Analysis of the key factors for successful international expansion based on the case of Weichai Power's acquisition of the Germany KION Group

Haoting Yang*

School of Technology, Beijing Forestry University, Beijing, China

*Corresponding author: yanghaoting@bjfu.edu.cn

Abstract. The internationalization of companies is now a major direction and trend in the further development of companies, and the motivations and effects of internationalization are more widely studied. The successful realization of the internationalization process is not easy. Based on the case of Weichai Power's acquisition of the Germany KION Group, this paper analyses the motivations and risks of enterprises internationalization, and concludes that the key factors for successful international expansion are: understanding own needs in the early stages and taking countermeasures in the later stages of integration to match the target. However, after internationalization, the high overseas cost leads to low net profit contributed by overseas revenue is still a huge problem. How to make overseas sales contribute more profit is a topic to be discussed continuously.

Keywords: Enterprises internationalization; Weichai Group; Germany KION Group; Oversea mergers and acquisitions.

1. Introduction

With the development trend of global economic integration, more and more enterprises choose to develop internationally in order to reap more economic benefits in a broader international market [1]. Overseas mergers and acquisitions are an important way for enterprises to achieve international development, but in terms of actual results, there are not many successful cases, with some enterprises acquiring smoothly in the early stage but failing to achieve the expected results after the acquisition [1, 2].

Weichai Group, formerly known as Weifang Diesel Engine Factory, was established in 1946 and was one of the first manufacturers of diesel engines in China. In the latter half of the 20th century, it researched and developed then produced several types of diesel engines one after another. In 1999, the Ministry of Foreign Affairs of the People's Republic of China granted Weichai Plant the right to dispatch temporary expatriates and invite foreign trade and economic personnel to China for approval, which is considered to be the originator of Weichai's internationalization. At the beginning of the 21st century, Weichai Plant launched the WD618 and WD615 series of diesel engines and, on the basis of these models, successively transformed a new generation of diesel engines conforming to Euro I and Euro II standards, which sold well and obtained a sum of money, thus creating Weichai Power Co. In 2006, Weichai was awarded the first batch of China's auto parts export enterprises, furthering its internationalization process. Weichai Power, as the main diesel engine company of Weichai Holding Group, has been equipped with State Key Laboratory of Engine Reliability, National Fuel Cell Technology Innovation Center, National Internal Combustion Engine Industry Measurement and Testing Center, National Engineering Technology Research Center for Commercial Vehicle Powertrain, National Industrial Design Center, Nationally Recognized Enterprise Technology Center and other R&D platforms in Weifang, Shanghai, Xi'an, Chongqing and Yangzhou in China. Weichai grew rapidly and accumulated a certain amount of capital to acquire the world's largest luxury yacht manufacturer Italy Ferretti Yacht in 2012, and the Germany KION Group, one of the world's industrial forklift manufacturers and a global leader in hydraulic technology [3]. After absorbing the new business segments, Weichai Power set up cutting-edge technology innovation centers in various locations around the world and built a global collaborative research and development platform to ensure that the company's technology level always keeps pace with the world's frontier.

Based on the case of Weichai Power's acquisition of the Germany KION Group, this article firstly analyses and outlines the motivation of corporate internationalization and the possible risks encountered in the process of internationalization, and then specifically analyses the different ideas and corresponding measures in the three stages of Weichai Power's acquisition of the Germany KION Group. Finally, this article attempts to summarize the key factors for the success of international expansion and gives suggestions for enterprises in internationalization.

2. Motivations and risks of corporate internationalization

2.1 Motivations for corporate internationalization

Corporate Internationalization is broadly defined as the process of transferring a firm's domestic market to other countries, for example, exporting, franchising, cooperation, strategic alliances, etc. Corporate internationalization in a narrow sense refers to a firm's investment activities in other countries, such as setting up overseas marketing or R&D branches and cross-border mergers and acquisitions [4].

With the rapid development of the globalization era, the economy, as an important factor in human development, plays a role in linking different countries and regions. Looking at the world economic situation, the integration of the world economy is gradually becoming the norm, with companies from various countries breaking through the barriers and monopolies in different fields to form an integrated economy. Looking at the history of internationalization of various types of enterprises, their motivations for internationalization can be summarized in the following three main areas.

