

Byd corporation



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**Introduction**

This project report is based on the presentation which is BYD Corporation.

The aim of this report is to investigate the planning and implementation stages of expanding BYD pure electric car into overseas markets. Especially the key financial resources for successful implementation of the project will be involved. Also the human capital cost will be considered in the overseas expanding, with cost benefit analysis (CBA) as a measurement standard to justify the successful implementation of the project.

**Main body****Background**

BYD Corporation is a young Chinese automaker which was founded in 1995 as a rechargeable battery manufactory. After BYD listed on the Hong Kong Stock Exchange on 31 Aug. 2002, it entered into auto industry in 2003 by acquiring another Chinese auto maker. Even the energy crisis cause the rapid increasing of fuel price hits lots of automakers, BYD's electric car sales perform very good, especially in Jan. 2009 BYD F3 sales 15675 vehicles in Chinese market and it is the bestselling car.

Our aim is to copy the successful history into global auto market. Just like what does the BYD CEO comment “ our aim is to be the 1st in Chinese market in 2010 and to be the no. 1 in global market until 2025”

**Resources**

In order to launching products overseas, we need to allocate relevant and sufficient resources to support the expanding activity successfully.

### ☛ **Key financial resources required**

BYD Corporation was listed in Hong Kong Stock Exchange in 2002, which major financial resources are generated from the public share holder. The equity finance is the more appropriate method to raise capital than other source of finance, e. g. debt financing. The advantage of equity finance is cheap, and no interests need to repay. Once the shareholder realize BYD intend project is doing well, it is easy to raise plenty of capital to provide sufficient funds for the new project. But the disadvantage of equity is time consuming. The legal process of raise equity need plenty of time to communicate with relevant regulator and agency. It costs time and may led the intend project lose the potential competitive advantage.

BYD's new globalization strategy is to open America's new energy auto market in 2010. The pure electric powered vehicles are going to import to the U. S. market. The finance are going to be raised from Shen Zhen Stock Exchanges (SZSE) by issuing IPO in south china in 2010. Which will help BYD Corporation to raise up to \$ 450, 000, 000. These funds will play a big role to help BYD enter into American markets.

### ☛ **Technology resources**

BYD's core competence is the iron battery technology, which is the 1st company produces purely electric vehicles in volume in the world. The iron battery proves to have better safety performance and larger capacity. The fully charged car can drive up to 400 kilometers. The battery can be fully charged in 10 minutes in charging station or 9 hours at home.

The iron battery technology is mature and environmental friendly, which do not need to disposal it to specific garage. The iron battery technology is <https://assignbuster.com/byd-corporation/>

purely green, and currently there is no obvious competitor in the electric car industry around the world.

### **☛ Human resources**

#### Human capital costs

Human capital refers to the stock of skills and knowledge embodied in the ability to perform labor so as to produce economic value. It is the skills and knowledge gained by a worker through education and experience. Many early economic theories refer to it simply as labor, one of three factors of production, and consider it to be a fungible resource — homogeneous and easily interchangeable. Other conceptions of labor dispense with these assumptions

([www.wikipedia.com](http://www.wikipedia.com))

Human capital costs is the cost for acquiring, developing someone for the organizational resources, it is a cost incurred by person. It is monetary terms of investment in human capital.

### **Use of theory**

The globalization of BYD also needs theory to support and evaluate the successful of implementation stages. Which I prefer to use Cost Benefit Analysis to access the international launching project, and later the Net Present Value model will apply to the proposal to reach a decision on the project.

### ☛ **Cost Benefit Analysis (CBA)**

Cost benefit analysis is a decision making technique, which usually help the management to appraise, access, and evaluate a project or proposal.

Under the terms of CBA, we are going to weighing the total expected costs against the total expected benefits of a number of options, then we can choose the best profitable one to take the proposal to implementation stage in order to get a successful outcomes.(www. wikipedia. org)

In accessing the CBA, all the costs are going to be recorded in money terms, and we also need to consider the time value of money (NPV, we are going to discuss it later). Then we need to take in count of the associate benefits which will flow to the entity, either tangible benefit such as cost saving, or intangible benefit e. g. increasing of goodwill or market share. Meanwhile , return on investment (ROI) also can help in decision making on the launching new project.

