

MARKETING STRATEGY OF LIFTS AND ESCALATORS IN THE FAR EAST

H. S. Kuok, Chevalier (HK) Ltd.

22/F., Chevalier Commercial Centre, 8 Wang Hoi Road, Kowloon Bay, Kln., Hong Kong

ABSTRACT

The pace of demand for lifts and escalators in commercial and residential buildings in Asia is extremely high, especially in countries with a high population, such as China. In general, cheap labour and low rents for factories, mean low production costs. These are available in Asia. This leads to the migration of manufacturing production lines from the highly developed countries in the West to Far East Asia. Because the lift and escalator manufacturing industry is very labour intensive, it is logistically suitable for the huge labour supply in Asia. Obviously, the rapid growth of business in these areas is predictable. An outline of the development and analysis of the market demand in Far East Asia, together with the time varying situations will be introduced in this paper, and focus will be put on the China market. In addition, positive forecasting of the future development in Far East countries, that are contrary to the declining economic situations in western countries, will be discussed.

1. INTRODUCTION

In the past decade, countries in Far East Asia had undergone rapid economic development which provided potential and chances for the foreign investment. Especially in China, with her large population, potential markets and an abundant labour are available. China's opening to the outside world had its origins in the political choices of its leaders, responding to economic circumstances, rather than any ideology. Deng Xiaoping and the Communist Party decided in 1978 that foreign interests, especially capitalist multinational corporations, could play a constructive long-term role in the development of Chinese socialism. They were confident that the State could promote China's interests effectively and prevent exploitation by foreigners. China accepted the need to open up: the prospect of obtaining foreign capital investment in support of national modernization; the economic and political costs of falling ever farther behind Japan, South Korea, Taiwan and Hong Kong, in rates of growth and development; and the fact that those same competitors offered models of some economic policies that China itself could adopt. Yet these factors were incentives, not compelling circumstances, and they had all existed many years before 1978.

2. FOREIGN INVESTORS AND CHINESE LABOUR : LAW & POLICY

The Chinese Government tries to satisfy foreign investors' labour needs, but does not allow a free labour market. It restricts the mobility of Chinese workers and keeps tight control on the wage differences among various enterprises. The cost of such policies, is to deter some foreign investors from bringing more capital to China, instead of its more flexible Asian competitors. However, the restrictions do prevent the development of a home-grown elite of highly paid Chinese employees of foreign companies. The restrictions also maintain the State's prerogative to be the final arbiter in labour management decisions.

The many laws, regulations, and policy statements issued by Beijing since 1980 in general terms endorsed the principle that Chinese-foreign joint ventures could recruit their own labour. Under the labour regulations for joint ventures, issued in July 1980, ventures may employ workers recommended by the local government labour department or, with the consent of the same labour bureau, may recruit on their own.¹ However, in January 1984, new regulations on labour management made a change of emphasis to the rules regarding recruitment. Henceforth joint ventures must satisfy their labour needs locally, and only if that proves impossible could they recruit workers from elsewhere.² The new rules require each joint venture to produce a labour plan of their recruitment, for approval by local authorities.

Subsequent regulations narrowed further the scope of foreign intrusion into the domestic labour market. The State Council issued new provisions on foreign investment in response to complaints by local businessmen in October 1986.³ These only promised that joint ventures "may recruit and employ technical personnel, managerial personnel and workers in their locality." This time, no mention was made of going outside the locality to recruit skilled workers. The emphasis on local labour sources, reveals concern that skilled workers and managers could begin to move around China, seeking work with foreign investment ventures, thereby upsetting the State's "household" registration system, which maintains regional population stability. From the State's viewpoint, orderly direction of the labour force is a higher priority than flexibility in meeting employment needs of joint ventures, which are concentrated in a few locations.

