

General Motors

Maintaining Leadership in the Chinese Market



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Executive Summary

GM is currently facing the most challenging time periods in its entire history. Nevertheless, there are a few potential avenues of growth and success still available to GM. Among the most promising of these is the Chinese automobile market. Here we present a course of action which GM could follow to ensure its continued leadership in China. Our vision of GM's future operations in China can be summarized by the following three premises:

1. The Chinese car market will continue to grow and remain profitable, eventually overtaking the US as the largest car market.
2. GM is very well suited to lead the Chinese premium car market, as well as to effectively compete in the market for trucks.
3. GM will maintain long term leadership by investing in the four P's: Products, People, Processes, and Partnerships. This will ultimately improve GM's brand, image and reputation.

The Chinese Auto Market

In January 2009, for the first time in history, China surpassed the US in the number of cars sold monthly [1]. Experts have pointed out that China would not have placed first, had it not been for the effects of the financial crisis damaging the sales of vehicles in the US. But still, it is arguable that the size of the Chinese market is growing consistently in spite of the recess

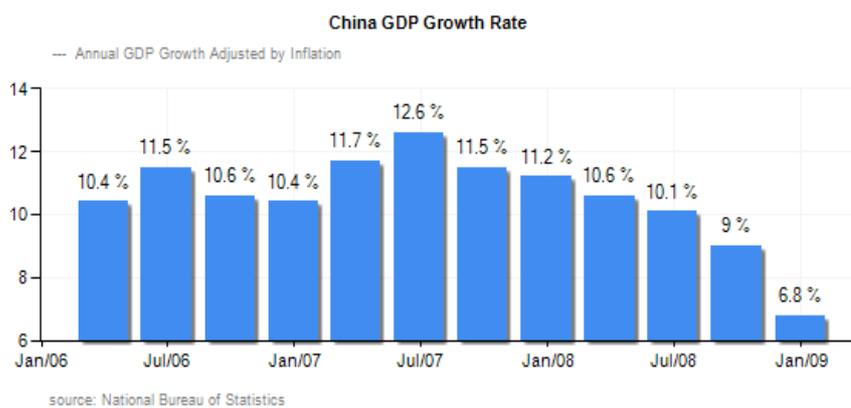


Figure 1: China's GDP Growth Rate

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observed by other countries. It is estimated that only about a 3.7% of the Chinese population could afford to buy a car in 2002, while predictions for 2010 set around 13% [2]. In real terms this implies an

additional 120 million potential car buyers in eight years, and an average growth of 17% per

year. Other studies estimate an even faster rate of growth, topping 24% per year [3]. Whatever the real figure is, the Chinese car market is certainly expanding at an incredible pace, considering that the GDP grew “only” 12% in 2007. Therefore it is not surprising to see how so many companies are entering or have already entered the business. With so many players it possible that very soon the market will reach saturation. It is then that the real competition will begin.

To date, GM is fighting against Volkswagen for the title of top automobile seller in China. Both companies hold approximately 11% of the market, but GM seems to be losing ground recently. The real threat does not come from Volkswagen, however, but from emerging Chinese and Indian

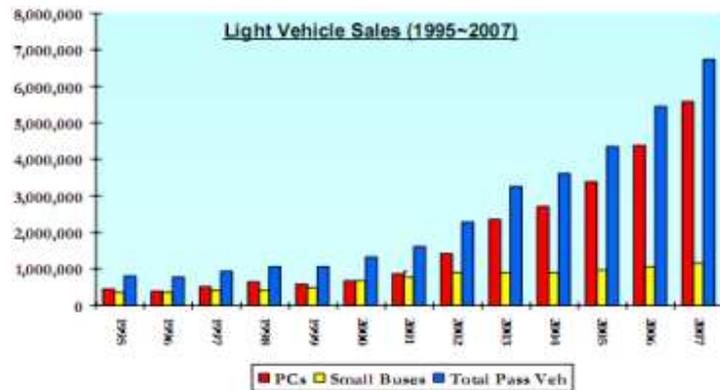


Figure 2: Sales of Vehicles in China

companies, and from GM’s Japanese rivals, which are entering the scene in these recent years. GM gained a first mover advantage by starting to sell cars in China in the 90’s, but keeping that advantage will prove to be hard without a solid strategy.

