



Interview with Dr. Mathias Kammüller, Head of the Machine Tool and Power Tool Division of the Trumpf Group and responsible for enterprise-wide purchasing, production and quality management



executive review: Trumpf is successfully penetrating emerging markets. How?

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Mathias Kammüller: We collaborate with local representations from a very early stage. Most of them were established before the market in question became an emerging market. With time, these representations can be expanded into separate sales and service offices. In markets that become really important to us, we then often launch production activities. That happened very quickly in China because the market there is expanding so rapidly. The same thing could happen equally fast in India.

executive review: What is Trumpf doing differently to other companies?

Mathias Kammüller: In emerging markets, we try to develop the market for our machinery ourselves. To do so, we set up what we call "job shops". These shops emulate typical customers' operations and use our machines to produce high-precision steel parts. That's what we did in Indonesia; and that's what we're now doing in China. This strategy lets us show customers the quality of parts made with our machine tools, and demonstrate how they could make superior machines and other technical components if they used our equipment. Above all, we also want to encourage young entrepreneurs to set up this kind of shop independently. Our expertise is then channeled into developing these markets and assisting the newcomers, who buy their machines from us. In return, we offer support by placing orders with them or providing training, for example. At some point, we then have to withdraw from the job shop business to avoid competing with our customers.

executive review: How different are the various emerging markets? Does your China or India strategy, say, have to be completely different to the one you operate in Eastern Europe?

Mathias Kammüller: In principle, no. Cultural differences and questions about a secure legal framework do not play such an important role. The strategies are therefore similar. Having said that, geographic proximity makes it easier for us to enlarge our local footprint. This means that in Eastern Europe, we don't have to manufacture on the ground in each country. Germany is close enough to these markets to pick up all the latest technology trends. Distances are short, so we can convince customers of our capabilities from our home base in Germany.

Otherwise, we do the same thing in China as we do in India. For our representations or offices, we rent or build local facilities that really do justice to our image. That was the procedure we adopted in the Czech Republic, Russia and Poland. And that is what we will do again in Slovakia in the not-too-distant future.

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executive review: What criteria do you examine when deciding whether to manufacture in the foreign country?

Mathias Kammüller: To put it in simple terms, three factors can influence our decision to manufacture locally. One is that we want to reinforce the trust our customers place in us – and a local manufacturer always commands greater trust. Another is that we want to build up our knowledge of the market, of special customer requirements and available technologies, in order to adapt and develop our products accordingly. The third factor is that, in some large markets, we see the need to get to know our competitors on their home turf. We don't want to leave them free to flourish and grow without observation and interference from the outside. And we also want to keep a close watch on local players' innovations and new offerings. A sales organization isn't enough in such cases. That is when we need production and, at some point, development on the ground.

executive review: To what extent do labor costs affect your decisions about local production?

Mathias Kammüller: Low labor costs are a less important criterion to us in this context. Our European production networks allow us to deliver machinery at sufficiently attractive prices. Since vertical integration is relatively shallow at Trumpf, a low-cost supplier structure matters more to us. Having said that, we cannot just move into China and use the existing supplier structure for our purposes. The differences are considerable. Many of the core components developed in Germany simply don't exist in China. And where they do exist, they are not significantly cheaper. In markets as far away as China, local content regulations play a more important role than labor costs.

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executive review: We studied the Chinese machine tool market and found that the low-end segment is occupied by Chinese vendors, while the standard to high-end segment is dominated by international manufacturers. Where on this scale would you put Trumpf?

Mathias Kammüller: Trumpf operates in both the standard and high-end segments. We pursue a two-tiered strategy. We begin by positioning ourselves in the local high-end segment in order to accumulate expertise. We then apply the knowledge we have gained to develop products for the standard segment, or to adapt existing ones to market requirements. Most have to be developed from scratch, however, as product adaptations often don't go far enough.

executive review: Our study also found that competition is tremendously fierce on the Chinese market, because all the main suppliers from the triad regions are there. In emerging markets too, service is obviously a powerful differentiator. How are you expanding your service networks?

Mathias Kammüller: We always expand our service networks in parallel to our sales networks. Even the smallest initial representation lays the cornerstone for a service network. Size issues usually determine when we ramp up our involvement. We normally expand these networks ourselves – sometimes with the aid of external partners, but with little support from the German headquarters. After all, everything has to be adapted to the local setting; and that works best when you do it in the local country.

executive review: Do manufacturers from the fast-growing emerging markets pose a threat on the German market?

Mathias Kammüller: Without wanting to sound arrogant, no, not for the time being. What does pose a threat is the outflow of knowledge to these manufacturers. That is a subject that therefore shapes our plans for development of production sites in China, for example.

executive review: How can this outflow of knowledge be avoided?

Mathias Kammüller: The best way is by not manufacturing or developing core components locally. It is not a good idea to create local companies that have all our knowledge, so we don't make all our parts and components in the same place. Above all, it is important to nurture a positive corporate culture to limit churn to a minimum. Many believe that, in China, this is scarcely possible. Our experience shows that it is. If you deal with people in the right way, you can maintain employee loyalty in China just as you can in Germany.

executive review: So your experience of integrating the Trumpf corporate culture in essentially very alien cultures such as that of China has been thoroughly positive?