Chinese foreign investment law therefore leaves unclear, how free joint ventures will be, to extend their employment offerings into domestic labour markets. It fails to clarify the role of ubiquitous local labour agencies in controlling access to local and non-local labour supplies. It does not spell out under what circumstances direct, wide recruitment of skilled employees by joint ventures is possible. These ambiguities leave Chinese officials the option of relative flexibility on hiring rights in what they judge to be individually deserving cases, but in practice usually make the foreign investor dependent on his Chinese partner for most recruitment.

| <i>Guangzhou China Labour</i> | <i>Existing Salary Per Year (HK\$)</i> |
|-----------------------------------|--|
| <i>Factory Manager</i> | \$8,000 x 13 months |
| <i>Supervisor</i> | \$2,500 x 13 months |
| <i>Engineer</i> | \$1,600 x 13 months |
| <i>Technician</i> | \$1,000 x 13 months |
| <i>Worker</i> | \$ 700 x 13 months |

Table 1. Example of the market for factory management and labour in China

| <i>Existing Rents : M² / month</i> | |
|---|-------------------|
| <i>Factory / M²</i> | \$HKD 12.00/month |

Table 2. Example of the market for factory rent

3. LIFT & ESCALATOR INDUSTRY IN CHINA

3.1 Introduction

In China, according to the general guiding principle of reform and opening to the outside world, the socialist economic construction is rapidly gathering pace. The lift, as a modern transportation means for raising the working efficiency of the people and improving their conditions, has become part of many people's daily life. Certainly in many public places, such as airports, railway stations, subways, docks, markets, hospitals, guest houses, hotels, office buildings. Even in residential buildings, lifts have become indispensable. This social mobility brings about a fast development of China's elevator industry.

According to the record from the China Elevator Association, the total number of lift companies joining the association has reached 320.

The China Elevator Association, has a series of committees covering technical matters, design and manufacturing, safety, information exchange, editorial, repair and maintenance and an international working group. They regularly publish the China Elevator Magazine to introduce the lift and escalator industry and the market situation in China. This channel enables the public to understand China's lift industry and also environmental concerns.

The China Elevator Association is a nationwide organization composed of manufacturing, installation, maintenance, management, design, research and teaching units, etc. It serves as a bridge that links Government and private enterprises, to study and define the measures for coordinating the development of China's lift industry, and thereby develop technical exchange and cooperation, to promote technical advancement and raise the profile of China's lift industry.

The Chinese Government has reinforced the "open door" policy for overseas investment in the past 10 years. The business environment has become more stable, for example, the traffic conditions and facilities, communication networks and other social amenities for the Chinese people have vastly improved. Overseas investors intending to do business in China, should study the culture of the Chinese people, together with the style and joint venture methods and management systems being operated in the Chinese companies.

Concerning the lift and escalator companies in China, there are three major categories. Chinese-foreign joint venture enterprises, state-owned enterprises and domestic enterprises. They are either lift manufacturer, lift accessory manufacturer or lift installation and maintenance enterprise.

3.2 The market demand in China

The "open door" policy and the consequent reform, has resulted in modernization of the economic situation of China. Thus revitalized, China and become a lively market highly attractive to international investors. Most investors have established their companies or factories within China in order to do business and profit from the market condition. The rapid growth of business in these development areas, result in a high demand for basic facilities in the economic zone, as well as highly efficient operation. Along with the rapid development of the construction industry, the demand is for both quantity and quality lift and escalator installations. Therefore, the potential for a large market for the lift and escalator industry has been created for overseas investors.

3.3 Analysis of the lift and escalator business growth in China

From the information provided by the China Elevator Association, we know that the growth of lifts in China is approximately as follows:

| <u>Year</u> | <u>Interval (years)</u> | <u>Productivity (sets of lifts /escalators)</u> |
|-------------|-------------------------|---|
| 1949 - 1979 | 30 | 10,000 lifts |
| 1980 - 1993 | 14 | approx. 18% per year |
| 1991 | 1 | 12,000 lifts & 600 escalators |
| 1992 | 1 | 16,000 lifts & 1,500 escalators |
| 1993 | 1 | 24,000 lifts & 3,400 escalators |

There are more than 140,000 lifts in operation in China market.

