Marketing analysis of general motor (gm) in china assignment

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1. 0 Executive Summary This strategic marketing report prepared for the General Motors (GM) detailed a thorough analysis the motor vehicle market in China. GM was a US automaker company, and entered the market of China by joint ventures. SAIC is GM's major joint venture partner, and it had become the largest plant in China. GM was earning high profits from China by 2004. However, GM faced the challenges from both foreign and local competitors, overcapacity and intervention from Chinese Government. In 2004, the sales dropped sharply. The first part will be analyzed by STEP theory of the motor vehicle market in China in 2004.

Then we will use SWOT analysis to examine if China is still an attractive market for GM. Next, we will further concentrate on the pros and cons of both strengthening its position in China, and using China as an export base to the worldwide market. By analyzing all this data, conclusion and recommendation will be proposed to GM. 2. 0 Introduction General Motors was a multinational automobile manufacturer. It was found in 1908 and headquartered in US. It manufactured its cars and sold them all over the world under the brand of Buick, Opel, Saab and Cadillac, etc.

By 2004, General Motor (GM) had been successful in China. It operated six joint ventures and two wholly owned foreign enterprise. SAIC is the major joint venture partner of GM. Through its joint venture, Shanghai GM was the second highest market share of automaker in China, and it had achieved an outstanding result and earned a huge profit from its China operation by this year. However, the business environment of China was changing rapidly. Many foreign and domestic firms noticed the great potential in doing business in China, GM had faced the new challenge from these competitors.

It had also xperienced decrease of sales volume especially for some of the best selling model in 2004. GM had to rethink its marketing plan in China. 3. 0 Overview Of China Vehicle Market Environment In 2004 In order to understand what action GM could take, the vehicle market environment of China in 2004 should be first looked into and it was analyzed by STEP theory. Socio-Cultural Environment Continuous Population growth; Loss of consumer confidence; Shifted to buy some less expensive models by customer; Expectations of vehicle price further decreases because of car price war. Technological Environment Glut of production facility;

Poor highway system design; Modern technologies, innovation and managerial practices from foreign firms; Poor quality, lack of innovation and ongoing product development from domestic firms. Economic Environment Rapid inflation; Increase in income of people; Increase in demand of cars; Rapid economic growth rate; Increase in unemployment rate as enterprises strove to increase efficiency; Car price competition from both foreign and local car makers; Threat of oil and higher gasoline prices; Free to distribute products of foreign firms; Growing GDP. Over-capacity and cause decreasing in car price; Political Environment

Restriction on loans on purchase of motor vehicles; Increase in taxes to restrain aggregate demand; Increase in interest rates; Maintaining an undervalued currency to enhance its exports and to restrain imports; Increase in levels of exports and substantial foreign investment; Rationing of power supplies; Lack of Intellectual Property protection; Domestic firms own 50% of each joint venture by regulation; Decrease in tariff and phasing out import quotas after China joined WTO. 4. 0 SWOT Analysis for GM 4. 1 Strength General Motors was a US based multinational automobile manufacturer and found in 1908.

It sold its cars all over the world under the different brand such as Buick, Opel, Saab and Cadillac, etc. In 2004, GM had six joint ventures and two wholly owned foreign enterprises, it also maintained the second highest market share in China. Being a multinational corporation, GM had sold 386, 710 vehicles in China in 2003, and made $437 million profits in this year. It provided sufficient financial resources to the firms to further expand its business in China. GM entered China market by joint venture. GM and its major partner, SAIC, could offer the widest portfolio of products among automakers in China.

Through joint ventures, GM could create a good relationship with Chinese official, which was very important in doing business in China. GM could also access the market of China easily, while those importers without joint ventures were not allowed to do so. In 2004, GM was the first foreign automaker to be permitted to issue auto loans to its buyer in China. Although other carmakers followed this action of doing the auto business, GM had a first start and this would allow them to enjoy a short period of time of limited competition, and lead to the sales increase greatly in China market. 4. 2 Weakness

GM experienced profits drop in the third quarter of 2004. Intellectual property was a critical challenge for GM in China. Through by joint venture, GM’s local partners could copy designs and technologies of the foreign investors, and sell the cars at a lower price with many similar features. Besides, the domestic corporations might set up their own facilities and compete against the joint venture, and export to foreign form's markets throughout the world, and GM could not do anything to stop this action. By 2004, GM major partner, SAIC, had already have its plan to compete against GM by producing its own brand vehicle.

