Balancing the Paradox of Localization and Globalization:
Research and Analyze the Levels of Market Involvement
for Multinational Carmakers in China’s Market

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Abstract

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Executive Summary: Multinational Corporations (MNCs) are facing the paradox of globalization and localization in entering each new market. Generally, there are two perspectives which regard to how a MNC configure its cross-border activities: The first is global convergence perspective, which focuses on leveraging corporate resources and attaining global synergies. The second is international diversity perspective, which lays more emphasis on local adaptation and harnessing diversities. Both perspectives have their pros and cons, a balance between international standardization and local adaptation is vital.

For the major Auto Giants in the world operating and competing worldwide, the significance of China market is as clear as day to everyone. This paper focuses on how the major Auto Giants balance the paradox of globalization and localization in the China market. In other words, how the MNCs deal with the dilemma of globalization and localization under different strategic contexts? We adopt a model which divides their activities in China into 6 stages and which includes criteria with regard to the dilemma of localization and globalization.

Key words: Multinational Corporation; Automotive Industry; China market; Paradox; Globalization and localization.
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Abstract

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Chapter 1  Introduction

1.1.  Background:

Since Henry Ford mass produced automobiles by production-line for the Ford Model T, the world automobile industry had entered the fast booming period. With the thereafter technology transfer, the development of the Europe and Japan auto industry were led to significant growth. Recently, automotive industry is also booming in the emerging markets such as China, east Europe, India and Russia.

The automotive industry is regarded as the industry of the industries, which has a great influence on the world’s economy. The production accounted for 3.3% of the USA’s GDP (BERA, 2004), for example. The automobiles manufacture relates to varieties of most important raw materials, steel, aluminum, dash boards, and rubber for tires and so on. Meanwhile, the automobiles industry creates a great number of employments for the whole country. In the U.S., for example, the number of automotive industry occupied workers reached the peak of 1313600 in 2001(U.S. Department of Commerce, 2005). The automobile manufacture contains the latest and sharpest technologies, such as the industrial design of the automobiles and the safety factors, all of which require the latest high-techs.

1.1.1  The global overview of the industry

Currently, the major players in the industry are some U.S. companies, for example GM, Ford and the Chrysler, the German companies like Daimler-Benz, BMW and Volkswagen, and some Japan companies like Honda, Toyota and Nissan. Toyota ranks the first in the global auto manufacturing list due to its high quality and low energy-consuming, followed by General Motors and Ford.

Undoubtedly, globalization for the automobile manufacturers is an unstoppable trend. The international low cost of both manufacture and labor force, the low price of the
resources, and the most advanced high-techs are all needed for strengthening the company’s competitiveness. The world-wide merger and acquisition turn out to be the most effective and preferred way to increase its international market share. However, the auto industry is a fierce competitive place; customers have a lot of choices, so the consuming automobiles depend heavily on consumers’ personal tastes, favors and of course wallets. The auto manufacturers need to study carefully their customers’ needs and demands to win the competition.

1.1.2 The China’s automotive market overview

China’s automotive industry has experienced a great booming in the last decade. 10 years ago, automobiles were still luxuries for the common Chinese citizens, however, the dream that owning a car become reality for many ordinary families. The living standard all over the nation rose significantly; on the other hand, the producers are also offering cheaper cars with better quality. With both the local produced vehicles and the joint-venture produced vehicles, China ranks the third on the list for the motor vehicle producing countries (Figure below)

2006 Top 20 vehicle producing countries (OICA correspondents’ survey, 2006)

As for the consumers, the middle class of China is booming; there are about 180 million middle class or 13% of the Chinese population. In fact, it is growing even
faster than the economy itself. As a result, car sales in China are skyrocketing. Analysts estimate that that 4.1 million passenger cars were sold in China in 2006, representing a 25 percent increase over 2005 (Rise of China’s middle class, 2006) Millions of Chinese citizens are becoming private cars owners. The ‘China Speed’, which reflects the rapid rising of China, illustrates vividly the dramatic changes in automobile market.

The market still has a great potential to develop, every player in the market desires a higher profit. China’s entry into the WTO (World Trade Organization) means that the import tariffs and prices of both automobiles and parts became cheaper. The lower costs in labor and fast-growing potential wait for no one, fierce competitions are going on in China’s automotive market.

It’s safe to say that their next significant international growth for automotive industry will take place in China. For the Auto giants, the emerging China market gives them a great opportunity of expanding, especially when the other major markets in western countries and Japan are already mature and saturated. For us, the differences and uniqueness in this emerging and robust market, due to the magnitude of it, provide a precious new arena for the study of MNCs’ international behaviors.

1.2. Problem discussion: the paradox of globalization and localization

According to Tallman and Yip (2001), there are three major strategic issues for MNCs operating globally. The first is geographic spread, which is the original issue about internationalization process of the firms such as various modes of entry. The second is local adaptation or localization, which is about the level or degree MNCs adapt to the specific local circumstances. The last is global integration. This issue is to what extent the MNCs integrate their business operations between different national markets. The last two questions, being combined together, constitute the paradox of globalization.
and localization which always puts many decision-makers of MNCs into a dilemma. The following paragraphs will go deeper into this paradox.

The paradox of globalization and localization is a common issue for MNCs operating and competing worldwide. The tension lies in whether regard the global market as a whole or respect the local differences in the specific national or regional markets.