One of the best selling models produced by GM was in conjunction with the Shanghai Automotive Industry Corporation and Wuling Automobile, the Wuling Sunshine, which in 2006 sold more than 460,000 vehicles [4]. The Wuling Sunshine is a mini-van with a 0.8 liters engine, a top speed of 60 miles per hour, and a price of \$3,700. The number of micro-cars sold is still high, due to the fact that most buyers cannot afford the cost of a real car. A lesson to learn for GM is that the best way to be in the cheap car market is to sell technology to local companies instead of promoting its own more expensive models. This way GM could also benefit from the cheap cost of labor by extending its existing agreements to the production of other models. Not to forget is the fact that joint ventures with Chinese companies would improve GM’s relationship with the government. After all, the chances of winning a price war in the cheap segment without having a local partner are very low. For instance, in 2008, the Indian company, Tata Motors, announced the “world’s least expensive automobile”, which starts from a price of \$2,500 [3]. GM’s models simply could not compete in a race to offer prices of a mere few thousand dollars.

Still, there is a reason for why GM would benefit from selling low-priced vehicles. Recent analyses have recognized that Chinese customers are losing enthusiasm for micro-cars. According to the some reporters, sales of cars with an engine size of one liter or less fell by 24% in 2007 [3]. Every year more and more families are willing to bear the expense necessary to buy a more reliable car, and GM has built a solid reputation with regards to vehicle safety; this is bound to pay back in the near future. With that said, GM should consider focusing on the medium-high end of the market, advertising more Corvettes, Cadillac, and Buicks models.

SWOT Analysis

Strengths	Weaknesses
<p>Large Vehicles – GM has a sound portfolio of large vehicles, for both personal and commercial use. This is a product where GM has a better reputation in than any German or Japanese competitor.</p> <p>Brand Name [24] – GM cars (especially Buick) command a lot of respect in China because of the historical view that American products are superior. The Buick is highly recognized for both its quality and desirability.</p>	<p>Slow to change – GM has always had the problem with adapting to changing markets. This can be seen clearly in the SUV market here in the US.</p> <p>Chinese government – Since GM is not an inherently Chinese firm, it may be left out of certain government provisions, such as special promotions and tax breaks.</p>

Opportunities	Threats
<p>SUV's—GM can leverage its known, high valued vehicles to market luxury SUVs to rich Chinese consumers.</p> <p>Chinese Market—Since China is still a rapidly developing market, there several opportunities for any company to do well. GM is very well positioned to take advantage of this growth based on its reputation for quality and trustworthiness.</p> <p>Trucks—The Chinese government is currently in the process of upgrading China's roads. This coupled with the fact that the Chinese economy is also growing rapidly, means that there will be a high demand for construction vehicles, such as trucks, which GM can provide.</p>	<p>Domestic Manufacturers—The government will favor local firms over international ones in its economic plans and thus domestic manufacturers will have an advantage.</p> <p>German Manufacturers—Companies such as BMW and VW compete directly with GM in the luxury market. In anything GM does, it will have to consider the reactions from these other companies.</p> <p>Price war – If GM directly competed with Chinese or Korean companies in a price war, its unstable financial situation and lack of experience in low pricing will prevent GM from succeeding.</p>

Chinese Consumers

The culture of Chinese consumers offers the opportunity for GM to gain a strong edge over its Asian and European competitors. One of the major points is their mild dislike of the Japanese and their strong trust of American products [5]. Due to this, GM has an advantage in that their products will be inherently preferred over Japanese products by some Chinese consumers. In addition, Chinese people have historically saved a higher portion of their income. However, they are also more willing to dish out more money when it comes to quality because of their high emphasis of self-image [5]. This creates a dynamic where brand image and reputation play major roles in purchasing decisions, especially for more expensive goods. Furthermore, the stimulus package recently passed by the Chinese government promises to provide further incentives for large consumer purchases, such as buying a car [6].

