

Competition in the chinese automobile industry



Some early entrants (such as Volkswagen) succeeded, while some early entrants (such as Peugeot) failed. Similarly, some late entrants (such as Honda) did well and some late entrants (such as Ford) continue to struggle. From a resource-based standpoint, what role does entry timing play in determining performance? After long and difficult negotiation that began in 1978, Volkswagen in 1984 entered a 50/50 JV with Shanghai Automotive Industrial Corporation to produce the Santana model using completely knocked down (CKD) kits.

VW entering the China market in the early 1980s, and took a proactive approach in spite of great potential risks, and the German multinational not only committed enormous financial resources but also practiced a rather bold approach in its dealing in China, so this involved a great deal of high-level political interaction with China's central and local government authorities for which the German government frequently lent its official support. Moreover, VW was willing to avail the Chinese partners of a broad array of technical and financial resources from its worldwide operations.

Peugeot started to search for JV partners in 1980 and in 1985 set up a JV, Guangzhou Peugeot, in south China. The JV mainly produced the Peugeot 504 and 505, both out-of-date models of the 1970s. Many domestic users complained about the high fuel consumption, difficult maintenance, and expensive parts, so in it began to go into the red in 1994, with its losses amounting to \$349 million by 1997, forcing Peugeot to retreat from China, and sold its interest in the JV to Honda in 1998. Honda entered and won the fierce bidding war for the takeover of an existing auto plant in Guangzhou Peugeot JV.

The partner selection process followed a familiar pattern: Beijing was pitting several bidders against each other to extract a maximum of capital, technology, and manufacturing capabilities, as well as the motor vehicle types deemed appropriate for China. Honda pledged to invest \$887 million and committed the American version of the Honda Accord, whose production started in 1999. Two years later, Guangzhou Honda added the popular Odyssey minivan to its product mix, so in less than two years Honda had turned around the loss-making Peugeot facility into one of China's most profitable passenger car JV.

On the other hand, Honda had captured a significant market share with exports of popular Honda Accord and a most effective network of dealerships and services and repair facilities all over China. Excellent reputation and brand recognition, also strengthened Honda's bargaining power with Chinese negotiators. While GM is likely to surpass two million Chinese-market vehicle sales in 2010, Ford is struggling to reach half a million. Ford was napping and arrived late in about 2003, six years behind GM.

China's growth was not on the radar in the mid-1990s remembers a former Ford executive. They didn't commit any terrible mistakes, but they were simply late. GM, Honda, and Toyota were already there, and the air was getting thin. The most promising potential cooperation partners, a requirement of operating in the Chinese market, already had their dance cards filled. Ford was left with a company called Changan, which is inconveniently located in Chongqing, far away from the international business centers.