The Forbidden City of Terry Gou

His complex in China turns out iPhones and PCs, powering the biggest exporter you've never heard of

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Past a guarded gate on the outskirts of this city sits one of the world's largest factories. In dozens of squat buildings, it churns out gadgets bearing technology's household names -- Apple Inc.'s iPods and iPhones, Hewlett-Packard Co.'s personal computers, Motorola Inc. mobile phones and Nintendo Co. Wii videogame consoles.

Few people outside of the industry know of the plant's owner: Hon Hai Precision Industry Co.

With a work force of some 270,000 -- about as big as the population of Newark, N.J. -- the factory is a bustling testament to the ambition of Hon Hai's founder, Terry Gou. In an era when manufacturing has been defined by outsourcing, no one has done more to shift global electronics production to China. Little noticed by the wider world, Mr. Gou has turned his company into China's biggest exporter and the world's biggest contract manufacturer of electronics.

Hon Hai's revenue has grown more than 50% a year in the past decade to $40.6 billion last year. It is expected to add $14 billion in revenue this year. That is roughly the equivalent of Motorola's adding, within a year, the sales of CBS Corp.

Throughout his company's rise, the 56-year-old native of Taiwan has maintained a low profile. Publicity, he says, risks helping competitors and alienating customers. "I hate that I [have] become famous," Mr. Gou said in a recent three-hour interview at Hon Hai's Taiwan headquarters. It was Mr. Gou's first interview with Western media since 2002, following more than five years of requests by The Wall Street Journal. "We are so big we cannot hide anymore."

Hon Hai, and its massive Shenzhen plant, provides a window into the sometimes-secretive world of manufacturing in China. Confidentiality is a selling point for contract manufacturers, whose customers count on them to shield their products and plans from outsiders. Secrecy has also been a central issue in China's recent tainted-product scandal, with the often-quiet relationship between U.S. companies and their suppliers complicating regulators' hunt for the source of defective goods. Recently, citing ongoing investigations, Mattel Inc. took nearly a week to identify its Chinese provider of toys believed to contain lead paint.

Hon Hai hasn't been involved in such scandals, and analysts and industry insiders say Mr. Gou has combined discretion with a solid record of quality control and competitive pricing to build a booming empire. The $43 billion market capitalization of Hon Hai -- a public company listed in Taiwan, which uses the trade name Foxconn -- is equal to that of its 10 biggest global rivals combined. Mr. Gou and Hon Hai control additional affiliates that report revenue separately. Mr. Gou is currently worth about $10 billion, a Hon Hai spokesman says.
The company guards its customers' identities, although some of them are named in its Chinese-language filings to securities regulators. Hon Hai and its affiliates make products not only for Apple, Nintendo, H-P and Motorola, but also cellphones and parts for Nokia Corp., PlayStation 2 sets for Sony Corp. and computer parts for Dell Inc. Those companies did not dispute their relationship with the manufacturer. Hon Hai is also currently the exclusive supplier of Apple's iPhones and one of the few makers of iPods, Taiwan-based analysts say. Apple acknowledged that Hon Hai is a supplier but declined to comment further.

At the center of Mr. Gou's empire is his walled Shenzhen facility, the Longhua Science & Technology Park, which covers about a square mile. Aside from customers, few outsiders set foot inside. A reporter visiting Longhua was barred from viewing protected areas or taking photographs of more than a few scenes.

In addition to its dozens of assembly lines and dormitories, Longhua has a fire brigade, hospital and employee swimming pool, where Mr. Gou does early morning laps when he is there. Restaurants, banks, a grocery store and an Internet cafe line the company town's main drag. More than 500 monitors around the campus show exercise programs, worker-safety videos and company news produced by the in-house television network, Foxconn TV. Even the plant's manhole covers are stamped "Foxconn."