Products

Currently GM already has a prominent position in the market for mid-side and premium sedans. GM models like the Chevrolet Aveo, Buick Excelle, and Cadillac CTS/SLS command significant respect in terms of perceived prestige. In China, the association of certain GM cars



Figure 3: 2009 Chinese Buick Excelle, compact sedan.

with a luxurious American lifestyle should not be underestimated. It offers a starting place for further market penetration. For example, Buick has a reputation for respectability and leadership dating back to the 1920's, when the last Chinese emperor Pu Yi owned one [7]. Other models by Chevrolet and Cadillac are

also doing well in their respective segments. GM should continue to focus on these core assets and protect their long term potential through a focus on quality and image. It is expected that German and Japanese automakers will compete strongly in this area, thus GM needs to

implement the other aspects of our plan (People, Processes, and Partnerships) to protect their head start.

Additionally, GM should use its current market position to leverage the introduction of its large and successful portfolio of light trucks, SUV's and commercial vehicles. GM has historically been very competitive in this market segment and we foresee that the passenger truck and SUV category will fit very well with the needs of Chinese consumers. In general, Chinese



Figure 4: Chinese 2009 model of the Cadillac CTS-V.

roads are of low quality and vehicles suited for more rugged uses would do well with consumers who must travel over these roads. Furthermore, the infrastructure improvements mandated by the Chinese government would create a short-term demand for trucks that GM should exploit [8]. The large-scale manufacturing of trucks also positively impacts the sedan division as trucks and cars are complements in terms of supply. The supply chains for the building of trucks and cars can be coupled to reduce costs on both sides. Finally we predict that the government itself will provide a considerable source of demand for trucks. This can be exploited through joint ventures with Chinese companies (discussed later in Partnerships).

Complements

In order to further establish the high quality of GM products, we propose the creation of a rewards system based on miles driven, which features services like car washes as a centerpiece. This serves a two-fold purpose; it signals that GM cars are status symbols that need to be properly taken care of. At the same time, this will build consumer brand loyalty by increasing switching costs, much like the rewards systems implemented by airlines. Car washes impact the three major tiers of GM consumers. For high-end buyers, buying GM (ex. Buick) is a status symbol, and thus, much like in Mexico, these consumers will want to keep their cars well maintained and clean, (in Mexico, people average 2.2 washes per car per week!)[9]. However, current car wash businesses are highly diversified, from self-wash to fully automated, with no standard of quality for results [9]. Therefore, there is a large demand but little supply for this service. For the average buyer, buying a car is less for practicality and more for a sense of

personal achievement and freedom of having an option other than the more traditional modes of transportation (such as taking the bus or biking) [10]. Essentially, it is even more important for this group of consumers to maintain clean cars. For the potential buyer (lower income), the car wash serves as an advertisement of reputation, accountability, and quality of service. The objective is to have a car wash become a center of social activity. Similarities can be drawn to the laundry mat business and how adding other social conveniences (such as a general activity room, children's toys, etc) serve in increasing business. The car wash, instead of being viewed as a quick stop for something inconvenient but necessary, will be portrayed as a daily activity as common as getting coffee before work. In fact, there is no reason why such businesses cannot be integrated within the larger rewards system; the novelty of idea and scale (anywhere in the world), means that there will be prime locations available as well as attractive low costs. This aspect of the Chinese culture, where cars are alleged to act as reflection of their owners, combined with the consumers' willingness to pay for such luxuries, imply that this is the perfect market to implement this plan. Location is the most important determinant of success [11].

Partnerships or buyout should be considered with existing car wash businesses. Initially, the plan should focus on adding car washes to dealerships and other GM owned locations. This will help determine feasibility, attractiveness (success of the business as a standalone), and public reception, before starting a wider spread initiation of the car wash business. Other high priority locations include new developments, especially luxury apartment complexes, villas, and condos. The viability of the plan depends primarily on the costs involved. GM owners will be given free washes every 150 miles or so driven, but with automated carwashes, fixed costs associated with machinery will be the dominant effect.