(1) Expanding markets and finding new customers for existing products and services. After a long period of single-minded development in a country, fixed market resources are no longer sufficient for further development, so the most direct motivation for companies to engage in international activities is to develop overseas markets and find new customers for existing products and services when the domestic market reaches saturation [5]. In an era of increasingly convenient information and cultural exchange, the tendency for consumers in different countries and regions to converge in their demand preferences and consumption habits makes it possible for companies to promote their products and services to a wider international market.

(2) Brand expansion to increase brand awareness. After market expansion, the brand's reputation is enhanced among customers. To further enhance the overall strength of the brand and brand revenue, the enterprises need to improve brand awareness, that is, social recognition. The same goods can rely on brand awareness and brand equity to sell at a higher price than competing brands, which invariably enhances the added value of the brand and expands revenue.

(3) Expanding resources to obtain greater economic benefits. In the process of internationalization, after a period of operation to accumulate part of the capital, enterprises can acquire other companies to expand the range of industrial chain and business resources, and at the same time expand the scale of the enterprise's overall assets. For example, when the cost of materials and labour is high in the domestic market where the enterprise is located, enterprises can optimize production factors and achieve profit growth by acquiring enterprises in those areas with rich raw materials needed.

(4) Focus on strengths and build core competencies. In the process of internationalization, a single area of business activity in the domestic market can create a solidified mindset. Expanding into overseas markets at this time allows enterprises to learn new technologies and then develop new products, and learn management experience from different modes of thinking on a larger scale. At the same time, enterprises can enhance the awareness of the needs from different types of customers, thus better pool the strengths of all departments and enhance the overall strength of the enterprise and building its core competitiveness.

2.2 Risk to corporate internationalization

The main risks to corporate internationalization are as follows.

(1) Control risks. Different corporate governance and regulatory systems in different countries may result in different management systems being applied between the overseas branch offices and the parent company in the home country. That may lead to the parent company having a controlling interest without control. For example, labour unions and supervisory boards in Europe can exert greater influence on the board of directors and daily operations of the company, resulting in the majority shareholder having a controlling interest without control.

(2) Market risk. Due to the lack of deep understanding of the international market, there may be a situation where the expansion in the international market is not as expected, or even the business shrinks after the acquisition.

(3) Synergy risk. Many companies hope to achieve synergy between the international market and the domestic market through internationalization, thereby expanding their market scale or enhancing their profitability. But in practice, they often face a situation where domestic and foreign companies work separately, making synergy difficult, or even forming constraints due to matching resources.

(4) Cultural integration conflicts and low productivity. The process of globalization is reflected not only in economic terms, but also in cultural terms. Cultural exchanges are becoming more frequent between countries around the world, but differences in national cultural practices and religious beliefs still exist. Failure to adapt and cope with these differences can lead to many unnecessary conflicts, which may result in low productivity [6].

3. Case study of Weichai Power's acquisition of the Germany KION Group

Weichai Power is one of the companies that have successfully internationalized, starting with the acquisition of the world's largest luxury yacht manufacturer Italy Ferretti Yacht and the Germany KION Group in 2012. After 10 years of integration, development and growth, by the end of 2021, Weichai Power's foreign revenue reached RMB 85.7 billion, accounting for 40% of the 2021 turnover of RMB 203.5 billion [7]. The proportion of foreign revenue increased from less than 7% in 2012 to 40% in 2021, which strongly supports the rapid and high-quality development of the company.

Weichai Power's internationalization has gone through four forms. The first form is to build factories off-site, directly in Southeast Asia, India, Myanmar, Cambodia and other countries, employing local staff. The second form is to export technology, cooperating with local assembly plants, which are used more in the early stage but less now. The third is to export products directly, through overseas offices and sales points. The fourth is to acquire local enterprises to expand overseas operations, which is the main internationalization method of Weichai Power at present. The following is an analysis of Weichai Power's the fourth form of internationalization, taking Weichai Power's acquisition of KION Group as an example.

3.1 Pre-acquisition

Prior to the implementation of Weichai Power's overseas acquisitions, the company mainly focused on engines as the core of business, with complete vehicles and transmissions as the supporting businesses. In 2011, due to the industry downturn, the company's existing industrial structure and development strategy were not sufficient to support its long-term development. Therefore, Weichai Power hoped to transform its industrial structure and achieve industrial upgrading through overseas M&A.

