The New York Times
July 16, 2005

G.E. Becomes a General Store for Developing Countries

By CLAUDIA H. DEUTSCH

Last month, officials from Vietnam called on David L. Calhoun, who runs General Electric's brand new infrastructure unit. They huddled in a room at the Waldorf-Astoria to go over a fairly formidable shopping list. The delegation left without placing an order, but Mr. Calhoun said, "I'm pretty sure we're going to get a near-term hit in airplanes, and a longer-term hit in energy."

Jeffrey R. Immelt, G.E.'s chief executive, is clearly counting on him to get multiple hits, and from multiple countries. For the first time, G.E. has rolled aircraft engines, rail products, water, energy, oil and gas equipment, and even some finance units, into one all-encompassing collection of businesses, aimed at helping developing countries come of age.

"One of the biggest reasons behind creating the infrastructure unit is to offer one-stop shopping to developing countries," Mr. Calhoun said.

In fact, revving up sales in emerging countries has become the overarching goal behind many of the seemingly unconnected changes that Mr. Immelt has made at G.E. lately.

The legacy of John F. Welch Jr., his celebrated predecessor, was to turn G.E. into a hugely profitable company that sold products and services primarily to companies in the United States and Europe.

Mr. Immelt, just four years into his job, is already shaping a company that may become best known for selling products and expertise to a whole new set of customers: the governments in the developing world, and the businesses they run.

He has little choice: G.E. is running smack into the law of big numbers. In 1981, when Mr. Welch, took the helm, G.E. was earning $1.7 billion on revenue of $25 billion. By the time Mr. Immelt took over on Sept. 7, 2001, G.E. was topping $28 billion in earnings and $130 billion in revenue. Analysts expect it will exceed $170 billion in sales this year.

Mr. Immelt has often promised that G.E.'s revenue will grow at least at an 8 percent annual clip, and that its profits will grow even faster. Skeptics abound. "That's a pretty herculean task, and the odds are against his delivering," warned Robert Friedman, an analyst with S.& P. Equity Research, who has a hold recommendation on G.E. shares.

Indeed, Mr. Immelt knows that G.E.'s traditional customers - the airplane manufacturers that buy engines and services, the hospitals that buy CAT scanners, the utilities that buy turbines - cannot provide that growth. But the governments of China and India, or even Vietnam and Abu Dhabi, with their vast needs for power, rail and air transportation, clean water, health care and, eventually, consumer finance, just might turn to G.E., one of the few true conglomerates, to meet all those needs.

G.E. already gets about half of its revenue from outside the United States. But only about $25 billion, or 15 percent, comes from emerging countries. Mr. Immelt has said he expects that figure to more than double by 2010.

More important, he wants at least 60 percent of G.E.'s incremental revenue growth to come from such countries, and analysts applaud that thought. "The developing world is G.E.'s best option for delivering sustainable double-digit growth over the next 5 to 10 years," said Deane M. Dray, an analyst at Goldman Sachs who rates G.E. shares as outperform.

Ferdinando Beccalli-Falco, chief executive of GE International and its self-described "minister of foreign affairs," insists that G.E. is in prime shape to exercise that option. "We're hitting the sweet spot between the needs of these countries and our product portfolio," he said.

That sweet spot could quickly sour, of course. Dealing with volatile governments and cultures is rarely as easy as dealing with customers like Boeing, or even Airbus. "One thing we learned from the Roman Empire, the geopolitical risks get more dangerous as you move farther from Rome," said Richard D. Steinberg, the president of Steinberg Global Asset Management, which counts G.E. shares as its largest holding.

Still, despite the caveat, "G.E. is taking the right route to growth," Mr. Steinberg said.

Other investors agree. "Developing countries provide perfect opportunities for G.E. to leverage its strength and size," said Roger R. Threlfall, a senior managing analyst at the Dreyfus Corporation, which holds G.E. shares.

So just as Mr. Welch expanded G.E. by offering to help corporate customers thrive, Mr. Immelt has been offering the leaders of developing nations help in building their economies. "I'm fast becoming G.E.'s chief sales rep," Mr. Immelt said.

Indeed, most of the management and marketing changes he has made, although seemingly unrelated at first glance, are aimed at helping G.E. develop a company-to-country marketing approach.

He has invested in industries he calls "growth engines" - many of them, like water, security and health care, with particular appeal to developing countries. He has inaugurated an internal "imagination breakthrough" program, asking G.E.'s executives to come up with new ideas for growth, including better ways of doing business in the developing world.

One plan that G.E. expects will soon yield $100 million in sales involves shipping unassembled locomotives to Russia, India and China, and hiring locals to assemble them.

Mr. Immelt split the cumbersome GE Capital into four businesses, a move he described as making the financial services arm more transparent to investors, but that he now says makes it easier to meld "financial strategies and industrial assets."

For example, the units that lease airplanes or that finance energy systems now report to Mr. Calhoun, as do the units that make aircraft engines and oil and gas systems. That makes it easier to start the ball rolling on financing as a developing country is warming up to the idea of buying planes or turbines.

Mr. Immelt also introduced, amid much hoopla, an "eco-imagination" program, in which he promised that G.E. would create more environment-friendly products as well as curb pollution emanating from its own operations. He already predicts that G.E. "is going to get a bunch" of the $80 billion that it expects China to spend on fuel-efficient, low-pollutant products.

"We wanted a marketing campaign that could span lots of our divisions, and hooking it to the environment seemed logical," Mr. Immelt said.