1.2.1 The globalization perspective

Globalization in a literal sense is international integration (The Washington Post, March 24, 2006). It can be described as a process by which the people of the world are unified into a single society. This process is a combination of economic, technological, socio-cultural and political forces (Sheila L. Croucher, *Globalization and Belonging*, 2004). Globalization, as a term, is very often used to refer to economic globalization, which is integration of national economies into the international economy through trade, foreign direct investment, capital flows, migration, and spread of technology (Bhagwati & Jagdish, 2007). From the MNCs’, globalization means a global convergence perspective and “treating the world as one market” (Bob De Wit, Ron Meyer, 2004). Great benefits of synergies will be achieved by MNCs through international uniformity/standardization. People who support the globalization perspective regard that international standardization is of great significance and cross-border synergies can be achieved. Through a series of standardization operations such as leveraging resources, integrating activities and aligning products offering (Bob De Wit, Ron Meyer, 2004) across countries, additional values can be created. That additional value can be the vital edge over their local competitors. According to Susan and Yoram, the global standardization philosophy is based on three assumptions by their advocates. Firstly, customer needs are becoming more and more similar globally. Secondly, People around the world prefer lower price at high quality than differentiations which provide unique and tailored features at a higher price. Finally, considerable economy of scale in both
production and marketing can be achieved through international standardization (Susan D. & Yoram W., 1987).

1.2.2 The localization perspective

For MNCs, localization is the opposite of globalization, which means MNCs’ acknowledging national differences and being local responsive in order to meeting local demands. According to this perspective, national managers of MNCs should then be empowered to be responsive to specific local conditions (Bob De Wit & Ron Meyer, 2004). The reason for localization is that there are still vast differences as well as political barriers between different local markets. In that case, even though global synergy is tempting, the cost of neglecting local uniqueness and merely pursuing for global standardization is too high. In another word, cross-border synergies may not offset the cost of disregarding local differences and local adaptation is very important. The proponents of localization argue that for MNCs, “the pressure to pursue synergies is only half the equation” (Bob De Wit, Ron Meyer, 2004). The three assumptions for global standardization philosophy are only valid in certain limited circumstances. The demand for local responsive is actually quite strong because of the huge differences between countries. In that case, MNCs should try to adapt themselves to the local markets and the top managers of local markets should be empowered with greater power and flexibilities to be able to change their operations according to the local environments.

1.3 Our research question

For the Automotive companies operating world-wide, their success in China are vital for their future and no one could afford a failure in that vital market. Those firms are also confronting the paradox of globalization and localization in China. How they manage the completely different market environment is an interesting issue and worthy study.
We found that the market activities of them are quite diverse within China’s market. Why BMW has its R&D institution in China but Toyota not? Most of Hyundai’s sedans sold in China’s market are made in China, while most Volvos are imported. Moreover, there are also great differences in their market activities between China and western world. A case in point is Elantra, a successful sedan made by Hyundai. We also found that the Chinese version of Elantra is quite different from its European version. For all those differences will be noticed and experienced, the simple and direct explanation is that customers have their own preferences and tastes in different markets. Generally speaking, the uniqueness in China’s business environment could be one reason for those differences. On the other hand, carmakers’ being vary in their cultural backgrounds could be another. Last but least important, their global organizational structures may have great influence on their China’s market strategy. Balancing the paradox of localization and globalization there is vital. The state of art of their behaviors is worthy our further study.

Naturally, here then come our research questions: How do the multinational auto manufacturers balance the paradox of localization and globalization in China’s market? In other word, is there one specific perspective they prefer within the specific frames of different strategic contexts?

We find that our research field is a very hot topic with numerous related studies. In that case, one of the first important objectives of this research is to penetrate the same topic in a different way. We try to find out what they do in each stage, in terms of balancing localization and internationalization. We want to know the key factors in China market which imposes great influence on the decision-making process of carmakers. For the carmakers themselves, their cultural backgrounds and global organizational structure has a great influence on their decision-making process. We want to find the roles those factors play in the decision-making process of MNCs. Finally, we hope to discover some practical recommendations for the industry out of our findings and analyses.
1.4. Importance and Implication of the research

The rise of China is an important event in the world for this century. Comparing with the modernization of Japan after the Second World War and South Korea in 1970s, the rise of China is of much greater significance due to its size, political regime, population and history. It is a brand new issue in the history and attracts great attention. The hottest aspect is the economy of China, especially the transfer of China’s economic system from a closed planning system to an open market economy system. The fast-developing auto market is one of the embodiments of that transfer process. So, our research on the major carmakers’ activities in China’s automobile industry lies in the current issue of the rise of China.

The paradox of globalization and localization for multinational companies is not new anymore; however, it doesn’t necessarily means that they are invalid or meaningless. Instead, it is a forever topic as the countries in the world is more and more economically interrelated. Moreover, the theory itself has been developing ever since. Nowadays, multinational companies are dominating the world economy, so is going to be in China. Combined with the background of China’s unique business environment, the theory could be further applied and developed. The free participation of MNCs in the China’s market and their fierce competitions is the reason why ordinary Chinese customers are enjoying a great variety of commodities, comparing to 15 years ago when only limited types of inferior products were available.

With regard to the choice of the industry, several industries were available for us to study the localization of MNCs in the China market. Besides our personal interests on it, automobile industry is better than any others for researching MNCs’ global strategies. The automobile industry, due to its importance, is a popular topic in the academia. As a result, the accessibility of relevant literatures is high, which is important for our research based on secondary data and documentary study. Generally speaking, auto industry is regarded as a mature industry in western world, but in
China it just begins to start. The booming of car industry is a symbol of economic development as well as social changes. As “the industry of industries”, in China automobile industry is regarded as one of the four major pillar industries by the government. Favorable regulations and custom rate came into force with China’s entry into WTO. The tempting market attracted all the major multinational carmakers in the world, making China’s market a new and significant battlefield of their world-wide competitions. All the auto giants are taking off from the same scratch line, therefore the recent behaviors of those Auto giants especially their strategies in China are worth studying and would create new empirical knowledge. The possible generalization of the firms we study could be not only helpful for the whole automobile industry, but also for all the MNCs of other industries competing in China.

