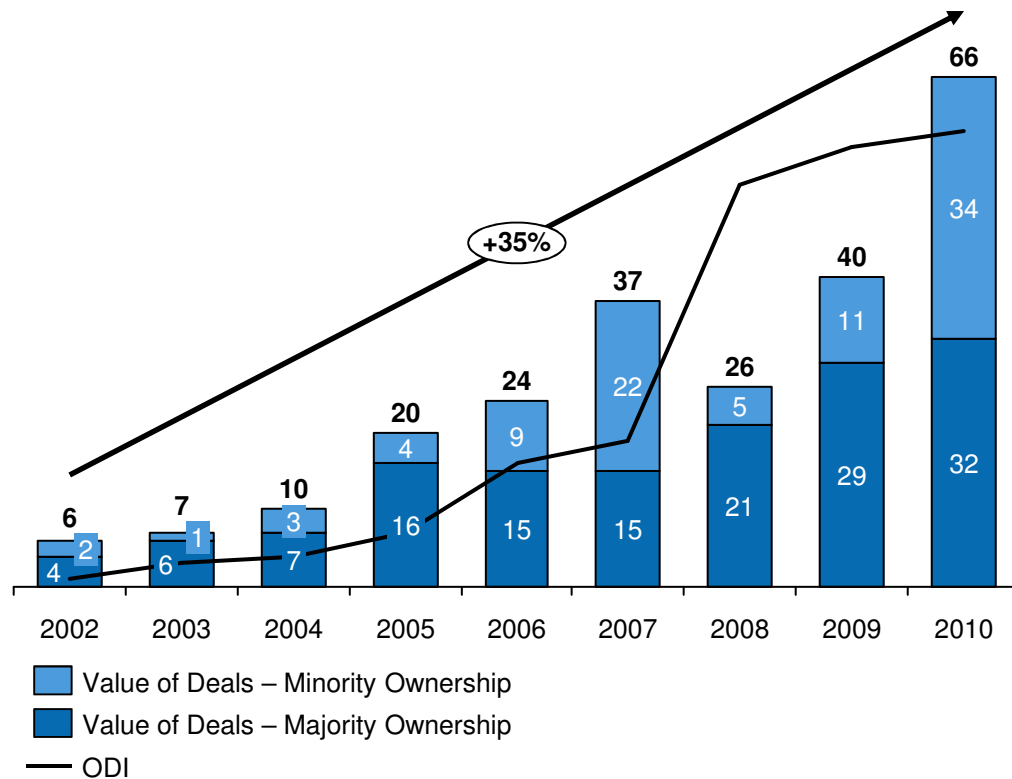


- Chinese firms currently still compete primarily in labor-intensive, low added value manufacturing
 - *Textiles, garments, toys, etc.*
- To become a high-value economy, Chinese firms must move up the value chain
 - *Innovation (e.g., Apple)*
 - *Brand (e.g., Harley-Davidson)*
 - *Operations (e.g., Toyota)*

Source: Literature research, Wikipedia (graph), Booz & Company analysis

Paradoxically, the urgent need to become more competitive at home, is forcing Chinese firms to expand internationally

