GENERAL MOTORS

A Look into Chinese Expansion

Yang Hai
Christine Parry
Brian Zhou

BEM 106 - Competitive Strategy
R. Preston McAfee
California Institute of Technology
Spring 2006

EXECUTIVE SUMMARY

While the General Motors Corporation (GM) is still one of the largest automobile manufacturers in the world, recent financial woes have left the company's future in jeopardy. Fixing GM's domestic operations and returning to profitability are daunting tasks that may require help from foreign markets. China presents a potential source of sustainable future profits. Further expansion into the rapidly growing Chinese car market is an attractive proposition, especially given GM's strong early mover advantage. Through numerous joint ventures with local manufacturers, GM has established significant capabilities, both in production and sales. To maintain and expand upon its current position in China, GM should broaden its product lineup to target three key consumer groups: middle class car buyers, the luxury consumer, and purchasers of light and medium duty commercial vehicles. The rise of the middle class in China is expected to fuel the rapid growth of the Chinese automobile market, making this population especially important for GM. To encourage these potential customers to buy from GM and promote lock in, GM must also adequately provide two key complementary goods, automotive services and driver education. Adopting the proper strategies in expanding into the Chinese market will help to create a large sustainable source of profits and improve the overall health of the company.

INTRODUCTION

Current State of General Motors

General Motors has been for the past 74 years the largest automobile manufacturer in the world. This distinction, however, has been put in serious jeopardy as industry analysts estimate that Toyota Motor Corporation will produce more cars than GM in 2006, but losing this title is only a small concern given GM's current financial situation.[1] GM has unimaginably fallen from one of the leading U.S. companies to one that is struggling to survive in the competitive automotive industry. Consistent postings of annual billion dollar losses, along with other drastic measures such as the recent worker buyouts, have left many to wonder whether or not GM will go soon go bankrupt.[2]

GM's financial woes can be attributed to several key problems. Falling car sales has been a problem for GM since the rapid growth of Japanese car companies in the 1980s. There is little that GM can do to ameliorate its problems without sufficient revenue. GM's financial relationship with its workforce is another worrisome issue. The benefits that GM employees receive are large when compared with competing firms. This practice could be attributed to GM's more profitable past. In addition, union agreements have forced GM to absorb a large cost from former employees, which not only includes retirees, but also those displaced by automatons.[3]

[1] Tierney, Christine. "Toyota, GM Locked in Fight for Worldwide Supremacy." The Detroit News. 13 February, 2005.
[2] "General Motors Corporation 2005 Annual Report." General Motors Corporation. 1 April, 2006.
[3] Loomis, Carol. "The Tragedy of General Motors." Fortune. 6 February, 2006.

Industry Analysis

The question that then comes up is what GM can do to return to profitability and increase market share. An analysis of the automotive industry will perhaps identify strategies that would help GM in pursuit of its goals.

Entry

Since the influx of Japanese car makers twenty years ago, there have been few entrants into the U.S. automotive industry. The only manufacturers that have able to establish themselves in the U.S. market in recent years have been Hyundai and Kia from South Korea. Market saturation in the U.S. has made entry difficult. However, new entrants may be able to find success in developing countries where market saturation is not as severe.

Buyer Bargaining Power

Individual car buyers have little power over large manufacturers such as GM, as each car purchase represents only a negligible fraction of a car maker’s total revenue. However, when viewed as a collective entity, consumers have a great deal of bargaining power as the cost of switching to rivals is usually nominal. In certain parts of the world, the consumer can also credibly threaten not to buy at all, as car ownership may not be a necessity.

Supplier Bargaining Power

Car manufacturers are fairly vertically integrated, thus most input supplies are raw materials or basic parts, of which there are generally multiple suppliers. While material goods suppliers may have little bargaining power, employees of car companies can have quite a great deal of leverage in extracting profits from car companies, especially in the U.S. where the unionization of workers is ubiquitous in manufacturing.

Substitute Products

Few real substitutes for automobiles exist in the U.S. However, the same cannot be said about many foreign markets, where public transportation is better supported and more widely used, and the distance of travel is generally less, thus allowing for alternate modes of transportation, such biking or walking.

Rivalry

Price competition in the automotive industry varies around the world. Rivalry is intense in the U.S., where the lack of product differentiation between companies has led to direct competition. The level of rivalry varies in foreign markets, as it is dependent on numerous factors including market saturation, government protection of domestic manufacturers, and cooperation between competing firms.

Complements

Automobile sales are influenced by several major factors, including gasoline prices, quality of roads, availability of parking, ease of financing, and accessibility of car services and support. Complements exist in varying degrees depending on location. The influence of these factors also depends on the market segment.

