Chinese Automakers Struggle Against Global Rivals

Joe McDonald, AP Business Writer

SHANGHAI (AP) — These should be good times for Chinese automakers as they prepare to show off their latest models at the Shanghai auto show.

Their home market is the world's biggest and growing. But independent automakers such as Chery and Geely are being squeezed by bigger, richer global rivals including General Motors and Nissan that have moved into turf the Chinese makers considered their own: low-priced models for local tastes. Domestic brands account for less than half of their own market.

"At a time when the Chinese were getting ready to move upscale, they have come under siege in their area of traditional strength," said Michael Dunne, president of Dunne & Co., a research firm. "They didn't see that coming and it hurt."

Fighting back, Chery, Geely and local rivals Great Wall and BYD [1]are scaling down ambitious expansion plans and focusing on improving quality. Some hired managers or designers with experience at Mercedes Benz and other foreign producers. Others aim at specialties such as SUVs, minivans for export to other developing countries and electric buses.

This week, Chery Inc. announced a corporate overhaul after sales plummeted 10 percent last year. The company said it will shrink its range of 20 models to 11 or 12.

BYD Co., in which American investor Warren Buffett's Berkshire Hathaway Corp. owns a 10 percent stake, plans to display a new SUV and its Si Rui sedan at Auto Shanghai 2013, which opens Sunday.

The company, China's leading maker of electric cars, blamed intense competition for a 94 percent plunge in profit last year and says the midsize Si Rui should help to drive a rebound.

Great Wall Motors Co. plans to debut two SUVs, a pickup and a sedan among 23 models on display. Last year, the company was China's top-selling independent automaker on the strength of its popular SUVs, which are exported to 80 countries.

China's failure [2]to follow its neighbors Japan and South Korea in creating at least one global auto brand — even after this country passed the United States in 2009 as the biggest auto market — has frustrated communist leaders.

They see auto making as a national priority — the "industry of industries" that supports higher-paid jobs in fields from manufacturing to electronics to chemicals. They have spent two decades giving producers subsidies and other help.

Beijing issued development plans in the early 1990s that called for creating three globally competitive auto groups. Since then, planners have changed course repeatedly after efforts to create success by decree failed to pan out.

In March, domestic Chinese auto brands accounted for only 43.4 percent of sales, according to an industry group, the China Association of Automobile Manufacturers. The rest were imports or foreign brands assembled in partnership with local manufacturers.

By contrast, Japanese automakers control a commanding 95 percent of their home market, according to LMC Automotive, a consulting firm. South Korea's producers have 82 percent of theirs.

Global automakers that want to produce in China are required to work with local partners in hopes the Chinese manufacturers will learn enough to launch their own brands — a policy that has had little success.

Shanghai Automotive Industries Corp., which assembles cars for both GM and Volkswagen AG, created the Roewe brand based on models bought from defunct British producer Rover. Nanjing Automotive Group relaunched MG sports cars in China. But state-owned producers still make up to 80 percent of their revenue as service providers to foreign brands.

"They are under huge political pressure to build up their own brands," said LMC analyst John Zeng. "But really they are struggling."

More recently, Beijing has stepped up support to independents that emerged over the past decade such as Chery and Geely Holding Group, which acquired Volvo Cars from Ford Motor Co.

Some producers have bucked the hard times. While BYD earned just 81.4 million yuan ($13 million) last year, Great Wall's booming SUV sales boosted profits 65.7 percent to 5.7 billion yuan ($934 million).

"Groups such as Geely, Great Wall and BYD still have big potential, because they are more market-oriented," said Zeng. "They invest in their own brand and distribution network and their own R-and-D capabilities."

Chery, founded in 1997, was once China's top-selling independent brand but saw sales tumble last year to 563,000 vehicles. Its turnaround plan calls for eliminating two of its three brands and selling all its vehicles under the Chery name.

"Right now, Chery's thinking is to make an affordable car for the average person," said CEO Yin Tongyao in a statement.

To inject style into its boxy vehicles, Chery named a Porsche AG veteran in February to lead a 30-member design team in Shanghai. Others have hired designers with experience at Mercedes Benz, Ferrari and Pininfarina.

In a boost to the independents, state media said in March that Beijing will tell local governments to favor domestic Chinese brands when purchasing automobiles.

Until now, the bulk of government vehicle purchases were foreign brands assembled by SAIC and other state-owned manufacturers such as First Auto Works and Dongfeng Motor Co.

Communist authorities also tried to find a shortcut to success by encouraging companies to pursue electric cars, an emerging field where they had a shot at a pioneering role.

In 2009, they set a goal of producing up to 5 million electric vehicles a year by 2020 but have informally backed away from that after development proved tougher than expected. BYD, the Chinese leader in electric vehicles, sold just 1,700 electric cars and 700 electric buses in 2012 and says it expects to triple that this year.

At the same time, global automakers are intensifying efforts to capture market share in China, which they see as a critical part of their future.

Chinese domestic brands suffered a blow last year when GM hit their low-price market segment with a new version of its Sail sedan that sells for just 56,800 yuan ($9,100). Developed at GM's Shanghai design center in partnership with SAIC, the Sail also is due to be exported to India.

The squeeze on China's independent brands is partly a side effect of their own government's policy to pressure global automakers to help create Chinese brands with local partners.

GM created Baojun with SAIC, Nissan launched Venucia with Dongfeng and Daimler AG's Mercedes-Benz set up Denza with BYD. The GM and Nissan brands are aimed at China's vast but poor countryside while Denza focuses on electrics. Those brands represent a victory for Chinese policymakers but add to pressure on domestic makers in those markets.

Chinese brands also face a slowdown in overall sales, though to still-robust levels that outpace Western markets.

Sales in March rose 13.3 percent from a year earlier to 1.6 million vehicles, well below 2009's explosive 45 percent growth, according to an industry group, the China Association of Automobile Manufacturers.

German and Korean automakers outgrew the market, posting sales of more than 20 percent from a year earlier. Sales of Chinese brands rose 14 percent, only slightly above the market average.

Great Wall sales last year rose nearly 30 percent to 624,271 vehilces, according to LMC. Still, its market share was just 3 percent, in contrast to Volkswagen AG's 2.8 million vehicles sold and 14 percent market share and GM's 1.4 million vehicles and

8 percent share.

The Chinese manufacturers get about half the sales revenue but industry analysts say the global partners end up with the bulk of profits after they are paid for technology and brand licenses.

Chinese automakers have yet to establish a distinctive brand identity that will let them charge premium prices at home or attract the average American or European buyer, said Dunne, the Dunne & Co. president.

"I've been waiting for the day when we could say, here come the Chinese, look out," Dunne said.

"But the reality is mixed. Some are better, some are worse off," he said. "At this point it's more a matter of trying to hang around and stay in the game."

Links:
[1] http://www.impomag.com/news/2012/08/chinese-automaker-byd-1h-profit-down-94-percent
[2] http://www.impomag.com/news/2012/11/japanese-automakers-china-output-tumbles