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## Event Report

# “China—Opportunities in Transition”: A Presentation by Jack Perkowski

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*On March 18, 2008, Columbia Business School’s Greater China Society and International Development Club welcomed Jack Perkowski, chairman and CEO of ASIMCO Technologies, Inc. As a participant in the 2008 China Business Conference Speaker Series, Mr. Perkowski spoke to students about cofounding and building one of China’s largest manufacturers of automobile components, experiences he also recounts in his recently released book *Managing the Dragon: How I’m Building a Billion-Dollar Business in China* (Crown Publishing Group, 2008). Paul Tierney, adjunct professor of entrepreneurship at the School, introduced Mr. Perkowski.*

“This man is the Rudyard Kipling of the private equity community!” Professor Paul Tierney said, to laughter, during his brief, affectionate introduction of long-time friend Jack Perkowski, chairman and CEO of ASIMCO Technologies, Inc., and author of the newly released *Managing the Dragon: How I’m Building a Billion-Dollar Business in China* (copies of which were available and sold quickly at the conclusion of the event.)

Brimming with bonhomie, Mr. Perkowski spent well over an hour describing the automotive-parts company he founded in 1994, discussing China’s growth trajectory and answering an unusually voluminous number of questions from students at the conclusion of his talk. Mr. Perkowski also distilled some insightful nuggets of advice for those interested in doing business in China and in better understanding the mindset of a typical Chinese businessperson.

Founded less than 15 years ago, ASIMCO now numbers 12,000 employees in 17 plants across eight Chinese provinces and produces automotive components—piston rings, fuel-injection systems and brake products—found in 25 percent of buses and trucks in China. “We’re

in China because of the Chinese market, not just because of low costs,” he said, noting that 80 percent of the firm’s revenues are domestically generated.

Despite the remarkable achievement of building such a large company, another achievement seemed to hold greater value for Mr. Perkowski: in 2005, the company was ranked third on a list of the best employers in China, a reflection of the importance Mr. Perkowski has placed on the company being a homegrown Chinese enterprise, guided predominantly by Chinese management. “Every one of our factories is run by Chinese individuals,” he said. “All manufacturing takes place in China, our headquarters is in China and only two dozen employees are not Chinese . . . ; ASIMCO is a Chinese company, not an American one.”

In 1997, Mr. Perkowski devised a new management strategy that called for building the company around talented Chinese managers. “The most important thing that a company can do in China is to develop local management capabilities,” he said. “You have to turn over the keys to the Chinese managers. You can create a loyalty to the company that you can’t do with money,” he said, noting that he empowers managers with many training and development opportunities. “There’s nothing they won’t do, because it’s *their* company,” he said, noting that the company has very low turnover among its management.

Employee loyalty and retention, however, are only part of the argument for hiring managers locally. For Mr. Perkowski, there remains a more important reason, one that is even more important than reasons related to language or familiarity with the culture: Chinese managers have the same cost perspectives as their Chinese customers and competitors, while American managers typically do not.

Locally sourced Chinese managers, after all, have been using the Chinese currency all their lives. Not so with transplanted American managers. The result is usually a divergence in perceptions of Chinese currency value between Chinese and American managers. To illustrate this point, he produced a \$100 bill and a Chinese 100 yuan bill (currently worth \$14.26). “They’re treated the same way in their respective countries,” he exclaimed—an American typically views a \$100 bill as something of considerable value, just as a Chinese views a 100 yuan bill the same way, even though the latter is worth a fraction of a \$100 bill.

Consequently, Mr. Perkowski has found a much greater sensitivity to costs denominated in Chinese currency among Chinese managers than among transplanted American managers. On this point, he recalled a joint venture with an American company whose CEO declared that an additional 240,000 yuan (\$34,277) to place an air-conditioning unit on top of a building as

opposed to beside it was “not a lot of money.” Given their divergent cost sensitivities, the Chinese begged to differ.

In addition to imparting such empirical insights, Mr. Perkowski spent some time recounting his full-fledged foray into Chinese manufacturing after a successful 20-year career in investment banking that included running Paine Webber’s investment banking department. “I decided I wanted a second career,” he said, noting that he became interested in Asia because it had a huge population with an average age below 20. “Younger populations spend money,” he said. Mr. Perkowski figured that, given his many years in investment banking, he “could bring the key resources of capital, management and technology to Asia to benefit from favorable growth characteristics.” Fundamentally, he wanted to create a leading company in a growth industry, one that was globally competitive. One important question, though, was which country in Asia?

