The China Formula of FOMAS

The Osnago, Italy-based FOMAS group specializes in producing an array of forged steel products, manufacturing parts that are as essential to nuclear power plants as they are to wind turbines. • Despite the worldwide recession, FOMAS has made important inroads in India and China, opening a Chinese facility in near-record time. • Company CEO Jacopo Guzzoni credits the success of his company to patience, attention to detail, and a willingness to track the changing needs of the market. • interview by **Antonio Barbangelo**

Jacopo Guzzoni.

THE NUMBERS

The FOMAS group was founded in 1956 by Gastone Guzzoni in Osnago. Today, it's a multi-national company headed by sons Massimo and Jacopo.

In addition to company headquarters, there are six associated companies located in Italy, France, India, and China. The total workforce is 1,300.

In 2008, the group posted $600 million worth of turnover.

Construction on the FOMAS Precision Forging plant in Dalian, China began in early 2007. It was officially inaugurated little more than a year later, on Oct. 28, 2008. Jacopo Guzzoni, vice president and managing director of the Italian company credits what he calls "China's almost frightening efficiency" for the remarkable start-to-finish push.

From the beginning, say Guzzoni, he met "capable middlemen" on both the administrative and construction side. "It's not that way with all companies," he's quick to add. "At this juncture it's the companies that have something innovative or useful to offer to China at a technological level that get the most support."

FOMAS, based in Osnago in Italy's Lecco province, manufactures open die forgings, ring rolls, transmissions, industrial bearings and non-ferrous alloys, most destined for use in the aerospace and oil and gas industries, power plants, and in the machinery that powers alternative energy, including wind and nuclear facilities.

The city of Dalian juts out from the southern Liaodong Peninsula in Liaoning Province, about midway between Beijing and the country's eastern border with North Korea. In addition to being China's third-largest port city, Dalian hosts the booming Dalian Development Zone (DDZ), which includes an array of refineries and chemical plants. Many foreign companies also have their Chinese headquarters in Dalien. Guzzoni spoke to east about his company's expansion into China.

Why did you pick China?

We made the decision over time. Many of our oldest customers historians opened factories in China and invited us to join them so we could furnish the same product. Plus, China is a major consumer of our products in its own right. We couldn't really stay out. We laminated our first ring on Aug. 8, 2008, which is considered a day of good tidings among the Chinese. From then on, production has been constant.

Tell us a little bit about the history of your company.

FOMAS was founded in 1956 by my grandfather, Gaston Guzzoni, who was a professor of metallurgy and author of several books on the subject. The FOMAS name, an acronym that stands for "*Forgiatura Moderna Acciai Speciali*" (Modern Foraging of Special Steel) never changed from the start. At the start, the company had three laminating hammers and 20 employees. That's it. Over the course of our first decade, we replaced the hammers with presses, moving from steel tools to building tools. But we didn't really have a specific market target. It was only in the 1970s, when the second family generation took over, headed by the new managing director Massimo Guzzoni [*editor's note: Massimo, Jacopo's father, was the son of founder Gastone*], did we begin to turn focus our attention on making our practice into an industrial vocation and turning to international markets.

This inaugurated a new phase of your company's corporate life?

Yes. In the 1970s we decided to focus our attention on furnishing parts to major foreign companies, most of them large energy producers in the process of building plants. It was a market niche, and a very demanding one. Those years also saw us begin to produce rotors for small steam turbines, which until that time had been in the hands of large steel manufacturers almost exclusively. We also decided to get involved in building equipment for nuclear power plants.

How much did you export in those early days?

Even then, 85 percent of our goods went to the international market. We usually forged steel to order or produced items in small quantities, most of it destined for use in gas turbines, steam generators, condensers, converters, pipelines, and hydraulic presses.

Which nations did you export to first?

In Europe, Germany, France and England. Outside it, the United States.

When did you move from laminated rings to turbines?

I'm the third generation that's been doing it. I joined the company in 1987, shortly after graduating university in economics and trade. After holding a number of positions in different FOMAS offices and subsidiaries, I focused making the individual companies into a single group.

Nowadays you're one group.

We have two main divisions: the "Open Die Forgings Division" and the "Rings Division."

What do the two groups produce?

The first one, Open Die, consists of the original FOMAS Spa factory in Osnago and Bay Forge Ltd, located in Chennai, India. Both companies operate in the power generation market sector. The Ring Division combines of two of the group's smaller entities, broken down between small and large ring production units.

The small rings manufactured for the automotive industry, specifically for power transmission, and for specialized sectors, such as cutters for tunneling factories. Hot Roll Company Srl, based in Busano, Italy, La Foulerie Sas in Carignan, France, form part of the small rings business, so does the new Chinese company.

The large ring division consists of Asfo Spa, which manufactures medium and large rings for a number of other sectors that include oil, gas, electricity, and wind power. The factories are in Chiuppano and Villamarzana, both in Italy's Veneto region.

Who are your customers?

Large companies such as General Electric, Areva, Siemens, Alstom Power, Vestas, SKF, and a number of other foreign players. As for the automotive sector, we're

most active on our own domestic market, with clients such as Fiat.

Can you give us some examples of your involvement in Italy and elsewhere?

In Brazil, for example, we provided the "tree" for the water turbine of Rio Madeira, power station, located in the Rondonia state of northwest Brazil — we did that on behalf of the Alstom-Andritz-Voith consortium, which developed the project. On the nuclear side we've been involved with some of the largest nuclear power manufacturers in the world, and their facilities. We've provided parts for Finland's Olkiluoto plant, the French Flamanville plant, and the facility at Palos Verde, Arizona. These are all third-generation plants. In Italy, we've also worked at Larderello, in Pisa. It hosts the first-ever geothermal power station, which went up in 1913. FOMAS provided their turbine rotors.

