Marta Zhang, the young Chinese managing director of Italian motorcycle manufacturer Benelli, was sitting in her office in Pesaro, Italy, contemplating the purchase of the company by Qianjiang Group (QJ) in 2005. After the Chinese won a bid to acquire the company, QJ was off to a very good start: the local authorities had helped to create a welcoming environment, the two production lines were operational, new motorbikes were being projected by skilled engineers and the new scooters were very attractive.

While this new relationship began well, many differences were emerging between China and Italy: cultural attitude, work methods, civil and fiscal rules and access to credit were some areas of dispute. Despite industrial investments in order to gain efficiency and reduce prices, penetration of Western markets was difficult due to a high level of competition, especially from Japanese brands.

The European and United States press had welcomed the new motorbike models very enthusiastically, but sales results were not coherent with such technical success and with QJ’s plans; moreover, the technical departments in Pesaro and in China had not agreed on the industrial plan to produce a new motorbike, which was projected two years before, and already presented—with great success—to a specialist public.

Mario Tonis, the press office director, interrupted Zhang’s thoughts with some good news: the motorbike tests last month had produced brilliant results with the press. Ultimate Motorcycling reported the following:

Retaining the original Benelli staff and leaving all design and manufacturing still in Pesaro, the combination of Asian work ethic and Italian design flair has proven a potent combination, indeed. The result has produced several new Benelli models, and the Tornado, although identical in appearance to previous iterations, has evolved into a superbike that retains the design brilliance of the original but without its quirky nature.1

The products were available and potentially successful, but how could Zhang integrate the new company, create a common corporate culture, help transfer the know-how, expand the business and win out over the strong Japanese competition?

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The Acquired Company

Benelli was established as a family firm in Pesaro, Italy (in the Marche Region on the Adriatic coast), in 1911. Initially specializing in automobile and motorcycle repairs as well as the manufacturing of spare parts, over the years the firm also began manufacturing motorcycles that were successful in various sports competitions, winning numerous national and international titles.

To offer a stable work for her six sons, Teresa Benelli, a young widow, opened the “Benelli Garage” to repair cars and motorcycles. The business was successful and the sons begun first to produce spare parts and then engines too. In 1920, the first engine was ready: a single-cylinder two-stroke 75 cc model. In the following year, the first Benelli motorcycle was built with a complete in-house engine of 98 cc.

In 1923, a special model of motorcycle was projected and produced to enter race competitions. One of Teresa’s sons, Antonio—nicknamed “Tonino the Terrible”—had a natural talent as a rider. Running a Benelli 175, he started a brilliant career winning four Italian championship titles in 1927, 1928 and 1930 with the single overhead camshaft model, and in 1931 with the double overhead camshaft model. The success in races contributed to affirm the brand and capacity of the company in projecting and producing competitive bikes at an international level. In 1932, during a race, Tonino had a terrible accident and had to stop his career. He died in 1937 in a road accident.

In 1949, one of Teresa’s sons, Giuseppe, founded his own motorbike company—Motobi—due to disagreements with his brothers. Some years later, as problems with the family were solved, he attached to the parent company.

In 1962, Benelli and Motobi were able to produce about 300 motorcycles per day, with a workforce of 550 employees. Toward the end of the 1960s, growing competition with the Japanese led to the sale of Benelli to De Tomaso Industries Inc. Despite various attempts to differentiate itself from its Japanese competitors, as well as a merger with Moto Guzzi in 1988, the company’s manufacturing operations eventually ceased.

In 1989, an entrepreneur also from the Pesaro area attempted to relaunch the company, but his efforts were unsuccessful. Operations only resumed in 1995 when the Indesit Group purchased the brand and again relaunched the company. Although the group focused immediately on the scooter sector (trying to gain profits from the high volume of production despite low margins), in 2001, the group decided to enter the motorcycle sector in a niche market; however, the need for sizable investments, coupled with enormous financial difficulties, eventually brought a halt to production in 2005 and sent the company into liquidation (see Exhibit 1). Following an intense period of negotiations for the acquisition of Benelli by the John Galt Investment Ltd. company owned by Russian Nikolai Smolenski, son of Alexander Smolenski, the company was eventually purchased by QJ.

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4. The Indesit Group, the largest company in the Marche Region, Italy (€3,438 million in turnover in 2007 and 17,418 employees), was producing electric home appliances. The company belonged to the Merloni family. See www.indesitcompany.com.
An acquisition by the Russian group would have probably resulted in the company being dismantled, with its machinery transferred to the United Kingdom and the loss not only of the brand but also of local jobs. Instead, QJ intended to relaunch the company by adopting an interesting industrial plan.

