



# Yachting Industry in China Investment Guide

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**Marine Dragon Consulting**

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## Executive Summary

In a context of globalization of the European boating industry, China appears as a possible place for on the one hand boat building or equipment sourcing and on the other hand as a potential new market for exports.

After having penetrated successfully many industrial sectors, China aims now at braving a manufacturing sector where it has little experience or demand at home. However, more than 200 yards are already manufacturing recreational boats mainly for exports.

Chinese yards can provide, though several threats and weaknesses, many strengths and opportunities for European boatbuilders, whose competitiveness and profitability are decreasing. Catching up at strong pace their lack of technology and experience is something that will soon become history. Existing achievements and results in the manufacture of both sailing and motor boats are convincing

The internationalization of the yachting industry has forced European boat builders to seek for new markets. If Hong Kong boat market is today healthy and well structured, Chinese one starts from scratch. Everything needs to be built and ruled. However, rising average income per capita and demand of leisure may guarantee bright future for the Chinese domestic market. The pioneer brands to penetrate this emerging market will benefit from a significant competitive advantage. They need however to adapt their marketing and sales strategy to the specificities of various Chinese customer profiles.

In this context, potential investors whether they want to build or sell yachts in China have to carefully make their choices: When, where, how and with whom? Business plan of European boat builder cannot be duplicated in China, where too many particularities have to be taken into account. For what savings or market shares?

The list of main players of the yachting industry in China will provide a solid and accurate data base as an investment guide.

## To the readers

The requested market survey on yacht industry in China has to be considered in the context of a worldwide strong growth of the yachting industry and the attractive potential of the Chinese market which has become a major target for the all European and American companies.

Achieving the penetration of this market means before all understanding the rules of an atypical economy on one hand, and to take into account the habits of its Chinese people on the other hand, whatever suppliers, partners or customers. China is a marketplace of huge potential, but equally huge complexity. Consumption habits and the nature of the population vary wildly across the country, making it difficult for overseas investors to identify and locate their partners and customers, as well as the size and nature of the marketplace of tomorrow.

The capacity of China to absorb new technology, knowledge, fashion and trends can be considered as a guideline of this study. This is certainly where the formidable strength and potential of China is to be found.

The objective is to assess the pros and cons of building recreational boats in China but also to identify the potential development for European enterprises. The study must enable Italian marine industrials to identify the opportunities for partnerships, joint ventures and to find out the right positioning in the market.

The quantity and the quality of collected information have induced a strict method to undertake this study. The search for a practical and readable document was a priority. More than a white paper, this study is an investment guide, a guide of know-hows, customs and location of yachting activities in China. More than exhaustive compilation, this report has highlighted the trends and characteristics of various yards per city and product to help identifying and evaluating the added-value and the savings by manufacturing in China on one hand, the risk and extra costs on the other hand.

The specification and size of the China market, the typology of the consumers or the nautical infrastructures have been gathered in a special chapter to point out the differences between what should be produced for export and what could be made for the domestic market.

As a conclusion, no recommendation or advice from the authors, only a suggestion for the reader to refer to two pillars of the Chinese culture: The Art of War by Sun Tzu and the game of GO. Both refer to perseverance and prudence. The conquest of a new territory has to be undertaken by negotiating from a strong base and avoiding any war.



## The Marine Industry and Pleasure Craft Market in China. Risks and opportunities for the worldwide marine industry

### Introduction

### **First Part: The Chinese yacht market**

#### **Chapter One: Pleasure Craft building in China in 2006**

##### **A. Snapshot of yacht building industry in China**

1. Back ground of yacht building in China
  - i) *The Taiwanese model*
  - ii) *Transfer from the commercial shipbuilding industry*
2. Profile of shipyards for sailing boats
  - i) *Overview and location per province*
  - ii) *Ownership, average size*
  - iii) *Technology used, capacity and major achievements*
  - iv) *Sales and marketing strategy*
3. Profile of shipyards for motor boats
  - i) *Overview and location per province*
  - ii) *Ownership, average size*
  - iii) *Technology used, capacity and major achievements*
  - iv) *Sales and marketing strategy*

##### **B. What development for local boatyards?**

1. Sales strategy: OEM or own brand
  - i) *Technology transfer and lack of skills*
  - ii) *Major Foreign investment and potential entrants*
  - iii) *Exports and domestic market*

2. Creation of “yachting industrial cities” and local sourcing

- i) *Zhuhai and Shanghai Yachting Center*
- ii) *Integration of suppliers*

**Chapter Two: Chinese domestic boating market: picture and perspectives**

**A. The growing demand for leisure in China**

1. Rise of a middle and upper class in Chinese society

- i) *Population and increase in revenue per capita*
- ii) *Crowded cities and adoption of the western style*
- iii) *New area of leisure*

2. Ambiguous relationships between Chinese and the Sea

- i) *History*
- ii) *The Yin side*
- iii) *Geography, weather and environment*

**B. Chinese domestic boating market**

1. Leading role of Hong Kong

- i) *Fleet segmentation*
- ii) *Infrastructure and marina facilities*
- iii) *Maintenance, boat and equipment dealers*
- iv) *Regulations and permits*
- v) *Climate, shores and anchorages*