Mathias Kammüller: We have a still relatively small sales and service unit in Shanghai and a production unit in Taicang. Our experience is that good management can keep churn rates down to similarly low levels as in Europe. The most important things are to communicate information openly to staff, to give them attractive career development prospects, to involve them, provide fair compensation and pay attention to local conditions and peculiarities.

executive review: Does that also affect your dealings with expatriates seconded from Germany?

Mathias Kammüller: That has less to do with the peculiarities of emerging markets than with our past experience of expatriates in general. We have a very distinctive corporate culture and we set ourselves ambitious goals. We have found that it makes sense for expatriates who know our culture and the parent company to communicate this culture and our goals at foreign sites too. In this way, misunderstandings and differences can be clarified on site, enabling us to find solutions that do justice to local conditions but do not compromise our values. Deploying expatriates to support our activities abroad is a key success factor that has heavily influenced our strategy. We know, for example, that northern China has a number of conurbations that would be ideal locations for our company. But they are too far away from Beijing, and hence from the German school and from all the infrastructure we would need. Conditions would not be good for expatriates and their families, so that rules out these locations as far as we are concerned. We want to have good, highly motivated employees. For this reason, we can only look at locations in and around Shanghai at the present time.

executive review: In China, you have decided to use your own resources to expand production. Why take this evolutionary path?

Mathias Kammüller: Primarily because – with a few notable exceptions – our experience of joint ventures to date has not been good. We had a production joint venture in Japan, but it didn't work because the corporate cultures just didn't match. This contrasts with acquisitions, which have so far been very positive, although they have involved much more outlay than expected. The greater the cultural differences, the more difficult an acquisition will be. So we prefer to use our own resources to tap foreign markets. That simply makes the costs and the benefits more predictable. And then there is the experience of other successful engineering companies, most of whom say "do it yourself – at least in China".

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"We prefer to use our own resources to tap foreign markets. That makes the costs and the benefits more predictable."

executive review: How do you maintain your lead over competitors? There are limits to the possibilities for innovation. In certain technologies, there are quite simply no more quantum leaps to be made.

Mathias Kammüller: In laser technology and in flexible steel processing machinery there is still plenty of room for further development. Many years of innovation leadership have put us way ahead of newcomers. In such a fast-paced market with extremely short innovation cycles, it is very difficult to catch up. Right now, we can see so sign of completely new technologies in which we are not already involved, or of major advances in stamping and laser technology, for example.

executive review: So you have worked hard for many years and are now in a comfortable position...

Mathias Kammüller: You can never say: "We are in a comfortable position and can now sit back and relax." We can't afford to do that! We can only maintain the lead we have now if we keep moving. That is also vital in order to minimize the threat of knowledge transfer that we talked about a moment ago. We also need to keep rolling out rapid-fire innovations so that it doesn't really matter too much if our rivals copy what we have transferred to China.

executive review: In the hard-fought machine tool industry, that puts you in an exceptionally positive situation.

Mathias Kammüller: That's right. We are simply in a completely different phase with our technology. Laser cutting technology only really made the breakthrough 20 years ago, and laser welding only 10 years ago. Such young technologies still harbor a lot of potential. By contrast, turning and milling have been around for 100 years and are now very highly advanced.

executive review: Is innovation leadership your strategy?

Mathias Kammüller: Yes, definitely. But we aim to be the innovation leaders in organization, processes and employee behavior as well as in product technology. Any company that focuses on innovation so consistently and comprehensively has a strong competitive advantage indeed.

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executive review: One last question. Some Chinese companies develop within the cocoon of a protectionist home market before beginning to export to destinations around the world from a pretty comfortable situation. What political changes would you like to see to protect manufacturers on this side of the equation?

Mathias Kammüller: Collective wage agreements, labor law, employment protection, social welfare costs, inheritance tax and other hotly debated issues are important to the competitiveness of our home base. Something is wrong when the corporate sector constantly changes its products and processes, its organization and behavior, while the political establishment remains largely immobile.

The government must do its part. We are not advocating protectionism – neither here on our home market nor in other markets. Instead, the government must work to ease and gradually dismantle protectionism in emerging countries. Another important demand concerns product piracy. We simply cannot afford to pump money and energy into new developments that others can then copy for free.

Up to now, we have tried to use industry networks to contain the damage. Our industry representatives in China are achieving a lot through close political ties. Some politicians are now certainly well aware of these issues. Relationships and dialog between our politicians and high-level officials in China, and also in India, must be further intensified, however.

executive review: Thank you!



Axel Schmidt and Robert Ohmayer, two Partners at our Stuttgart office, conducted this interview on behalf of the executive review.

"The government must work to ease and gradually dismantle protectionism in emerging countries."

Trumpf is a high-tech group that focuses strongly on production and medical systems. In fiscal 2005/2006, the company employed 6,500 people and posted total sales of EUR 1.65 billion. Trumpf is represented by more than 50 subsidiaries and offices in nearly all European countries, North and South America and Asia.