**The Acquirer Company**

QJ was situated in Wenling, China, 480 kilometres from Shanghai. QJ was a large-scale state-owned group, and one of the 520 key state enterprises certified by the Chinese State Council. QJ was the largest Chinese company producing and selling motorcycles, with an annual output of more than one million units. It was chosen by the Motor Cycle Industry Association as one of the 10 best enterprises with strong competitive power in China. At the beginning of 2002, the “Qianjiang” trademark was given the award of “Famous Chinese Trademark.”

QJ had formerly been the Wenling Chemical Engineering Machinery Factory, established in 1971. The factory changed its line of production to motorcycles in May 2001. Launch of a new strategic plan. The main decisions concerned the following: focusing on high displacement motorcycles, partnerships with other producers in the scooter sector and reducing costs to be more competitive in terms of sales prices.

Cooperative agreement with Renault Sport in the scooter sector. The commercial purpose was to sell Benelli’s products in both France and Italy through the Renault network.

Participation in the Superbike championship with the new Tornado 900 cc. Good results helped the company win a consensus in the market (relaunching the company image).

Cooperation with Renault Sport did not bring the expected results because of negative market conditions and trends.

Management focused on motorbike production. A new motorbike was launched: the Tornado 900 Tre, with 101 units sold within several months (85 per cent abroad).

In the scooter sector, the company looked for more flexibility by reducing stocks and outsourcing production. The most knowledge-intensive activities remained inside. The new Velvet 400 cc was projected.

Benelli stopped production of scooters to focus exclusively on motorbike production.

The new Tornado RS model was launched, with production of 1,600 units. A new motorbike in the naked sector, the Tornado Naked Tre (TNT), was projected, which was due to be launched in 2004. Many orders from both Italy and abroad were placed by customers due to the success in the press.

The new TNT was launched in the naked sector. Within seven months 930 units were sold. Good results in race competition supported sales activities. New versions of the TNT were projected and due to be launched in 2005 (many orders were already placed).

A new line of accessories and spare parts was projected to enter the market: high margins on those products should have brought higher profits to the company.

An acquisition by the Russian group would have probably resulted in the company being dismantled, with its machinery transferred to the United Kingdom and the loss not only of the brand but also of local jobs. Instead, QJ intended to relaunch the company by adopting an interesting industrial plan.

Exhibit 1 Company Activities before the Acquisition

*Source: Benelli financial statements and balance sheet.*
1985, and then moved to Wenling. In January 1993, its name was changed to the Zhejiang Motorcycle Factory. After restructuring in 1996, the enterprise became Zhejiang Qianjiang Motorcycle Group. With government support, QJ successively merged with and acquired the Wenling Saccharification Factory, the Wenling Locomotive Factory, the Wenling Vehicle Repair Factory and the Wenling Electric Tools Factory, among others. These mergers allowed the group to achieve low-cost expansion and to double its economic indicators within a short time. The Zhejiang Qianjiang Motorcycle Company, Ltd. was established in 1999 with the approval of the People’s Government of Zhejiang Province. The group was the primary founder of the subsidiary Zhejiang Wenling Motorcycle Company, and owned 75 per cent equity of Zhejiang Meikeda Motorcycle Company, Ltd., which was co-founded with Bright Steel Pte. Ltd. Zhejiang Qianjiang Motorcycle Company, Ltd. had been a public company listed on the Shenzhen Stock Exchange since May 14, 1999.

**Strengths of the Company**

The primary business of QJ was research and development (R&D), as well as the manufacturing and marketing of motorcycles and engine parts. The company’s motorcycle products constituted approximately seven per cent of market share in China.

The QJ Group designed, developed and produced Qianjiang machinery and electrical products. It produced motorcycles ranging from 50 cc to 250 cc, and also manufactured motorcycle-related products such as engines and parts, as well as race cars, miniature motorcycles, all-terrain vehicles (ATVs), gas scooters, generators, high pressure water cleaners, garden tools, power pumps, vacuum pumps and lawn mowers, among other products. Forty per cent of the group’s products were exported to Europe, America, the Middle East, Northeast Asia and Africa—to a total of more than 110 countries throughout the world.

Eight years after the company went public, it had produced and sold more than seven million motorcycles (among which 0.93 million were exported). Total sales reached RMB21.196 billion, and RMB4.537 billion was paid in taxes. Among the total sales, 9,377,000 finished motorcycles were sold on the domestic market and 2,654,000 were exported, earning US$140.38 million in foreign exchange. The assets of QJ totaled RMB3.6 billion, with a total investment of RMB260 million.

