

Cautious driver

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Despite managing a company that deals in vehicle parts and components, BorgWarner Inc's CEO doesn't go heavy on the gas.

Timothy Manganello, the CEO of the New York-listed company, says despite being aggressive on research and development (R&D) and promoting new technology, the firm takes a prudent approach to expansion and expenditure.

Manganello, in an interview with China Business Weekly, says advanced technology not only helps the company meet ever-increasing fuel-efficiency requirements and environment-friendly standards, but gives the Michigan-based company more bargaining power when selling its products. That's important in an increasingly competitive market where competition comes from both peers and automakers.

Moving cautiously into the market, however, will protect the interests of shareholders and guarantee sustainable development of the corporation.

"Rapid growth may challenge stability," Manganello says.

Technological advancement

Driven by the need for more economical fuel use and tightening emission standards, as well as customers' demands for vehicle stability, driving comfort and convenience, BorgWarner has developed a string of technologies and registered hundreds of intellectual patents in the past decades.

Insiders say new technology is the DNA of BorgWarner's makeup, distinguishing it from competitors in the international market.

Still, in a competitive market there may be limited room for growth. "The auto industry has entered a stable period, especially in the developed nations, and market margin is shrinking," says Wang Zude, a senior researcher at the China Automotive Technology and Research Centre (CATRC).

Manganello agrees, but believes that technology renovation and upgrading may be the engine for progress in the sector. Innovation is "one of the key drives" for BorgWarner, and is a field in which Manganello says it spares no effort in terms of money and human resources.

The company says it puts 5 to 7 per cent of its sales into R&D every year, compared with the industrial average of 2 to 3 per cent. Among its employees, standing at 17,300 by the end of last year, one-third was R&D staff.

According to Wang, due to a profit squeeze in the auto market, it's common for automakers to push the cost war to upstream companies, resulting in profit crunches among vehicle parts and components market.

BorgWarner's Manganello, however, says he feels somewhat at ease, because of the company's overwhelming technological strength.

Surrounding its core business of drivetrains (transmissions and all-wheel-driving) for automobiles, the auto parts maker also targets six other vehicle products. They include: turbochargers, variable cam timing, thermal management components and systems, diesel cold start technology, emission control components, and engine timing systems. For each category, it tries to develop niche technologies to meet the evolving requirements in the auto market.

Manganello cites BorgWarner's DualTronic, or manual-automatic-transmission technology, as an example. The technology can convert a manual gearbox to an automatic transmission, which ensures lower emissions, better fuel efficiency and offers a smooth transition for drivers.

Furthermore, the technology is based on the design of a manual appliance, meaning the manufacturing and installation cost of DualTronic will not increase much compared with the traditional manual one.

The company is the only auto parts maker currently applying this technology. Its use in luxury models of cars such as Audi, Renault and BMW, have received a warm welcome in Europe.

The CEO, at the same time, indicates that affordable automatic transmission technology is expected to be more popular in Asia than Europe, considering Asian people's preference for automatic cars.

In terms of the Chinese market, BorgWarner believes its niche technologies will help domestic carmakers increase their comprehensive competence in both the international and local markets.

Mature technology adopted for the booming market will offer a short-cut for players and facilitate them in becoming competitive in a relatively short period of time compared to their developed peers, Manganello says.

He points out that China's auto industry is still in its beginning stages.

Prudent expansion

Entering China in 1993, BorgWarner is, to some extent, lagging behind its global counterparts like German Bosch and US-based Delphi.

The company is currently operating three joint ventures (JVs) on the Chinese mainland. The first was formed in 1993 to supply transmission products to Beijing Jeep. That business was restructured in 2000 to focus on four-wheel drive and all-wheel drive products.

The second joint venture, located in Ningbo of South China's Zhejiang Province, kicked off in 1998 for the production of thermal products. The company owns a 50-per-cent stake in transmission products-maker NSK Warner, which opened a plant in Shanghai in March.

BorgWarner's corporate office was established in Shanghai in November 2004.

Total investment of those JV establishments, including plant equipment and client development, amounted to US\$15 to 20 million, according to the company. The firm has been serving a number of Chinese vehicle manufacturers: It provides four-wheel drive to Great Wall, and transmission components for Geely Group and China National Heavy Duty Truck.

Compared with BorgWarner, Bosch has 20 plants, 10 representative offices, five trading companies and 345 chain maintenance service stations in China.

Delphi, though frustrated in its home market in the US, has been ranked as the most successful foreign auto parts provider in China, boasting 11 JVs, four wholly owned enterprises, an R&D centre and a training centre, with combined investment of US\$500 million-plus.

It's a strategy Manganello is not taking. "We have to be cautious in a growing market, which is totally different from the developed marketplaces we have experienced," he says. He adds that stable and sustainable development should be a top concern for the interest of the company, shareholders and employees.

However, critics say that an over-prudent, wait-and-see or risk-exempt attitude may lead to loss of opportunities.

Manganello says the company is aware of these criticisms and is taking steps to quell them by picking up the pace of expansion.

BorgWarner launched a wholly owned factory in Ningbo in April for the assembly of turbochargers and transmission solenoids.

Customers who will be served by the new Ningbo operation include China National Heavy Duty Truck, Volkswagen/Audi, First Automobile Works and Yulin Diesel.

"That new facility marks another milestone in the advancement of our growth strategy for China," Manganello says.

The firm is also preparing a new R&D centre and two smaller-sized R&D facilities in China, and are planning to offer technical support for not only China but all of Asia. Beru, a BorgWarner controlled diesel cold-start technology, and ignition technology for gasoline engines' providers is scheduled to get a foothold in China by the end of this year.

BorgWarner is also working to acquire some local vehicle parts and components manufacturers in the future.

These moves may help the company get a larger slice of this growing market in China. A survey conducted by CATRC shows that sales volume of China's auto parts and components industry reached 440 billion yuan (US\$55 billion) in 2004, which surged to 500 billion yuan (US\$ 62.5 billion) last year.

By the end of 2005, there were more than 1,200 foreign-funded auto parts makers in China, occupying over half the market. The remaining share is held by China's over 5,000 small and medium-sized manufacturers.

BorgWarner's sales hit US\$4.3 billion last year, with about 18 per cent of the total from Asia. The firm expects the region to increase faster than any other marketplace in the future, driven by customer needs in fuel efficiency, emission's reduction, vehicle stability and demand for advanced technology.

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