

Press Visit to Sailun China

Tyres and Accessories is recognised as one of the world's leading publications in the tyre market – across its monthly printed magazine, its daily e-newsletter and information-packed web site (www.tyrepress.com).

Sailun Europe recently had the opportunity to arrange and facilitate for one of Tyres and Accessories' senior contributing editors to visit the Sailun facilities in China and to meet and interview key Sailun personnel.

We would like share with you the finished article:

Sailun investing for further growth



Sailun's Qingdao site houses TBR, PCR, OTR and retreading facilities, plus the Sailun Technology Centre

Ten years is a long time in the tyre industry. A decade ago, virtually nobody knew the name Sailun; hardly surprising, as the Chinese firm had yet to produce its first tyre. The company was established in November 2002 and the first Sailun truck tyre – a S816 pattern tyre in size 10.00R20 – was manufactured in 2003. In the following years Sailun has undergone phenomenal growth, and the firm's original truck tyre factory has been joined by passenger car radial, OTR tyre and retreading plants. A further major stride in the company's history took place last year when Sailun embarked on an initial public offering, which is said to have raised around RMB 1 billion (£100 million) – funds the company is drawing on for new capital expenditure projects. In September, just two months' shy of Sailun's tenth anniversary, Tyres & Accessories was given the opportunity to visit the tyre maker's facility and new headquarters in Qingdao and talk about Sailun's significant current and planned developments.

Sailun general manager Wang Jianye confirmed that the IPO raised over US\$100 million for future investments. The first major announcement to this end came in mid-2012, when the tyre maker revealed plans to purchase Shenyang Peace Radial Tyre Manufacturing Co. Ltd. for around RMB120 million (£12.2 million) and a 49 per cent share in Shandong Jinyu Industrial Co. Ltd. for approximately RMB200 million (£20.3 million). Mr. Wang told Tyres & Accessories that the Shenyang Peace deal was completed on 27 August while the Jinyu deal was (as of 11 September) still being negotiated.

Wang Jianye described the two companies as logical acquisitions. "To date our State Tire Technology Center (STTC) facility has exported 16 turnkey factory projects to various companies. Both Shenyang and Jinyu were recipients of these. We helped the two companies with technology and management systems, and therefore we already had close relationships with both companies." Other factors also favoured Shenyang Peace and Jinyu as potential acquisitions. "When we consider a new factory, we look at two things," Mr. Wang added. "The first thing we look at is returns – is it better to build or buy? And then if acquiring a factory, we look at the factory culture – is it compatible? We have very good foundations in technology and communications with Jinyu and Shenyang. The two factories also appreciate Sailun's culture, so we work well together."

The general manager shares that, even a short time after the acquisitions, Sailun's stronger raw materials purchasing power is already evident and he is confident this will help Sailun and the other

factories cut costs. His assistant, Samuel Zhou, who is also director of Sailun's international marketing department, added that the company's post-acquisition work with Shenyang and Jinyu will focus mainly on the production and technical side of the business. "Jinyu is an independent tyre company," he commented. "In regards to marketing and sales, they have their own distribution network and this will probably remain separate, at least in the next three to five years. But if we see a requirement in the future for Sailun and Jinyu to utilise the same distribution network, we will do this."

Vietnam Tire – first overseas plant

In addition to acquiring other Chinese tyre makers, Sailun is in the process of setting up a new factory from scratch. The new plant, in Vietnam's Tay Ninh Province, is Sailun's first outside China. "The main reason we decided to build a plant in Vietnam is that it completes our globalisation project – to have a factory overseas," Wang Jianye related. "Additionally, we have carried out a few turnkey projects in Vietnam. We have a very solid understanding of local laws and culture, and have contacts there. This was a definite advantage for us."

Stage one work on the Vietnam Tire facility is expected to be ready in the second quarter of 2013, most likely in April or May. First stage work involves an investment of US\$95 million and when the first stage is running at full capacity, around a year after the factory enters service, the plant will have the capacity to produce 3 million passenger car radials and 6,000 tonnes of OTR tyres a year. Eventual total capacity will be 10 million passenger car radials, three million truck and bus radials and 12,000 tonnes of OTR tyres per annum.

"Some of the PCR produced in Vietnam will be sold to North America and Europe, but most will be sold in East Asia, as the products will attract no tariff within the region," commented Samuel Zhou. "OTR is still a relatively new product for Sailun and will be exported to all markets."

"We see more and more trade barriers against products coming from China," Zhou added. "Certainly, that is a reason for setting up a factory in Vietnam. Globalisation is also important. Another reason is that in the last few years costs have increased in China and are still growing. Vietnam is closer to rubber plantations and cheaper labour costs. We will definitely see a cost reduction in the Vietnam factory compared with in China."