1.5. **Structure of the Thesis**

This thesis is consisted of five chapters. It starts with the introduction chapter 1 which includes the background of the automobile industry and the unique Chinese business environment, the problem discussion and the research questions, the purpose and objects of the thesis, importance and implication of the research and delimitation.

The theoretical framework of the thesis is in chapter 2. Literature study about MNCs’ activities in China’s car industry is added to supplement our preunderstanding and set the starting point of our study. The paradox of globalization and localization is the major theory. We present different opinions about this issue to discuss both sides of the paradox. Then we discuss international composition of MNCs. To help our research, we also cover some areas such as international outsourcing and the organizational structures of multinational companies. Last but least important, our own understanding and opinions is also given in the literature review.

Chapter 3, methodology, we discuss the methodology used in the thesis. This chapter is about the way we design our research, which significantly affects the reliability and validity of this research. The general approach is given as how we organize the
research. In this chapter, some theories about research methodology are also given, then the reasons for choosing the certain methods and techniques. The issue about reliability and validity of this research is discussed.

Chapter 4, empirical study, is made up of 3 parts. The first part is industry analysis; the second is business environment in China and finally the empirical studies of the selected firms. In the third part, we study the five selected firms one by one with the same model. There are brief introduction, degree of market involvement in China/balancing paradox in each stages, analysis of reasons behind.

Chapter 5, comparative study, we conduct both vertical comparative study which is between the firms and horizontal comparative study within each stages. This is our chapter is our major analyzing chapter.

Chapter 6, conclusion, generalizes from the firms we research. The finding in the research is interpreted sensitively thus to make recommendations for practical actions. We also discuss the possibility and raise some interesting issues for further study in this chapter.

1.6. Research scope and limitation

In this thesis, we discuss how the MNCs in the world balance the paradox of internationalization and localization. The MNCs we study are automotive manufacturers or OEMs (Original Equipment Manufacturer); the geographic scope is in mainland China. As we research the decision-making process of MNCs about how to make the maximum of China’s market, it mainly focuses on their market involvement and each stage of the value chain. The backgrounds of the carmakers such as their different cultural and organizational structures, which also have great influence on their China’s strategy, are discussed. The time dimension is focused in the last 5 years after China’s entry into WTO, when China’s automobile industry started to take off. As for the automobiles, we mainly mean passenger cars especially
private cars and SUVs; other vehicles are not within our scope.

The native automakers are also booming. The state-owned car makers in China with certain degree of unwritten privileges of the government are reforming themselves to be more competitive, while the private firms are developing their own car models as well as their own independent intellectual property rights. Important as they be, we possibly research them in the future but not in this thesis. However, the joint ventures established by domestic firms and MNCs are important roles in our research. As that is the major way for MNCs to come into China’s market.
Chapter 2  Literature review

A literature review is a crucial element of all researches. Bourner (1996) listed many reasons for spending time and energy on a review of literature before really embarking on the research project. The major reasons include:

- to increase the researchers’ breadth of knowledge of the researching field as well as provide the intellectual context for the researchers’ own work, enabling them to position their project relative to other work
- to identify gaps in the literature as well as opposing views, put the work into perspective while demonstrating that the researchers can access previous work in an area
- to carry on from where others have already reached and avoid ‘reinventing the wheel syndrome’ (at the very least this will save time and avoid making the same mistakes as others)
- to identify information, ideas and methods that may be relevant to the project

According to Cooper (1988), ‘…a literature review uses as its database reports of primary or original scholarship, and does not report new primary scholarship itself. The primary reports used in the literature may be verbal, but in the vast majority of cases reports are written documents. The types of scholarship may be empirical, theoretical, critical/analytic, or methodological in nature. Second a literature review seeks to describe, summarize, evaluate, clarify and/or integrate the content of primary reports.’ Finally, the ultimate goal of literature review is to maintain currency in their field of study for the duration of their research (Bruce 1990).

Our literature review includes empirical, theoretical and critical/analytic knowledge about the project area. On the other hand, methodological literature is included in the methodology part of this thesis.

The first building block of literature review is the discussion about the paradox of
globalization and localization, which is the theoretical framework of this thesis. Then is pragmatic and specific knowledge about the MNCs’ business strategy in the global market, especially the barriers of globalization as well as how to interpret a new local circumstance. To a large extent, the organizational structure of MNCs, which is decided by history and cultural factors of their home-country, influence their decision-making process. As a result, organizational structure is also discussed. Finally are the international composition of MNCs and the definition of each stages of auto industry.

2.1 The discussion on the paradox of Globalization and Localization

As mentioned above in the problem discussion part of the thesis, the paradox of globalization and localization puts many decision-makers of MNCs into a dilemma. The following gives a deeper discussion about this dilemma form the both perspectives.

- Global convergence perspective

For the global convergence perspective, the prediction of a world of growing internationalization is accepted by many people. In that case, the key to success is the development of global products and brand, more specific, standardized product and brand world-wide. Theodore Levitt’s article ‘The Globalization of Market’, published in 1980s is more representative and pro-globalization. In this article, he mentioned that the fast development of technology is the driving force which makes the world’s need and desires become more and more similar. As technology develops international communication, transportation and travel will be facilitated greatly. The consumer’s preference and taste would thus become more and more homogenous. Simultaneously, mass production, also due to technology development, makes it possible for the superior good become affordable for ordinary consumers. In a word, his basic suggestion to multinational companies is mass standardized production for the
homogenous world market. The old-fashioned multinational operating model, which emphasized on adapting itself to the unique local business environment, is thus 'obsolete' (De wit & Meyer, 2004:p.555).

