

Strategic Model and Structure Management of Chinese Independence Automotive Companies (Case Study)

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Abstract

Having a full understanding of the world's social-economic situation is the success key for industries; automotive manufacturing industry is an extremely competitive one usually there is no clear guideline among automotive companies about technological causes behind their success and failure. This research provides an investigation about the world's economic situation and the environmental situation surrounded the automotive industry, than will focus on Chinese auto industry. Automotive manufacturers and suppliers view China as the largest combination of automotive market and low-cost manufacturing and supply base to appear in decades. Companies are deluged with information about the potential opportunities in China, but typically know very little about what the Chinese think about their automotive future. The steady influx of automotive manufacturers and suppliers over the past ten years has provided the Chinese with firsthand experience of what the impact of a world-class, high-volume automotive industry can mean to a country.

Keywords: Strategic Planning, economy, market segmentation.

1. Introduction

The world economy faced a failure in 2009 due to financial crisis that happened after collapse of Lehman brother financial service firm in the autumn of 2008. Although the first half of 2010 show a return to growth but it slow down by the end of the year. The U.S economy enjoyed a gradual recovery, robust personal consumption and greater investment in home building due to an uptick in the housing market dragged the economy upward. European economy despite of the risk created by the depth crisis remains down, but UK due to London Olympic had an increased. In China also the growth fell, the reason could be due to the lower growth in personal consumption due to fiscal tightening implemented up to the middle of 2011. In Brazil, Russia and India the economy situation worsening due to external demands. The Japanese showed sign of strength due to recovery after earthquake. In the U.S the economic growth rate recovery gradually. The reason was establishing the financial Market and an upturn in the housing market. Japanese automakers also contribute

to this improvement by restoring supply chain disrupted by the earth quake in 2011. Of course Exploitation of the shale gas reserve and reduce the energy cost was the achieving key to the economic growth. The financial crises in Greece started by 2009 dragged down the whole European Economy. Personal consumption become weaken and unemployed people increase, although some banking policy has been considered but it seems there need a time to recover the situations. In Brazil they have closed the trade and financial ties with Europe to ban the fluctuation. In Russia due to lower local demand and lower export to Europe the situation is not satisfied. In Iran by expanding budget definite and accelerating inflations the governments start to implement active financial and monetary policies. In India they started to expand export to control inflations. In ASEAN country as the demand due to the population increased they sense an economic grows. In Japan after the earthquake 2012 a growth is seen. China started to boggle the situation by effective strategic planning which echoed to Automotive Industry also. This paper consists of general background of Chinese automotive industry and brief description of Chery Auto Co.