BYD Corporation are going to expand its business and products into America.

The following diagram will show the relationship between cost and benefit by Cost Benefits analysis.

#### **Comments on BYD cost benefits analysis.**

Comparing to the cost of overseas expanding, the increasing market share, economics of scales and the global brands imagination are obviously more important and attractiveness to the BYD's stakeholders. My recommendation is if the market research shows the demand of new energy vehicles are high, and the entry barrier is affordable, we better to set up auto factory in overseas directly by Direct Foreign Investment (DFI), if the research show <https://assignbuster.com/byd-corporation/>

only small demand and the potential demanding do not increase in the short future, I recommend BYD consider the export strategy to go globalization.

### **☛ Net Present Value (NPV)**

Net present value is defined as the total present value(PV) of a time of cash flows. It is a standard method for using the time value of money to appraise long-term projects. Used for capital budgeting, and widely throughout economics, it measures the excess or shortfall of cash flows, in present value terms, once financing charges are met.(www. wikipedia. org)

The cash inflow and outflow is discounted to its present value by applying appropriate discount rates, which will take in count of the cost of capital, inflation, time etc.

After a series of calculation of cash inflow/outflow with discount rate in count, we can get a final figure which will help the management to make decision on that project of whether the project is profitable or not.

### **Critical review**

In order to launching the BYD's overseas expanding project successfully, we need to consider the external environment to assist the management to make the decision.

The PEST model will be applied to the BYD case.

## **PEST analysis**

### **• Political**

According to Thompson (2002) said, political factors include government regulations and legal issues and define both formal and informal rules under which the firm must operate.

In nowadays, environmental protection is more strict than before. Lots of countries in the world issue tight legislations on emission of automobile. Such as European Union have issue emissions legislation in 1994. (www.wikipedia.org), and President Obama of U. S. announced national fuel efficiency policy on 19 May 2009. This policy aimed at both increasing fuel economy and reducing greenhouse gas pollution for all new cars and trucks sold in the United States. (www.whitehouse.gov)

From the view of worldwide political issue, the BYD electric vehicles are welcomed by global environmental legislation.

### **• Economic environment**

Pearce and Robinson (2005) described the including of demographic and cultural aspects for the external macro-environment. It affects consumers need and the size of potential markets. The automotive sector was initially weakened by the increasing price of automotive fuels linked to the 2003-2008 energy crises, this led consumer get away from vehicles with high emission vehicles, such SUV and trucks. Low emission cars and new energy powered vehicles are more favor to the consumer globally.

Toyota who overtakes GM, announced on 7th June, 2007 that it had sold 1 million hybrid vehicles globally, and that of those 757, 600 were Prius hybrid

car.(www. toyota. co. jp) , which Toyota Prius's success imply the demands of new energy vehicle are really strong.

- **Social**

Pearce and Robinson (2005) described the including of demographic and cultural aspects for the external macro-environment. It affects consumers need and the size of potential markets. The social trends are changed from the energy crisis, people are more favor in vehicles with cheap new energy rather than fuel consumption vehicles. That is good news for the BYD globalization.

- **Technological environment**

Technology factors could lower barriers to entry, decline minimum efficient production stages, and affect outsourcing decisions Johnson and Scholes (1993).

According to the prediction data from the Auto Mfg & Production, the new energy vehicles are going to take up to 25% market share till 2020.

From the growing market share, we can say that who control new energy technology, who will control the future of auto market.

## **Conclusions**

Driving conclusion as expanding BYD into overseas market is not an easy task. There are a lot of things take into consideration that will affect the result of expanding project. Competitors, customers, and local government protection etc are factors cannot ignore to implement the project.



Although the expanding project can get support from Chinese government, shareholders and other stakeholders, but the final result is depends on the customer globally, our aim is to produce the high-quality, safe, and environmental friendly cars of tomorrow; that can lead the world towards an energy independent future; and that is once more a Industrial Revolution. The management of BYD must take consideration of the external environment change from time to time to select the right strategy suit for the current world in order to globalize and success in the 21st century.

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