According to Theodore (1983), the failure of many multinational companies in oversea market is not just due to poor executions but, more importantly, ‘a failure of imagination’ to realize the trend. The decision-makers of MNCs should be bold enough to predict and face the trend of globally homogeneous consumer preference. They should become more proactive, meaning that they shouldn’t just supply what the customers want but teach and educate them the best product and services. In Theodore’s article, three basic arguments can be concluded to support his global convergence perspective (Douglas & Wind, 1987: p 22). Firstly, Customer needs and interests are becoming more and more globally homogeneous. Secondly, people around the world tend to sacrifice preferences in product features, functions and designs for more reasonable price. What they really like is lower prices at high quality. Last but least important, by supplying standardized product and service to the global market, it is much easier for MNCs to acquire economies of scale (Douglas & Wind, 1987: pp 19-29).

Proponents of globalization perspective deem that the focus of the multinational companies should be put into leveraging its global resources to attain synergy. Global standardization is necessary to acquire the scale economy and a must to achieve competitive advantage. Theodore’s vision on the global market is quite bold and far-sighted in early 1980s, when world trade became more and more important. However, the focus is mainly on the globalization market, especially the convergence of customer preference. The supply side, on the other side, is not pay attention to. The reason of his global convergence is growing international similarity in market rather than international integration of MNCs themselves (De wit & Meyer, 2004: p 555). For an international integration angle, those internal forces of MNCs create pressures on the integration of cross-border strategies (Douglas & Wind, 1987).

● Porter’s position
Another proponent of global convergence perspective, Michael Porter (1980), also argued for the form an international integration angle in his article ‘The competitive advantage of nations’. Porter stands for the global convergence perspective by agreeing with that the world is becoming greatly integrated. Despite of that, Porter’s position still varies from Theodore’s. The difference is that his international integration perspective actually encourages international diversity, while Theodore concludes an international standardization from his international similarity perspective (De wit & Meyer, 2004: p 556). Porter deems that the characteristic of the home nation plays an important role of shaping a company’s capacity. Thus the firms should also position themselves to make the full use of the advantages in their national environment. To put it in another way, it’s up to the company to seize the opportunity of competitive advantage existing in its home nation. In a word, porter regard that the competitive advantage of a company is depended by a combination of both its national circumstance and its strategy of harnessing it.

- Global adaptive perspective

Comparing to Porter’s relatively natural position above the paradox of localization and globalization, Susan Douglas and Yoram Wind (1987) demonstrate a quite opposite point of view from Theodore in their article ‘The Myth of Globalization’. They consider that the global convergence perspective is ‘somewhat polemic’ and only effective on limited particular business circumstances (De wit & Meyer, 2004: p 555).

According to Douglas and Wind, the underlying assumptions of the global standardization philosophy are quite doubtful. Firstly, there is lack of evidence about homogenization of global customer taste. Even within one country, there are considerable diversities in customer behaviors. Secondly, low-price strategy was proved to be an inferior strategy in most cases which is low-profit and vulnerable. Differentiation is more profitable and can avoid over-competition in the industry. The price sensitivity of customers is actually as high as expected as the advocate of global standardization strategy. Besides, in most cases, even standardized product can be
priced differently within and between countries. As a result, a universal customer preference for low price at acceptable quality is not the case. Thirdly, economy of scale of product and marketing is a reason for global convergence, but not plausible enough. With the development of flexible factory automation make the scale economy be acquired at a much lower output, which has been proven by many modern manufacturing companies. In addition, the cost in the production process is not the only cost in the final product. R&D, distribution channels, marketing and after-sale service sometimes matters more than the production. They also regard the standardization philosophy is mainly product driven, which is neglect the other aspect of the marketing mix (Douglas & Wind, 1987: pp. 19-29). As the presumptions of global perspective are implausible, a local adaptation perspective should also be considered.

According to that same article, they demonstrate that there are different factors facing MNCs to make a choice between global convergence and local adaptation. ‘Factors such as economies of scale in production, purchasing, faster accumulation of learning from operating worldwide, decrease in transportation and distribution cost, reduced cost in product adaptation, and the emergence of a global market segments have encouraged the competition on a global scale. However, barriers such as governmental and institutional constraint, tariff barriers and duties, transportation cost, differences in customer demand, and so on, call for nationalistic or ’protected niche’ strategies’. From their point of view, ‘The adoption of a global perspective should not be viewed as a synonymous with a strategy of global product and brands’, some regional products and brand and some national product and brand are also needed to constitute a hybrid strategy which is more flexible and effective. The companies should learn to not only take advantage of the benefits of standardization and potential synergies form an international scale, but also harnessing the international diversity by adaptation to specific country characteristics (Douglas & Wind, 1987: pp. 19-29).

- Bartlett and Ghoshal’s position
Comparing to others mentioned above, Bartlett and Ghoshal (1989) don’t have a clear stance with regard to the dilemma of localization and globalization. They study the MNCs strategy from a different third angle. According to their article *Transnational Management*, MNCs are facing different pressures such as local responsiveness, optimizing learning as well as efficiency. The traditional multinational companies which are organized in a country-by-country basis are obsolete, international companies need to operate across borders, to deal with and benefit from international integration and similarity. However, this is just one of the issues that MNCs need to deal with. Optimizing learning, efficiency and responsiveness simultaneously is the challenge facing each multinational company. Optimizing learning means learning and transferring competence between head companies and local subsidiaries worldwide. In order to achieve worldwide efficiency ‘global business management’ is also very important. They believe that as the extent of globalization is different from place to place, there is no one best organizational response to globalization, every organization should balance those factors dynamically and find their own strategy.

Generally speaking, with regards to the dilemma of localization and globalization, there are different opinions. However, Douglas’s position is becoming more and more accepted by both the academia and decision-makers of MNCs. There is a consensus that MNCs should not just focus on one side of the coin, but try to make an optimized balance between localization and globalization. MNCs should deal with the dilemma differently according to different strategic contexts. In the following paragraphs, we will discuss the barriers for standardization as well as the way of interpreting a new business environment more effectively.