James Lee, a heavy-smoking former banker whom Mr. Gou tapped to run the plant in 1998, is Longhua's de facto mayor. Mr. Lee frets about how to provide more than 150,000 lunches every day in the 10 cavernous employee canteens (that's about 10.6 metric tons of dry rice per meal, at one bowl each). He oversees landscaping, uniform buying, dormitory building and hiring as many as 3,000 new workers a day during peak periods. His administration employs more than 1,000 security guards to keep order and prevent unauthorized visitors from sensitive areas. Administrators also battle what he calls new employees' tendency to litter.

"I have to resolve every single small problem on this campus, with the exception of production," he says over a "Foxconn Coffee" at a company restaurant. He jokes: "Would you want this job?"

Now the plant's space is running out. "We never thought we would expand so fast," says Mr. Lee.

The founder's personality permeates the site and company. A charismatic man who inspires intense loyalty among his lieutenants, Mr. Gou runs Hon Hai with the power of a warlord. On his right wrist he wears a beaded bracelet he got from a temple dedicated to Genghis Khan, the 13th-century Mongolian conqueror whom he calls a personal hero.

"I always tell employees: The group's benefit is more important than your personal benefit," Mr. Gou says.

Mr. Gou has combined a competitive drive with a business model that lets the company build much of its products in-house, saving money on parts. His zeal for cost-cutting prompted a fellow executive to quip several years ago that Mr. Gou is "worth about $2 billion in nickels and dimes."

Longhua's workers tend assembly lines, in shifts, around the clock. They earn wages that seem meager by developed-world standards but are enough to keep new recruits streaming through its gates. The most basic assembly-line jobs pay about 60 cents an hour -- the legal minimum -- although workers can earn higher wages for overtime. Meals are subsidized. Most workers live rent-free in company dormitories inside the walls or off campus.
Last year, a British tabloid alleged poor treatment of Longhua's workers, specifically those who make Apple's iPods there. (At the time, Apple reported that nearly one-seventh of Longhua's workers made Apple products.) The British account was followed by criticism of the company in the Chinese press.

Apple sent a team to investigate, and found a handful of violations of its Supplier Code of Conduct, including over-crowding at three off-site dorms, according to a report the company issued last August. Apple, which asks suppliers to limit workers to 60 hours of labor a week except in emergencies, estimated that one-third of Longhua's workers exceeded the limit. It did not find evidence of forced overtime. Overall, Apple found Hon Hai to be in compliance with its guidelines "in the majority of areas," it said in the report. Apple declined to comment further.

Hon Hai executives say conditions for their workers are better than the average in China, which helps them attract new workers. They say they have built new dorms at the plant and taken other measures to address Apple's concerns. Mr. Gou angrily dismisses the critical coverage.

Mr. Gou started what would become Hon Hai in 1974. He borrowed part of the initial investment of $7,500 from his mother, who with his father had fled to Taiwan in 1949 during China's civil war. In a facility near Taipei, he began making plastic channel-changing knobs for black-and-white television sets.

In the early 1980s, he expanded into the PC industry just as it started to take off. His first products were connectors, the relatively simple but ubiquitous parts that join components in a PC. Though he spoke little English or Japanese, he soon began traveling to the U.S. and Japan, seeking out customers. During the 1980s and 1990s, he says he logged so much time driving from city to city in the U.S. that he memorized the menu at Denny's.

In 1988, with orders surging and costs soaring in Taiwan, Mr. Gou set up his first factory in China, where land and labor were cheaper. Decades-old tensions between Taipei and Beijing were starting to wane, and China was a decade into a massive economic overhaul. Mr. Gou chose Shenzhen, a city next to Hong Kong at the forefront of China's market reforms.

He used his small-but-fast-growing Shenzhen operation in his sales pitch to prospective customers. In 1995, when Michael Dell was visiting southern China, Mr. Gou offered to arrange meetings with local officials he knew in return for the chance to drive the 30-year-old American to the airport, says Max Fang, who was then Dell's head of procurement in Asia. On the way, Mr. Gou made an unscheduled detour to show off his factory.