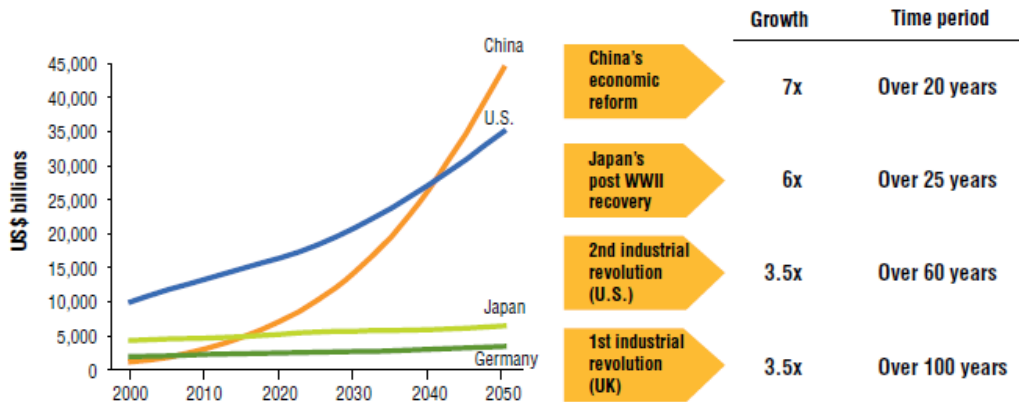


Fig1. China Gross Domestic product Forecast

2. China Political and Economy Situation

From its founding in 1949 until late 1978, the People's Republic of China was a Soviet-style centrally planned economy. Following Mao's death in 1976 and the consequent end of the Cultural Revolution, Deng Xiaoping and the new Chinese leadership began to reform the economy and move towards a more market-oriented mixed economy under one-party rule. Inefficient state-owned enterprises (SOEs) were restructured and unprofitable ones were closed outright, resulting in massive job losses. Modern-day China is mainly characterized as having a market economy based on private property ownership, the state still dominates in strategic "pillar" sectors such as energy production and heavy industries, but private enterprise has expanded enormously, with around 30 million private businesses recorded in 2008. After world economy Crisis in 2009, again in China shows that the economy is picking up, one possible reason is the higher domestic demand.

China represents an extraordinary case of economic development in an emerging market. The number of people in the market, the number of economic reforms faced by the government, and the speed at which the country is making the transition to a full market economy all contribute to the extraordinary nature of change. As an indicator of that growth, its gross domestic product (GDP) is projected to increase more than sevenfold over the next 20 years, as shown in Figure 1. This is dramatic when compared to the amount of time other markets have

taken to develop. The automotive industry in China represents an extraordinary case of industry development. To prepare for admittance to the World Trade Organization (WTO) in 2001, China needed to open its doors to foreign investment, and that investment continues to pour in. Since 1994, foreign automakers have invested close to US\$20 billion. Billions more are planned in order to increase capacity by 2010.

3. China Automotive Industry

China's first automobile manufacturing base, FAW (First Automobile Works), was built 50 years ago. From then on for over 30 years, there was no big progress in the Chinese automotive industry on both production and technology sides. Production capacity was low, and technology was outdated. From the middle 1980's, with the establishments of joint ventures, the Chinese automobile industry began to develop faster than before. So far, all of the world's major automakers, such as General Motors, Toyota, Ford, Volkswagen, DaimlerChrysler, Nissan-Renault, PSA Peugeot Citroen, Honda and BMW, have established joint ventures in China (Fig 2). In particular, the joint ventures control about 90 percent of China's passenger car market. In 2002 and 2003, the Chinese automotive industry developed extremely fast. The overall production climbed up by 38.8 % and 36.7 %, and the passenger car production grew up 55.2% and 84.99% in 2002 and 2003 respectively. There was almost no inventory at the end of the two years.

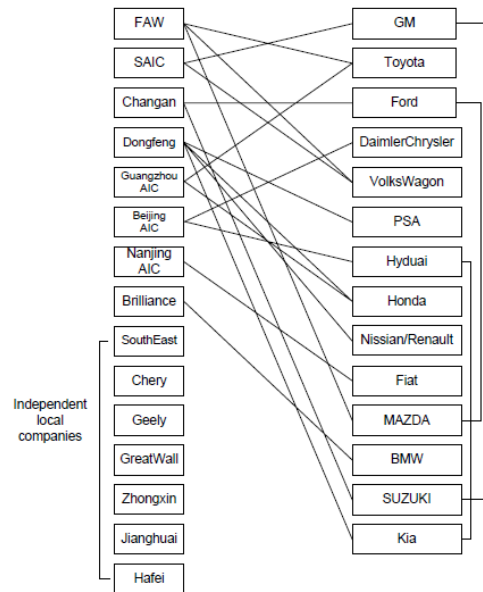


Fig2.the major car maker in automotive industry

4. China Automotive Restructuring

The purpose of restructuring was to revitalize national automobile industry by saving Costs, purchasing together and developing jointly.