The advantage of a rewards system is that even if GM's competitors were to imitate it, GM would still benefit from the decreased competition as costumers are "locked in" a specific rewards plan. Coupled with its large current market share, and first mover advantage, GM would profit greatly from such an endeavor.

Top Seller Models in China In 2008

(Source: *China Car Times* [12])

Subcompact Cars

<u>Car Model</u>	<u>Sales</u>
Chery QQ	133398
Tianjin Xia Li	120969
Chevrolet Aveo Sedan	107336
Geely Freedom Cruiser	81076
VW Polo	74491

Compact Cars

<u>Car Model</u>	<u>Sales</u>
VW Jetta	202303
Buick Excelle	175417
Toyota Corolla	165271
Nissan Tiida	137193
BYD F3 and FR3	136782

Mid Size Cars

<u>Car Model</u>	<u>Sales</u>
VW Santana	197934
Honda Accord	170517
Toyota Camry	153532
VW Passat	100902
Mazda 6	69794

Full Size Cars

<u>Car Model</u>	<u>Sales</u>
Audi A6L	86084
Toyota Crown	45427
BMW 5 Series	21188
Mercedes E Class	7035
Cadillac CTS/SLS	5904

People

In order for GM to remain one of the top competitors in China, it needs to invest in human resources. In China, many people go to vocational or trade schools instead of attending high school [13]. It would be advantageous for GM to give away scholarships and internships for people interested in becoming mechanics. GM would offer greater financial support for mechanics who agree to work for GM after finishing with their training school. As part of the lock-in strategy of the plan, GM could organize meeting and training sessions for mechanics and engineers aimed at familiarizing them with GM models. In addition, GM should donate trucks and cars, to vocational schools for mechanics. This will improve the company image of GM, and familiarize the people studying at these schools with GM automobiles. This also gives GM an advantage for the auto purchasing choices these people make in the future, since they will be more comfortable with GM models. Finally, GM should invest in providing better training for car dealers in GM dealerships. Currently, car dealerships in China suffer from having inexperienced car dealers [25]. Many car dealers “know nothing about cars” and the only training they receive comes in the form of an information pamphlet they are instructed to read [25]. GM would greatly benefit from providing effective training to dealers selling GM automobiles. By providing buyers with professional and knowledgeable sellers, GM can improve the overall experience of its customers, hence build up on its reputation, and perhaps help it to establish brand loyalty from its buyers.

Processes

This category includes any process that maintains GM’s position as a market leader. It encompasses both the manufacturing and distribution aspects of the business, as well as marketing and advertising. In order for GM to be leading automaker in China, it must establish a reputation for safe, reliable vehicles that are also trendy and popular. One approach is to alter its manufacturing practices to ensure the quality of the vehicle’s parts, and of the labor going into the assembly. Improving the efficiency of its plants to reduce costs should also be taken under consideration. GM has undergone a process to modernize its manufacturing procedures since 1993 [14]. Through a joint venture with Toyota, GM tested new methods to more efficiently manufacture its vehicles, and to improve their safety ratings, in one of its plants in Fremont,

California [14]. GM has taken the lessons learned from this experiment, and applied them to many of its plants worldwide, including those in China. Some plants reported productivity increases in various areas, ranging from 5.2 % to 9.4% [14]. The continued application and research of these innovative techniques will be required for GM to ensure its dominance of the Chinese market, and as such, GM should continue investing in these developments. The fixed costs resulting from employing these new procedures, will over time reduce GM's total cost (due to a decreased marginal cost), and will also boost the company image, leading to more sales. The fact that the Chinese market has potential for so much growth, will further amplify the returns from these sorts of investments.