The Case for Further Expansion into China

There are several key factors that prevent GM from correcting its mistakes in the U.S. One of the main reasons that critics point out for the decline of GM's market share is its ever-growing and increasingly unfocused product line. The number of GM brands in the US market has increased from five to nine since 1955. With the number of brands already outnumbering the number of distinct market segments, GM's corporate management has only exacerbated the situation by permitting significant blurring to occur among GM's multiple divisions, thereby diluting the reputation of each brand further. Unfortunately, due to strict franchising laws in the U.S, it is nearly impossible for GM to reduce the number of brands in its product line even if such action is strategically wise.[4] With foreign markets, like China, introduction or expansion can be implemented on a smaller scale with more focus. If multiple divisions already exist in a foreign market, brand consolidation would also be easier.

As mentioned earlier, GM faces the problem of worker compensation in the U.S. Any changes to GM's policy with regards to this would be met with strong, organized resistance from large labor unions. Workers in other countries are generally less unionized, and depending on location, may be significantly cheaper to employ.

Another significant issue is GM's reputation for poor quality in the U.S. market. While this label was once deserved, the case is actually quite different today. Though quality ratings for GM still remains slightly lower than average, this is largely the result of GM's minivans, which have remained substandard. However, many of the company's other cars, especially the mid-sized sedans, have been praised for their quality by such reputable sources as J.D. Power and Associates.[5] With foreign markets, GM would not have to carry around the burden of its past.

The goal which then comes up is finding suitable locations in which GM can expand its current global operations. Any investment in a foreign market should be done to establish a profitable source of revenue to enhance the long term outlook of GM. The Chinese automotive market holds good potential in realizing this goal. GM, already well established in the fast growing Chinese market, holds an advantage as other foreign manufacturers have been slow to enter and domestic companies are relatively inexperienced. This provides GM a good opportunity to reinforce existing advantages and dominate new segments of the Chinese car market that have arisen due to the booming Chinese economy. Expanding further into the Chinese market with the appropriate strategies can offer GM a sustainable source of profits for the future.

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[4] Loomis, Carol. "The Tragedy of General Motors." Fortune. 6 February, 2006.

[5] "J.D. Power Consumer Center." J.D. Power and Associates. 2006.

THE CHINESE AUTOMOTIVE INDUSTRY

Overview and Forecast

2003 heralded the coming-to-life of the Chinese automobile industry. Passenger car sales and production both eclipsed 75 percent growth rates, while automakers posted banner profits.[6] Not unexpectedly, this market explosion prompted a bevy of new entrants, whose subsequent competition for market share reduced prices and drained the once limitless demand. Nevertheless, even with the fall from rosy profit margins and breakneck sales growth, China still represents the fastest growing automobile market in the world with far-reaching potential in sales and complementary services (see Exhibit 1). A record 1.7 million new vehicles were sold in China in the first three months of 2006.[7] With the strong start, vehicle sales should surpass that of Japan, placing China as the world's second largest automobile market, behind only the United States.

The driving force behind the growth in automobile sales has been the burgeoning of the Chinese economy and in particular, consumer purchasing power. China's entry into the World Trade Organization in 2001 energized the economy by removing barriers to foreign trade and investment. The robust health of the national economy, as seen in the booming gross domestic product, has trickled down to the individual consumer. For example, the average annual disposable income of Beijing urban residents has grown 71 percent over the last half decade, reaching 18,000 RMB (~ 2250 USD) in 2005 (see Exhibit 2).

In consideration of the saving power of Chinese families, a substantial fraction of the urban population can now afford the introductory micro car or subcompact offering priced at less than 100,000 RMB (~ 12,500 USD). Indeed, private purchases in the passenger car sector and the micro car sub-sector have led the growth in overall car sales. As the purchase price of personal cars diminishes as an obstacle, the crucial factor will be the availability of key complements that enhance the experience of car ownership, namely roads, fuel prices, and auto service.

Complements Lag Market Growth

December, 2005 marked the debut of the drive-through restaurant in China.[8] McDonald's Corporation opened the first-of-its-kind restaurant in Guangdong province, where private car ownership leads the nation. This iconic establishment highlights the growing demands for complementary facilities and services to personal commuting. Not unexpectedly, the explosive growth of car sales since 2002 has far outstripped the development of key complements, such as roadways, auto safety, and service. This weakness in complements threatens to catch up with the bullish market and represents a critical factor in long term industry growth.