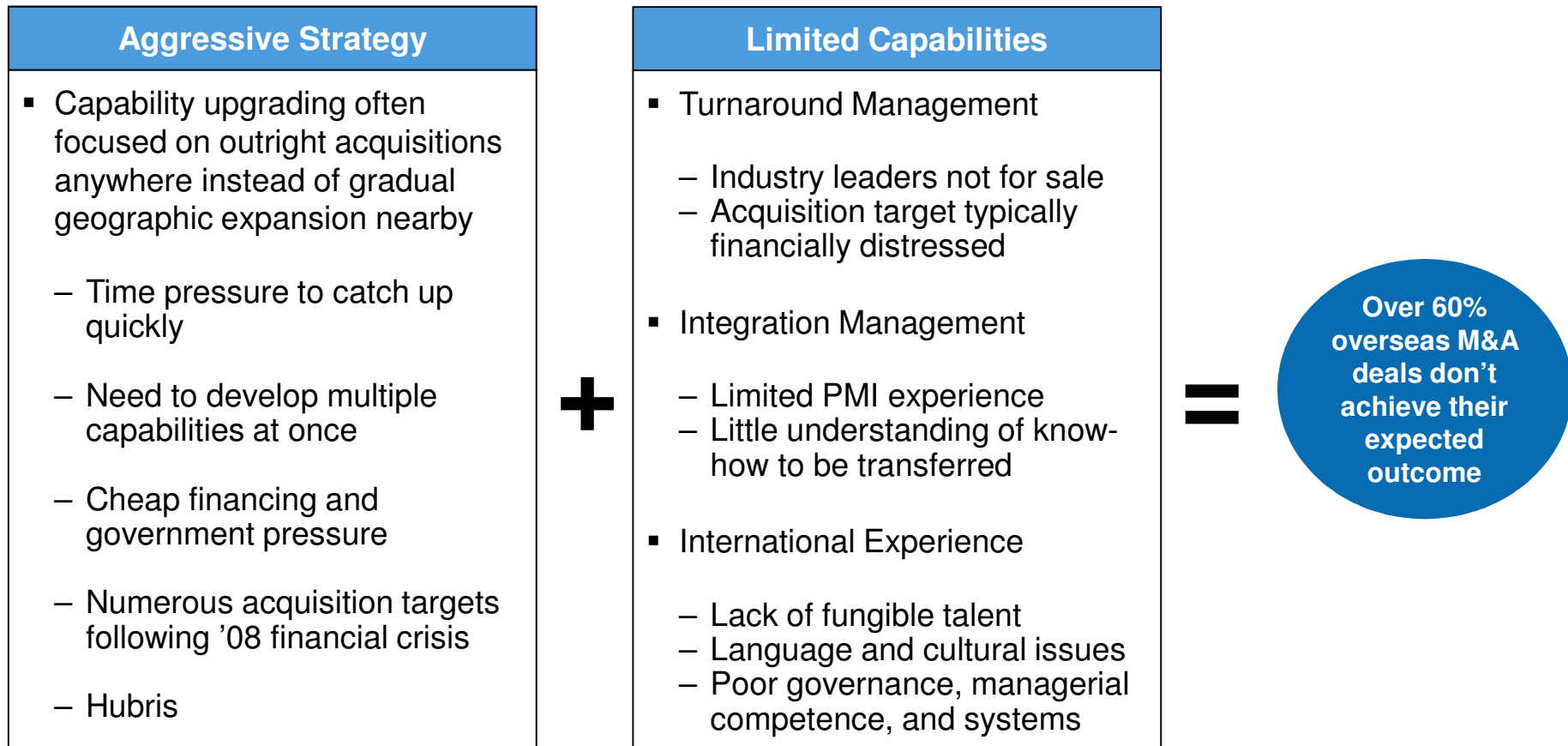
China ODI and Outbound M&A
2002-10, in \$Bn



- Domestic upgrading efforts not consistently successful (e.g., JVs)
 - High-speed rail (+)
 - Automotive assembly (-)
- Increase in ODI and M&A to improve competitiveness at home
 - Sany > Putzmeister (technology)
 - SAIC > MG (brand)

Source: Global Insight, Booz & Company analysis

Unfortunately, the failure rate of Chinese firms' internationalization efforts has been exceptionally high



Source: Booz & Company analysis

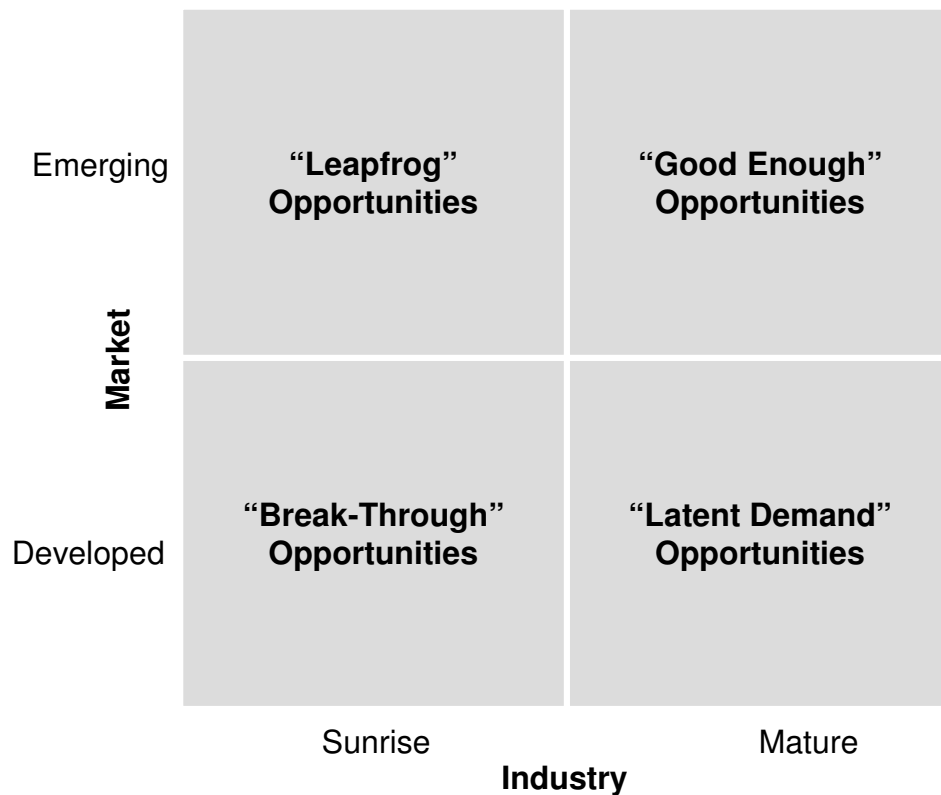
This presents potential win-win opportunities for Sino-Finnish partnerships – although few exist today