The company covered an area of more than seven million square feet in the Wenling Economic Development Zone and was the largest motorcycle production base in Asia and the most advanced in China, with an annual production capacity of 1.5 million finished motorcycles. It had one joint-stock company and five joint-venture companies: these included many sub-departments such as a graduate school, an R&D centre, a testing centre, a machine-processing factory and an assembly factory. The company possessed both high and new technology and first-class equipment, and utilized advanced three-dimensional Pro/ENGINEER and CAD Design Software manufacturing technology. At the same time, it also imported advanced equipment (e.g., a processing-centre machine as well as a line-cutting machine, etc.) from the United States, Germany, Switzerland and Japan to develop its products and to process mouldings and machines.

The enterprise had a complete quality management system, and was issued an International Organization for Standardization certificate (ISO9001) in 1997 by the authorized international attestation organization, TUV Product Service, Ltd. The company’s series of products passed CE, GS, CSA and UL standards and received quality

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8. Zhejiang Meikeda Motorcycle Co., Ltd. was a joint venture of the Qianjiang Group and Singapore Kedeng Investment Co., Ltd., with registered capital of US$2.8 million; 75 per cent of equity was held by the Qianjiang Group and 25 per cent held by Singapore Kedeng Investment Co., Ltd.
licences from the National Import and Export Commodity Inspection Bureau. QJ also received “Well-Known Brand of China,” “Chinese Famous Trademark,” “Inspection-free Product,” “State-level Technical Centre” and “State-level Laboratory” awards.

**International Expansion**

To upgrade its products, Qianjiang Motor cooperated with AVL—one of the two most important European automobile and motorcycle research institutes—and with a French engine design corporation that was a cooperative partner of Renault to develop motorcycle engines. Working with design company Bluesky Design (www.blueskydsn.com), Qianjiang Motor developed fashionable vehicles such as dune buggies, scooters, beam sport-utility vehicles and off-road vehicles for overseas markets.9

In 1999, Jiang Zuyun joined forces with QJ to sell motorcycles in the Indonesian market. Within two years, QJ held almost half of the Indonesian motorcycle market share. On August 20, 2001, the largest joint venture between China and Indonesia, Sanex Qianjiang Motor International (Sanex Qianjiang), inaugurated a US$12 million motorcycle assembly plant in Indonesia. Established as a joint venture in March 2000, Sanex Qianjiang was owned by Qianjiang Motor International, Malaysia’s Lion Group and Taiwan’s CPI, who together held 35 per cent of the shares, and Indonesia’s PT Sanex. Beginning in April 2000, Sanex Qianjiang imported fully-assembled motorcycles from its Chinese headquarter and sold them in Indonesia; however, about two months before the inauguration of the plant, the company gradually began to reduce its imports when the local plant started producing 400 to 500 units per day. The plant eventually had a total production capacity of 30,000 units per month. Sanex Qianjiang thus created many employment opportunities for Indonesians. The company had 43 main dealerships and 273 sub-dealerships across Indonesia, and it also planned to establish a subsidiary called PT Sanex Agung Motor Indonesia to produce spare parts for the company.

To target the European market, QJ established a joint venture with an Austrian company to create the Generic brand that would produce European-style motorcycle products; in the meantime, QJ also acquired Hungarian company Keeway Motor, establishing Qianjiang-Keeway Europe. In 2005, QJ acquired Benelli. With these three leading brands—Benelli, Generic and Keeway—QJ was planning to build and expand its markets in Europe and North America, to accelerate technical innovations and to establish itself in a more competitive position in the international market.

In terms of its strategic development, QJ also targeted the Taiwanese market. Taiwan had the highest density of motorcycles in the world, with more than 300 motorcycles per square kilometre. Approximately 50 per cent of the population owned a motorcycle, and due to the high labour costs for repairs and maintenance, Taiwanese people preferred to buy new motorcycles rather than repairing them.10 Due to the new leadership in Taiwan, the relationship with mainland China had become closer and therefore opened up shipping, postal communications and trading connections with the mainland. At the same time, the production costs of local Taiwanese companies were increasing and the investment environment had deteriorated, thus providing a great opportunity for the development of the mainland motorcycle industry. Qianjiang Motor, located in Wenling, China, was situated to the northeast of the Taiwan Strait. In addition to its geographical advantages, several senior QJ executives who were dispatched by the foreign shareholders were Taiwanese, giving them the advantage of familiarity with

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the Taiwanese motorcycle market. QJ opened up the Taiwan market by relying on its geographical location, advanced techniques and competitive pricing. Its gross profits almost doubled due to the rise in exports to Taiwan.