The roads of metropolitan giants Beijing, Shanghai, and Guangzhou boast not only world-class automobiles such as Porsches and Ferraris but also world-class traffic jams. The millions of new cars that hit the road each year have pushed existing infrastructure to capacity in many areas. For

[6] "Slow-Down in Vehicle Output Pace Expected." China Daily. 15 January, 2004.
[7] "China's Vehicles Sales Exceed 1.7 Million in First Three Months." Xinhua News Agency. 12 April, 2006.
[8] "Press Release: First McDonald's Drive-Thru Opens in China." McDonald's Corporation. 10 December, 2005.

example, despite the city's six beltways, Beijing's average drive to work spans forty minutes to an hour, surpassing even the notorious New York commute time of 30.4 minutes, the worst in the U.S.[9] Lengthy roadway delays may render car ownership to many buyers an expensive and ineffective alternative to public transportation.

An even greater concern to automobile manufacturers would be active government policies to restrict the rate of new car ownership through taxes and fees. To address its own roadway congestion, Shanghai has, for years, instituted a monthly limit on the number of new car license plates, which are distributed through sealed-bid auction. In 2006, over 10,000 bidders jostle each month for 4,500 private plates, which sell for nearly 40,000 RMB (~ 5,000 USD).[10] Although Shanghai's auction system has yet to be widely adopted, the presence of high license and registration fees, in general, may hamper the market for smaller economy cars.

Moreover, before widespread proliferation of automobile ownership can occur, China must solve its deadly accident rate. China's roadway death toll of 300 people per day ranks first in the world. Normalized per 10,000 cars, this rate is 8 times that of the U.S.[11] The staggering figures are an upshot of poor driver training in seat belt use and alcohol avoidance and the dangerous intermingling of automobiles, bicycles, and pedestrians. Hence, a crucial action for the expansion of the automotive market to safety conscious consumers, such as families, is the reduction of the risks of driving.

Finally, as China's new cars mature, a precipitous rise in demand for auto repair can be expected. A highly fragmented service industry of 345,000 independent operations across China has struggled to keep pace with technological influx from foreign car sales.[12] Many local service shops lack the experience, skills, and equipment to perform the repairs necessary on a widening selection of cars. Consequently, consumer dissatisfaction over high costs, counterfeit parts, and low quality workmanship has damaged the reputation of the sector. Recently, the German automotive parts powerhouse, Bosch, and its Japanese counterpart, Autobacs, have broached the Chinese repair industry in hotbeds such as Guangzhou and Shanghai, hoping to boost performance through standardized and expert service.[13] The coming years will be key for entrants to establish leadership as both the repair and car sales industries develop side by side.

In Depth Look at Rivalry

When personal vehicle ownership in China was rare in the 1980s, the German manufacturer Volkswagen (VW), with the sponsorship the Chinese government, ventured into the mainland, striking partnerships with the two largest, though inexperienced, Chinese automobile makers, First Automotive Works (FAW) and Shanghai Automotive Industry Corporation (SAIC). Volkswagen was the only serious foreign presence in China for nearly two decades. It battled numerous domestic automakers for market leadership, capturing the top spot for the first time 1997. That

[9] "Beijing Seeks Experience from Seoul to Solve Traffic Jam." Xinhua News Agency. 28 November, 2005.
[10] "Soaring Car License Plate Prices in Shanghai." China Daily. 27 March, 2006.
[11] "Roadway Accidents Kill 300 a Day in China." Shanghai Star. 12 April, 2004.
[12] "Auto Firms Vow to Provide Quality Service." Xinhua News Agency. 28 February, 2006.
[13] "Auto Service Giant to Expand Service into China." Eastday.com. 31 May, 2004.

same year, GM splashed into the China scene with an impressive $680 million partnership with SAIC.[14]

With existing manufacturing and distribution infrastructure along with early brand recognition, VW and GM were well positioned to capitalize on the sales boom after the turn of the millennium. On their heels, various Japanese and South Koreans car companies and the Ford Motor Company have scrambled for the remaining market share and now pose an increasing threat. GM and VW currently lead the pack, each claiming about 11 percent of the market, although VW's share had been as high as a third at its peak.[15] Toyota, GM's main competitor worldwide, has been slow out of the gates with only 3.5 percent market share, though early sales of the new Camry have been encouraging. All foreign manufacturers have assembled domestic production capabilities, per government law. The lower production costs and avoidance of tariffs may trigger further price competition.

While convergence of foreign auto powers on China draws the obvious attention, the emergence of competitive Chinese brands is a market force that cannot be overlooked. Most domestic makers remain in partnership with foreign giants, but they have become increasingly independent in capability, and some have tested the market with their own products. In particular, Chinese operations have captured a significant share of the small and mid-size car market, with FAW's compact sedan Xiali and Chery Automobile Company's micro car, the QQ, among the three best selling vehicles in China.[16] Surprisingly, many foreign manufacturers do not yet have an entry in this class.