It planned to produce 50, 000 vehicles in the next three years to compete against GM. In China, the local partners of GM would claim their products with brand name recognition, however the quality of parts or components were not in good condition because they still used the traditional management with lack of innovation and product development. GM needed to think a more efficient value chain in order to produce the higher quality products. 4. 3 Opportunities Rapid economic growth rate As the economic was rising, the needs of people also increased. According to Maslow's theory of hierarchy of needs, people are motivated by unsatisfied needs.

People satisfy lower needs before moving to higher needs (OUHK B891, Unit 1, p. 29). With higher consumer income of Chinese, more people could satisfy their basic needs such as food, daily items, safety and love, etc. They were seeking higher needs for a better life style, more people could afford to purchase cars rather than bicycle or motorbike. Long term growth potential market Continuous population growth indicated that there was a long term growth potential in China. In 2004, there were only 0. 5 cars per 100 people in China. Compared to 80 cars per 100 people in US, China was a great potential market for GM.

Continuous GDP growth GDP had risen steadily. It indicated that the purchasing power increased in the past few years. More people are willing to consume goods, and they would have the ability to buy their own cars. Westernized of newly rich In China, young consumers' purchasing patterns are increasingly becoming westernized (Ariga, M, Yasue, M and Gu, X W 1996 p. 246). They loved famous and foreign brand, new models and products. They purchased products whatever they wanted even they needed to borrow money. They were willing to spend money on buying western brand because the quality is better.

This generation enjoyed the western lifestyle, as well as buying western brand of cars. Eliminating Import Quotas By eliminating import quotas, GM was free to distribute its products into China. It could export its product mix to China, and hence achieved greater economies of scale. Reduce in Tariffs By reducing tariffs, the price of cars could be lower because the taxes decreased on imports. GM could gain benefits as it could introduce more car models into China with more competitive prices compared with local firms. It would also stimulate the sale volume because the prices were much cheaper than before.

Undervalued currency To enhance exports and restrain imports in China, the government kept an undervalued currency. If GM planned to strengthen its position in China, this action could offer protection against the imports from other foreign competitors. 4. 4 Threats Rules of Auto Sales Financing In reality, the aim of automobile loans of GM could not be reached as the government reduced the percentage of the loan from automaker. GM could originally lend 90% of the car price to purchasers, however this loan percentage reduced by the regulation and it would affect the purchasing power of people.

Besides, the interest rates were charged on local currency loans, and GM was not permitted to set its own rates. Over-Capacity and price cut In China, over capacity was a serious problem and many foreign firms rethought their investment in China. Over-capacity also resulted in priced cut. GM faced the new competition from domestic and other foreign firms, who strove to maintain their market share by lowering the selling price. However, frequent price cut might lead to the change of buying behaviors of Chinese consumers.

People would not believe in carmakers and hold off their decision on buying new cars until next round of price reduce. Price cut would cause the decrease in profit margins to GM. Government Intervention In China, the government often controlled and intervened the business. It might impose new rules to enhance technology development of domestic firms by sharing expertise in development, production and sales if foreign firms owned 10 per cent or more of a domestic firm. This would enhance the technology of local firms, and weaken the Research and Development teams of GM.

Besides, domestic firms own 50% of each joint venture and get half of vote when making decisions under regulation. As mentioned in previous section, government also set up some auto loan rules. Furthermore, the Chinese government might even encourage SAIC to buy the interest of GM in the joint venture. All these requirements might cause frustration of GM. High oil and gasoline prices High natural recourses cost would drive up the cost level of car, and resulted in reducing the purchasing power of consumers. Other Short Term and Long Term limitations There were some short term and long term limitation for GM.