Early in 2004, National Development and Reform Commission had published Automobile Industrial Development Policy. In the Automobile Industrial Development Policy, existing vehicle producing enterprises' mergers and restructurings should be guided. Its purpose is to promote domestic automobile enterprises become bigger and stronger by expanding Chinese automobile companies' economies of scale and improving industrial concentration and by avoiding the scattered, chaotic and low level duplicated construction. Back in 2004, two suggestions were put forward. One was to form several large International competitive automobile enterprises through market competition. These Several large enterprises would try to step in the list of World Top 500 companies in 2010s. The mode can be strategic reorganization which means form large scale Automobile groups by reorganizing domestic vehicle producers' assets and forge Business alliances by encouraging complementary strengths and resources share and cooperation. As a result, a coordinated and developmental industrial structure of Large scale automobile groups, business alliances and special purpose vehicle Manufacturers will be shaped. The other suggestion was to develop a number of

Spare parts enterprises with comparative advantages. Make sure to realize their economies of scale and to participate in international competition actively.

New pattern of Chinese automobile industry is consisting of 8 main Producers. Of which, China FAW Group Corporation (in short, FAW), Shanghai Automotive Industry Corporation Group (in short, SAIC), Dong Feng Motor Corporation (in short, DFM) and China Changan Automobile Group (in short, Changan) are considered as the "Four Big Groups". The "Four Small Groups" are Beijing Automobile Works Co., Ltd (in short, BAW), Guangzhou Automobile Industry Group Co., Ltd (in short, GAIG), Chery Automobile Co., Ltd (in short, Chery) and China National Heavy Duty Truck Group Co., Ltd (in short, CNHTC). (Ministry of Industry and Information Technology of the People's Republic of China, 2009) According to Automobile Industrial Development Policy, FAW, SAIC, DFM and Changan (collectively, the "Four Big Groups") are encouraged to implement mergers and acquisitions on a national scale. Correspondingly, BAW, GAIG, Chery and CNHTC (collectively, the "Four Small Groups") are inspired to conduct regional Mergers and acquisitions, which was a great opportunity for Chery.

By 2006 China had become the world's third largest automotive vehicle manufacturer (after US and Japan) and the second largest consumer (only after US). Automobile manufacturing has soared during the reform period. In 1975 only 139,800

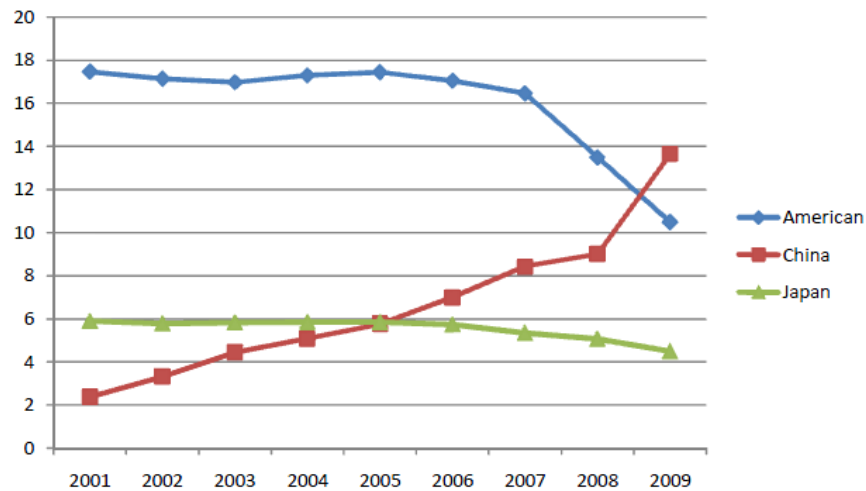


Fig3. .annual automobile sales in china from 2001

automobiles were produced annually, but by 1985 production had reached 443,377, then jumped to nearly 1.1 million by 1992 and increased fairly evenly each year up until 2001, when it reached 2.3 million. In 2002 production rose to nearly 3.25 million and then jumped to 4.44 million in 2003, 5.07 million in 2004, 5.71 million in 2005, 7.28 million in 2006, 8.88 million in 2007, 9.35 million in 2008 and 13.83 million in 2009.

In 2010, China became the world's largest automotive vehicle manufacturer as well as the largest consumer ahead of the United States with an estimated 18 million new cars sold. However, new car sales grew only by an estimated 1% between 2011 and 2012 due to the escalation in the Spratly Islands dispute which involved Japan, the world's third largest producer of vehicles.