### 2.2. International management

International management deals with how MNCs organize themselves world-wide. As achieving cross-border synergy is the main reason for a global standardization strategy. ‘Internationalization only makes sense if enough cross-border synergies can be reaped
to offset the extra cost of foreignness and distance’.

- Achieve cross-border synergies

There are three dimensions for MNCs in terms of achieving cross-border synergies: standardization, coordination and centralization (De wit & Meyer, 2004: p.540).

Standardization means standardizing product offering, value-adding activities and resources. Doing the same thing in each country, without any costly local adaptation, is an easy way to achieve synergy (Prahalad & Doz, 1987).

Coordination means aligning the activities in different countries, which make all the separate subsidiaries united and empowering them with a higher competitive position and greater bargaining power. A coordinated assault on a few markets can sometimes lead to competitive success (Prahalad & Doz, 1987).

Activities within the firm can be integrated at one central location, which is called centralization. Different countries have different competitive advantages. For example, raw resources in one country are much lower than any other country, and then the resource procurement activities could be integrated in this particular country. The abundant of talent as well as the high level of education always make a firm’s home country a logical place for R&D. Another apparent reason is scale of economy, especially in production process, as production centralization can reach the optimized output more easily.

The three dimensions mentioned above are interrelated with each other, but are not included each other. MNCs should choose the appropriate level of each of those three dimensions (De Wit & Meyer, 2004:p.540).

- Barriers for standardization/realizing Synergy

The benefit of synergy and scale of economy through standardization is tempting, but
there are many barriers in the execution of standardization strategy. Douglas and Wind, classify all those constraints into two categories, external constraint and internal constraint.

External constraints include governmental and trade restrictions, the differences in the marketing infrastructure, constraint in the resource market as well as the differences in competition between countries. Tariff and quotas on the import of key materials and component will influence the balance between the demand and supply, thus effect the price of them. On one hand, a universal pricing strategy will be affected; on the other hand, firms may try to find alternatives for those materials which make the local design and quality become different from other oversea firms. As complete competition market is not the case in most of the industry, the existing cartels tend to adopt a differentiation strategy in pricing to acquire more customer surplus. In addition, cartel controls the distribution channels, thus a standardized distribution strategy become hard. The differences in marketing infrastructure include the differences in availability and accessibility of various promotional media, distribution channels or retail institutions, the existence and efficiency of communication and transportation network. All these differences require a local adaptation strategy of firms. Different countries have their own comparative advantages. For example, the price of raw material may vary in different countries, the quality and price of component may also vary, management and labor cost are different, and differences in capital cost also exist. As the result of the interdependency with resource market which varies from country to country, it’s become harder for MNCs to adopt a standardization strategy. The market leaders’ preemption of distribution channels may force the followers to find more innovative ways to short-circuit the channels (Douglas & Wind, 1987:pp. 19-29).

All those constraints in the environment suggest the need to adapt to specific market conditions. In addition to that, there are also many internal constraints that need to be considered. The first constraint lies in the local management. The local managers
want to be empowered with more authorities or powers. They regard themselves as knowing better about the local condition and the best way to do. A standardization strategy of the headquarters may let them feel like being ‘imposed’ by the father company and the may be refused by them as 'it doesn’t work here, things are different.’ The other constraint comes from the existing operations in local circumstances. Wholly-owned subsidiaries is not the way MNCs entering into a new market. In some cases, there are joint ventures, licensing operations or cooperation with other local companies in purchasing, manufacturing and distribution channels. There are lots of agreements or commitments with local companies and the partners of the joint venture. Those commitments and agreement is not easy to change in a short term, which make the standardization, if not impossible, difficult to achieve (Douglas & Wind, 1987:pp. 19-29).

- Identifying external business environment:

The magnitude of external influence on the international business strategy makes it necessary to establish a strategy to handle it. This is especially the case for the complex business environment in those emerging markets, such as China. As a result, the way of indentifying the business environment is important to reduce the complexity and improve the decision-making.

Child (2001) listed two strategies for MNCs to handle environmental complexity. The first is complexity reduction, which includes lobbying and similar activities to change the environment into a more favorable and familiar one and following well-known routines to keep the complexity at a distance. The second is complexity absorption, meaning that MNCs should accept the complexity as it is and try to adapt to them. Generally, MNCs tend to follow a mix of those two basic strategies (Jansson, 2006). In order to interpret the business environment in a more systematic way, Van den Heijden (1996) breaks down the knowledge about business environment into three categories which is Events, Trend and Patterns and Structure.
As shown in the figure, only the ‘Events’ is visible above the water, the ‘Trend and Patterns’ as well as ‘Structure’ are invisible for most of the people, especially those of different cultural background. The implication of that iceberg figure is that interpretation is much more important than mere information. The information is just what can be seen above the water and could easily be misinterpreted without the relevant frame of reference. In order to interpret it rightly, MNCs are suggested to perceive the environment from an institutional perspective, from which the business environment is viewed as consisting of a set of rule systems (Jansson, 2006). By breaking down the external environment into smaller formative parts which are easy to understand and evaluate, a uniform model is established which makes the environment more intelligible, all the environmental factors that qualify as relevant institutions must be taken into consideration.