Concerning the total number of lifts and escalators imported for the China market. In 1993, there were 2,413 lifts and 1,131 escalators. This represents 10-15% of the annual input in China. The Chinese-foreign joint ventures shared 70%, and the domestic enterprise shared 15-20% of the total number of lift and escalator installations for the year.

| <i>Range of Year</i> | <i>1991 to 1992</i> | <i>1992 to 1993</i> |
|----------------------|---------------------|---------------------|
| <i>Lift</i> | 34% | 50% |
| <i>Escalator</i> | 150% | 125% |

Table 3. Percentage Increase of production from 1991 to 1993 in China

From this three year record, it is clear that the growth rate of lifts and escalators in China increases year by year. Since the "open-door" policy, China has experienced rapid economic growth, extensive development of property the market and retail business. This has made the demand for lifts and escalators in China continue to increase.

As indicated in Table 3, the lift production, during 1991 to 1992, the growth rate was 34%, and during 1992 to 1993, it increased to 50%. The percentage increase of escalators during 1991 to 1992 was the highest at 150%, the growth rate slightly decreased to 125% during 1992 to 1993.

| | <u>1991</u> | | <u>1992</u> | | <u>1993</u> | |
|-------------------------------------|-------------|------------------|-------------|------------------|-------------|------------------|
| | <i>Lift</i> | <i>Escalator</i> | <i>Lift</i> | <i>Escalator</i> | <i>Lift</i> | <i>Escalator</i> |
| <i>Joint-venture Co. (70%)</i> | 8,400 | 420 | 11,200 | 1,050 | 16,800 | 2,380 |
| <i>China enterprise (17.5%)</i> | 2,100 | 105 | 2,800 | 263 | 4,200 | 595 |
| <i>Imports to China (12.5%)</i> | 1,500 | 75 | 2,000 | 188 | 3,000 | 425 |

Table 4. Market Share of Lift and Escalator Business

From Table 4, it can be noted that the joint-venture companies had the largest market share of lift and escalator business in China. During 1991 to 1993, they shared 70% of the market, followed by the China enterprises whose market share was about 17.5%, with the amount of imports representing 12.5% of the market.

In the China market, the importation of lifts and escalators is very competitive. According to China Government Statistics, only the lifts and escalators imported as "full set" of products are recorded, this does not include the printed circuit boards or parts of the equipment imported by the local manufacturers.

Due to the different needs of the market, many of the owners/developers insist on high quality products, to enhance the image of the buildings, they import lifts and escalators from other countries. Since the lift and escalator business has been developed over the past few years in China, the local manufacturers recognize that they can improve their products with the help of imported components.

Finally, of a lift and escalator company sharing business in the China market will be taken as an example. This should explain more about the actual situation and the requirements of the lift and escalator industry.

3.4 Analysis of Market Share of Lift / Escalator business China Market from the Sample Lift Company

| Majority | Use Purpose | Model of Lift / Escalator | Capacity | Speed |
|-----------|----------------------|--|-----------------|-------------------------------|
| 1 | Commercial (53%) | AC VF Geared Control (76%) | 1000Kg (59%) | 1.75 m/s (59%) |
| 2 | Residential (43%) | AC Gearless Control (4%) AC VF Geared Control (High Speed)(4%) | 750Kg (22%) | 1.5 m/s (9%) |
| 3 | Industrial (4%) | AC Micro-processor Control (3%) | 1150Kg (4%) | 2.5 m/s (6%) |
| Escalator | Commercial | Escalator Type 12 (8%) Escalator Type 8 (3%) | | for escalator 0.5 m/s only |

Table 5. Source : IAEE (HK Branch), research team member

Table 5. presents the statistics of about 10% of the imports of the lift and escalators in the China market. From the analysis results, it is cleared that in the China market, the rapid development of commercial and residential building provide a high demand for lifts and escalators. The most popular model of lift being the AC VF Geared Control, with 76% of the market, followed by AC Gearless Control (4%) and AC VF Geared Control (High speed) (4%). The most common loading being 1000Kg, with 59% of the market, and 750Kg with 22%. For the speed, the most popular type is 1.75 m/s, with 59% of the market, and lifts with a speed of 1.5 m/s responsible for 9% of the market.