The full-size sedan segment, however, has become increasingly saturated and price competitive due to the spate of new introductions, such as the Ford Five Hundred, Toyota Camry, Honda Accord, Buick Regal, and VW Passat. In 2005, GM slashed prices on the Buick Regal and Excelle by 10 and 15 percent, respectively, to match similar price deductions offered by Honda on its Accord.[17] While this bedrock, brand-building market cannot be avoided by foreign manufacturers, the economy market, on the other hand, offers access to the increasingly important middle class car buyer in China. Hence, establishing GM's position in the economy market will be one of the key strategies that must be developed.

CHINESE EXPANSION STRATEGIES

SWOT Analysis

Identifying appropriate strategies to further expand into the Chinese automotive market will require further analysis of GM's current position, both in China and in the automotive industry as a whole. An effective way of going about this is examining GM's strengths, weaknesses, opportunities, and threats.

[14] "GM in China." General Motors Corporation. 2006.
[15] "GM Overtakes VW in Chinese Auto Sales." China Daily. 7 July, 2005.
[16] "Small-Car Makers Surge in Market." Shenzhen Daily. 6 June, 2005.
[17] "GM Cuts Prices Amidst Accelerating Price War." Shenzhen Daily. 7 March, 2005.

Strengths

Though seen as a weakness in the North American market, the extensive GM product line may prove to be an asset for expansion into China. While importing every model would be impractical and strategically unwise, a large product line affords GM the ability to use select vehicles to target new market segments with minimal redesign costs. This strength is further enhanced by GM's South Korean joint venture, GM Daewoo, which produces additional models, some specifically geared towards the Asian market. Another strength is that GM already possesses significant capabilities in China as a result of entering early relative to foreign competitors. GM now has several interdependent operations in China, mostly through joint ventures, notability SGM with SAIC and SAIC-GM-Wuling with SAIC and Wuling Automotive (see Exhibit 3).[18] GM also possesses strong recognition in China, especially its luxury line sold under the Buick brand name.

Weaknesses

Price competitiveness represents one of GM's, and most foreign manufacturers', biggest weaknesses in the Chinese market. Domestic car markers often operate on smaller margins than those practical to foreign car makers. GM, however, is better capable of dealing with this situation by incorporating more production into its extensive Chinese operation, negating tariffs and reducing worker costs. The weakness for GM lies in the fact that some models sold in China are still mostly manufactured in the U.S. with final assembly done in China. Though, this practice is slowly being phased out by GM in favor of local production. Not to be overlooked, its current financial woes may limit GM's flexibility in pursuing high-risk ventures.

Opportunities

The biggest opportunity present to GM in China is the growing economy car market, fueled by the substantial increase in size of the middle class in recent years. GM has only entered this market in a limited fashion and could do more to capture a larger share. Despite its strengths in the commercial sector of the North American automotive market, GM has yet to attempt to replicate this success in China. Entry into this market segment represents another opportunity for GM.

Threats

Threats to GM in China exist from both foreign and domestic manufacturers. Competitive offerings from foreign manufacturers mostly threaten GM in higher end markets and have challenged GM's dominance in the Chinese luxury car market. The maturation of Chinese manufacturers has created a domestic threat, especially with regards to the important economy market. Despite their generally lower quality, domestic models are preferred by the growing middle class over more expensive foreign equivalents.

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[18] "GM in China." General Motors Corporation. 2006.

The Chinese Product Line

In formulating a strategy to take advantage of GM's strengths, offset weaknesses, pursue opportunities, and counter threats, the first thing to consider is the products which GM will offer. Presenting a strong, focused product line will be especially important in the Chinese market. Fast growing market segments need to be targeted quickly for GM to position itself appropriately. Vehicles that GM plans to introduce or further promote need to be selected more carefully than ever before given the emergence of strong domestic competitors and the increased attention from foreign manufacturers.

Focusing in on the Small Car Market

Despite the slowing growth of the Chinese automotive market, a quick look at sales for specific segments reveals that growth is still strong, and substantially increasing, in the one particular segment of the market, the micro car (see Exhibit 4). "Two years ago [in 2003], it was all about the big sedans. That's not the case anymore. It's the affordable small cars," says Michael Dunne, president of Automotive Resources Asia, a consulting group that focuses on auto trends in China. One of the primary reasons for the lag in sales has been attributed to the credit tightening measures which the Chinese government has introduced in recent years to slow China's economic boom. As a result, most car sales have taken a hit. The exception, however, has been micro cars, which are less affected as they are usually bought with cash.[19]

All signs seem to indicate that the Chinese market's preference for the smaller vehicles will continue. Even as China's economic rise creates a sustainable middle class, only smaller cars are within the realm of affordability for these potential first-time car buyers. The fuel efficiency of smaller cars would make these vehicles even more appealing amidst rising gas prices. In addition, most of this middle class still reside in urban areas where traffic is severe and space is limited. Thus, larger sedans or SUVs are impractical even if these vehicles become affordable. Larger vehicles may become even more exclusive still as the Chinese government has proposed legislation to introduce an automobile tax on cars with big engines.[20]

