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A decorative header section featuring a blue background with overlapping geometric shapes in various shades of blue. On the right side, there is a vertical strip containing a grayscale image of a computer keyboard.

China Implementation

GM's implementation in China

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This is China: “tic – tic – tic”

- **Why and How of China**
- **World’s Largest Market**
- **Implementing in China**
- **Key Success Drivers**

Why and How of China

- **1978 to 1984: 190 millions raised above poverty line**
- **GDP growth for 2004 forecast at 7.9%**
- **Personal incomes on upswing**

World's Largest Market?

- **Inexpensive goods vs. cost of goods which exceed by several times the annual income of the purchaser?**
 - 1992: vehicle market – 1 million
 - 2002: vehicle market – 3.4 million
 - 2003: vehicle market – 4.5 million
 - Rising incomes, selection of products and competition
 - Room for more growth: 15 per 1000 in China vs. 1 per 2 in USA
 - China is 3rd largest auto market by end of 2003 (passing Germany)
 - Surpass Japan by 2005 and USA by 2025?

Implementing in China?

- **GM is perceived as latecomer to China**
 - However, GM China formed in 1922
 - “joint venture” concept was introduced to Chinese government by GM Chairman Thomas Murphy
 - Returned in force in 1980’s
 - Ups and downs – relaunched in 1994: Global Strategy
 - Shanghai GM is flagship in China
 - Today: 5 JVs and 2 WOE’s and offices in Shanghai, Beijing, Shenyang, Hong Kong and Taiwan

Implementing in China?

- **1994 China in policy debate on Korean vs. Global model for vehicle industry**
- **Control: Central, Provincial or “socialist market”**
- **1994 Auto Policy limited foreigners to 50/50 JVs**
- **40% local content requirement**
- **Technology transfer requirement**
- **Financing difficult and “non-recourse” non-existent**

Implementing in China?

- **“deeds not words” John F. Smith, Jr., GM Chairman**
- **Business Strategy**
 - Commitment to long term relationship which is “win-win”
 - Involvement and development of entire vehicle industry
 - Active technology exchange and updating
 - Commitment to managerial and professional skills of locals
 - Integration of GM China with GM regional and global operations

Implementing in China?

- **Primarily Through Partner**

- Consumer knows locals are involved
- Local identification of consumer needs
- Helps navigate bureaucracy
- Spreads the risk (SGM over \$1.5 BN capitalization)

Implementing in China?

- **Strategic Partnership with SAIC**
 - Operate 4 JVs
 - Examining more
 - Invited SAIC to take equity in GMDAT in 2002
 - Focus on high-growth / high-volume segments

Implementing in China?

- **2003: GM sold 386,710 vehicles in mainland China**
- **2003: market share 8.7% (2nd highest for foreigner)**
- **Shanghai GM had a positive operating profit in its first year of operations (9 months)**

Implementing in China?

- **China Operations integrated into GM Global**
- **Established engineering center in China: PATAC**
- **GM China provides “one-face” of GM to China**
- **Perception of China as good place to do business**
 - Before, regarded as place out to “fleece” foreigners
 - Many problems by other companies, in past
 - Whims of the government
 - Government focus on FDI – need to keep investors happy
 - Foreign companies, now, more realistic

Implementing in China?

- **Competition**
- **Marketing in non-homogeneous market**
- **Market Changes – educated consumer**
- **High expectations: quality and price**
- **Brand Development**
- **Distribution**
- **Human Resources**

Implementing in China?

- **Risks**

- IPR

- Affecting foreign companies more than ever
- Estimated: \$25 BN in lost sales per year

- Auto industry: affects suppliers of service parts
- Estimated: 60% of all GM counterfeit parts are from China
- Copied parts rarely meet the performance specifications

- Also, copies of vehicles

Implementing in China?

- **Risks**

- Regulatory

- Changing regulatory environment
- Issue of new regulations with less than 6 months notice
- New industrial policies
 - Submit comments, but?

Implementing in China?

• Challenge

– WTO

- Changed the way business does business
- In the Auto Industry: WTO has been a win for consumers and has made China's auto industry more globally competitive
- GM actively supported China's entry
- Manufacturer in China has advantages vs. imports
 - Established distribution and after sales networks
 - High brand recognition
 - Products that are designed for the China market
 - Tariffs on imported parts and components will drop to 10%
 - Continued cost advantages

Key Success Drivers

- **Know the Market**
- **Partnership Strategy**
- **Cost Control**
- **Corporate Commitment**
- **Bring Your Best**
 - Products, Technology and People