China Implementation

GM’s implementation in China

“11th Annual Automotive Outlook Symposium”
Federal Reserve Bank of Chicago
Detroit, 4 June 2004

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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 WOEs 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% (2\textsuperscript{nd} 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: PATA
• 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 make 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