**Industry Analysis**

**The Industry**

Benelli was part of the motorcycle industry, which included companies involved in manufacturing motorcycles and related equipment, parts and accessories. Motorcycles were classified by their engine size and vehicle use. Engines were measured according to their displacement by cubic centimetre (cc): scooters were less than 50 cc, standard were from 50 cc to 650 cc and heavy were more than 650 cc. Motorcycles were usually classified for commercial purposes into one of the following three categories: street, off-road or dual-purpose, depending on the surface on which they were intended to be used.

Street motorcycles were designed for riding on paved roads. Their engines were generally in the 125 cc and greater range. They included the following categories: cruiser, sport bike, touring, sport touring, naked, feet-forward motorcycles, scooters and mopeds. Off-road motorcycles, also known as dirt bikes, included motocross, rally raids, trials and track racing. Dual-purpose motorcycles were street legal motorbikes that were also designed for off-road situations. This class included adventure-touring, enduro and supermotard.

Benelli had products in both the scooter sector and in the heavy segment of the motorcycle industry: in the naked, sport and touring segments. With a wide range of scooters and standard products in a variety of models, QJ focused on the low-price segment of the market. Its slogan was, “Dedicated to a combination of European design, Japanese quality, and Chinese cost.” It also had several typical Chinese-style low-power motorcycles.

**Global Trends**

Several key competitors in the motorcycle industry shared the majority of worldwide sales. The industry could be described as global and highly competitive. Price, design and engine performance were the key elements in customer choice. Japanese manufacturers such as Yamaha, Suzuki, Kawasaki and Honda had large market shares in many countries by combining innovative designs with low prices; however, in certain geographic markets, a single producer may have had a dominant position due to its specific core competencies or due to customer loyalty. For example, this was the case for Harley Davidson in North America, where the company held almost one-third of the market (Exhibit 2),


In the period 2003–2007, the motorcycle market in the United States, Canada, Germany, France, United Kingdom, Italy, Russia and Japan grew by 4.7 per cent. The total value of the so-called G8 market was, at the end of 2007, of US$24.3 billion (41 per cent related to the United States), with a projection of a further grow of 5.1 per cent by 2012.
An interesting trend in the global arena was due to the appearance of small companies, from emerging markets, Brazil, Russia, India and China in particular (BRIC area). Those markets were becoming more and more interesting both for supply and demand of motorcycles. In the period 2003–2007, the BRIC motorcycle market grew by 14.5 per cent and its total value was of US$27.2 billion at the end of 2007.13 Brazil was the fastest growing area with a compound annual growth rate of 28.3 per cent. Following the projections available, by 2012 the BRIC market should reach a value of US$67.4 billion, with an increase of 19.9 per cent from 2007.14

Local Trends: Italy

In Italy, the motorcycle industry was very competitive: Japanese manufacturers had the biggest market share, especially in the motorcycle sector. In 2008, Honda and Yamaha held more than 30 per cent of new vehicle registrations and gained a dominant position despite negative market trends (see Exhibit 3). In the same year, Kawasaki sold the most of a single motorcycle model (see Exhibit 4). In the scooter segment, the Italian Piaggio Group had a good market share.15

Benelli had a small market share in the Italian industry, operating in a niche segment. The company tried to compete with Aprilia, Ducati and Honda, but its real direct competitors both on the Italian market and abroad were three Italian producers: Moto Morini (Morini), MV Augusta (MV) and Triumph Motorcycles (Triumph). Morini was its direct competitor in terms of both proposed models and annual sales. Although it was in the same market segment, MV produced more exclusive/luxury motorcycles, with higher prices and better performance. Benelli was Triumph’s competitor because these two companies were the only manufacturers of three-cylinder Italian motorcycles; however, in comparison to Benelli, Triumph’s market share was much larger (Exhibit 5).

<table>
<thead>
<tr>
<th>Producer</th>
<th>Market Share (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Harley Davidson</td>
<td>27.3</td>
</tr>
<tr>
<td>Honda</td>
<td>20.9</td>
</tr>
<tr>
<td>Yamaha</td>
<td>17.0</td>
</tr>
<tr>
<td>Kawasaki</td>
<td>13.8</td>
</tr>
<tr>
<td>Suzuki</td>
<td>12.5</td>
</tr>
<tr>
<td>KTM</td>
<td>2.0</td>
</tr>
<tr>
<td>BMW</td>
<td>1.4</td>
</tr>
<tr>
<td>Triumph</td>
<td>1.3</td>
</tr>
<tr>
<td>Victory</td>
<td>1.3</td>
</tr>
<tr>
<td>Ducati</td>
<td>1.0</td>
</tr>
</tbody>
</table>