- 1 Partnerships are probably more suitable for Chinese firms than outright acquisitions
 - Knowledge transfer requires side-by-side collaboration
 - No need for managing and/or integrating the foreign partner's business
 - Potential to collaborate on project-by-project basis, at least initially
 - Opportunity for collaborating with industry leaders instead of acquiring laggards
- 2 At the same time, Finnish companies need to capture new growth opportunities in emerging markets, but often lack critical capabilities to do so themselves
 - Limited mid-market products and know-how
 - Little experience in emerging markets, especially in SE Asia
 - Large number of SMEs with limited financial and managerial resources
- 3 Potential collaboration opportunities lie at the intersection of complementary firm capabilities, country-specific advantages, common target industries, and geographic proximity

Source: Booz & Company analysis

Sino-Finnish partnership opportunities can be classified into four distinct groups as a function of industry and market maturity

Sino-Foreign Partnership Opportunity Matrix



- **“Good Enough” Opportunities**
 - Jointly develop low-end / mid-market versions of existing products for emerging markets
- **“Latent Demand” Opportunities**
 - Jointly penetrate developed markets by activating latent demand for low-end / mid-market products
- **“Leapfrog” Opportunities**
 - Capitalize on latecomer advantages to develop new products and technologies in greenfield emerging markets first
- **“Breakthrough” Opportunities**
 - Combine high-end developed market and low-cost emerging market capabilities to create truly breakthrough products

Source: Booz & Company analysis

Chinese and Finnish companies could jointly develop low-end / mid-market products for other emerging markets

AB Volvo / SDLG



- AB Volvo acquired SDLG in 2007
- SDLG offers:
 - Entry level products
 - Low-cost manufacturing know-how
 - Wheel loader know-how
- Volvo brings:
 - Technology to develop SDLG products and components for BRIC markets
 - World class manufacturing standard to improve product quality and durability
 - Premium brand name
 - International management experience

- Finnish companies have to increase their emerging markets footprint, but lack relevant products, know-how, and experience
- A Chinese partner could offer low-end products, know-how, and the ability to operate in lesser regulated countries, especially SE Asia and Russia (proximity matters)
- Key question is what Finnish firms have to offer over a truly local partner, especially since partnership may not involve relevant knowledge transfer for Chinese firm
- May require Finnish firm to enter into a partnership or make an acquisition in China first

Source: Management interviews, literature search, Booz & Company analysis

Similarly, Sino-Finnish partnerships could try to activate latent demand for low-end / mid-market products in developed markets



SEG's acquisition of Akiyama

- SEG acquired Akiyama, a bankrupt Japanese printing machinery manufacturer, in 2001
- Akiyama provided SEG with access to developed markets (U.S., Europe, Japan), a complementary product portfolio (high-end printing machines), and advanced world-class technology (50+ patents)
- In addition, SEG was able to significantly lower costs by relocating manufacturing operations to China and lowering Akiyama's sourcing costs

- Finnish firms may be able to gain a low-end / mid-market foothold in highly competitive and/or far away developed markets that would otherwise be difficult to penetrate
- Alternatively, Finnish firms may want to preempt a low-end market entry by a competitor in their home market or an adjacent country
- Either way, Chinese firms would benefit significantly from the required know-how transfer to help make them competitive in a developed market

Source: Management interviews, literature search, Booz & Company analysis

It may also be possible for Finnish and Chinese firms to capture leapfrog opportunities in other emerging markets