GM was an early entrant into the booming micro car market with the domestically produced Chevrolet Spark, a joint venture with SAIC and Wuling. While sales of the Spark are still increasing, the market leaders are now cheaper models, which sell at razor-thin margins, such as the Chery QQ (see Exhibit 5). The QQ, the top selling micro car, outsells the Spark 4 to 1 and is priced as low as 29,000 RMB (~ 3,600 USD) compared to the Spark, which sells between 44,000 RMB (~ 5,500 USD) and 60,000 RMB (~ 7,500 USD) in China.[21] Like other foreign manufacturers, GM has attempted to offset the price advantage of domestics with higher quality.

The greatest appeal of the micro car to the Chinese consumer, however, is their affordability. Consider Zou Yingqi, a 24 year old Shanghai resident, who recently decided to purchase the QQ over the Ford Fiesta, a more expensive foreign micro, "The Fiesta would have cost me almost double [what the QQ costs]," she said. "Considering my family's economic situation, I decided to

[19] "Small Car Sales Challenge Carmakers." Shenzhen Daily. 14 April, 2005.
[20] "Bigger Cars Costing More upon New Tax." China Daily. 6 April, 2006
[21] Dunne, Michael. "China Automotive Report – Inside Perspective." Automotive Resources Asia. June, 2005.

buy the QQ."[22] With the new middle class buyers showing a great deal of sensitivity towards price, GM must respond accordingly. With Buick well positioned in the upper end segment of the car market, GM would do well to target the new middle class car buyer with another brand. Given the success of the Spark, Chevrolet is the logical choice. The introduction of a micro car under the Chevrolet brand, even cheaper than the Spark, to compete directly with the QQ and other domestics will be an important step. While profit margins for such a new model would be exceedingly small, building brand recognition for Chevrolet among this new class of consumers is necessary for achieving long term goals.

Introducing a new model rather than reducing the price of the Spark is optimal. Reinforcing the Spark as a higher priced, quality vehicle will be important as the price sensitivity of the current middle class buyers will undoubtedly lessen as the economy continues to grow and purchasing power increase. Along these same lines, GM must also look ahead to the subcompact and compact car markets, a step up from the micro car market. Decreasing price sensitivity should allow GM to take a more value based approach to these market segments and avoid price competition with domestic manufacturers. This would imply that GM could introduce existing subcompacts and compacts from its current product line and not be forced to design lower cost alternatives for China. Introduced to the Chinese market in limited numbers in 2005, the Chevrolet Aveo and Epica, a subcompact and compact, respectively, have sold well and garnered good reviews. Boosting the appeal of these two vehicles through an extensive advertising campaign and increasing availability will be essential for GM to win over future middle class car buyers in China.

Maintaining Dominance in the Luxury Market

When GM first entered the Chinese market, they targeted the quality sensitive business and civil servant class with premium sedans from the Buick brand. Though GM should poise for the growing mass market of economy cars, it should simultaneously protect its status as a pioneer of the top-end market. As corporate and government purchases fueled the birth years of this market sector, the fast emergence of the wealthy elite in China will now carry it to maturity. The luxury goods market in China currently generates 2 billion USD and by 2015, it is projected to reach 11.5 billion USD.[23] Although volume is still small, the growth rate of luxury vehicles at 57 percent ranks second only to micro cars (see Exhibit 4).

While Buick's brand reputation is still high, the association of Buick with wealth and prestige has been reduced as GM, over the years, brought several less exclusive models into the Chinese Buick lineup. Therefore, to maintain its share in the lucrative top-end car market, GM must prime the Cadillac brand, which has seen only very limited exposure in China, to succeed Buick. GM must seize the opportunity to transition the top-end Buick buyers to Cadillac before they are lost to such competitors as BMW and Mercedes-Benz. This move in turn frees up Buick to refocus its lineup for a more central market segment.

To hone in on the luxury segment, GM should exhibit Cadillac at upscale events targeting high-end car buyers, sending a signal of class and exclusivity to potential customers. Such events, hosted by car manufacturers or third parties, are increasingly common in China and are important in

[22] "Small Car Sales Challenge Carmakers." Shenzhen Daily. 14 April, 2005.
[23] "Top Marques Offers Real Luxury." China Daily. 19 October, 2005.

building reputation and generating sales. Moreover, GM should concentrate its activities of the Cadillac brand in major metropolitan cities, such as Shanghai, Beijing, and Guangzhou. Such a directed campaign at the biggest luxury markets in China not only maximizes cost effectiveness, but also strengthens the Cadillac image of prestige and privilege. In time, GM's brand-building efforts in these key cities will spill over to a more widespread audience.