Exhibit 2 Market share of Top 10 Motorbike Producers in the United States (Sales Estimates for 2008)

Local Trends: China

The Chinese motorcycle market was the largest in the world and accounted for 59.1 per cent of market volume in the Asia-Pacific region (see Exhibit 6). In 2006, the domestic market grew by 7.9 per cent to reach a value of US$5.8 billion and a volume of 14.9 million units. It was projected to have a value of US$9.9 billion in 2011, an increase of 69.4 per cent since 2006; the forecast volume would reach 24.6 million units, an increase of 65.7 per cent since 2006.
EXHIBIT 6 COUNTRY BACKGROUNDs

China

China was the world’s second largest economy in terms of gross domestic product (GDP) at purchasing power parity (PPP), and the world’s most populous nation. Huge trade surpluses (China was the third largest world trader) and a large capacity to attract foreign direct investment (FDI)—China was the world’s number 1 recipient of FDI—provided China with a huge amount of foreign reserves to be invested.16 Real GDP grew at 11 per cent from 2003 to 2007 (Table A) and even after the economic crisis the economy was projected to expand at very high rates (Table B). Government stimulus packages, formally launched at the end of 2008 with an initial investment of about US$600 billion (equivalent to 13 per cent of GDP), provided a great boost to the country’s economic growth. China would have remained the fastest-growing major economy in the world in the period 2009-10.17

While China’s outlook appeared promising, extraordinary economic growth was unbalanced and, according to some, even unsustainable. Problems included the growing pollution in urban and industrial areas, the unbalanced growth of the cities compared to the countryside, social pressures, human rights violations and lack of democracy.18 In the business sector, many Chinese companies that had entered international markets were not profitable, and they faced huge problems in terms of being competitive and adopting international management standards. Chinese companies had difficulties getting their products accepted in Western countries; moreover, some foreign companies were redirecting their investments to other emerging nations or to developing countries where they could find lower labor costs.

TABLE A—Outlook for China

<table>
<thead>
<tr>
<th>Annual Data</th>
<th>2007</th>
<th>Historical Averages from 2003–2007</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population (millions)</td>
<td>1,321.3</td>
<td>Population growth</td>
<td>0.6</td>
</tr>
<tr>
<td>GDP (billions of US$; market exchange rate)</td>
<td>3.46</td>
<td>Real GDP growth</td>
<td>11.0</td>
</tr>
<tr>
<td>GDP (billions of US$; PPP)</td>
<td>7,316</td>
<td>Real domestic demand growth</td>
<td>9.9</td>
</tr>
<tr>
<td>GDP per head (US$; market exchange rate)</td>
<td>2,620</td>
<td>Inflation</td>
<td>2.6</td>
</tr>
<tr>
<td>GDP per head (US$; PPP)</td>
<td>5,540</td>
<td>Current account balance (% of GDP)</td>
<td>5.6</td>
</tr>
<tr>
<td>Average exchange rate RMB:US$</td>
<td>7.61</td>
<td>FDI inflows (% of GDP)</td>
<td>3.0</td>
</tr>
</tbody>
</table>


Italy

Italy was part of the Group of Seven (G7) industrialized nations. Its economic strength was in the processing and manufacturing of goods. Exports of luxury goods, consumer durables and investment goods led its competitiveness abroad. The industrial system was based mainly on small and medium-sized family-owned firms.

Economic growth in Italy ranged from one per cent in 1996 to a 3.7 per cent peak in 2000 and gradually slowed down thereafter in the two periods of recession in 2003 and 2008. Recent growth rates were among the lowest of the industrialized countries, due mainly to several years of low productivity growth and loss of competitiveness. Like many Western countries, Italy was facing the consequences of the global financial turmoil, with a strong decrease in output and a rise in public spending after a period of substantial reductions in the budget deficit (Table C and Table D). The economy weakened during 2008: exports fell sharply due to the export structure. Investment demand also fell sharply, as did consumer expenditures, especially for cars and durables.

The government faced challenges related to long-term budget consolidation. The key issues included the extension of the pension reform process and reforms to improve the efficiency of public administration. At the same time, measures to relaunch firm competitiveness were needed to sustain an industrial system that was based mainly on small and medium enterprises (SMEs).