The market for domestically produced cars, under a local name, is likely to continue to grow both inside China and outside. Companies such as Geely and Chery are constantly evaluating new international locations, both in developing and developed countries. In this paper we seek to find the reason why china becomes so successful.

5. Chery Auto Co.

Chery originated from the automotive project of the local government of Wuhu City in Anhui province. Although close to Shanghai, Anhui province was one of the poorest provinces in China. There were almost no major heavy industries. And Wuhu is a very small city in Anhui province. The city

governors were looking for opportunities to develop local economy and catch up with the fast economic development of the whole county in the 1990's. After a long term investigation, they found that the automobile industry in China was extremely profitable because of the scarce competitors and the high profits of auto products. This was caused by the central government's strict regulations (entrance limit, high import tax, small import quota, etc). And the automotive industry can also bring along the development of many related industries. Due to these causes, the Wuhu local government set up their plan of developing the local automotive industry and began to look for all possible opportunities. The real opportunity showed up when the governors of Wuhu city visited the automotive companies in Europe in 1995. Being informed of that British Ford had an engine assembly line to sell at that time; they decided at once to buy it for initializing their automotive project. Finally, they brought this assembly line and some type of engine technology from British Ford with 25 million dollars in 1996. To build up an automotive company cannot be without professional automotive engineering experts in both aspects of production and product technologies. But it is very difficult to attract talents to work and live at a poor place like Wuhu. Therefore, Wuhu governments tried all the means to dig possible talents and experts from existing big automotive companies in China. The most important person in the growing history of Chery is undoubtedly Tongyao Yin, who is currently the president and CEO of Chery. Yin graduated from Anhui Hefei University of Industry with a major in

automotive engineering. He had worked in FAW for 12 years and was the manager of FAW-VW's JETTA plant before he went to Wuhu city. He once won the prize for "Top Ten Excellent Young Employees of FAW" and had a good fame in FAW. Wuhu invited him to lead the new automotive project with his experience in automobile manufacturing. Yin accepted the invite because first he was born in Anhui. Second, he was eager to do something great, like producing unalloyed Chinese indigenous cars. At that time, although Wuhu had no existing assembly plants, no engineers, no enough money, they have strong motivation to produce cars by themselves. Afterwards, Yin pulled a few of his friends in college and in FAW to join the enterprise of creating a new independent automotive company in Wuhu. It is said in total more than one hundred people transferred from FAW to Chery. The biggest attraction for them is that Chery is a self-reliance company and aims to develop and produce unalloyed Chinese indigenous cars by themselves. It is a challenging but also attractive point for many Chinese professionals who hope to contribute to developing Chinese indigenous automotive products and technologies.

Chery, Take the symbol of the first million automobile's off assembly line on August 22nd 2007, Chery Auto realized the transformation from its first period of building national own brand through independent innovation to the second period of establishing own international brand through open innovation. Chery Auto entered a new phase of globalization. Until 2010, Chery Auto had achieved the capacity of producing 900,000 automobiles, 900,000 engines and 400,000 gear machines annually.

Chery Auto's four existing sub bands are Riich, Rely, Chery and Karry. Its products Cover passengers' cars, commercial vehicles and mini cars field. Presently, there are 16 series of dozens of models on the market and another dozens of reserve models are going to be listed on. Based on the product requirements of "safe, save energy, Environment protection", Chery Auto had achieved the international quality system Certification of ISO9001 and Germany Rhineland ISO/TS16969 successively. Over the years, with "zero defect" as the target, Chery products are favored by consumers. In 2009, Chery Auto achieved vehicle sales of 500,000, which had increased by 40% compared with vehicle sales in 2008. This is the 9th consecutive year of Chery Auto to become sales champion of national own automobiles and the 7th continuous year to be the largest passenger car exporter in China.

Globalization is Chery Auto's strategic development target. From the early stage of 12 development, Chery Auto focuses on both domestic

market and international market. By implementing "going out" strategy actively, Chery Auto has been Chinese first vehicle enterprise that exported automobiles, CKD (Completely Knock Down) spare parts, engines and vehicle manufacturing technology and equipment's to foreign Countries.

