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exclusive

> Dr Ralf Schelbach continues to see huge potentials in the Far East. He believes that in his – very differentiated view – China will remain the driving power for growth in this region.

Jowat: Focus on developments of the Asia-Pacific region

# China Is Striving Towards HIGH-TECH & BRANDS

A few years ago, many companies succumbed to a kind of 'gold rush fever' wherever business in the Far East was concerned. And then went under completely. Not so Jowat. The adhesive specialist operated in this region by taking small, well-prepared steps, and could become a key supplier in Asia. Talking to *möbelfertigung* are the Director of the Board of Jowat SE, Klaus Kullmann, and Dr Ralf Schelbach, Jowat Vice President Asia Pacific, on the topics strategic growth, development of the diverse markets, and the reasons why China will remain the top economic motor for the world.

***möbelfertigung:* Mr Kullmann, Dr Schelbach, since when is Jowat operating in the Asian-Pacific region?**

**Klaus Kullmann:** The first contract was signed in China in 1986, after the country opened under Deng Xiaoping. Business picked up substantially in the early

nineties. The first Jowat-owned enterprise was Jowat Malaysia in 2000.

***möbelfertigung:* Why did you go to Malaysia?**

**Klaus Kullmann:** The Asian economic region is the growth area of the world – and intensive activities

on the local markets with partners is limited. For an adequate response to these facts, a global enterprise like the Jowat group needs to be present on site. This is a crucial component of our strategy.

**Dr Ralf Schelbach:** Malaysia is in an excellent strategic location. From here, all of Asia and also the

Middle East can be supplied. This market initially had the strongest growth rates and the standard of technology was already very high. In addition, the wages are competitive and good legal and financial structures are established. Also, a companies' corporate philosophy is best transported via its own affiliates.

**möbelfertigung: Was there a special incidence that prompted the entry to China?**

**Klaus Kullmann:** From 1986 on, some European and US companies moved production to China. And when the systems providers and our customers operate in this region, it is only natural to follow suit.

**möbelfertigung: Did Jowat need a partner to enter the Chinese market?**

**Dr Ralf Schelbach:** No, because the general conditions in China have changed. Everything has become more open. Although there are still areas where Joint Ventures are required, for instance in the automotive industry and in high-tech areas. Of course, it always makes sense to examine a cooperation with a local partner, which may promote growth, but which may also lead to problems.

**möbelfertigung: Are these Joint Ventures in the interest of a know-how transfer requested by China?**

**Dr Ralf Schelbach:** Of course. This is where the Chinese are very pragmatic. I would, however, consider also other aspects here, after all, this may pave the way for some technologies to get into the market. It also results in sales opportunities. It's a give-and-take situation, even if a regulated one.

**möbelfertigung: Do you see China today as fairly heterogenic?**

**Dr Ralf Schelbach:** The degree of industrialisation is very uneven. This is why the Chinese government would like to see more industrial growth in the central areas of the country. So far, this is mainly located in the coastal regions.

The mentalities and philosophies of people in Northern and Southern China are very different. The Chinese also perceive this clearly. Hong Kong and Macao are different worlds again, since the people there experienced different socialisation processes.

An example: Not infrequently, offices in Peking remain unoccupied for years, although there are interested potential renters. This would not happen in Shanghai, because this region is service-oriented, while Peking still remains – also with regard to the administrative processes – very much influenced by the central government.

**möbelfertigung: And Hong Kong?**

**Dr Ralf Schelbach:** Hong Kong is as special administrative region not comparable per se. There were enormous reservations after the handover to China. One thing has to be said in favour of the Chinese government: It proceeds there with reasonable caution.

**möbelfertigung: This is not an impression we see reflected very strongly in our media.**

**Dr Ralf Schelbach:** That's probably right. My personal feelings are, however, that China is in many aspects more democratic than Germany. The central government is afraid of not being accepted by the population and resistance might emerge. This is why some legal plans are placed on the internet for voting. Which in turn means there is more ground-roots democracy than what the public realises.

On the other hand, there are of course restrictions and censorship. But whenever things are spread via social media etc., a few million Chinese have already seen it before the access to that page has been blocked. And: Intervention by the central government is noticed, and people like to circumvent restrictions with lots of tricks.

**möbelfertigung: A look at the infrastructure which concerns Jowat: What's the situation in China with regard to the suppliers?**

**Dr Ralf Schelbach:** The supply chains in China are stable. One of the reasons is that the market is highly competitive.

There are, however, clear fluctuations in the quality of the semi-products. But these are getting less. Local furniture manufacturers are also taking advantage of products from European suppliers to match their higher quality standards.