### TABLE C—Outlook for Italy

<table>
<thead>
<tr>
<th>Annual Data</th>
<th>2008</th>
<th>Historical Averages from 2004–2008</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population (millions)</td>
<td>58.1</td>
<td>Population growth</td>
<td>0.1</td>
</tr>
<tr>
<td>GDP (billions of US$; market exchange rate)</td>
<td>2,311</td>
<td>Real GDP growth</td>
<td>0.9</td>
</tr>
<tr>
<td>GDP (billions of US$; PPP)</td>
<td>1,797</td>
<td>Real domestic demand growth</td>
<td>0.9</td>
</tr>
<tr>
<td>GDP per head (US$; market exchange rate)</td>
<td>39,744</td>
<td>Inflation</td>
<td>2.3</td>
</tr>
<tr>
<td>GDP per head (US$; PPP)</td>
<td>30,910</td>
<td>Current account balance (% of GDP)</td>
<td>–2.2</td>
</tr>
<tr>
<td>Average exchange rate €:US$</td>
<td>0.680</td>
<td>FDI inflows (% of GDP)</td>
<td>1.3</td>
</tr>
</tbody>
</table>

Based on volume, Jiangmen Grand River Group Company, Ltd. was the leading player in the Chinese motorcycle market, accounting for 16.2 per cent of market share in 2006. In the same year, Chongqing Loncin Industry (Group) Company, Ltd. and China Jialing Industrial Company, Ltd. held 8.3 per cent and 7.4 per cent of market share respectively. Due to the lack of a dominant leading player in the market, there was an increasing number of manufacturers, including Qianjiang Motors and other emerging firms that competed for the remaining 68 per cent of market share.

To understand actual trends in the Chinese market and QJ’s position, some background information on the Chinese legal and regulatory environment is required. Focusing on the exhaustion of traditional natural resources, the deterioration of the environment and the excessive carbon dioxide emissions, the Chinese Ministry of Finance, Ministry of Science and Technology, Ministry of Industry and Technology Information and the National Development and Reform Commission issued a financial compensation plan for pure electric and fuel cell-powered vehicles. Energy-saving and environment-protecting vehicles were leading the R&D trend. QJ put the development of new-energy motorcycles onto its agenda: the company took the lead in releasing motorcycles with an engine management system, catering to national policies. Strengthening its technical input, QJ also introduced an electronic control injection system, reducing noise and gas emissions; at the same time, QJ was devoted to developing electric and liquid gas-powered motorcycles, as well as to participating in the formulation of national electric motorcycle standards.

According to a Chinese State Council resolution, motorcycles would officially be included in the “to the countryside” plan. From March 1, 2009 to December 31, 2009, the state was to allocate RMB5 billion for farmers in the countryside to trade old motorcycles and automobiles for new ones. This would mean considerable growth in the domestic motorcycle market. In the countryside, motorcycles were indispensable vehicles for feed, poultry and product transport, as well as for commuting. Compared to computers and other home appliances, farmers relied the most on motorcycles. The plan would be implemented over the course of four years, until 2013. As the leading company in the domestic motorcycle industry, QJ would greatly benefit from this compensation policy.¹⁹


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**TABLE D—Italy’s Main Macroeconomic Data: Projections**

<table>
<thead>
<tr>
<th>Key Indicators</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real GDP growth (%)</td>
<td>−1.0</td>
<td>−4.5</td>
<td>−0.5</td>
<td>0.6</td>
<td>0.9</td>
<td>0.9</td>
</tr>
<tr>
<td>Consumer price inflation (av; %)</td>
<td>3.4</td>
<td>0.5</td>
<td>0.8</td>
<td>1.7</td>
<td>1.9</td>
<td>1.6</td>
</tr>
<tr>
<td>Consumer price inflation (av; %: EU harmonized measure)</td>
<td>3.5</td>
<td>0.6</td>
<td>0.9</td>
<td>1.8</td>
<td>2.0</td>
<td>1.7</td>
</tr>
<tr>
<td>Budget balance (% of GDP)</td>
<td>−2.7</td>
<td>−5.3</td>
<td>−5.2</td>
<td>−3.6</td>
<td>−3.7</td>
<td>−3.6</td>
</tr>
<tr>
<td>Current account balance (% of GDP)</td>
<td>−3.2</td>
<td>−2.2</td>
<td>−2.0</td>
<td>−3.0</td>
<td>−2.8</td>
<td>−2.7</td>
</tr>
<tr>
<td>Short-term interest rate (av; %)</td>
<td>4.6</td>
<td>1.7</td>
<td>1.8</td>
<td>2.6</td>
<td>3.5</td>
<td>4.1</td>
</tr>
</tbody>
</table>

*Source: Factsheet, May 6, 2009, Economist Intelligence Unit (Country ViewsWire).*
The Acquisition

Benelli and QJ made contact for the first time in June 2005: they were looking for an agreement that matched their relative strengths. Benelli had a recognizable brand name, knowledge of Western markets and projection skills, while QJ had high-efficiency plants and low production costs. In September 2005, a deal was reached concerning the founding of Benelli QJ. Industrial activities began in October 2005.