2. Mainland Chinese market starting from scratch

- i) *Fleet segmentation*
- ii) *Imports and Exports statistics*
- iii) *Infrastructure and marina facilities*
- iv) *Maintenance, boat and equipment dealers*
- v) *Regulations and permits*
- vi) *Climate,, shores and anchorages*

3. Customer profiles and potential end users

- i) *Super Yachts*
- ii) *Sailing dinghies and racing boats*
- iii) *Picnic boats*
- iv) *Chartered boats*
- v) *Cruising and touring*

**C. Growth of demand: requirements and perspectives**

1. The changes in the water temperature: what's happening?

- i) *Associations, federations and lobbies*
- ii) *OG2008, Asian Games and World Expo*
- iii) *The China Team (America's cup)*
- iv) *Races and other competitions*
- v) *Media and Boat shows*

2. Requirements of market growth

- i) *Marinas and port facilities*
- ii) *Regulations*
- iii) *After sales industry*
- iv) *Software: Education and Training*

3. Estimation and valuation for Chinese domestic market in 2008

**Second part: Investing in the yachting industry in China**

Introduction: Business environment and key macro economic data

Chapter One: Manufacturing yacht in China

**A. Setting up a shipyard in China**

1. Structure

- i) *Technology Licensing and intellectual Property Protection*
- ii) *Joint Venture*
- iii) *Wholly Owned Foreign Enterprises*
- iv) *Merging an existing yard*

## 2. Policies and Regulations

- i) *Import – export regulations and taxes*
- ii) *Quality Standards*
- iii) *Environment and Safety standards*

## 3. Understanding differences

- i) *Managing Chinese staff*
- ii) *Business Practices Differences*
- iii) *Dealing with governments*

## **B. Running a shipyard in China: competitive advantages**

### 1. Suppliers of the boat building industry

- i) *Design and architects*
- ii) *Raw material for hull: steel, aluminum and fiberglass*
- iii) *Wood and handcraft*
- iv) *Other equipments: engines, spare parts and accessories*
- v) *Hong Kong: the entry gate for imported goods*

### 2. Breakdown of cost of production: Chinese Shipyard P&L

- i) *Detailed costs for raw material*
- ii) *Detailed costs for Labor by categories*
- iii) *Other costs to run a yard in China*
- iv) *Efficiency and productivity of Chinese Labor*
- v) *Savings targeted with “made in China”*

## **C. Suitable industrial location**

### 1. Place to Invest

- i) *Tax incentive*
- ii) *Technological and logistical hub: Yachting cities*
- iii) *Concentration of potential customers*
- iv) *Climate*

### 2. Transportation

- i) *Cost*
- ii) *Lead time*

## Chapter two: Distributing yachts in China

Introduction: The example of the luxury car market.

### **A. Setting up a distribution network in China**

#### 1. Structure

- i) *Fully owned agents: branch office*
- ii) *Third party agents: representative office*
- iii) *Franchise*

#### 2. Policies and Regulations

- i) *Import regulations and taxes*
- ii) *Bounded stocks*
- iii) *Environment and Safety standards*

#### 3. Selling to Chinese people

- i) *Training Chinese sales team*
- ii) *Network and “Guan Xi”*

### **B. Marketing strategies for the yachting industry in China**

#### 1. Brand Building

- i) *First entrant advantages*
- ii) *Market entry channels*
- iii) *Advertising*
- iv) *Attending boat shows*

#### 2. After sale follow up and assistance

- i) *Maintenance and repair*
- ii) *Providing crew and berthing*
- iii) *Providing financing, insurance and permits*

## C. Suitable commercial location

### 1. Place to Invest: geography, climate and affluence concentration

- i) *South China*
- ii) *Central China*
- iii) *Inner China*
- iv) *North China*

### 2. Business Model of a distribution network

- i) *Detailed costs for opening office*
- ii) *Detailed costs for Labor by categories*
- iii) *Other costs to run a yacht trading company in China*

## Conclusion

Country risks and lessons of past and present experiences of setting-up of European boatyards into low cost labor countries.

Third part: appendix ad list of main players of the local market

## Shipyards

Number of sites visited: 11 provinces, 30 shipyards

## “Yachting Industrial Cities”

Number of sites visited and key personalities interviewed: 2

## Dealers and brokers: distributors, importers, agents

Number of company interviewed and visited: 11

## Marina and Yacht Clubs

Number of sites visited and key personalities interviewed: 8 provinces, 14 marinas

## Association, federation and lobbies

Number of key personalities interviewed: 7



### Equipment manufacturer and material suppliers

Number of company interviewed and visited:

Marine Equipment: 5

Raw Material: 5

Engines: 3

Building, construction: 3

Naval architects, designers: 3

Marina equipment supplier: 2

Urban designer and marina designers: 2

### Media

Key personalities interviewed: 6

### Boat show

Key personalities interviewed: 6

Total length of the Study: **150 pages**

Pictures, maps and drawing: **50**

Charts, diagram and tables: **20**