**möbelfertigung: Will the Chinese companies of today still be your partners tomorrow? Over the past years, the impression was created that the local companies are not really established for longevity.**

**Dr Ralf Schelbach:** That's changed by now. 15 years ago, there was a kind of gold-digger atmosphere, a hit-and-run mentality. Companies bought cheap machinery, produced with them for five years and made good profits. The owner then retired and the company disappeared from the market. This means there was no cross-generation, long-term entrepreneurial philosophy. Which was not surprising, after all, the market in China has only developed over the past 20 to 30 years.

Companies are by now planning with an eye to the future and long-term projections. That's why the Chinese are starting to create brands. Not an easy task, since the image of Chinese products is still tarnished and perceived as synonymous with cheap.

**Klaus Kullmann:** On the local Chinese level, however, branding may well work already, as you can see on the examples Lenovo and Huawei.

**möbelfertigung: Will China remain the dynamic growth motor of the region?**

**Dr Ralf Schelbach:** It certainly will be for us. We have satisfactory growth rates in this market, which is connected to the increased quality awareness.

**“A growth of seven percent would cause storms of enthusiasm in Germany or the USA.”** Dr Ralf Schelbach

**“The standards of the Asian market also promote development of our products for Europe.”**

Klaus Kullmann

**“In five to ten years, sales in Asia will represent one third of the Jowat turnover.”**

Dr Ralf Schelbach

Of course the fact that China's growth is down to 'only' seven percent is registered as negative. I really find this ridiculous. After all, the country is on the way to become the largest economy of the world – if it is not already there. And it is growing, on a stable basis, by seven percent. Just imagine that Germany or the USA would achieve this kind of growth. It would generate storms of enthusiasm.

**möbelfertigung: How do you see the development of buying power in China?**

**Dr Ralf Schelbach:** The Chinese government would like to become more independent from exports. This is why income levels should rise, on the one hand to create more buying power, on the other China would become less competitive. Therefore, the focus is clearly to advance more into the high-technology sector since this allows higher value creation than low-cost products.

The consequence of this course is the relocation of companies and their production to other states like Vietnam or Bangladesh.

**möbelfertigung: Are aspects like problem-solving and providing services becoming more important against the background of the development in China?**

**Dr Ralf Schelbach:** The problem-solving competence plays a major role. Our products have to always be adapted to the actual situation. For instance when considering the climate. Also, we find that factories are sometimes not heated in China which leads to wider temperature fluctuations. Our products must be tailored in view of these factors.

**Klaus Kullmann:** Requirements and aspects from the Asian market are by now also affecting our products for the European market. Drawing on this experience we are for instance in a better position to respond to special inquiries from Europe.

Basically we need to offer products to the customer that will really

work for him. This gives us the edge by comparison to local competitors.

**Dr Ralf Schelbach:** Another major aspect in many Asian countries: The large number of employees working in finishing processes of products is often considered to be a mark of quality, while Europeans see this as inefficient. But any attempt to intervene here may cause misunderstandings. This is why one of our tasks as problem-solver is to comprehend the customer process and customer mentality and to promote suitable products to ensure full process reliability.

**möbelfertigung: Do the customers pay for this know-how?**

**Dr Ralf Schelbach:** Yes. We also can not, and do not want to, enter into a price competition with local producers.

**möbelfertigung: Does this mean that the competition in China is less subject to aggressive pricing by comparison to other regions?**

**Dr Ralf Schelbach:** We find aggressive pricing in all markets. The saturated ones, however, allow much less differentiation, since the qualities have approximated much more due to the decades of competition.

Of course, the big players of the industry are active in China. But this does not necessarily mean that they all are equally well adapted to the requirements and needs of the Chinese customers. There are still differences which give us leeway for showing where we are better.

**möbelfertigung: What is the role of 'Made in Germany' in this context?**

**Dr Ralf Schelbach:** You will get a better price for a product 'made in Germany' than for instance for one 'made in Malaysia'. Even when formulations are equal. One factor is that the customer presumes our production cost in Malaysia to be lower, therefore expecting us to pass some of this on.

**Klaus Kullmann:** We also have other reasons for producing in Malaysia, like for instance the shorter supply distances and the

resulting shorter delivery times or the availability of raw materials.

**möbelfertigung: How important are topics like sustainability and environmental protection in China and other countries of the region?**

**Dr Ralf Schelbach:** This subject is in general becoming more important. In more mature markets like Japan or South Korea, it has of course greater relevance.

Apart from this there is a hierarchy of needs: First of all, people have to find work. For instance, 30 years ago, there was still hunger in China. This no longer exists. Which is a remarkable achievement in view of a population of 1.3 billion people.

Only when a basis of this kind has been created, matters like sustainability will come up. This in China concerns above all air quality.