Dell then wasn't one of the world's top five PC vendors, and Hon Hai didn't yet make parts that Dell bought directly. But Mr. Gou "knew that Michael Dell was a star of tomorrow, so he wanted to meet him," says Mr. Fang, who has known Mr. Gou since 1979. Today, Hon Hai is one of Dell's biggest suppliers, analysts and industry sources say. Mr. Gou keeps a photograph of Dell's founder on a shelf in his Taiwan office.

That same year, Mr. Gou secured a larger plot of land that would become Longhua. When Mr. Fang visited a year later, it had fewer than 1,000 workers. Executive offices were housed in 20-foot shipping containers.

But Mr. Fang was impressed. At the time, Dell and other PC companies tended to buy parts from several suppliers and ship them to their own factories for assembly. Mr. Gou had created a production line that let him do most of the process himself, from procuring the raw steel for PC casings to putting together the finished product.

Over the years, Mr. Gou has expanded his portfolio to include a growing share of the PC's insides. Making its own components lets Hon Hai undercut competitors on the price of its finished products without reducing its overall margins, says Adam Pick, an analyst at iSuppli
Corp., a market research firm in El Segundo, Calif.

By 2000, Hon Hai's work force neared 30,000 people and its revenue topped $3 billion. Mr. Gou was expanding his soup-to-nuts strategy to more products. That year, Hon Hai set up a subsidiary called Foxconn International Holdings Ltd., now the world's biggest independent cellphone maker. In 2003, Mr. Gou launched a company that is now a leading maker of flat-panel LCD monitors. Last year, Hon Hai bought a major producer of digital cameras.

Now, in some cases, Hon Hai builds much of a product and ships it to its client for the finishing touches. In others, it ships the final products directly to retailers or consumers.

In all, more than 450,000 workers are now employed at Mr. Gou's plants across about a dozen provinces of China. Thousands more work in facilities run by Hon Hai and its affiliates across the globe -- including Hungary, Mexico and Brazil -- as the company sets up plants closer to its customers' operations. The company is one of the biggest exporters in the Czech Republic, where Mr. Gou bought a castle several years ago. Hon Hai is also adding operations in Vietnam and India and expanding into other sectors, including auto parts.

As Hon Hai grew too large for one person to manage directly, Mr. Gou fostered a culture centered on his personality. Around Longhua, his image can be seen in large framed photos of him with Chinese officials, and on the Gou biographies stacked in the factory book store's window.

Executives say he leads by example to keep products coming out on schedule and to customer specifications. Known for his 16-hour days, the founder for years would cruise the Longhua campus late into the night in a golf cart -- modified with a large bicycle horn -- stopping to spot-check production lines or help repair equipment.

Company managers are expected to read and remember a document called "Gou's Quotations." (No. 133: "The important thing in any organization is leadership, not management. A leader must have the decisive courage to be a dictator for the common good.") At meetings, Mr. Gou often stands, and illustrates his ideas with black marker on a giant white paper pad. He encourages discussion, but if someone says something he considers foolish, he may order the person to stand at attention. "He'll say, 'I'm not punishing you, because I'm standing, too,'" says a senior Hon Hai manager.

Industry executives and analysts say customers often start outsourcing one product line to Hon Hai and then shift more there. "You get addicted," says Mr. Fang, who left Dell in 2002 and now runs a venture capital fund that has co-invested with Hon Hai in a company called Ugobe Inc., which makes robotic toys.
Competitors have struggled to keep up. Four years ago, Hon Hai was smaller by revenue than Nasdaq-listed Flextronics International Ltd., the industry's longstanding leader. Now, Hon Hai is so much larger that even after a merger announced in June between Flextronics and Solectron Corp., of Milpitas, Calif., their combined revenue will be about two-thirds that of Hon Hai.