| Model | Commercial | Residential | Industrial |
|-----------------------------------|----------------------------|----------------------------|--------------------------|
| AC Mirco-processor Control | 5 | 6 | 1 |
| AC VF Geared Control | 114 | 138 | 14 |
| AC Gearless Control | 14 | | |
| ACI Control (Dumbwaiter) | 3 | | |
| AC Geared Control | 2 | | |
| AC VF Geared Control (High speed) | 10 | 4 | |
| Escalator type 12 | 27 | | |
| Escalator type 8 | 10 | | |
| Total : | 185 (53%) | 148 (43%) | 15 (4%) |

Table 6. Escalator / lift model and purpose (China Market)

Source : IAEE (HK Branch), research team member

4. INTERNATIONAL ECONOMIC REPORT

It is expected that the construction output is unlikely to approach high levels, according to forecasts from "Euro-Construct", the output in the European countries is

likely to fall by 0.1% in 1993 and is expected to increase by 1.9% only during 1994/95.⁵ When compared with the European countries, the prospect of the market in the Far East is much better.

Over the past few years, the economic increment for the countries of the Far East is indeed a remarkable performance. Not only the China enterprises, but also those in the Singapore, South Korea, Malaysia and Vietnam are also areas with a high economic growth rate. From the beginning of the year 1994, the Chinese economy has experienced rapid economic growth, the half-year growth rate was 11.2%. This is a good news for the people in China, with such economic growth rate, the government have implemented the compression of fixed capital investment. The over-heating of the property market has been brought under control. The exchange rate of RMB has been relatively stable, from RMB100 equal to HKD130 last year, now decreased to about HKD110. During the three quarters of 1994, there was only minor currency fluctuations. Unfortunately, control of the inflation rate seemed to be below expectations. According to the Average Consumer Price Index, the inflation rate was maintained at 20%. This is too high for a country with normal economic growth and development. This problem should be resolved completely by the Chinese Government in the near future.

The following information for the international markets is provided from the "Yazhou Zhoukan" (an economic and political magazine), this give a clear picture of the economy and should be beneficial for business planning and future strategies.

| | Population (in million) | GNP Per Capita (USD) | Economic Growth Rate (%) | Inflation Rate (%) | Unemployment Rate (%) | Export Value of 12 months (USD100 million) |
|-------------|----------------------------|----------------------------|-----------------------------------|--------------------------|-----------------------------|---|
| Japan | 125.2 | 37,500 | 0.2 | 0.6 | 3.0 | 3,750 |
| S. Korea | 44.5 | 7,250 | 7.9 | 6.5 | 2.4 | 887 |
| China | 1,196.5 | 435 | 11.6 | 20.4 | 2.6* | 1,010 |
| Taiwan | 21.0 | 11,236 | 6.1 | 6.7 | 1.99 | 887 |
| Hong Kong | 6.1 | 18,500 | 5.5 | 9.8 | 2.1 | 1,370 |
| Macau | 0.4 | 14,185 | 5.2 | 5.4 | 2.8 | 18 |
| Singapore | 3.1 | 18,025 | 10.5 | 3.9 | 1.6 | 869 |
| Malaysia | 19.4 | 3,230 | 8.6 | 2.8 | 3.0 | 484 |
| Thailand | 59.6 | 2,085 | 7.4 | 5.3 | 3.7 | 412 |
| Philippines | 65.9 | 850 | 4.5 | 9.9 | 11 | 122 |
| Indonesia | 191.6 | 645 | 6.7 | 8.6 | 38** | 370 |
| Brunei | 0.3 | 18,500 | 3.0 | 2.5 | - | 26 |
| Vietnam | 73.7 | 220 | 8.0 | 8.0 | 12 | 30 |
| Cambodia | 9.3 | 200 | 5.7 | 41.0 | - | 2 |
| Laos | 4.7 | 230 | 4.0 | 7.0 | - | 2 |
| Burma | 45.7 | 890 | 5.8 | 30.3 | - | 7 |
| Germany | 81.1 | 24,900 | 2.8 | 3.5 | 7.9*** | 3,630 |
| France | 58.0 | 22,950 | 1.2 | 1.7 | 12.6 | 2,090 |
| Italy | 58.0 | 17,500 | 0.6 | 3.6 | 11.6 | 1,780 |

Sources: *The Latest Statistics of the Governments and International Organizations*

Notes - Economic Growth Rate is the actual GNP Growth Rate of the Country.