A key element of GM's development of Cadillac would require that the vehicles be produced locally. Several foreign manufacturers of luxury cars in China, most notably Audi and Mercedes-Benz, have moved more and more of their production processes to local plants, allowing them to reduce cost and increase market share.[24] The trend towards domestic production of luxury brands should result in a market-wide reduction in prices and thus expand demand in the coming years.

Entering the Commercial Vehicles Market

Commercial vehicles constitute a substantial part of the Chinese automotive market and have contributed significantly to its growth. In 2005, commercial vehicle sales accounted for slightly less than half of all automobiles sold in China (see Exhibit 6). This makes China the largest market for commercial vehicles in the world.[25] The commercial vehicles which GM produces consist of its GMC and Chevrolet light and medium duty commercial lines. These vehicles have been consistently strong sellers in the North American market. GMC recently set a sales record for trucks sold in a year, the 11th time in the past 12 years in which the record has been broken. GM, in fact, consistently sells more trucks than cars in the North American market.[26] However despite such success and expertise, GM has not introduced, nor has announced any plans to introduce, these vehicles into the Chinese market.

This large market segment can be another avenue that GM can pursue to expand further into the Chinese automotive industry. While construction related vehicle purchases, of which GMC and Chevrolet's commercial branches specialize in, have slowed in growth due to China's recent policies to cool down the over inflated real estate market, demand is still high, as are profits.[27] Given a foothold in the commercial vehicles market, GM could find success. However, therein lies the problem, as GM lacks recognition and reputation among major construction firms in China, an entry barrier which makes success an uncertain factor.

This problem can be overcome if GM expands on its current relationship with its Chinese partner, Wuling. Despite the production of the Spark micro car, Wuling primarily specializes in small industrial vehicles (smaller than most light duty trucks sold by GM in the North American market). Wuling's reach in the commercial sector is broad, possessing over 400 retailers in 29 provinces and municipalities and over 400 after sales service centers in China. Wuling is also the second largest producer of commercial mini vehicles in China by sales.[28] GM's cooperation with Wuling can extend into helping expand Wuling's production capabilities and market scope to include models from GMC and Chevrolet's light and medium duty commercial vehicles lines. These

[24] "Low Gear Year for Luxury Car Market." China Daily. 7 February, 2005
[25] "Commercial Vehicles in China." Access Asia. October, 2003
[26] "General Motors Corporation 2004 Annual Report." General Motors Corporation. 31 December, 2004
[27] "China Automotive Systems Reports 2005 Fourth Quarter and Full Year Results." PR Newswire. 31 March, 2006.
[28] "GM in China." General Motors Corporation. 2006.

vehicles can then be branded under a joint Wuling-GM label and sold utilizing Wuling's existing infrastructure and its connections with the commercial sector, effectively overcoming the issue of brand recognition.

Complementary Goods Strategy

The importance of complements to automobiles in the Chinese market was established earlier. Even with a plethora of great cars, sales can still be limited without adequate complementary goods available to the consumer. Therefore, GM's strategy with regards to expansion of operations in China must also involve enhancing complements.

Automobile Service

Establishing an industry-leading program of after-care service would be a highly synergistic strategy for GM. By distinguishing itself through effective, customer-oriented service, GM locks in its existing consumer base and attracts new buyers without resorting to self-damaging price competition tactics.

The interwoven nature of auto repair and auto sales would allow GM to expand more effectively and aggressively into the auto repair than pure part suppliers such as Bosch and Autobacs. Furthermore, with domestic manufacturing capacity in Shenyang and Shandong, GM can bypass the import tariffs faced by foreign entrants. GM's parts division AC Delco currently operates 100 service facilities inside China, a number that should be quickly expanded.[29] As the first mover, GM will be able to facilitate its expansion by partnering with the strongest independent repair shops, authorizing them as exclusive GM service centers.

To exploit the manifest synergies between car retail and repair, GM should offer built-in, long term service plans on all new purchases. GM's value package of reliability and service would justify its higher initial purchase price and contrast with the pure cost based strategies of domestic makers. In essence, the attached service plan achieves two important goals. First, GM funnels an automatic customer stream to its service centers and links the success of both operations. Second, GM achieves a targeted discount for its own customers, who will be under the full-coverage plan, and thus enables its repair shops to charge more on jobs performed on other brands.

Alternatively, should GM's service centers distinguish itself as the superior choice in repair, purchasers of other makes would have incentive to buy GM in order to access the facilities at lower cost. Hence, the strategy is multiply reinforcing and can potentially spearhead GM to the leadership in both the repair and sales markets.

