IBM: Consumer Electronics in China: Today and the Future

To hear this podcast, go to http://ibm.com/bcs/electronics/podcast.

Albert Li is an IBM consultant and an expert on China. Albert works in China and has consulted at numerous Chinese companies. Albert also is the author of a chapter about China in the recent book titled Irresistible! Markets, Models, and Meta-Value in Consumer Electronics.

In this podcast, Albert explains how China can be viewed as a strong marketplace for consumer electronics products, as well as a manufacturing powerhouse of consumer electronics products. Albert also explains how China is growing fast as an engineering and design powerhouse as well. Finally, Albert helps us look five years into the future for China in the Electronics industry.

Henderson: Hi. I'm Al Henderson.

With me today is Albert Li, an IBM consultant in China. Albert leads IBM's Electronics Industry consulting team in China, and he's an expert on the Electronics industry there.

I don't have to tell you that China is the hottest of hot topics in the business world today. Almost every large company in the world looks to China as a key element of that company's future success.

Albert, I'm glad that you could be here with us today.

Li: It's my pleasure.

HENDERSON: You have recently written about Kong, who is a world famous piano player from Shanghai. You tell the story of how Kong struggled from very humble beginnings to be a world-class piano player—working through early tough times to get to a position of great success today.

I really like the story because you explain how Kong's struggle for success on the world stage is the same struggle that China has experienced over the last 30 years. Can you tell us Kong's story?

Li: I wrote about the story of Kong, who had to learn piano playing in a most impoverished way. Kong grew up in the troublesome '60s, during China's cultural revolution, when there was a severe shortage of everything, including pianos and other musical instruments.

However, Kong's mother would not sacrifice her son's artistic charisma, and would draw a piano keyboard on paper to teach him how to touch the white and black keys while humming him the corresponding notes.
Twenty-five years later, Kong has turned out to be an internationally renowned performing artist. He has not forgotten his childhood hardship, and returned to Shanghai to start the Kong Musical Education Foundation, whose mission is to increase the musical population in China.

Kong's story parallels that of China's manufacturing industry development. Just as Kong’s mother would make a piano keyboard out of cardboards, China's manufacturing history also had a very humble start, with lack of an open market economy to stimulate innovation or even the basics of product development processes or quality concepts.

Yet with high aspiration, overseas training, and inexpensive yet skillful laborers, China has ascended to be a powerhouse in the manufacturing of many consumer goods today.

Henderson: Albert, let me say again that that’s a great story.

Now, you also have written recently about how China has been growing rapidly—and you talk about its growth in three dimensions. You have written about how China is in one sense a great market for consumer electronics, and in another sense a great manufacturer of consumer electronics, and then finally how China is quickly becoming a great engineering and design powerhouse.

Can you start by telling us more about China as a market for consumer electronics products?

Li: Well, like many other economies, China went through stages of development, first focusing on light industries in the '80s, then on infrastructure such as roads and ports, and then on basic home appliances, TVs and so forth, in the '90s.

China is currently in the industrialization stage, with massive investments in housing, communication networks, automotive plants and urban infrastructure development.

The economy now is consumption-oriented, with government's intent and policies aimed at expanding the demand for goods and services to keep the car factories, the TV assembly lines, and the oil refineries busy.

So it's just a natural development of economic history that consumerism is happening in a big way in China. Therefore, it's a huge market for everybody, local manufacturers as well as multinational companies.

Henderson: OK. Let’s move on to the next area. Tell us about China as an electronics manufacturer. China is becoming widely known as the place where you want your electronics products to be made.

Li: Many multinational companies came to China 20, 25, even 30 years ago to manufacture electronic goods for export and take advantage of China's skillful and low-cost labor. Examples
Li, continued: are TV manufacturers, electronic motor makers, and memory chip producers, for bonding, winding—for bonding and assembly.

Then the up-stream suppliers such as cable makers, printed circuit board makers and electronic components manufacturers also moved their factories to China to be close to their customers while minimizing transportation cost.

There has been a big migration of Taiwan OEMs into South and East China since the late '80s, with the PC boom. With continuous price pressure from their customers, these OEM companies have moved their entire assembly lines to China to drive costs down and be competitive.

At the same time, there was a massive global drive towards standardization and open systems, which means that technology has shifted from these OEM companies to pure component technology companies.

In other words, the barrier to enter consumer electronics manufacturing has come down drastically. With many up-stream suppliers already in China, it was relatively easy for companies such as Lenovo to design and produce consumer electronic goods to worldwide standards and technology levels.

Henderson: OK. I think we can see how China is a great manufacturer for electronics products. And you spoke earlier about China being a great marketplace for electronics products.

What can you tell us about China as an engineer and designer for electronics products?

Li: There are many engineering graduates from China's universities. In fact, almost five times the number coming out of US universities. Companies in China have found that these engineers can perform many technical tasks, especially on new product introductions, which is very important. Product introduction has cost a lot of money in today's manufacturing situation because of shorter and shorter product lifecycles.

As the size of the local market expands with China's improved GNP and income, companies need to sell goods that cater to local taste. Hence, many companies have started to conduct R&D to produce products for the local market.

Also, multinational companies find that they can shift some of their R&D work to China and take advantage of the low-cost engineers here.

Henderson: OK, I think we can see where China is today and where it is going in the short term.

Let me ask you to look a little further into the future. Where do you think China will be in five years or so? What does the future hold for China?
Li: The Chinese economy is still going strong, at a pace of more than 9% GNP growth. So there's a very sizable high income population forming in China with sophisticated taste and also deep pockets.

They watch CNN and are using iPods and using hand phones with high resolution, built-in cameras, et cetera. This class will grow and demand better consumer products and products unique to China's environment.

For example, there are many software engineers here that cost about one-fifth or one-tenth of the cost overseas. They develop many sophisticated products integrating hardware and software. This new Chinese class also lives in quite sizable apartments, all wired with intelligent networks.

Therefore, I see some very exciting and China-unique consumer electronics coming out in the near future. I think some of these products will be in the e-homes, mobility, and intelligent network appliances areas.

So in summary, it's a very exciting market in China.

There is a good supply of local manufacturing and an expanding local market demanding better and more appropriate appliances, systems, and hardware for the new Chinese consumers.

Henderson: Thank you Albert. I'm glad you could be with us today.

Li: It's my pleasure. Thank you.

Henderson: That was Albert Li. Albert is one of the co-authors of a fascinating book called Irresistible! Markets, Models, and Meta-Value in Consumer Electronics.

You can learn more about this topic, and about other topics that are important to the Consumer Electronics industry, in that book. The book is called Irresistible! Markets, Models, and Meta-Value in Consumer Electronics.