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CHINA BUSINESS UPDATE
Automotive
Weekly Intelligence and Insights on the Chinese Automotive Industry

China only models vs. China only brands

– by Mark Andrews, CBU Guest Columnist

In Europe the name Ford Escort evokes nostalgia largely thanks to the rallying success of the Mark 1 and 2 versions. In the pre-Ford global car days the North American Escort was different – although the first version to carry the name on the continent was based on the European Mk 3. Despite the lack of such an emotional response it was a big seller and the name has a history to it.

With no Escort version ever officially

Ford Escort concept, photo by Mark Andrews

(*cont'd on p. 2*)

PSA's Red Chamber Dream

– by Feng Shiming

China's second largest automaker has been holding talks about buying a stake in the troubled French carmaker PSA Peugeot Citroën. PSA has experienced the worst performance in recent history in the first five months of 2013: a decline of 14 percent in sales year-on-year to 582,000 units in Europe.

Confronted with harsh market realities, the Peugeot family (*cont'd on p. 3*)

The cards in BYD's hand

– by Hu Weiwei

With 10 years of expertise in automotive electronics, the 15th Business Division of BYD has become the company's driver of electronic innovation.

BYD started as an electronics supplier, making batteries, mobile phone accessories and integrated electronic products for Nokia and HTC.

But it entered the automobile business 10 years ago. It expanded rapidly in 2008 and 2009. After a crisis with its dealers in 2010,

Interior of BYD Sirui

(*cont'd on p. 5*)

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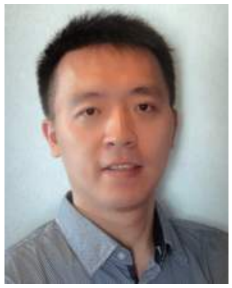
GM puts more executive focus on China



General Motors' recent executive change shows that the world's second largest automaker is putting extra emphasis on the world's largest auto market.

By hiring former Volvo Cars Corp. CEO Stefan Jacoby as the new head of GM's Consolidated International Operations and moving Ted Lee, who previously led International Operations, to a new position of GM China chairman, GM has essentially split China from its International Operations and made GM China a standalone division.

The executive change underscores China as the most important market for GM other than the U.S. where it tries to maintain the leading market position and fend off foreign rivals such as Volkswagen and Hyundai/Kia.

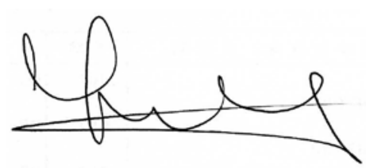
In the first half of 2013, GM led all foreign automakers in China with vehicle sales of 1,567,392 units, up 10.6 percent. But its lead over Volkswagen was down to less than 25,000 units. Sales of the German automaker rose 18 percent to 1,542,496 units despite a massive recall over a defective DSG transmission.

With the new appointment Lee can devote himself solely to China operations. Jacoby has held numerous positions in charge of Volkswagen's businesses outside Germany such as the U.S. and Asia Pacific. His experience as a veteran global executive is expected to help GM in particular emerging markets such as the ASEAN region.

GM's appointment of a China chairman follows similar moves by Volkswagen and Daimler. Jochem Heizmann was appointed Volkswagen board member in charge of China in September 2012. Hubertus Troska was appointed Daimler's board member with responsibility for China last December.

The only caveat of the executive change at GM is that it adds another layer of complexity in China operations with current president Bob Socia reporting to Lee. Heizmann and Troska, in contrast, report directly to their group CEOs.

It remains to be seen if the executive change effectively means that Socia is being sidestepped while Lee is being demoted. But one thing is certain: China is getting increasingly important for leading multinational automakers in their global operations.



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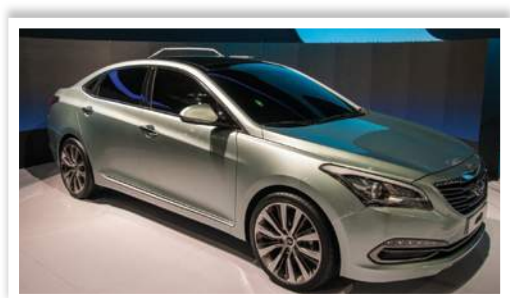
China only models vs. China only brands, cont'd from p. 1:

sold in China this name for the China only concept taking pride of place on Ford's stand at this year's Shanghai Auto Show seems a curious choice. It is however just one of a slew of China only cars that are making their way to showrooms soon from major brands with joint ventures (JV) in the world's largest market. Honda displayed their near production ready Crider and Jade cars along with the Concept M – showcasing a future MPV, and Hyundai showed their Mistra concept.