With this in mind, Weichai Power chose the Germany KION Group, the second largest forklift manufacturer in the world and with the world's leading hydraulic technology. In 2011, KION had a loss of 92.296 million Euros on total revenues of 4.368 billion Euros and net assets of - 488 million Euros. However, the KION Group accounts for a quarter of the global market sales, sells its products worldwide and has a worldwide distribution network. At the same time, Linde Hydraulics, a subsidiary of KION Group, is the global leader in high-pressure hydraulic technology. The acquisition of Linde Hydraulics broke the monopoly of the West on high-end hydraulic technology in China, and enhanced the competitiveness of products and achieved industrial upgrading [8].

3.2 Acquisitions

In August 2012, Weichai Power signed a cooperation agreement with the Germany industrial forklift giant KION Group to invest €738 million in the acquisition of shares in KION Group and its subsidiary businesses [9]. According to the agreement, Weichai Power's total investment of €738 million will be allocated in the form of €467 million for the acquisition of a 25% stake in KION and another €271 million for the acquisition of a 70% stake in Linde Hydraulics, a subsidiary of KION Group. In addition, both parties agreed that in the event of a future IPO issue of KION, Weichai Power has the right to choose to increase its shareholding in KION Group to 30% and to further increase its shareholding in KION's hydraulic business [10]. This transaction approach not only ensures Weichai Power's participation in KION Group, which is conducive to a series of strategic cooperation with KION Group, but also ensures the control of Linde Hydraulics, which helps the company to master the core hydraulic technology through the acquisition of Linde Hydraulics. Later on February 2, 2013, Weichai Power and KION Group signed a strategic cooperation agreement in Xiamen, China, in which both parties identified cooperation plans in seven areas, including supply chain, sales network, management experience sharing and industrial synergy, etc.

3.3 Post-acquisition

After the acquisition of KION, Weichai Power faced the same problems as other European acquisitions, i.e. communication and cooperation with the local labour union organizations. There are other problems for example, how to coordinate the production rhythm of the local companies according to the domestic companies, and how to comply with Chinese management habits and management models. After the acquisition, Weichai Power avoided the strong control approach of directly interfering in KION's operations, and managed the company from the perspective of the majority shareholder with the responsibilities and rights.

In terms of management style: After the acquisition of KION, Weichai Power retains the management team of the original KION Group. Only from a macro point of view, as the first major shareholder, Weichai maintains basic operational independence. Weichai decides on the strategic direction and the appointment of major personnel, and sets budgets and annual targets. However, how to apply the budget in concrete terms, the way of executing and completing the work plan, the management of the middle and grassroots level, these are relatively maintaining the original mode of independent operation of the KION Group. In terms of corporate culture, the domestic corporate culture regular exchanges with overseas labour union organizations. Domestic companies invite labour union representatives to visit and research to give them an understanding of the existing corporate culture in China. For example, on 24 October 2013, a 15-member delegation led by the KION Group CEO Gordon Riske, and consisting of the Group's CFO Legal Director, Labour Union Chairman, and CEOs of various brands visited Weichai. Both parties discussed and exchanged in-depth information on topics such as the global economic situation, international development strategy and labour union management respectively, which greatly shortened the integration time between Chinese and foreign corporate cultures. The discussion avoided the phase of conflict between management philosophy and executive thinking as well. The docking bridge was established through culture in a subtle way. Such a late integration approach, using culture as a medium to establish a communication platform with the labour union, facilitates better management of production and operation.

3.4 Effectiveness of acquisitions

In September 2012, Weichai Power became the new main investor and strategic partner of KION, with a 45.2% stake in KION at the end of 2020 [9]. Two companies are cooperating closely in the field of material handling and hydraulic drive technology. Before 2012, Weichai Power's main business income was derived from auto parts and components, so its income structure was relatively homogeneous. However, since Weichai Power's acquisition of Germany KION, its forklift business has gradually increased the share of total revenue. By now, forklifts have accounted for half of Weichai Power's total revenue. With the help of KION's global leading technology and marketing channels, Weichai Power has successfully entered the high-end markets in Europe and America. Through mergers and acquisitions, Weichai Power has been able to develop overseas markets and improve its overall strength, and has now successfully transformed itself into a strong and comprehensive group. With the help of Weichai, KION was successfully listed on the Frankfurt Stock Exchange, where the share price reached a high of 100 euros. And the brand Linde, which is owned by KION, uses Weichai engines in its forklift trucks to improve the production and operational efficiency. At the same time, through the acquisition, Linde raise funds and reduce the debt level. The synergy effect between Weichai and KION is fully exploited.