There two models which give better description about all the factors, the PEST models and Terpstra's model. According to Fahey and Narayanan (1986) in their PEST model, four aspects are needed to be investigated. The political segment deals with political process in a society as well as the regulatory framework. The economic segment focuses on general set of economic factors and conditions that confront all industries in a society. The social segment includes changes in demographics, lift-style and social values. The technological segment concerns with R&D, new products, materials, scientific activity and advances in fundamental science (Jansson, 2006). The model shows great emphasizes on changes taking place on the environment, the main method and principle for this model is scan, monitor, forecast and assess the important external trends. However, this model mainly descriptive. Being lack of theoretical foundation, it’s not specific enough. Terpstra’s model, which views culture as including every aspect of society, is able to identify and describe institutions/environments in more detail. According to his model, society could be divided into the following parts:

- **Law**: common law, code law, international law, antitrust policy, regulation

- **Politics**: nationalism, sovereignty, power, national interests, ideologies, political risk

- **Technology and material culture**: transportation, energy system, tools and objects, communications, urbanization, science, invention

- **Social organization**: kinship, social institutions, authority structures, interest groups, social mobility, social stratification, status system

- **Education**: formal education, vocation training, primary education, secondary education, higher education, literacy level, human resource planning
The two models mentioned above provide the decision-makers of MNCs with frames of how to identify the external environment more all-sided. With the environments being broken down into small and intelligible parts and all important factors being covered, MNCs can improve the decision-making as well as reduce the unpredictability largely.

### 2.3 Porter’s Five Forces

According to Michael Porter (1985), seeking for the competitive strategy for a favourable competitive position in an industry, a firm will encounter the two choices; the first one is the attractiveness of industry. To analyse any industry’s attractiveness, whether it is domestic or international, the rules would embodied in five competitive forces: the threat of new entrants, the bargaining power of suppliers, the bargaining power of buyers, the threat of substitutes and the intensity of rivalry competitors.

The five forces determine the industry profitability, because they have great influence on the products’ price, costs and profits. Buyer power determines the prices that firms can charge. The bargaining power of suppliers influences the costs of raw materials and other inputs. The intensity of rivalry influences prices of competing. The threat of
entrants places a limit on prices and shapes the industry structure required to entry (De wit & Meyer, 2004: p.259)

(Source: De wit & Meyer, 2004: p.260)
2.4. Organizational structure of MNCs

Operating world-wide and dealing with different business environments, MNCs need to have a more sophisticated organizational structure to cope with the international complexity. Four generic organizations models for MNCs were distinguished by Bartlett and Ghoshal (1989), which are decentralized federation, coordinated federation, centralized hub as well as integrated network.

- Decentralized Federation

European companies internationalized themselves through Decentralized Federation in the 1920s and 1930s. In order to cope with the different local business environment, the local subsidiaries are granted with abundant autonomy to became local adaptive. Bartlett and Ghoshal found that there is an internal culture in those European firms which emphasized personal relationship rather than formal controls, and financial controls more than coordination of technical or operational detail (De wit & Meyer, 2004: p580).

- Coordinated Federation

Due to the high degree of independence and strategic freedom, all the subsidiaries abroad are operated more like a portfolio of offshore investment. US firms enjoy a fast after-war expansion period in the 1950s and 1960s. Their core competence lies in the technology and management. In order to sustain that competitive advantage in other countries, they adopted a Coordinated Federation with a sophisticated management system and specialist corporate staff. The headquarters are delegating responsibility to and retaining control on the subsidiaries at the same time (De wit & Meyer, 2004: p580).

- Centralized Hub

Centralized Hub was developed with the oversea thrust of Japanese firms since 1970s.
Japanese firms are influenced by their strong national cultural norms and values. As group behavior is and interpersonal harmony is important in the Japanese culture, their firms adopted a centrally controlled, export-based internationalized strategy, due to which they chose the centralized hub as their way of organizing across borders (De wit & Meyer, 2004: p580).

- Integrated Network

According to Bartlett and Ghoshal (1995), each of the three organizational structures has own advantages as well as shortcomings. Decentralized federation has a good performance in local adaptation. However, fragmentation of activities also leads to inefficiency. Centralized hub, on the other hand, achieves efficiency by exploiting potential scale of economies. However, being lack of resources and authority of local adapting, the national subsidiaries are likely to be less motivated. Moreover, the headquarters tend to lack understanding of the specific market need and competition conditions. International companies which organized as a coordinated federation are sort of stuck in the middle. They are less locally responsive than decentralized companies and less efficient than the multinational companies managed in a way of centralized hub.

There are three different groups in MNCs which are the country management group, world-wide product divisions and functional management groups. Those groups have different positions in firms of different organizational structures. For example, key decisions are made by functional management groups in a coordinated federation while in centralized hub are world-wide product divisions. If the major power is controlled by one single group, it is inevitable that biased decisions are made as a result of the lack of balancing. Bartlett and Ghoshal argue than by building up the capability, credibility, and influence of the less powered, management groups while protecting the morale and capability of the dominant group, biases in the decision-making process can be reduced significantly (De wit & Meyer, 2004: p580).
An integrated network model was built up by Bartlett and Ghoshal, in which subsidiaries and headquarter are having different relationships. The national units are no longer viewed as local adaptors or implementers of central strategies; instead, they are regarded as source of ideas, skills, know-how, and capabilities that can be use by the whole organization. As showed in the figure above, there are three traits of an integrated network. First are distributed, specialized resources and capabilities; second are large flows of component, product, resources, people, and information among interdependent units; the third is complex process of coordination and cooperation in an environment of shared decision making (Bartlett and Ghoshal, 1995). MNCs begin to learn from each other to overcome the shortcoming in their own organizational structures. The integrated network model could be an example of how to managing the whole firm across the border more efficiently. However, as a result of the past management experience and the influence of culture never vanish, firms still show their uniqueness of organizational structures and the effect of which in their decision-making process (Bartlett and Ghoshal, 1995).
To sum up, the organizational structures of MNCs have a great influence on their entry of new market. We hope to explain the auto-makers’ balancing the paradox of localization and globalization from the organizational perspective.