- * Unemployment in cities and towns; ** Unemployment and underemployment rate;

*** Western part of Germany

Table 7. The Latest International Economic Report ⁴

According to Table 7, it can be seen that Singapore, Vietnam and China have experienced high economic growth rate. Vietnam is a newly developing country, which is similar to the initial development stage of the Chinese economy; Singapore is well-

developed. The economic performance of China is outstanding among the Asian countries and China provides large markets for foreign investment. The paragraphs below, compare the economic situation of these three countries.

Singapore has a population of 3.1 million only, the GNP of the country is still maintained at a high level (USD18,500 per capita), this means that the living standard of the citizens and the labour cost are quite high. The economic growth rate is quite satisfactory which is 10.5%, with a low inflation rate of 3.9%. However due to the limitation of land and the well-developed economy, potential for further development is limited due to most markets being saturated.

In recent years, the "open" policy of Vietnam has contributed to her growth, the economic growth rate being 8.0%. Vietnam has an adequate labour force since there is a population of 73.7 million. According to Table 7, the GNP per capita is quite low, only USD220 per capita, this favours foreign investment since Vietnam can provide cheap labour. Unfortunately, the basic reconstruction of Vietnam is only at the initial stage, together with the political fluctuation, the economic growth may not maintain a stable condition.

Since the "Open-door" policy, China has experienced rapid and stable economic growth. As Table 7 indicates, the economic growth rate of China is the highest, with 11.6%. Besides, China has 1,196.5 million people, this means that potential markets and an abundant cheap labour force are available. The inflation rate of China is quite high (20.4%) which is the by-product of the rapid economic growth rate, but the economic development will be continued under the economic policies of the Chinese Government and this will attract more foreign investment in the following years.

5. CONCLUSION

From the details provided in this paper, we believe that the economic growth of the Far East Asian countries will be maintained at a high rate. The economies are developing under the "open" policies of the governments. Since the markets of most developed countries in Europe and America are saturated, countries in the Far East become the potential target for expansion of the lift and escalator business.

The development of these Asian countries has led to the rise of people's living standards. People expect a higher quality of life. In China, with the rapid development of the construction industry, the demand for lifts and escalators has increased substantially and thus provided a large market for overseas investors.

Since the 1980s, when China introduced her "open-door" policy, chances for the foreign investor have multiplied. The Chinese Government has encouraged foreign investment and by necessity improved the infrastructure and communication networks in order to attract the investors. Due to the different culture and policies in China, investors should plan their market strategies carefully and when doing business in China, ensure that their mode of operation is suitable for the local conditions.

In order to be succeed, foreign investors should choose the type of business carefully. In the past, joint-venture companies received the highest market share in the lift and escalator business. Since local enterprises may have a closer relationship with the government, foreign investors should cooperate with these local enterprises, thereby receiving more information about the Chinese Government or the changes of the policies quickly. As communication is a very important factor for the success of a business, with the help of the local people, joint venture companies can communicate

with the Government, staff, workers and even the customers easily. Local co-operation can also save the cost of transportation since the products are produced locally, therefore providing a competitive edge over import companies. Therefore, at present a joint venture is the most suitable type of business for the foreign investors in China.

From the results of the research and analysis, as well as the example of the development of a leading lift and escalator company in the China market, many important elements and information have been provided, this should be beneficial for foreign investors and assist in preparing the business plan to become part of the massive China market for lifts and escalators.

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7. ABOUT THE AUTHOR

H. S. Kuok is the Deputy Managing Director of Chevalier International Holding Limited, Chevalier (Construction) Company Limited, and Chevalier (HK) Ltd (a member of the LECA-Lifts and Escalators Contractors Association). He is a graduate of Electrical Engineering and has been a Registered Lift & Escalator Engineer and Contractor in Hong Kong since the early 70's. He is also a member of the EMSD disciplinary board of Registered Lift & Escalator Contractors. He is responsible for managing the operation of these three publicly listed companies and involved in the strategic planning of the Chevalier Group.

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