Geared for Growth

In conversation with James W. McGill

James W. McGill is President of Asia Pacific, Eaton Corporation, a U.S.-based global diversified industrial manufacturer. He is heading the company's efforts to grow in the Asia Pacific region.

Previously as Vice President of Eaton Business System, McGill was responsible for refining and further deploying common business practices and systems throughout the company, leading functions in areas such as supply chain management, corporate quality and operational excellence functions, as well as flight operations.

McGill joined Eaton in 1994 and has held management positions within Eaton's Electrical Group, including leading operations in Southeast Asia and business unit management. He began his professional career with Westinghouse Electric in 1977, serving in engineering, sales, marketing and product management roles.

SBR: What business areas is Eaton engaged in, as a 'diversified industrial' company?

JM: When people think about Eaton, our shareholders are thinking diversification – diversified industrials – so they're comparing us to people like General Electric, United Technologies, Siemens or other diversified industrials manufacturers. That's the general landscape they're looking at. Eaton has four main businesses: in electrical, fluid power, truck components and assembly, and automotive components. The largest of those businesses is the electrical business and the fluid power business; they're each about USD4bn in turnover worldwide. The automotive business is our smallest business, at about USD1.7bn in turnover; the truck segment is about USD2.5bn.

In Asia, the breakdown is very similar to that. Our biggest businesses in Asia are our electrical and fluid power businesses. These two are also our businesses that have been in China the longest. In terms of the markets, they take the largest shares both globally and in China. That said, our truck and automotive segments are both very, very successful in the market niches they play in. In trucks, we're in transmissions for commercial vehicles, namely, big trucks. In automotive, we're in engine components, and some of the famous names in China are our customers, such as Chery, Geely, FAW, Shanghai-GM, Shanghai-VW.

SBR: How do you define Eaton as the sum of its parts, globally and in China?

JM: We're an infrastructure company. Our basic core businesses are supporting the infrastructure development of the various world economies. In the United States and Europe, the infrastructure has largely already been built; it was built up several decades ago, and now we're in this relatively modest growth stage. That's not to say those markets aren't big, but, in terms of infrastructure growth, countries like China and India and those in Southeast Asia, present good business opportunities for Eaton, because the infrastructure there is just not as mature, so there's a tremendous amount of growth.

When I talk about infrastructure, I'm talking about all aspects, from things like the road network. The U.S. road network is very well developed, while China's is less developed. What that means is that, as China's road network grows, the commercial vehicles, passenger cars and the construction equipment machinery that travel on that network will also grow. Those are all big opportunities for companies like Eaton. Another thing that goes with roads is road lighting, so the electrical business is driven by electrifying things as simple as roads and all the associated aspects like the buildings along them.

SBR: What part does China play in Eaton's business throughout Asia Pacific?

JM: Eaton in China now has 20 manufacturing facilities and a little over 5,500 employees. As for our business, we don't break out sales by country, but by region. Our sales for Asia Pacific last year reached USD900m, and that's been growing at the rate of about 26 per cent per year for the last decade. We've been growing in Asia, starting from a very small base. This year, we're on track again – we really feel we're having another good year in 2007, so we're maintaining that general growth rate. It has a lot to do with the story around touching

the customers that have a foot in this infrastructure play.

Of that USD900m in 2006, China played a very big part. If you went back ten years ago, our only market in Asia in a big way was Australia. Today, China is larger than Australia in terms of our overall revenue. Last year, we did just over USD260m in China. Our goal for China in 2010 is over USD1bn, so we have very ambitious plans. It's a combination of things – in the coming years we anticipate half of the future growth coming from organic growth, and the other half coming from business development activities.

SBR: How has Eaton grown since entering China more than a decade ago?

JM: Our first activity in China was during the early 1990s, with two JVs to start with – one in Shandong Province starting in 1993 and the other in Suzhou in 1996. The Shandong business was in fluid power and the Suzhou was in our electrical group.