### 2.5. International composition of MNCs

International composition is about “where the firm wants to have a certain level of involvement” (De Wit & Meyer, 2004:p.538). As the term of ‘level’ might be misunderstood by readers to relate to being inferior or superior, we choose to use ‘degree of market involvement’ in this thesis. There two layers of this term. Firstly, it is the international scope of which countries are selected by the MNCs to entry. The Second layer is different emphasis as well as level of involvement for MNCs with regards to different local markets. Operating world-wide, it is impossible for a MNC to take the identical strategy in two countries due to the differences between them. On their international growth stage, MNCs tend to choose different entry options to different countries (De Wit & Meyer, 2004:p.538). The degree of involvement in a country varies according to those entry options from sale agent to integrated foreign subsidiary, which can be shown in the follower figure.

![International growth options](image-url)

Source: (De Wit & Meyer, 2004: p538)
As shown in the figure, there four typical kinds of involvements of the international growth options: exporting via agent or distributor, exporting via sales subsidiary, foreign production subsidiary and integrated foreign subsidiary. All those options stand for varied degrees of involvement, which are determined by the stages that the company takes part in (De Wit & Meyer, 2004: p.538). In this paper, the idea of dividing the value-adding activities into six stages is adopted by us to analysis the automotive manufacturers’ behavior in China.

For us, one company’s degree of market involvement in a country shows the importance of this market for the company. To some extent, the degree of market involvement can also reflect how MNCs balance the dilemma of globalization and localization. For example, adopting an exporting via agent way means, to some extent, this company regard standardization is more important than local adaption in the country. On the other hand, an integrated foreign subsidiary means that the firm wants to localize its activity in that country, or to take advantage the local competitive advantage. By using the concept ‘degree of market involvement’ in this paper, we try to research MNC auto-makers’ balancing the paradox of localization and globalization in a different angle from previous studies. The degree of market involvement is one of the major issues that we discuss in this paper.

2.6. The definition of the six stages in the value-adding process

We use the idea by De wit and Meyer which divides MNCs’ activities into 6 stages including R&D, production, assembly, marketing, sales and after-sales services (De Wit & Meyer, 2004: p.538). However, that idea is not detailed enough in their 6-stage model for our thesis. In this paper, we define each stage with regard to our specific automotive industry. MNCs’ balancing the paradox in China’s automotive industry is the main perspective we consider during the definition. For the consistency of the study, the 6-stage model is applied to all the firms.

- R&D (Research and Development)
For those car-makers, R&D is a long-term investment which is the source of profit but highly costly and risky. The first question of this stage is whether the firm has R&D institutions in China. If there is, what their functions and roles are? Some of R&D institutions are playing an important role for the innovation of the whole companies, which is regarded as a major source of innovation for the whole firm. The new technologies developed in China are applied by other subsidiaries all across the world. If that is the case, then the firm is making use of China’s talents and resources for its innovation. In another word, the globalization perspective is more relevant for the firm in China in R&D. On the other hand, some of those R&D institutions only mainly for are local or even regional adaptation instead of innovation. For example, the R&D institution may just redesign some of the sedans to make them easy to product technologically for the local plant and use the components made by local suppliers. In that case, it means that the firm more focuses on localization strategy in their R&D activities of the China market.

- Production

Production is the backbone for any automobile manufacturers. The major criterion we use in evaluating those firms’ activities is localization rate of parts and components, which means the percentage of the components and part made in China account for. This rate varies from firm to firm; different sedans of one same firm could also be different. Generally, a higher localization rate means a more localized production. This rate could be studied by sedans. We pick up one to three most important sedans for each firm and generalize from sedan to the whole firm.

- Assembly

The difference between production and assembly is quite confusing at the first beginning. Our definition of those two stages in our thesis with regard to the paradox of localization and globalization is quite simple, however. The major question with regard to assembly is whether the sedan is imported or assembled in China. Both alternatives represent a globalization or localization strategy representatively. It needs
to point out that some sedans are imported but the localization rate of parts and component are not necessarily 0%, as it could be the case that some parts of the imported sedans are made in China.

- **Marketing**

Regarded as a source of premium revenue, marketing is playing an increasingly important role in the value-adding activities. With regard to marketing of those firms, we focus on the similarities and differences in marketing between China and rest of the world, especially with the developed countries. First is the brand image and market position of the firms in China and abroad. Advertising is important; the chosen of major competitors is also of significant meanings. After studying the firms as a whole, we go to the sedans that we selected in the production study stage. The market position, pricing policy, targeted customers, designs and function are covered. Generally speaking, the more difference we find in a sedan’s marketing, the more localized strategy the firm is adopting with regard to this sedan.

- **Sales**

The income in automotive sales accounts for a high percentage of the whole value-adding activities. The border between marketing and sales is also blurred sometime. In this thesis, we indentify marketing as of the higher strategic level which includes the definition and development of a product, while sales mainly on the lower operational level. We focus on their distribution channels trying to find the major differences in it between in China and abroad. As China’s opening of car sales segment to MNCs has a great influence on their sales, the difference is obvious enough to show their preference on a localization strategy.

- **After-sale Service**

The importance of excellent service is no less important than the quality of product itself. During the sale of cars, the after-sale service has normally already been set in the contract. Despite of that, the execution of the obligation could be another thing, for example the recall system in China is not as consummate as other developed
countries. As the after-sale service in China is normally not as good as that in the mature market, globalization strategy is advocated by us. A higher extent of globalization normally means a higher customer satisfaction. The trend and changes in sales due to the changes in regulations is discussed. The quality of 4s shops is also studied, as they are one of the major distribution channels for auto-makers.

The definition of six stages is applied in the Chapter 4 for the empirical study conducting the six-stage analysis of the five selected multinational.
Chapter 3  Methodology

In this chapter we illustrate how we organize the empirical research on our research problem, after an introduction of major research methods.