An influential friend in Hong Kong drew Mr. Perkowski’s attention to the prospects of China and the sheer dynamism of the country. “Everyone in New York walked faster than in Pittsburgh [where Mr. Perkowski grew up]. In China, they run,” he quipped. Mr. Perkowski settled on China and chose the automotive-parts industry. “Assemblers like GM were coming in, but component companies were more provincial,” he said, noting that as China’s economy improved, he expected more business to be done at the national level. At this time in 1994, the Chinese government was so eager to help facilitate the development of an automotive industry in China that it passed a law permitting foreign majority ownership of automotive-parts companies, something that “was very novel back then,” Mr. Perkowski said. After raising \$150 million to start the company, he turned the key in February 1994.

As predicted, the automotive industry and the overall Chinese economy continued to flourish. In 2002, two million trucks, buses and cars were produced in China. In 2007, that number jumped to 8 million vehicles, and this year, 10 million vehicles are expected to be produced in China, eclipsing the number produced in the United States. “We’re only at the beginning of this,” Mr. Perkowski said. He expressed a similar level of optimism about the overall Chinese economy.

Mr. Perkowski illustrated his view of the Chinese economy with two pyramids, one drawn above the other. In the top pyramid, he estimated that there are 400 million people with an average annual income of \$7,125. “Foreign companies,” he said, “compete with the best Chinese companies for these people,” who make up the market for the eight million vehicles produced in China last year. Mr. Perkowski then characterized the bottom pyramid as the local market composed of a less wealthy majority of the population, a market that consumes more primitive

vehicles, such as motorcycles and tractors. “For every product in China, there are two markets: the local market and the foreign-local market,” he said. The entire Chinese market “is bigger than most people think.”

Mr. Perkowski also characterized the Chinese market as one that remains fragmented. “How many piston-ring companies were in China five years ago? 500. How many today? 400. In China, no matter how low your quality, how bad your product is, you can sell it somewhere in China if it’s cheap enough!” he said, to laughter. Underlying the continued fragmentation, Mr. Perkowski said, is a highly cost-competitive environment, one whose impact is continuing to unfold. “In industry after industry,” he said, “you’re going to see companies go from being local to foreign-local to international. For example, Geely, the Chinese automotive company, will now be making London taxicabs in Shanghai. This company was laughed at 10 years ago, when it was just making motorcycles and such.”

In China, demand is driving the innovation, Mr. Perkowski said. “Five Chinese companies are coming out with hybrids this year!” he exclaimed. “China could become an early adopter of new technologies: there’s a market that needs it, and there’s a lot of technological development by the Chinese.” In some instances, there’s been technological leapfrogging. “China went from no phones to cell phones,” Mr. Perkowski said. “There are a lot of smart people in China and a big need, so you’ll see technological innovation move to China.”

In response to a question on government regulation of his industry, Mr. Perkowski noted that there had been “virtually no interference” by the government. He also added that local governments are very probusiness, citing one instance where a local government found, to its own economic disadvantage, that ASIMCO deserved an additional tax break and ensured that the company received it. “Even though it cost the local government some money, they knew [the company] was important to the local community, and they wanted to support it.”

Perkowski characterized China as “one of the best places to establish and build a company because of the (ongoing) growth,” recommending that investors take a venture capital perspective rather than a private equity perspective. “You gotta do it the hard way; you can’t just go in and buy a position. Look at local companies, and work with them to build a large company,” he said, a recommendation predicated in part on his opinion that “you can’t get majority ownership of anything significant in China.” When asked what he had learned in China that would be useful for CEOs in America, Mr. Perkowski explained that although the automotive industry is changing dramatically in China, “people [in the United States] feel

somehow protected, that because this is in China, that they’re OK.” He warned against this kind of complacency, noting that such companies could be “submarined” by increasingly sophisticated and technologically advanced Chinese companies in the years ahead.

Touching on a common concern among China watchers in response to a question from a student, Mr. Perkowski said that China had “turned the corner” on the environment after it was awarded the Olympics. “Local officials are now being graded environmentally, banks are restricting lending to companies that aren’t meeting environmental standards [and the government is] closing factories not just in Beijing but in provinces that [collectively] represent France, Germany and Italy in size,” he said. “There are huge environmental challenges ahead, but the country’s headed in the right direction.”

PATRICK CONNOLLY MBA '08  
Columbia Business School