**möbelfertigung: That's a topic by now?**

**Dr Ralf Schelbach:** It certainly is in the big cities.

**Klaus Kullmann:** Industries were located during past decades almost exclusively in the large pacific cities. With the respective side effects for air quality.

Now there are as mentioned efforts towards a heavier industrialisation of the inland regions, which should also ease the tension somewhat in the cities.

Beyond this the ecological awareness of manufacturers is growing. We find this when we talk to local customers. They are increasingly looking for more sustainable solutions.

**möbelfertigung: Are these developments already reflected in more stringent requirements by the local legislation?**

**Dr Ralf Schelbach:** The requirements concerning emission values are definitely rising. We clearly find this above all in the automotive industry. Standards for preventing air pollution exist which are clearly above those in Europe.

**Klaus Kullmann:** The powers behind this were originally the OEMs who wanted to get away from the solvents. The Chinese OEMs and

**“China is also looking more and more for sustainable solutions.”**

Klaus Kullmann

subsuppliers then topped this by setting their own targets.

**möbelfertigung:** Which other countries apart from China are undergoing a positive development in the Asia-Pacific region?

**Dr Ralf Schelbach:** It would not be correct to single out individual markets. SEA should be seen as a whole. Which is also reflected in the association of the South-East Asian Nations ASEAN.

This body has a certain division of responsibilities. For instance Hong Kong or Singapore handle finances, Indonesia and Thailand the productive sectors. Their united stand provides the ASEAN countries with self-assurance since they would individually be perceived as less powerful. Even if for instance Indonesia has giant potential, on the basis of the growing population alone.

**Klaus Kullmann:** And there are substantial resources of timber.

**möbelfertigung:** What progress has Indonesia made compared to China?

**Dr Ralf Schelbach:** It lags about 10 to 15 years behind. That's of course a personal assessment. There is no easy comparison since Indonesia is a different culture with different key factors and a different – predominantly Muslim – social structure.

**Klaus Kullmann:** Before 1997, Indonesia was more advanced than China. The political situation in the country caused a setback. Progress has now slowed down.

**Dr Ralf Schelbach:** In my opinion, India is similar. Processes have slowed down there. That's why this country will not grow as fast as China.

**Klaus Kullmann:** Many companies have entered the Indian market with great hopes and are rather disappointed. The country did not develop as had been expected in view of the population density.

**möbelfertigung:** How do you see Japan?

**Dr Ralf Schelbach:** You can only be active on the Japanese market when you are a Japanese compa-

ny. This can go to the extent that we as supplier have to make our supplies to a Japanese company in Thailand via a Japanese distributor. Japan is of course a highly developed, but also very much a closed market, and it is also stagnating.

**möbelfertigung:** This means that in the Asia-Pacific region you encounter most diverse conditions and standards?

**Klaus Kullmann:** Fact is that this region is very inhomogeneous. For instance Australia and New Zealand can be much easier compared to our western markets. The same applies to the standards. Of course, these markets do not have the dynamics of the Asian region. Both countries are also very much characterized by manufacturing processes. This also results in different quality standards.

We are basically striving to meet the individual demands of the respective customer. After all, the production processes and educational level of the staff and also the quality expectations vary from country to country.

**möbelfertigung:** What's the role of the subject quality in the Asian region?

**Dr Ralf Schelbach:** That depends on the maturity of the market. South Korea is for instance further developed than Indonesia. This affects the quality standards. In China, these are currently undergoing a change. The large companies which we find more and more for instance have a higher level of quality awareness.

**Klaus Kullmann:** Koreans and Japanese have a demand for high-quality furniture which they manufacture in part locally, while the lower-priced items are imported.

**möbelfertigung:** What expectations does Jowat have for future developments in Asia?

**Dr Ralf Schelbach:** Germany will always have a prominent position. But the target is that sales in Asia will represent one third of the Jowat turnover in five to ten years. This then will mean an even stronger commitment of Jowat resources in Asia.

**Klaus Kullmann:** That's underlined by the recently opened new plant in Malaysia.

**Dr Ralf Schelbach:** Basically, Asia remains a crucial growth motor. Apart from the growth of the market itself, the competitive gains of market shares are also of major importance.

When I take a look at the entire adhesive market in the region, I am not worried about the dimensions of the local potential. Even if the region should experience a slow-down for some time. One factor is also that many of these countries – with the exception of Japan and South Korea – still differ quite substantially in their standard of living compared to the western world. Accordingly the Asian countries have the declared target of raising this standard. That will continue to be the motor behind economic growth.

The standards of the Asian market also promote development of our products for Europe.

*This interview was conducted by Stefan Müller*



>The Managing Director on the Board, Klaus Kullmann, considers the Asian-Pacific region to be very heterogeneous. The requirements to be met by Jowat are in consequence very diverse – depending on the market.