Driver Education

An important, but easily overlooked, distinction between the Chinese car market and well-developed markets of Europe and North America is that much of the demand comprises of not only first-time buyers, but first-time drivers. As the dream of car ownership lay far fetched and

[29] "GM in China." General Motors Corporation. 2006.

impossible only ten years ago, the typical middle class buyer of GM's micro car and compact line will have only learned recently how to drive.

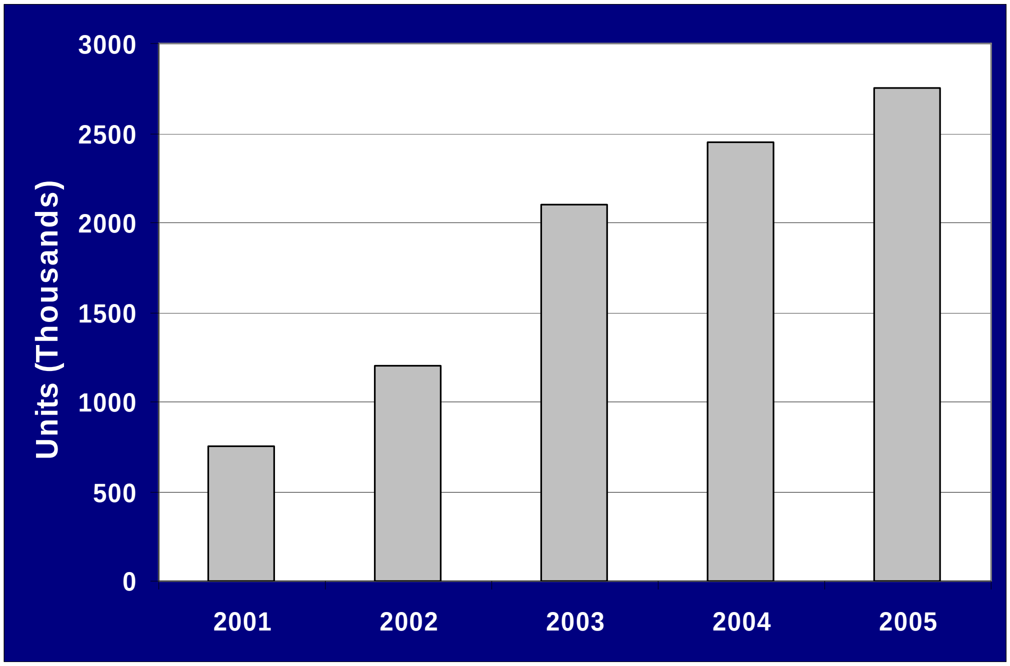
As a convenient access to a key source of consumers, GM should integrate itself into the Chinese driver education program. GM should sponsor educational literature and information on safe driving practices, such as safety-belt use and traffic law adherence. This strategy establishes a positive image of GM as not a foreign opportunist, but a partner in solving China's problem of fatal roadways. In addition, GM should donate or discount its micro cars to driving schools as another avenue for making a first impression on potential buyers. Having learned how to drive on a Spark, new buyers will bear a switching cost when considering the rival QQ. Indeed, a strong push to proliferate driver education will ultimately create new demand and thus justify GM's involvement with both immediate and long term rewards.

CONCLUSIONS

The fast-moving Chinese automotive market presents a pivotal opportunity for car manufacturers worldwide. The growth pressure of a surging economy and burgeoning personal wealth will push auto sales against the limit set by slower-developing complementary services. GM's early entry and determined investment has allowed it to capture a slim lead in the prized Chinese market. To fend off both foreign and domestic rivals and strengthen its market leadership, GM must adopt a clear, directed, and sustainable strategy that leverages its existing infrastructure and brand recognition. Towards these ends, GM should position Chevrolet in the economy mass market through an affordable micro car offering. This initial step will gain momentum for Chevrolet's future subcompact and compact lines. Moreover, GM must re-stake its former preeminence in luxury by introducing the new flagship brand, Cadillac, to succeed the now mainstream Buick. Finally, a no-frills, work-oriented lineup of light and medium commercial vehicles taps a vibrant market at minimum risk and plays to GM's expertise in truck-making and partnership with Chinese commercial vehicle manufacturer, Wuling. In addition to product line development, GM must address long term industry growth obstacles by improving the quality Chinese auto service and driver education. The synergistic strategy of full service warranties on new car sales could at once launch GM into the lucrative repair industry and boost car sales by eliminating a deterrent to car ownership, repair. Hence, through these early-strike strategic measures, GM can emerge as the dominant player in present and future Chinese market, one whose full potential has barely been tapped.