The main reasons for QJ to purchase Benelli was to utilize a well-known and recognized brand in terms of quality and sporting tradition, as well as to capitalize on Benelli’s professionalism and knowledge in order to offer a high-quality product in segments that had not yet been penetrated by the QJ Group; therefore, the strategic objective of the initiative was to relaunch the Benelli brand by leveraging its history and tradition in order to achieve high-quality production. Benelli’s products and spare parts were also to be used in China in order to increase the quality of domestically-manufactured products and to further diversify production to new categories of clients. Increased efficiency and a wide range of quality products were expected to help QJ to compete with the leading Japanese companies in the motorcycle market.

At the time of the acquisition, there were no particular expectations with respect to Benelli’s geographic location in central Italy, but QJ actually found some competitive benefits in the Marche Region. There was a lot of support from local public organizations, which facilitated negotiations and helped QJ win in the “competition” with the Russian entrepreneur to purchase the company. The directors of QJ—which was in part a publicly-controlled company—welcomed the involvement of the local organizations, as well as the relationships forged between the Chinese local government and that of town, provincial and regional organizations in Italy.

There was much unexpected common ground in terms of culture and society between Pesaro, the Marche Region and the location in China. In addition to being located in a coastal town, QJ appreciated that the people in Pesaro had a strong work ethic and an approach to work that was similar to that in China.

The Post-Acquisition Phase

Main Organizational and Operating Changes Introduced After the Acquisition

Operations relating to administration, production and R&D were maintained in Pesaro. The main changes related to production operations, which were restructured to increase capacity at the Pesaro site: innovations included an expansion of in-house operations, such as the three-cylinder engine assembly that had previously been outsourced. As a result, the original workforce of 45 at the time of purchase was increased to 100 employees.

As for human resources, the sales director, parts quality manager and managing director were Chinese. The sales director was working on restructuring the sales network and expanding it to the West. The quality manager was handling the production relationship with the parent company especially to coordinate the production of Benelli parts that were made in China and then imported for assembly. All of the engineers, workers and technicians were Italian. The previous technical director became vice managing director. Generally, Chinese employees from the QJ Group came to Pesaro and vice versa for short periods of time, on a rotating basis, to learn from mutual experience (especially for designing and testing of motors).
For Benelli, the greatest positive changes after the acquisition included the following:

- Efficiency-building efforts to reduce some avoidable costs that had been increasing with the previous owners and leading to significant losses;
- A new way of managing human resources: QJ gave increased decision-making power and responsibility to the staff, including young employees and women. QJ was attempting to let all of the staff become involved in the future of the company, by spreading a teamwork approach through periodical meetings and encouraging suggestions and ideas from the bottom to the top.

**Industrial Activities: Present and Future**

In 2009, two production lines were operating at the original industrial plant: one for engine production and assembly and one for motorcycle production and assembly. Before the acquisition, engines were produced and tested through outsourcing, so only one line of production was in use. The decision to outsource the engines had been a mistake: it resulted in high production costs and problems in quality and performance control. The Chinese thus decided to bring production in-house, following the suggestions of the Italian technical director. In order to realize the new plan, the agreements with local professional and technical schools were reinforced, to create apprenticeships and subsequent placements for students. No changes were made in the relationships with the local suppliers.

The QJ Group devised a challenging industrial plan for the development of the company, with a resulting increase in the workforce: the industrial plan involved manufacturing new products within four years. Motorcycle production increased from only three models prior to the company’s acquisition to nine in 2007 and 10 in 2008 (Exhibit 7 shows two 2009 Benelli products). Each motorcycle model was different, and three new engines were used; they were designed in the technical department in Pesaro. Designs and prototypes were then transferred to the QJ technical department, where both the Chinese and Italian technical departments worked cooperatively to oversee the industrial development of the project. Once the industrial plan for the product was completed, production began in Italy.

*Exhibit 7 Two 2009 Benelli products*

*Source: Courtesy of Benelli QJ srl.*
Prior to the acquisition, Benelli produced only one model of scooter. Since 2008, two new models were added to their product range. As of August 2009, there were four models: they were all designed and projected in Italy, completely produced in China by QJ, and then imported with Benelli’s brand for distribution in Italy.

A key factor in the relaunching of Benelli’s activities was to reduce production costs and sales prices. It was estimated that it would take 10 years to achieve a truly competitive price in relation to the Japanese manufacturers. More parts would be produced in China to reach this strategic goal, while all high-value—knowledge-based—activities were maintained in Italy. While trying to win competitiveness in terms of price and build on QJ’s strengths, Benelli was working on QJ products to improve their technical performance as well as their style and design.