From the early to the late 1990s, we moved progressively north in terms of our regional structure. We were in Singapore from 1992 to 1997, then in Hong Kong from 1997 to the end of 2002. Since 2003, Shanghai has been our regional hub, also relocating our regional infrastructure here. To a large extent, we made the decision based on the readiness of the infrastructure. We felt that during the late 1990s, things were happening fast here in China, and we needed to get here. We needed to participate, even though our businesses were very immature in China.

We really made the decision to have a regional structure here as a function of the maturity level of our businesses. Ten years back, we had USD15m worth of businesses in the country; our two JVs were very, very small. So did it make sense to have the regional executives located here? We thought of the future, and we thought the answer to that question was 'yes'. While our businesses in other Asian markets were far larger at the time, the story revolved around growing in China. We moved the entire corporate group and our business operations to Shanghai, where we are all now based.

SBR: How would you assess China's development in infrastructure?

JM: East China's infrastructure is the best in the world right now. There isn't any country in the world that has the quality of infrastructure that's in the eastern part of China. You can look at any city in the world, and it's not anywhere close to what you see from Hangzhou to Wuxi, in terms of the quality of the business infrastructure, ports, airports, road network, etc. There's a surprise when I go back and talk to people in Meiguo ['America' in Chinese] – and they ask, "Hey, what's Shanghai like?" – they have this image in their mind of what China looked like 20 years ago. Does that come from movies? I don't know, but it doesn't come from reality.

From my point of view, and from the view of an infrastructure company, Eaton's electrical business segment in the United States dominates the airport business segment. We have been a part of practically every major airport development in the country over recent years, building the electrical infrastructure for those airports. So I have an eye for airports in China. We have not been involved in all the airports in China, but one of the things that's most impressive is how aggressive and how rapid the development of airports has been. You cannot go to a city in China and not find a brand new airport.

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SBR: Software, as compared to hardware – how do you see that development in China?

JM: When I think of software, I think of people. The people have changed and in so many ways – the capability of the people, the interest in having a much more global mindset. In terms of our employees, we're finding a much better quality capability in the employee base in all levels of our company – from the entry-level new college graduates all the way up to the senior leadership.

The government and how its perspective has changed over the past ten years has been just unbelievable, in terms of its openness and interest in global business practices, technology development, innovation. Ten years ago, quite frankly, it was a lot about the money, as in how do we get more capital in. While capital might still be one measurement, that's now not the most important thing for the government, which is more interested in the environmental aspects of the business, in an innovation economy, people development, and various other aspects.

SBR: What is Eaton's approach towards contingency planning in infrastructure projects?

JM: When you look at tunnels or bridges or road infrastructure built 50 years ago in the United States, for example, it's only as good as the on-going maintenance is going to make it. What we try to do, in terms of contingency, is make sure we're doing a good job, as we live with it, to make sure that it continues to meet our needs.

Eaton has service businesses to complement all the major manufacturing businesses, so we actually like to support our customers over time with servicing the equipment. For example, in the electrical business, especially in areas tied to critical needs, it's very common in what we call the 'Power Quality' business, in which we sell the UPS system. That UPS system cannot fail; the customer is buying it from us to ensure that 100 per cent of the time, for whatever the reason the power goes out, that UPS is going to be there and it's going to work. This takes very active maintenance and testing of that system to see that it continues to work, flawlessly, when the power fails.

SBR: What can Eaton, as an industrial business, do in terms of environmental protection?

JM: Eaton has a corporate goal to reduce greenhouse gas emissions within our business worldwide by 40 per cent by 2010. It's a pretty ambitious goal, but there is a variety of things we can do. And it's not just in the factories – making the heat-treating equipment and boilers more efficient, reducing our fuel and energy consumption, and so forth. All that is included, but in addition, we also know that all of the products that we make are packaged, typically in a cardboard box, so we can find ways to make more reusable packaging. Therefore, in shipping our products, we can dramatically reduce our greenhouse gas emissions through the value chain.

Those kinds of things are important to us, getting our people to think more about public transportation and using it to get to and from work. There's a wide variety of things we're trying to do to raise the consciousness of our employees in thinking about ways to reduce greenhouse gases. It starts with having a goal, and we think it's an ambitious goal. We'll find out in a few years just how ambitious it is, whether we're making strong progress or not. ❑