

THE BIG STORY

WHAT ARE AIRSTREAMS DOING IN CHINA?



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POSTING IN **TRANSPORTATION** | FROM ISSUE 03 DECEMBER 2, 2013

THE SILVER RETRO TRAVEL TRAILER IS COVETED BY THE NEW CHINESE MIDDLE CLASS AS SOME CALL THE RV MARKET IN CHINA THE WILD, WILD EAST.

Earlier this year, a shiny silver Airstream trailer was manufactured in Jackson Center, Ohio. Its aluminum skin was rounded with care to create the trailer's aerodynamic, iconic shape, and then it was hand-assembled with thousands of rivets. A truck transported the trailer across the country to the Port of Los Angeles, and it was loaded on a cargo ship to Shanghai. Four weeks later, the Airstream arrived at Chinese customs, and the officers hadn't the slightest idea what to do with this giant, wheeled, bullet-shaped vessel. So they did what any scrupulous agent would do with a foreign object: They examined it carefully, from all sides.

"With no government regulations in China about RVs, it can be chaotic," said Shane Ott, Airstream's director of international business development. "Depending on the day, the week and what customs agents are working, they just don't know what these things are. So this customs officer gets on top to inspect it and leaves a huge dent on top. Shame on us. We should have put signage saying, 'Don't stand on the trailer.'"

With the emergence of China's new middle class comes a quickly growing segment of the population with disposable income and leisure time. Combined with the country's love of Americana and a Chinese infrastructure that's made road travel easier than ever (the G6 web of motorways will soon surpass the length of America's interstate network, according to *The Economist*), luxury products like Airstream trailers and Harley-Davidson motorcycles have become darlings of the middle class.

“Airstream is reflective of the American culture of the open road, Jack Kerouac and Route 66,” said Charles Skuba, an international business professor at Georgetown University’s McDonough School of Business. “Chinese travelers are now taking interest in traveling within China on the road. But it’s still very nascent. How long will it take for the culture of leisure road travel to develop?”

And that’s the billion-dollar question. The fact is, the camping culture in China is nonexistent. The country doesn’t have campgrounds, Chinese didn’t grow up making s’mores by the campfire, and as a country, they know very little about recreational vehicles, or RVs — especially, as it turns out, the folks at customs.

A decade ago, there weren’t any RVs being shipped to Asia, according to the Recreation Vehicle Industry Association (RVIA). But this year, exports to China alone might hit \$15 million (U.S. sales are estimated at \$13 billion). The country is by far the fastest-growing market for RVs.

But if shipping Airstreams to a country that doesn’t camp reminds you of trying to sell ice cream to an Eskimo, you’re not alone. I was fascinated by the idea of introducing a product to a country that doesn’t yet have a market for it, and I was curious how the “silver bullet,” as it’s called, ended up on the slow boat to China. So on a recent road trip through the Midwest, I stopped in Jackson Center. On the way, I passed one of Airstream’s smallest models, with a license plate that read, MELANIE. I wondered if the driver was named Melanie, or the trailer had been named Melanie. Either way, I took it as a sign that I was headed in the right direction.

WEARING PATAGONIA BUT NOT CAMPING

Airstream was founded in 1931 by Wally Byam, who was known for saying that he wasn't selling a product as much as a way of life. The design of the travel trailers, inspired by the early aerospace and automotive industries, has changed little in the last 80 years. The sleek trailers have quarantined and transported astronauts; made cameos in movies and TV shows; and become part of the permanent collection of New York's Museum of Modern Art.

While Airstream represents a small share of the U.S. RV market, the trailers have been around longer than those from any other manufacturer, and the design — both retro and futuristic — has captured the imagination and nourished the wanderlust of Americans perhaps more than any other. But many people think of them as a product of a bygone era. The most common response when I told folks I was headed to the factory was, “They still make Airstreams?”

Miles outside Jackson Center, in western Ohio, farmland stretched to the horizon. As I drove in, every shiny silver object — like the domed top of a silo — began looking to me like the skin of an Airstream. I arrived at the company's six-building compound during what would be morning rush hour, and I passed two cars on the main street. Across from the business office were the factory and service center. Airstreamers, as they are known, can camp out in the Terraport with their trailers at night, while they are serviced during the day.

The vice president of marketing led me around the factory floor, starting where every trailer begins — with giant sheets of aluminum. We walked by workers with tattooed arms, wearing T-shirts and jeans, and we shouted over the sound of drills. Once the shell of the trailer is built, it's placed on the chassis, and from there, it rolls around the factory floor, moving from station to station.

More than 90 percent of each trailer is made here, and made by hand; Airstream fabricates its own doors, windows, frames and furniture. Once the skin is sealed up, each trailer spends 40 minutes in a high-pressure water test — which attempts to replicate the worst possible storm — to make sure it's water-tight. As each unit moved down the line, workers installed air-conditioning, insulation and furniture, then added the finishing touches of each house on wheels, buffing out the aluminum at the end.

Demand for Airstreams is at its highest level in decades, thanks partly to an expanded domestic dealer network. The company gives daily tours of its factory, and at times, there were only a couple trailers in production. As we walked through, I stepped over little silver dollar-sized aluminum punch-outs scattered on the floor, and I lost count at a couple dozen trailers. I later learned that the company is now making about 50 per week (compared to 12 in 2008), and there is a five-month backlog. Every trailer on the floor was already spoken for.

Upstairs, I stepped into the office of President and CEO Bob Wheeler. Windows overlooked the factory floor, and shop noises buzzed in the background. Wheeler's office looked more like that of a plant manager

—the antithesis of a flashy executive workspace. Maps with pushpins of dealerships lined one wall, and cards from Boss’s Day earlier in the week adorned his desk.