Within recent years, GM has invested billions of dollars in the Chinese automobile market. In 2008 alone, GM opened up eight plants in the Chinese mainland [15]. This massive investment in the Chinese market not only signals GM's commitment to remain one of the top players in the China, but also allows GM to produce enough of cars to meet the forecasted rising demand for cars in China, and provides GM with the sufficiently sized industrial base required to be the leader in the Chinese auto industry. For now, these plants will provide GM with more than enough of the manufacturing capabilities it requires to meet the demand for automobiles. In the long-run, however, GM will have to further increase its capacity, as it is predicted that by 2025 China will displace the US as the largest automobile market [16].

The majority of the plants being built by GM in China are located in the city of Shenyang [16, 17]. Shenyang is one of the major industrial centers in the China, and among the



Figure 5: Shenyang, a major industrial city in Northeastern China, is located in the Liaoning province.

many industries found in this area are, “mechanical processing, embracing automobile, petrochemical, aviation, pharmacy, building materials, metallurgy, textile, electronic, [and] coal industry” [18]. Part of the proposed strategy includes GM manufacturing trucks, a

task they have much experience in; these trucks can be manufactured in Shenyang (where the GM plants will be located), and right away be sold to the industries which need them. By having to avoid transporting the trucks to other far-away cities, GM will significantly reduce the costs related to moving its trucks. Instead, the trucks will be available straight from the plants, to the industries that need them for carrying their products.

Finally, China does not allow its workers to form trade unions or to go on strike [19]. This implies that the bargaining power of Chinese workers, when compared to those of American workers, is much smaller. Therefore, GM will greatly benefit from producing its cars in China as opposed to the US. If GM were to produce its cars in America, not only its costs would be higher, and it would be unable to charge as competitive prices with regard to other automakers in China, but also it would have to pay for transporting the cars from the US to China. Since the Chinese GDP per capita is about \$5,400 [20], whereas in the US it is almost \$46,000 [21], the average Chinese consumer will have much less money available to spend on cars. It is imperative that GM be able to provide low prices if it is to succeed in the Chinese market.

In addition to competing in objective measures of quality like affordability and reliability, GM must also build a popular brand image. This can be achieved by product placement deals in Chinese movies, as well as aggressive marketing within, which flood consumers with certain cues that reaffirm beliefs about the superior quality of GM products and their attractiveness. Advertising must target high priority consumer groups, such as young professionals. Because the family plays a larger role in China, it is important for GM to be the recommendation buyers hear from their friends and families, who have the strongest influence on the buyer's decision making [22]. The marketing of future products should then follow a top-down approach, which gains market share by drawing respectability through the firm reputations of other high end, GM models. GM brands (like Buick) actually possess a historical presence in China which should be exploited in advertisement campaigns.

Partnerships

To succeed in China, GM must develop and maintain partnerships with domestic companies on every level. Currently, GM's presence in China comes almost entirely from its

joint ventures with Chinese companies. Given the close relationship between business and government in China, as well as the Chinese government's explicit goal of fostering domestic companies, GM should continue with this business model as it grows its market share. Towards this end, GM has announced joint ventures with Harbin Light Truck Factory and possibly the FAW group to produce trucks [23]. Joint ventures are ideal because business in China often relies on personal connections between executives and government officials. A well established domestic company provides GM the credentials to negotiate large scale deals with the government itself, a potentially sizeable consumer of its products.

Likewise, to implement the reward plan, GM should also consider the option of making a joint venture with current providers of car wash services as well as the domestic companies it currently partners with.

Conclusion

With the prediction that the Chinese automobile market will eventually overtake the American market, it is vital that GM maintains its supremacy in the car manufacturing business in China. First, GM must strengthen its market position by demonstrating and achieving superior quality in its vehicles. By ensuring its success through investment in the four P's, GM will be able to effectively take advantage of China's newfound prosperity. Naturally, GM will face heavy competition from the not only domestic manufacturers, but also from the formidable German, Japanese, and Korean automakers. GM's success might trigger imitation of its business models from its rivals. Nonetheless, the first-mover advantage derived from implementing an attractive rewards program, combined with the lock-in effect and the switching costs associated with such program, will offset the detrimental effects of imitation from its competitors. Ultimately, we envision that GM will establish a strong, permanent position of leadership in China.

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