How important is your research sector?

We've created a separate research and development department that now represents 0.8 percent of EBIT and has a staff of 10.

What's your commercial network like?

Our sales are exceedingly technical. Some 90 percent of all sales depend on ties with the management of specific establishments.

How has foreign demand held up over the course of the economic crisis of the past two years? Have you seen some encouraging signs?

The crisis hit us starting in the fall of 2009. By then a number of other sectors had already been hit. Attribute the lag to our production cycle, which is longer, about six-to-eight weeks. So, when you start talking about recovery, we're also lagging. Production right now is at about a third of its capacity. Demand dropped by about 70 percent compared to 2008 data. In fairness, the downturn didn't affect all companies of the group to the same extent. China and India have both seen domestic slowdowns, but they're still growing.

You're up and running in China. What about your experience in India? Was it similar?

Our Indian odyssey began in the early 1990s. Until that time we were present only as suppliers. Local competition was represented by the state-owned and managed behemoth, with services and product quality that were inadequate in relation to the demand. Our staff was convinced that India represented a major market opportunity. We were also encouraged by the financial policy of then-Prime Minister P.V. Narasimha Rao's approach of the Indian National Congress, which in those years had begun liberalizing the economy [Rao, who died in 2004, was prime minister between 1991 and 1996, the year of his death; he is credited with introducing substantial free market reforms]. We sought funding, staffing and home base that would help us take advantage of this new reality. We finally settled on Chennai, then known as Madras). We chose Bay Forge Ltd. as a so-called "greenfield" project.

If I understand correctly, it took a while before production took off.

The plant began production in 1996, with the late start due to a number of factors including the inadequacy of go-between and inappropriate supplies to meet our project specifications. Consider that in the first few months of our Indian operation the furnaces literally collapsed. They'd been made from inferior materials. We had to start from scratch and reorganize.

That same year, 1996, brought about a change in government. Atal Bihari Vajpayee of the Bharatiya Janata Party took over [Vajpayee, who ruled on and off between 1996 and 2004, led a fragile coalition government]. His policies put obstacles in the path of what had been a flourishing economic climate. Bureaucracy came back in a big way and every step was slowed down.

In this midst of this little rosy scenario — it was 2001 — we decided to dissolve its partnership with our agent and make a factory in Italy into the project director. We knew at that point that either the moved would work or we'd have to pull out of India.

But in the end you stayed on.

What changed the situation for Bay Forge Ltd. was an international tender launched in 2002 by Indian Space Research Organization (ISRO), to supply aluminum rings, "maraging" steels [iron alloys which are known for possessing superior strength and toughness] and titanium. They needed to build rockets to launch satellites with civilian payloads. Among the companies that participated, Bay Forge was recognized as the only one that possessed the technical expertise to meet the needed supply. We got the contract. Needless to say, it was a crucial step forward for Bay Forge, and remains one.

What exactly is the ISRO?

It's the Indian space agency dedicated solely to civilian projects. NASA has the same role in the United States, as does the Ariane project in Europe. ISRO launched satellites to gather data for motives of agricultural and educational development, and public health. These satellites helped provided systematic information about everything that was happening on the Indian subcontinent, which as you know is immense. ISRO also launches satellites for countries other than India and non-Indian companies. Their costs are competitive with the Europe's Ariane.

So all things considered the Indian decision might have been a little iffy.

Our basic idea was correct, but we bet too soon on the development of the country. On the other side of the coin, when India really began to grow we found ourselves way ahead, with a plant already up and running and trained personnel. All's well that end's well.

What other foreign countries have appeared on your corporate radar?

Russia and Brazil both show considerable promise as markets for our products. In Brazil, some companies in our sector have been operating for more than a decade. It's a market that requires strengthening, however, particularly in light of a number of new projects being developed in the region.

Take the "Pré Sal" project, which was named after huge Atlantic oil and natural gas fields discovered years ago off the coast of Brazil. It's expected to generate all kinds of investment — all adjuncts of drilling and making the resources viable. In addition, there's an electric program called "Belo Monte" scheduled to begin this year. It involved building a network of hydropower plants that, once fully implemented, will generate more than 11,000 megawatts. Not to mention that Brazil also has important industries in the automotive, aerospace and heavy engineering sectors. All this has led us to intensify our push in that direction.

What about Russia?

It's the real new frontier. In recent months, we've signed new contracts and received orders directly from Russian customers. Bear in mind that Russian technology already exists as a high level in a number of fields of industrial interest. Consider nuclear energy, and the oil, gas and automotive sectors, for example.

Have you received awards for your work abroad?

Yes, we have. Over the years our companies won a number of laurels. General Electric has cited us as their "Best Supplier" for two years running. AREVA of France has recognized FOMAS as "a successful supplier in the nuclear field." In 2008, the group received a "Top Investor" acknowledgment from the Italy-China Foundation awarded for our work in Dalian. In 2010, Vestas Towers, the Danish wind systems company, called Asfo spa "best supplier in terms of timely delivery." Those are just a few.

What are significant programs lie ahead?

In addition to the resources we're employing in Brazil and Russia, I should mention "FOMAS 2012 Project." Our home base at Osnago is seeing the birth of a new facility in which we've invested some €100 million. The facility will include a 11,000 ton press and a refuse plant.