In 2006, Chery Auto was identified as the first group of "National Automobiles Exporting Base Enterprise" by Ministry of Commerce of the PRC and National Development and Reform Commission. Chery Auto started a new era of Chinese automobile industries' cross border cooperation by cooperating with American Quantum LLC in 2007.

Chery Auto is now conducting comprehensive Layout of globalization. Its products are exported to over 80 countries and regions all over the world. There are 15 overseas CKD plants had been built and being built. Chery's coverage of five main vehicle markets, Asia, Europe, Africa, South America and North America, has been realized through the markets radiation capacity of those producing bases. By adhering to "great marketing" concept, Chery upgraded platforms of "Brand, Quality and Services" comprehensively and continuously enhance brand image and Corporate image. In 2006, Chery was awarded as "Chinese Well Known Trademark" and appeared in the "Chinese Top 500 Most Valuable Trademarks" as the 62nd. In 2007, Chery Auto was elected in "The Most Competitive Top 20 Chinese Corporations in the World". In 2009, Chery Auto was regarded the fourth time as "the Most Admired Company in China" by The Fortune Magazine.

6. Chery's take off

In May 2003, Chery released QQ subcompact with a remarkable low base price of 49,800 Yuan (US\$6,000). Due to the striking resemblance of QQ to GM Chevrolet Spark, which is also called Daewoo Matiz in other countries, before long GM announced that the QQ subcompact of Chery Automobile Company as being a copy of GM Chevrolet Spark. From then on, whether or not Chery QQ has copied the appearance of SPARK and infringed the patent right of GM has been in a worldwide heated debate. Both Chery QQ and GM Spark are targeted at the sub-market of mini cars. GM Spark was released six months later than Chery QQ and had a relative higher base price of 61,800 Yuan (US\$7,446). Spark is much more expensive because it is assembled by KD mode. Therefore, Spark failed to take the market share from QQ due to its later launch and higher price. And QQ is outselling the Spark by a ratio of 6-to-1. The figure 4 shows the sales performances of Chery QQ and GM

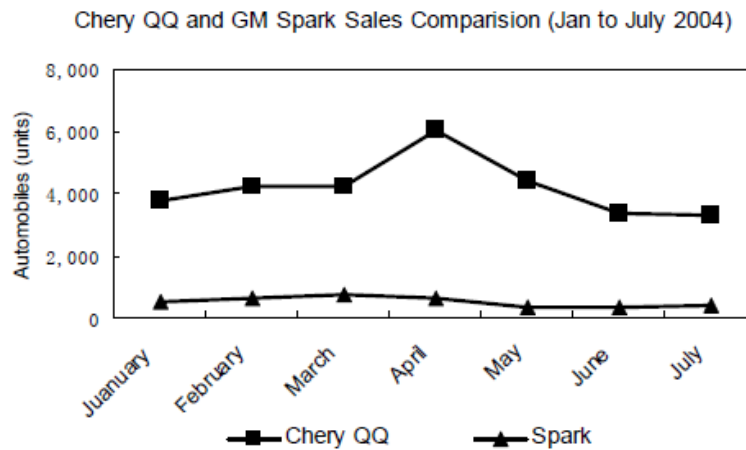


Fig4. The sale of Chery QQ and GM Spark in 2004

Spark from January to July of 2004 in the Chinese auto market. In this paper we do not consider whether chery did copy GM or not. But what is clear is that chery had received a high amount of profit from this product which causes the high financial turnover for Chery Co.

7. Conclusion

It seems that in the U.S the economic growth rate recovery gradually. The reason was establishing the financial Market and an upturn in the housing market. In ASEAN country as the demand due to the population increased they sense an economic grows. In japan after the earthquake 2012 a growth is seen. While in Europe financial crisis remains down, but UK due to London Olympic had an increased. In Automotive industry china has been developed the reason could be because of wise government policies and the passed joint venture which was build due to law employer cost in china which bring them hobbies and also well structure management of chines independent automaker. Even due that they had started with coping but now china have become to one of the largest automobile production in the world.

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