Then, last month, he tied the seemingly disparate initiatives together. He said that, as of July 5, G.E.'s 11 businesses would be consolidated into 6: GE Industrial; GE Commercial Financial Services; NBC Universal; GE Healthcare; GE Consumer Finance and, perhaps most important, GE Infrastructure, the one with the headiest growth prospects.

The consolidation may yield savings of $200 million to $300 million in administrative costs, adding as much as 2 cents a share to G.E.'s earnings next year.

"Jeff has transformed the portfolio so that the company is again focused on the industrial end," said Daniel J. Rosenblatt, an analyst with Babson Capital Management, which holds G.E. shares in several growth funds.

The reorganization was a back-to-the-future move of sorts, in that the new setup is more reminiscent of the eight business sectors that existed under Reginald H. Jones, Mr. Welch's predecessor, than of the 13 businesses that Mr. Immelt inherited four years ago.

"Jack got rid of the strategic planners, the multiple staff support positions, all the bureaucracy that existed with the old sectors," said Noel M. Tichy, a professor at the University of Michigan Business School. "Jeff has simplified the structure to make it easier for customers to understand."

Mr. Immelt's changes do bring risks. Although energy and aircraft-related financing will be part of GE Infrastructure, GE Capital retains the final say on whether any customer poses an "acceptable risk" for a loan, a hurdle that may be hard for developing countries to overcome. "If a customer asks for financing, we will bring everything we have to bear to try to get it," said Mr. Calhoun, who is on the GE Capital board.

The environmental push, meanwhile, may refocus a spotlight on an issue that has dogged G.E. for years: whether it should be responsible for dredging the Hudson River to remove chemicals that it legally discharged some 30 years ago.

Mr. Immelt said that G.E. had made a "defined set of commitments" to the Environmental Protection Agency and has set aside money to clean up the Hudson. But many environmental groups still criticize G.E. for what they see as recalcitrance, and have branded the eco-imagination project as primarily a public relations campaign.

Moreover, G.E. must set up assembly plants and otherwise invest in the developing world. "These are cash-consuming areas, so the immediate return on total capital might be low," said Steven J. Schneider, the president of G.E.'s Asia Pacific operations.

In addition, G.E. faces competition from companies like Nalco in water, United Technologies in aircraft engines and Siemens in health care.

Still, for G.E., the allure of selling to the developing world trumps the risks. Such deals would extend the life cycle of many products. Mr. Immelt noted that older aircraft sell well in Russia, while India is a prime market for lower-end X-ray machines.

The strategy can shelter G.E. from the impact of soaring oil prices, in that "higher oil prices will enable the OPEC countries to spend large sums on their own infrastructure," said David A. Bleustein, an analyst at UBS Investment Research, who rates G.E. a buy.

And, by selling infrastructure in developing countries now, G.E. may also be increasing the chance that, if and when wealth trickles down to the working class, those people will turn to G.E. for credit cards, loans and other consumer finance assistance.

Mr. Immelt concedes that the G.E. brand, for now, is fairly obscure in those countries. "Because we don't sell consumer products, we just aren't as well known outside the U.S.," he said.

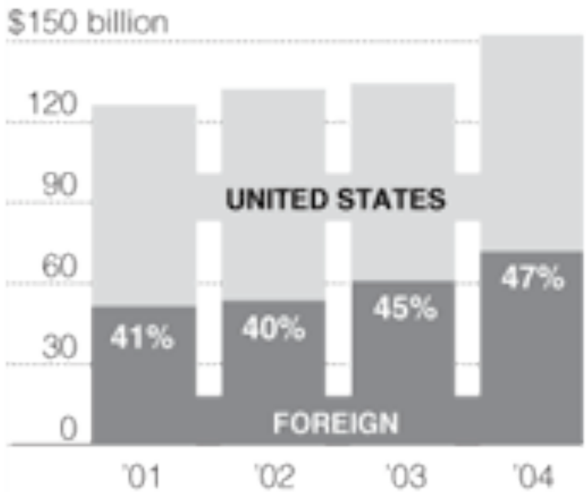
G.E. is already finding ways to remedy that. The research center it opened in Shanghai last year includes a huge atrium in which G.E.'s products are showcased. G.E. will soon double the center's size.

"We still locate our centers where we can get access to the best minds," Mr. Immelt said. "But, yes," he conceded, "these days, at least 20 percent of the decision is marketing."

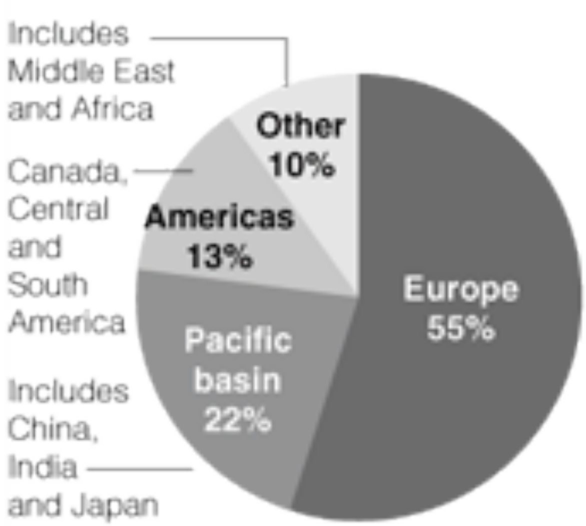
Looking Abroad

Foreign sales are a growing share of General Electric's business. Most of those sales are in Europe, but the company is seeking to expand its business in fast-growing developing nations.

GENERAL ELECTRIC'S REVENUE



FOREIGN REVENUE, 2004



Source: General Electric

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