The short term constraints, for example, consumer lost their confidence and they expected the price would further decrease. The threat of oil shortages, high gasoline prices, government rationing of power supplies, and restriction of auto financing loan also caused the sales of motor vehicle decreased sharply in 2004. Poor designs of highway system and air pollution problems were the example of the long term constraints. 4. 5 Sub-conclusion There were full of opportunities for GM to expand its business in China as both population and economic were growing rapidly, cheaper car prices could enable more Chinese consumers to afford a car.

Without the trade barriers such as tariffs and import quotas, and with joint venture in China, GM could expand its investment in China by further strengthening its position in China, or use China as an export base to the worldwide market. More pros and cons of these two options will be analyzed in the coming sections. 5. 0 To Strengthen GM Position In China As China market became more important to automakers, GM could strengthen its position in China. The pros and cons will be analyzed in this section. Pros Rapid economic growth rate Obviously, rapid economic growth rate was a great potential for GM in China.

High sales volume would be expected as the needs of cars were rising. Especially in the coastal cities in the South and East of China, the economic development were more advanced, the people also became richer. GM could focus on these coastal cities such as Shanghai and Guangzhou because these regions were the gateway to the giant market in China. Potential Market in North, Central and Southwest region For GM, the North, Central and Southwest region of China were attractive. The economy of these regions were growing very fast, GM could target its business in these new markets when the existing markets became saturated.

Although the purchasing power of these regions was lower than coastal area, GM could introduce less expensive models in these markets. Besides, consumers of these areas follow the trends of coastal areas. As the people of coastal areas preferred the famous western brand, therefore the North, Central and Southwest region were great potential market for GM. Example of these areas are Beijing, Tianjin and Shandong, etc. There were a lot of smaller urban and rural areas in China. Because of the open door policy, they are now more accessible than old days.

People living in this region might want to buy their first car. These were the long term potential markets for GM. Currency Exchange rate The undervaluation of the renminbi would help GM and its joint ventures against import from other foreign firms. Although some European countries had raised the issues of revaluation of the renminbi, and might force the Chinese government to revaluate its currency in the future, GM could enjoy the benefit for a few years. Benefits of Joint Venture GM entered the vehicle market of China by joint venture.

Through transferring of both technologies and management skills to the local firms, GM could enhance its competitiveness in China. Besides, GM would achieve a better market access and build a better relationship with government by joint ventures. Import quotas and low tariffs With phrasing out import quotas and low tariffs, GM could import its products to China with lower selling prices. Therefore it would stimulate consumers to purchase cars. High Purchasing power High GDP growth from 1999 to 2003 indicated high purchasing power of Chinese people. And continuous GDP growth of China was expected in the future.

Cons Cultural Difference across regional market of China China is a big country. Consumers from different regions in China would have different behaviors and buying patterns. This is a big challenge to GM and it might need to conduct a lot of surveys, and collect a lot of data such as purchasing power, income, lifestyles, values and saving, etc, so it could use the data to determine the correct marketing planning and strategies. GM could collect secondary data about the trends and buying behaviors of Chinese from government websites or other journals, however the data might not be precise enough for GM.

It might need primary data for its own analysis, this is more accurate but costly and very time consuming, especially in some developing cities and rural areas in China. Challenge in Standardization strategy in China Single marketing strategy in China might not be applicable for GM as there were many cultural differences among the country. GM needed to apply different marketing approaches such as advertising, distribution intensity and media planning, and sold different car models in different regions. This action would reduce the economy of scale of GM. Competition of local partners

As mentioned in previous section, joint ventures partners might copy the design and technologies of foreign firms, and sell the cars models with similar features with a lower price. Price cut GM had faced the new competition from domestic and other foreign firms in China, who strove to maintain their market share by lowering the selling price. Price cut would lead to the decrease in profit margins to GM. Government Intervention Problem As mentioned in previous section, the Chinese government might impose new policy continuously to protect the local automakers. Soaring oil cost Soaring oil costs were the major challenges for GM.

It would affect the buying power of consumers. In this case, GM might need to develop more fuel efficient model for Chinese consumers. 6. 0 To Use China as an export base Pros Inexpensive Car price with US design and technology With low labour cost and rapidly improving skill levels, the cars from China were not expensive compared to those cars from US and European countries. In long terms, consumers from US and Europe would accept the Chinese made car because the price was cheaper and quality level is improving. Besides, although the car was manufactured in China, both design and technology were come from GM.