SIEMENS



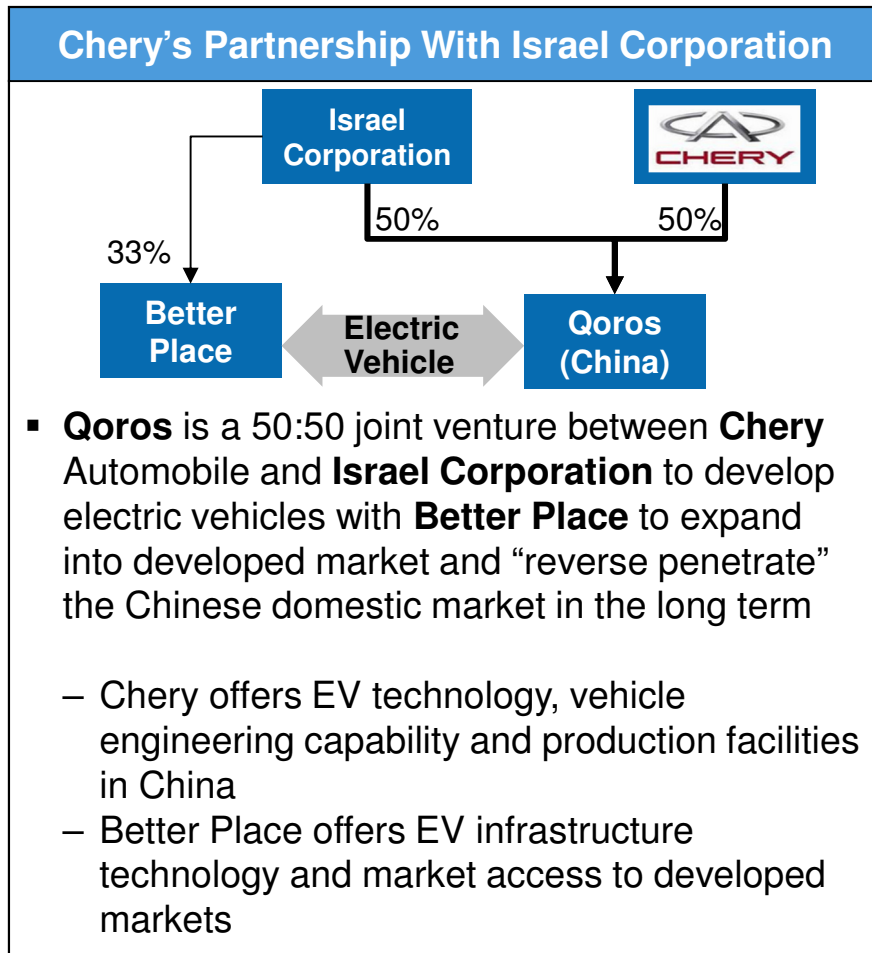
Siemens' Partnership with Huawei

- **Siemens** set up a JV with **Huawei** in 2004 to develop **3G** business in **emerging countries**
 - TD-SCDMA is the 3G standard mostly adopted in emerging markets
 - Siemens has the leading technology in TD-SCDMA
- **Siemens** provided its technology and intellectual properties in the partnership
- **Huawei** adopted its local R&D team to **design** product and **sales** force to sell across emerging countries
- The JV is working well under the booming 3G business in emerging countries

- Emerging markets may be in a position to leapfrog to more advanced technologies immediately
- Finnish firms can provide advanced technology, project management capabilities, and neutrality, but may not be able to secure market access themselves
- Chinese firms can gain market access in many emerging markets through the soft power of the Chinese government (e.g., Africa) as well as low-cost product design and manufacturing

Source: Management interviews, literature search, Booz & Company analysis

Finally, there may be some opportunities to create truly breakthrough products for developed markets



- China may assume a global leadership role in some advanced technology sectors it considers strategic
 - electric vehicles
 - Alternative energy and sustainability
 - High-speed rail
- Sino-Finnish partnerships could be successful in strategic sectors where Finnish firms have advanced technology (e.g., sustainability)
- There may be opportunities to jointly develop such products for developed markets which are too small to justify the required investments (e.g., Denmark, Israel)

Source: Management interviews, literature search, Booz & Company analysis

Booz & Company and Tekes are conducting a study to further explore the potential for Sino-Finnish collaboration opportunities

Primary Objective

Provide a better understanding of exactly how Finnish and Chinese companies can establish win-win opportunities for collaboration outside their respective home countries

- **Internationalization of Chinese firms**
 - Rationale / objectives
 - Strategies / geographic focus
 - Key Success / failure factors
- **Potential collaboration with Finnish firms**
 - Type of win-win opportunities
 - Potential synergies / key success factors
 - Potential risks and mitigation strategies



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