Hyundai Mistra concept, photo by Mark Andrews

This trend is not entirely new; Volkswagen and Buick were the trailblazers. Buick's first generation LaCrosse while based on the North American platform was a China only model, as is its new GL8. However it is VW that's been most successful. "This trend started five years ago when VW launched the Lavida and Bora. But it's clear that most of VW's competitors are now doing the same thing in China," says Sa Boni automotive analyst at IHS.

Foreign brands dominate the car market in China with the share of domestic brands falling in 2012 to just 27.3 percent. The large numbers of cars sold today are still mostly to first-time purchasers. "There are still a large number of first-time buyers that are shopping for low-priced cars. This is where the local carmakers are focused, and represents a significant growth segment in China's lower-tier cities," says Bill Russo, president and CEO of Synergistics Ltd., a Beijing-based automotive consultancy.

It is partly to appeal to customers like these that the Lavida and Bora were created. They both ride on the PQ34 platform dating back to the Golf Mk4 and are sold alongside the latest version Golf and Sagitar (Jetta). Russo says that OEMs have a choice to either compete for these customers or cede the segment to the local manufacturers and risk leaving them a "beach-head from which they can eventually broaden their segment participation."

So far most of the cars being produced or soon to launch seem to fall into the A class. But there is perhaps more to the trend than just producing cheaper cars for first-time buyers. "It's just a start. The global OEMs will not only treat China as a part of the global industry but a dedicated market that they should develop vehicles to meet local customer preference," says Sa. In many ways this is just an extension of trends like lengthening luxury cars for the Chinese market and offering models with more sumptuous interiors or adding more chrome. The trend is not surprising given the size of the Chinese market – both the U.S. and Japanese markets are home to a myriad of vehicles not offered elsewhere.

Back at the 2011 Shanghai Auto Show the big story was the creation of China only brands by the JVs. This continued at the 2013 show with Toyota launching the Ranz and Kia the Horki. However, whilst China only brands in 2011 were launched with great fanfare and on separate stands, in 2013 they were simply tacked onto the parent's display with minimum floor space. Why has there been this apparent shift from these China only brands to China only models?

Horki

Part of the reason can be seen from the sales figures. The most successful China only brand in 2012 was the Baojun (SAIC-GM-Wuling) which managed sales of 68,092 but the next best Venucia (Dongfeng-Nissan) only sold 41,805. With the exception of the Baojun 630, the others are simply rebadged older models. Sa believes that this was largely in response to government requirements – which calls for greater sharing of technology with the JV partners. It is also a way of keeping on sale of older models whose development costs have already been recouped and so can be offered at a discount to the latest technology.

Baojun 630, photo by Mark Andrews

Russo warns that offering cheaper cars as part of the main brand "runs the risk of brand equity dilution" and that the new China only brands can get round this. However this comes with the cost of support – one which so far multinational companies appear unwilling to commit.

With the early VW and GM efforts in developing China only models, there was a similar approach in that it was older technology albeit significantly repackaged and updated. They managed, however, to achieve far greater sales – 2012 sales of the Lavida were 246,687 and the Buick GL8 MPV 64,001.

China only models displayed at the 2013 Shanghai Auto Show seem to move away from old to the latest technologies. The Honda Crider for example shares its platform with the current generation City and the Jade is based on that of the Stream. Ford however has based the Escort on the previous generation Focus platform.

This trend is evidence of the growing maturity and sophistication of the Chinese car market. Other JVs will no doubt be closely monitoring the success of these cars debuted at this year's show with a view to introducing their own China only models. CBU/CAR

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PSA's Red Chamber Dream, cont'd from p. 1:

is forced to consider seeking a partner and relinquishing control of the more than 200 years of the family business in an effort to tide over the current difficulties. The French automaker is caught in between choosing either GM of the U.S. or Dongfeng Motor Corp. of China as a possible investor. In a way, Peugeot is like the Rong family in the Dream of the Red Chamber. The choice of either GM or Dongfeng would mean a helpless descent by Peugeot from aristocracy to commoner.

GM the Big Cast

Dan Ackerson expressed GM's determination to resume world leadership in the company's 2012 annual report. "We will not only win market completion through vehicles of the best design but also explore growth opportunities in the global market," the GM CEO said.

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