This spring, Wheeler explained, Airstream began selling at dealerships in South Korea and Australia as well as China. “It started with the phone ringing,” he said. “We got calls from people who wanted to sell them in those countries, and also Russia, Indonesia, Turkey, Jordan, Israel, UAE ... but China’s the interesting one. There’s no campgrounds.”

Wheeler, who has an engineering background and has worked elsewhere in the RV industry, has a publicly traded company (Airstream is a subsidiary of Thor Industries) to back his expansion dreams. His first trip to China was in May 2011, and he met with potential importers. He went to an RV show in Beijing and saw people walking around with kids and backpacks, wearing Patagonia and North Face. “This was familiar,” he said. “I realized we could do this.”

Then there was the question of where to manufacture. “Nearly everyone we talked to asked us about building over there,” Wheeler said. He wasn’t interested for a number of reasons, starting with quality and brand control. He said it’s hard enough to build curved trailers by hand in Ohio, let alone in another state or a country with a different language and culture. So each trailer is made in the same factory, with small changes — like width or voltage — to accommodate various countries’ standards.

The fact is, Wheeler is fond of walking down the line and seeing Chinese characters on the trailers heading to dealerships in Beijing or Shanghai. And most of all, he said, “I just really like to say, ‘Made in a cornfield in Ohio and shipped to China.’”

WILD, WILD EAST

Airstream turned the dented Shanghai trailer snafu into a learning experience — its service manager traveled to Shanghai to do on-site training with the service team, and one of the lessons was dent-repair. But then the dealer ordered 10 more trailers, and they were held up for six months in customs.

“The opposite of too much regulation is not enough regulation,” Wheeler said. “You can’t get a license, or a cop pulls you over and asks, ‘What is this thing?’ Or you go through a toll, and they really aren’t sure what to do with you. There aren’t guidelines. It’s the wild East.”

Wheeler said more than anything, he was worried about the unknowns, especially when things can vary so much between provinces that China can seem more like a collection of different countries. Trailers headed to the Beijing dealership, for instance, had no problem at customs.

Another challenge is that the tariffs and duties, combined with shipping costs, almost double the price of a trailer in China, said Craig Kirby, vice president of international business for RVIA. For a motorized unit, the cost can triple. “We’re working with the agency over there that’s responsible for drafting RV standards,” he said. “It

doesn't have to mirror U.S. standards, but we want to make sure our product is not locked out of the market.”

John Wheeler, a spokesman for Harley-Davidson, said the company has faced similar challenges since its first dealership opened in China in 2006 (today there are 14). “One objective is to broaden the minds of government officials and regulators,” he said. Although 2 million motorcycles are sold every month in China (several times the number sold in the United States), most are small, utilitarian motorcycles used for commuting.

Selling Harleys in China means, as with Airstream, introducing a product that doesn't have a market — in this case, a motorcycle used largely for recreation. It also means lobbying for increased motorcycle access (it's currently prohibited on many of the major motorways) and changing rules like the one that requires motorcycle owners to scrap their bikes after 11 years. “Government officials don't believe the motorcycles can last for more than 11 years,” Wheeler said. “But that's a complete antithesis to what a Harley-Davidson is.”

Marketing these types of products can also be tricky. Although people in China have the same reaction to Airstreams as they do in the United States — they love that it looks like a spaceship — selling one requires a lot of basic education. Jane Ding, who heads up the Beijing dealership, finds herself telling customers how to use the RV, how to camp and where to take the trailer. The dealership has sold a half dozen trailers in the last six months.

The Beijing dealership owner, also a Land Rover/Jaguar dealer,

recognizes that discretionary spending in China is growing at a considerable clip and has plans to open a second Airstream dealership in Inner Mongolia. In Beijing, he's setting up a small campground so customers can have at least one place to camp. Others, for now, might simply park trailers in their driveways as a status symbol.

“We call this skimming,” Georgetown’s Skuba said. “You’re skimming off the cream of the market — the high-value consumers who have the money to buy these things, even though the market hasn’t developed yet.” But as the tourism culture develops, and people have more disposable income and time for recreation, competition will increase and will target a more mainstream market.

It’s clearly in the government’s best interest to create RV-friendly regulations — after all, they want to encourage the Chinese to spend their leisure time and money domestically. Once there is less uncertainty around issues like RV license plates, parking and towing, there seems to be a consensus that the market will take off.

Ott said Airstream is still “very bullish” on China, despite the setbacks in Shanghai. “We all had hoped that we’d see more retail activity the first year, but we’re learning through our dealers that this is a pretty common cycle: People need to see it, feel it, touch it.”

Airstream’s Wheeler said about 5 percent of the company’s sales are international; he would like to triple or quadruple that, and China inevitably will play a major role in that expansion. “We’re convinced it’ll be a great market for us,” he said. “Five years? Fifteen years?” He shrugs his shoulders. “We think more toward five.”

Wheeler said unlike manufacturers of commodity RVs, who look for return on their investments within six months, he's willing to take a longer-term approach for a higher-end market. And he's banking on the fact that Chinese are willing to pay more — about 70 percent more — for a product built in the U.S. of A. “They love Americana — Levi's, Mustang, Harley-Davidson, Coke — and we fit right in there. That,” he said, his palms together in a prayer position, looking up toward the ceiling, “will protect us.”

NOV 30, 2013

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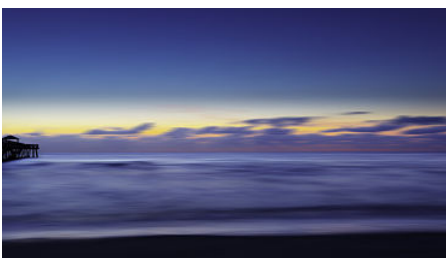


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