In this case, the designer and engineer from GM understood the requirements of the consumers from US and Europe, and it was easier to fulfill their needs. Benefits of currency exchange rate The Chinese government stimulated its exports by maintaining an undervalued currency.

This was a great opportunities for GM, and it could strengthen its position in global market by exporting its cars to the world. Advantages of Joint Venture By joint ventures, design, technology, management skills and expertise were transferred to SAIC, sales channel and distribution network were also enhanced.

Therefore the joint venture had a greater advantage in exploring overseas markets compared to local Chinese car makers. For local firms, they might be lack of experience in global marketing, and the technology and quality level would be lower compared to joint ventures. It was unlikely the local brand would enter the oversea markets in short term. Over capacity of domestic market Because of over capacity and price wars in China, GM and its joint ventures should explore new overseas market such as other developing countries to maintain the market share and profit margins.

There were already a world glut of manufacturing facilities for GM and its joint ventures in China, they could use this strength and ship their products to the new markets. Exploring new market could absorb the negative effects of over capacity in China. Intensifying competition in China Since the competition of vehicle market in China was increasing and resulted in price cut to maintain their market share, GM should seek the new market globally to strengthen its profit margins. Mature infrastructure

The manufacturing facility in China is more mature compared to other low cost Asian countries such as India. High availability of technical persons and more effective support infrastructure could be found in China. Cons Quality standard of Chinese made car Quality level of Chinese made car was the major consideration for worldwide consumers. They might worry about the product quality and safety level of the cars from China. In GM point of view, with lower labour cost, the strategy of vehicle exports should target to the mid to low end market segment.

But GM needed to make a balance between quality level and attractive selling price. Quality level was a very important factor to enter the International market successfully, GM would face a challenge on reducing selling price and increase the product quality level to meet international standard. Competition from other foreign automakers GM and its joint ventures might face the competition from other automakers from Japan and South Korea, who were already well established in export markets. Especially consumers would prefer Japan made car due to its higher quality and competitive price.

GM needed to put more effort on its car quality level and make the price more attractive in order to striving a market share in the International markets. Risk of Global financial crisis If there was a global financial crisis, the sales of the auto would decelerate sharply in a very short period of time. It was because the target export markets would be affected by the financial crisis, the purchasing power of consumers decreased and hence they could not afford to buy a car. Compared to China, it was a long term potential market for GM such as the smaller urban and rural areas. 7. 0 Recommendation

GM should focus on expanding and reinforcing its business in China rather than using China as en export base. During the past few years, the economic of China was growing rapidly. The number of higher income of Chinese people was increasing, and a long term potential growth of vehicle market was expected in China. GM could also access the Chinese market and local contacts by joint venture. Undervalued of renminbi would help GM against the imports cars from other foreign firms. As the demand of vehicle market of some developed countries such as US was nearly saturated, GM should concentrate its business in China.

GM could reinforce its business by setting up more plants, launch more new products and upgrade its existing models. More plants could enable GM to keep up with the growing demand for its products. Besides, GM could develop more new products and launch them to the market to meet the demand of Chinese consumers. Furthermore, GM could also upgrade its existing models and enhance its after sales services in order to satisfy the needs of Chinese consumers. However, different region in China would have different culture, income and lifestyles.

GM could not apply a standardization market strategy in China, as Cui and Liu said firms should " plan nationally and act locally". GM should concentrate on overall market, but also need to pay attention to regional difference. A survey was necessary in order to understand the Chinese consumers' attitude towards buying cars and other regional differences among cities in China. By conducting a survey, GM could breakdown the vehicle market into different groups, therefore it could segment the region, and apply positioning strategy to its target markets. 8. 0 Conclusion

The economic of China was growing continuously in recent years. The purchasing power of people in China is increasing and they were attracted by many western products. Through joint venture, GM could access the Chinese market more easily and could build a good relationship with Chinese official. China was an attractive market to GM and it should reinforce its business in China. To satisfy the needs of consumers, GM could set up more plants, launch more new products and upgrade its existing models. By applying segmentation and positioning strategy, the increase of sales would be expected in the near future.