Growth in global markets

Following the two acquisitions and the construction of the new plant, Sailun anticipates a global capacity of 30 million passenger car radials, around seven million truck and bus radials and 20,000 tonnes of OTR tyres. The largest proportion of these will go to North America, currently Sailun's most important market by a wide margin. At present 40 to 50 per cent of Sailun's total truck and bus radial production and 35 to 40 per cent of the company's passenger and light truck production is sold there. Europe also takes a decent sized slice of Sailun's output. Sailun Tyres Europe reported in July that it expects to sell 1.5 million tyres in Europe during 2012. Mr. Zhou shares that the region takes some 15 per cent of Sailun's TBR production and 20 to 25 per cent of its PLT output. Latin America accounts for a further ten per cent of TBR sales and eight to ten per cent of PLT sales.

"We haven't been in the European market for a long time, therefore Western Europe is currently the primary focus," Zhou added. But we are moving into Eastern Europe and now looking at Russia and the Ukraine – these markets are on the table. We are also looking at some new markets in other parts of the world, such as certain Southeast Asian countries where we haven't yet developed our markets and some African countries. In Europe we are developing both our PCR and TBR markets, in Africa the focus is more on TBR, while PLT is growing fast in Latin America."

The Qingdao facility

On a tour of Sailun's 400,000 square metre facility within Qingdao's National Economic and Technological Development Zone, sales manager Chen Huang explained its operations in greater detail. The truck and bus radial factory, the first built on the site, currently produces between 3.3 and 3.5 million tyres a year. Three quarters of output within the plant are Sailun-brand products, the remainder private brands. As would be expected, all tyres destined for Europe are produced with clean oils and comply with all appropriate legislation.

He also explained the various quality controls tyres undergo before leaving the plant. "All tyres carry a bar code ID during the production process so that they can be traced from the raw material stage and through production," he said. "Upon inspection tyres are x-rayed and undergo uniformity and dynamic balance checks. All x-ray images are stored and linked to the tyre code – this is useful should a claim arise later."

Next to the TBR plant is the mixing centre, and next to that is the site's original warehouse. Chen Huang shares that a new warehouse, large enough to hold 750,000 passenger car tyres, is currently under construction, and work on yet another warehouse will commence later this year or early in 2013.

After the warehouse we come to Sailun's passenger car radial plant. This was built a couple of years after the TBR factory and currently has a 9 million tyre per annum capacity. Equipment within the PCR plant includes a new latest passenger car tyre product, which is suited to manufacturing 13 to 20-inch tyres. "It is really hands-free. The computer does everything," Huang commented. The sales manager added that because sales of Sailun passenger car tyres initially started in international markets and only got underway in China itself relatively recently, some 8.5 million of the 9.0 million passenger car tyres produced are exported. Demand for these is currently higher than capacity.

Also to be found at the Qingdao site is an OTR tyre factory – Sailun is now gearing up to build a second OTR tyre plant – and a retreading facility that retreads tyres and produces tread rubber. Mr. Huang explains that most tyres retreaded there are exported, and this is necessary as most casings used are imported and Chinese regulations stipulate that if a casing is imported for retreading, it must also be re-exported. He conceded that sourcing good casings within China is very difficult as truck operators tend to severely overload vehicles, leading to tyre casing damage. The tread rubber Sailun produces is mainly exported to North America.

In addition to production plants and warehouse facilities, the Qingdao site is home to the Sailun Technology Centre, which employs around 300 technical personnel, and a 'Sailun Village' that provides apartments, townhouses and dormitory accommodation for some of the site's 4,500 employees. The tyre maker's brand new headquarters is located some 25 miles away in Qingdao's "Rubber Valley", and Sailun operates another TBR plant in Shenyang.

Quality is key

When asked what Sailun considers most important, general manager Wang Jianye replied that improving product quality is key. "We are presently working on improvements in product specifications and characteristics, working on new materials that offer better fuel efficiency and improved environmental performance," he said. "We also have projects related to wet grip and enhancing tread performance. All these projects are underway at the moment – improvement is an ongoing process." Mr. Wang also believes China provides the ideal environment for putting products to the test and evaluating their performance in a range of conditions: "As you know China is a huge country with lots of differences, geographically speaking. Truck use, such as load and speed, is also different between the regions. We have studied this a lot to ensure our tyres work well in all conditions."

China's tyre industry is huge – according to Chen Huang, around 800,000 people are directly employed in the tyre sector there. Hundreds of Chinese companies produce tyres; some are very good, others not. Sailun's products serve as evidence that the company belongs to the former category, however Sailun also hopes it can show other Chinese tyre makers that commercial success and environmental responsibility can be very close partners. Returning to the subject of Sailun's retreading operation, Wang Jianye shared that Sailun acts as a demonstration base for Chinese retreading. "As you know, retreading and recycling is an environmental benefit. Although we are currently losing money with retreading and recycling, Sailun still believes we should work on this to help the environment. This is the main reason we have been and are still working to build up our retreading and recycling businesses. Furthermore, although the number of tyres required is huge and many trucks out on the road are overloaded, we are seeing changes in China. You will see more and more retreading here."

The article can also be downloaded via the following link:

<http://www.tyrepress.com/News/26417.html>

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