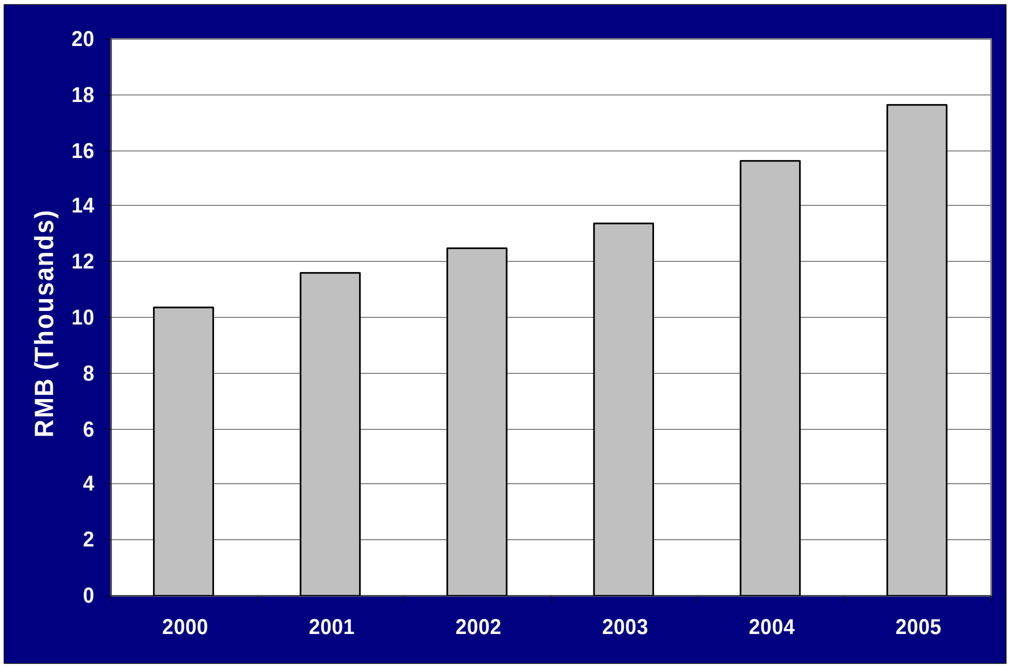
EXHIBITS

Exhibit 1 – Chinese Passenger Vehicle Sales Growth



Source: Automotive Resources Asia

Exhibit 2 – Average Disposable Income of Urban Beijing Residents



Source: Compiled from china.org.cn

Exhibit 3 – GM's Operation in China

- Shanghai General Motors Co. Ltd. (Shanghai GM)
- Pan Asia Technical Automotive Center (PATAC)
- SAIC-GM-Wuling Automobile Co. Ltd. (SAIC-GM-Wuling)
- Shanghai GM (Shenyang) Norsom Motors Co. Ltd.
- Shanghai GM Dong Yue Motors Co. Ltd.
- Shanghai GM Dong Yue Automotive Powertrain Co. Ltd.
- GMAC-SAIC Automotive Finance Co., Ltd.
- GM Warehousing and Trading (Shanghai) Co. Ltd.
- GM (China) Investment Corporation
- ACDelco
- Allison Transmission Division (ATD)
- GM Electro-Motive Division (EMD)
- GM-Shanghai Jiao Tong University Technology Institute

Source: General Motors Corporation

Exhibit 4 – Chinese Passenger Vehicle Sales in 2005

Segment	May 05	May 05/04	YTD - May 05	YTD - May 05/04	YTD - Sgt. Share 05
Micro Car	20,139	72%	98,001	48%	5%
Subcompact	74,752	44%	283,208	-2%	14%
Sedan	79,176	4%	381,902	-1%	19%
Full-Size Sedan	37,062	31%	159,607	3%	8%
Luxury Sedan	6,625	57%	24,324	-17%	1%
SUV	11,272	12%	47,841	-13%	2%
SMPV	2,221	7%	7,100	21%	0%
MPV	9,039	14%	41,741	10%	2%
Total	**240,356**	**25%**	**1,053,610**	**2%**	**52.1%**

Source: Automotive Resources Asia

Exhibit 5 – Micro Cars

2005 Chevrolet Spark

2004 Chery QQ

Source: Cars++ (Spark), www.Ajovalo.net (QQ)

Exhibit 6 – Chinese Vehicle Sales by Segment in 2005

Segment	YTD - May 05	YTD - May 04	YTD - May 05/04	YTD - Mkt. Share 05
Passenger Cars	1,063,810	1,034,310	2%	52.0%
Commercial - Trucks	527,595	496,277	7%	26.1%
Commercial - Buses	442,949	414,449	7%	21.9%
Total	**2,024,464**	**1,944,036**	**4%**	**100%**

Source: Automotive Resources Asia