Benelli’s products were expected to enter the Chinese market in 2009–2010. In 2009, import restrictions on motorbikes with a displacement of more than 250 cc were abolished, so sales activities could now be organized; several dealers were ready to sell Benelli’s motorbikes in China. Scooters would not be distributed in China because they were not competitive in terms of price. After the industrial plan was completed, the relaunching of Benelli would also focus on racing activity; QJ was planning to have new competitive bikes ready for the MotoGP (in the next five years) and for the World Superbike races.20

**Sales Activities Abroad and the Commercial Network**

Another key element for improving Benelli’s competitive position and strengthening QJ’s competitiveness on international markets was the commercial network. Benelli’s business relationships abroad were being restructured, starting with the development of new branches in Europe and the United States. A great part of Benelli’s sales came from the European Union, particularly in Italy. Germany was the most important foreign market. The second most important foreign market for Benelli should have been the United States; however, there was a big differential between sell in and sell out (i.e., the number of imported motorbikes and the number of motorbikes sold). The key problems related to sales in the United States were customer-assistance services and distribution channels. The United Kingdom was another important market.

The Italian commercial network was based on 179 official sellers: 30 per cent located in the north, 33 per cent in the centre and 37 per cent in the south. Benelli also set up 21 “authorized workshops,” eight in the north, three in the centre and 48 in the south.

The distribution network abroad consisted primarily of joint subsidiaries with Benelli and KW brand products. KW was a new brand intended to sell scooters: it was launched by the group after the acquisition of the Hungarian company Keeway (later Qianjiang-Keeway Europe). These brands were differentiated by their price and quality, but they were sold through the same network. Aside from the KW subsidiaries, the commercial network was based on official importers—usually one for each country—that sold to different dealers. The dealers did not usually operate as mono-brand sellers. Benelli had importers in 37 countries across Europe, Asia and America.

QJ’s commercial strategy was differentiated on the basis of the geographic area: while there was a strong sales network in Indonesia through dealers and subdealers, Qianjiang Motor kept its sales away from the Southeast Asian market where national brands grouped together to compete and force down prices. Companies in countries such as Vietnam mainly relied on low prices to compete, and Qianjiang’s prices were entirely uncompetitive.

QJ was now turning to the North American and European markets. Europe had a very strict technical standard to pass as a threshold, so it was difficult to enter the market. In Europe, motorcycle repairs had a high cost per hour that could erode the margins made through sales. Therefore, first-rate products with good quality were needed to enter the European market.

What Is Next?

After the acquisition, some problems arose due to the cultural differences between the Chinese and the Italians in terms of behaviour, specifically concerning business approach. Human relationships were difficult due to different mentalities, habits and background. Problems stemmed not only from differing organizational cultures, but also from the differing working environments in China and Italy.

There were many examples of such communication problems in the technical area. The Chinese and the Italian technical departments should have worked together in harmony to combine and optimize their complementary skills; however, working together was difficult due to language and cultural differences. These problems were delaying the development of important projects.

Another critical field was that relating to rules and laws. In some cases, administrative actions were perceived as nonsense by both Italians and Chinese. Behaviour relating to specific Italian fiscal or civil rules were sometimes judged as “wrong” by the Chinese; likewise, Chinese rules seemed “strange” or unacceptable to Italian employees. In this sense, the problem facing Benelli and its new Chinese owners concerned how to improve cross-cultural understanding. Problems in communications and cultural differences created a rift between management and employees, impeding the implementation of strategy and harming the company’s potential.

Other difficulties in managing the “new” Benelli were due to the great focus on efficiency, which also had negative consequences. Domestic consumers in China were price-oriented: in general, this resulted in Chinese companies paying more attention to reducing costs and cutting investments that had long-term or intangible returns. QJ’s international expansion required it to give up this traditional way of doing business and to reconsider the low-cost approach. This focus on cost-savings led the company to give less importance to sales promotion.

A key problem for Benelli and its new Chinese owners was to improve the worldwide strength of the brand as well as the effectiveness of the sales network to increase market share. Benelli’s products, especially its motorcycles, had a huge potential to compete with the most important players in the market, but their market share in both Europe and in the United States was low. QJ had expected fewer problems in penetrating the western market through the Benelli brand; however, delays were caused as a result of having to rebuild and relaunch the brand image internationally, as well as having to re-establish international supplier relationships. Marketing investments, especially for sales promotion, post-sales assistance and customer care were needed.

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