4. Key factors and recommendations for the internationalization of enterprises

Combined with the analysis of the internationalization case of Weichai Power, enterprises should grasp different key points in the three stages of internationalization, before, during and after the internationalization process, in order to successfully achieve the strategic purpose of internationalization.

4.1 Choose internationalization according to your needs

Before internationalization, companies must analyse their own conditions and needs firstly, then set their internationalization targets according to their needs, and choose the appropria te internationalization approach finally. Different measures for different approaches to interna tionalization.

(1) Building factories off-site: applicable to only doing capacity export, expanding international market and personalized product offerings for overseas customers.

(2) Technology export: low cost, service fee income through technology export. But need to prevent leakage of core technology and cultivating potential competitors due to technology export [11].

(3) Direct sales from overseas offices: increasing the number of overseas sales terminals, which is only a way of expanding sales channels.

(4) Mergers and acquisitions of local enterprises: a deep international expansion approach. Through M&A enterprises can acquire technological resources, market channels, etc., and can also reverse the expansion of the domestic market with the synergies between the acquired enterprise and the domestic parent company. The direction of M&A can includes horizontal M&A, vertical M&A, hybrid M&A, etc.

4.2 Achieving internationalization

Regardless of the type of internationalization, knowledge of the relevant regulations and policies of the target country is essential. Companies need to meet domestic and foreign regulations and regulatory needs, and design a reasonable transaction plan. If an acquisition is involved, it is also necessary to conduct a good investigation of the relevant companies and design a reasonable transaction approach.

4.3 Post-internationalization integration

The integration of internationalization is a key aspect of enterprise internationalization. Only when the relationship between foreign and domestic enterprises has been rationalized and the operations of foreign and domestic enterprises have been integrated into one, can the purpose of internationalization be truly realized. Unfortunately, most enterprises have fallen at this hurdle. The following integration methods can be used as reference.

(1) Seeking common ground while preserving differences in management style: management is not a matter of you ordering me or me ordering you, but rather a synergy and balance between domestic and foreign companies, with the overall effort revolving around the goal of generating profits for the company and maximizing overall value. The majority shareholder fully performs its duties and guides the acquired company in terms of objectives and appraisals. Meanwhile, the majority shareholder should respect the management style of the acquired company and leave it to operate on its own. Through this management synergy of seeking common ground while maintaining differences but with the same objectives, the integration of the two parties will be promoted.

(2) Cultural integration: cultural integration between the two sides is a difficult process, but once the two sides can form a consensus on culture, then two parties will have the most solid and long-lasting way on cooperation. A strong cultural link can be established from the roots by opening up both sides to exchanges, visits and study tours. The exchange of personnel can unify both sides in a consistent culture as well.

(3) IT system replication: In addition to the above two forms of integration, such as management style and culture, which are influenced more by human factors, the system replication can also be used to quickly unify the management language and business style. Immediately after the acquisition of Toshiba's white goods, Midea Group replaced all of Toshiba's IT applications and management systems in Japan with a consistent system for the Midea Group [12]. By copying the entire IT management system from Midea to Toshiba Appliances, it took only 2 months to achieve a consistent way of operating Toshiba with the Midea Group and to quickly realize management synergies with Toshiba.

5. Conclusion

Through the analysis, this paper finds that the key point for the internationalization of a company is to understand its own needs and take countermeasures to match its goals. After Weichai's acquisition of KION, thanks to sufficient knowledge of the parent company's internal management and advance understanding of the KION Group's internal management policies and local labour unions, Weichai developed practical management solutions. And the company was able to overcome the common late pain points of internationalization and achieve a sales contribution of 40% of the overseas market. However, the road to internationalization is long and endless. Weichai Power still has a lot of things to do in order to improve the profit contribution of the KION Group. The internationalization of overseas costs is a huge topic. Despite the current results, it is a topic for continuous discussion on how to make better use of the advantages of the acquired companies and achieve more profit contribution.

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