Hon Hai has its vulnerabilities. It isn't, for example, a major producer of laptop computers, which analysts say requires product-design capabilities that Hon Hai lacks. It is exposed to the risks of contract manufacturing, an intensely competitive business with thin margins. Hon Hai relies heavily on a fairly small number of customers: In the tech industry, a single product line can make or break a company's fortunes and, in turn, the well-being of a supplier. The company also faces the challenge of increasing revenue at the rate investors have come to expect.

Hon Hai's sheer physical size also creates difficulties. Longhua was built quickly, and its layout wasn't well planned, says Mr. Lee, the plant director. With its increasing overcrowding, just moving all those workers around is a challenge. Mr. Lee says he once considered building a monorail but the idea proved too difficult. He says the ideal facility would have about one-fourth of the land area and perhaps one-third the workers.

"It's not a good idea to be this size," says Mr. Lee, who is also in charge of building other large factories for Hon Hai.

Hon Hai executives, and outside analysts, say the company has stayed nimble so far largely by splitting its operations among about a dozen smaller, semi-autonomous units. Mr. Gou says he wants to upgrade Longhua's facilities and take on more advanced work, such as research and development. That means shifting manufacturing jobs to other parts of China.

Longhua is incessantly busy, but during breaks and shift changes, the activity explodes. At lunchtime on a recent sunny day, thousands of employees poured out of their buildings. They swarmed in and out of a large cafeteria and browsed in the factory book shop. A line of dozens of new employees, carrying their few possessions, snaked along a crosswalk.

Most of the workers wear uniforms color-coded by their department. Others wear blue jeans and T-shirts. A number stroll in pairs, hand-in-hand. The workers are as young as 16.

Zhou Ruqing, an affable 20-year-old, has worked at Longhua for just over a year as a quality inspector on an assembly line. She lives in an apartment outside the factory with her boyfriend, who also works at Longhua.
Ms. Zhou came to Shenzhen in 2005 after graduating from high school in rural Sichuan province. As a mid-level assembly-line worker, she earns about $230 a month, including overtime pay. (First-year workers can make as little as $90 a month if they do not work overtime.) That doesn't include about $60 a month in housing and food subsidies, plus health insurance. In Shenzhen, that money goes far -- the rent for the small apartment she shares is less than $60 a month.

Another worker, who would identify himself only as Mr. Xiao, started as an assembly-line worker almost three years ago, just after graduating from a technical school in central China, where Hon Hai recruited him. His starting salary was $44 a month at today's exchange rate. Working up to 30 days a month, he could earn up to $157 a month. "I was really tired then, too busy to rest," he said.

Mr. Xiao has worked up to a more advanced post. His basic salary has doubled, although his total pay hasn't increased much, partly because he works fewer hours. He says conditions are better than they were at the time of last year's critical press attention, but "the change is incomplete." He currently works six days a week, spending his off day studying in hopes of landing a different position.

Mr. Gou's role at Hon Hai is changing, too. He says he works just as hard today, but is focusing more on big strategic issues than day-to-day work. He is also devoting more time to charity -- he has pledged to eventually give away one-third of his fortune -- and dealing with changes in his personal life. His wife of many years died in 2005. Last month, his younger brother, who had headed a Hon Hai affiliate, died after a long illness.

Mr. Gou has begun looking for a successor at Hon Hai, focusing on candidates in their late 30s or early 40s and asking senior managers to prove themselves by running their units assertively. There is no natural successor -- his son and daughter don't work at the company.

He says his decision to begin stepping down now is inspired by Chinese history, specifically the Qianlong Emperor, who ruled from 1736 until 1796, when he was 84 years old. Qianlong greatly expanded the Qing Dynasty, making China perhaps the wealthiest country on earth. But his judgment failed in his later years, and the Qing began a decline that led to its eventual demise. "He controlled the whole of China for 60 years," says Mr. Gou. "He stayed there too long. So I want to sit back and give young people more responsibilities, when I'm still young."

--Sue Feng in Beijing and Christopher Lawton in San Francisco contributed to this article.