3.1. Qualitative research

The word ‘qualitative’ implies an emphasis on processes and meanings that are not rigorously examined or measured (if measured at all), in terms of quantity, amount, intensity, or frequency (Denzin & Lincoln, 1994). According to Babbie (1992), qualitative research is the non-numerical examination and interpretation of observations, for the purpose of discovering underlying meanings and patterns of relationships. The qualitative research is a field of inquiry that crosscuts disciplines and subject matters, which involves an in-depth understanding of human behavior and the reason that govern human behavior. Qualitative research relies on reasons behind various aspects of behaviors, and the study tries to understand the reasons, which means it investigates the why and how the decision was made, through comparing the circumstances. The method of the research typically relies on for gathering information in the following ways:

1. Participation in the setting
2. Direct observation
3. In depth interviews
4. Analysis of documents and materials

Qualitative researchers stress the socially constructed nature of reality, the intimate relationship between the researcher and what is studied, and the situational constraints that shape inquiry (Ann & Marja, 1997). The research of qualitative study is focused
on smaller and specific samples rather than large and general samples, which enable the data be categorized into patterns as the primary basis for organizing and reporting results.

Grounded theory: One of the most important methodologies of qualitative study in the social sciences is grounded theory, which is systematic qualitative research methodology. Ground theory emphasizes on generating the theory from data in the process of conducting research. Researchers normally start with observation, and then generate the experience from the raw data, at the end raised to the theory. In a word, grounded theory is a method for establishing an empirical theory from the ground to the up.

Anselm Strauss and Juliet Corbin (1990) stated that the procedure of the grounded theory, the most important is the three different coding processes: the open coding, axial coding and selective coding. In the open coding step, researchers deal with the mass of huge data, analyzing, conceptualize and classify them into ordered categories. In the axial coding step, researchers analyze and relate the subcategories to the main category, which has been found out in the open coding procedure, due to specific relationship between them. For the selective coding, researchers focus on selecting the core category and on connecting it with the residual main categories also by means of the paradigm. Generally the steps which should be followed step by step and one after another, but the researchers usually move between one forms of coding to another.

3.2. Quantitative research

Quantitative research is defined as ‘the numerical representation and manipulation of observations for the purpose of describing and explaining the phenomena that those observations reflect’ (Babbie, 1992). Comparing to qualitative research, the quantitative research is the systematic scientific investigation of properties and phenomena and their relationships.
Quantitative studies emphasize the measurement and analysis of causal relationships between variables, not processes. Inquiry is purported to be within a value-free framework (Denzin & Lincoln, 1994). The objective of quantitative research is to develop mathematical models and theories pertaining to the objective phenomena. The process of measurement is central to quantitative research because it provides the fundamental connection between empirical observation and mathematical expression of quantitative relationships. The statistics is the most widely used branch of mathematics in quantitative research. Quantitative research using statistical methods typically begins with the collection of data based on a theory or hypothesis, followed by the application of descriptive or inferential statistical methods.

3.3. Our approach

Quantitative research aims to measure or explain the relation between variables while qualitative research tries to find in-depth information or new knowledge about one specific situation (Maylor & Blackmon, 2005). According to our purpose and objective of the thesis, the nature of our study is investigation as well as the analyzing of the reasons behind and the qualitative research is our main method for investigating the field.

As qualitative research relies highly for gathering information, observation and analysis of documents and materials, the source of data is vital for our research. However, since we will do comparative study about the efficiency of different firms, only qualitative research might not be enough. We decide to use comparative study as a supplementary way to accomplish our purpose. In a word, this thesis will use a combination of comparative study and qualitative study. However, the dominant method is the later one.

3.4. Validity

According to Maylor & Blackmon, there are two types of validity: internal validity
and external validity. After indentifying the research problems and bring forward the research questions, internal validity is needed to answer those questions effectively (Maylor & Blackmon, 2005). Our preunderstanding and literature study will be of great help to the empirical study of the problem and questions. The research model will also be important to solve the problem, according to which the data and information collecting is based on. We thus designed the model in a clear and logical way. A clear and well-structured theoretical framework is also very important to guide the research, with which the secondary data will be analyzed. The external validity concerns about the generalizability of the research. As for qualitative research, Maylor and Blackmon (2005) contend that, ‘it is possible to learn from a sample of one (or ever fewer) by thinking about areas where the findings of a similar piece of work may be similar, and where its particular circumstances would make it different (For example different competitive legislative/geographical environment).’ The finding in the auto industry could be possibly applied to other ones; the situation in China is similar to that of other emerging markets.

3.5. The selection of the sample firms

As it is difficult to study all the carmakers operating in China, we decide to choose five samples to study, from which we can generalize into the whole industry. Hence the firms chosen must be considerably representative. Many criteria are taken into consideration during our selection of firms.

Firstly, their geographical and cultural backgrounds must be different. The scope of regions of should cover all the major car-producing areas: West Europe, East Asian as well as North America. Secondly, they should be of different marketing positions, varying from cost leadership to luxury cars. Thirdly, their marketing activities and degree of involvement should also show obvious differences.

The five companies we chose are BMW, Volvo, GM (General Motors Corporation), Toyota and Hyundai. There are two firms form East Asian, Hyundai and Toyota. Two
companies are from Europe, which are Volvo and BMW. The last one, GM, is headquartered in the States. All the three major car-producing regions are covered. Moreover, the three regions represent different cultural backgrounds and management styles, which could impose influence on their China’s strategies.

The five corporations are standing in different market positions and their brand images vary. Generally speaking, Hyundai is regarded as pursuing for cost leadership; Toyota and GM are considered as producing good cars with reasonable price; Volvo specializes in the premium market segment and BMW are luxury cars producers. (See exhibit below: Booz Allen Hamilton, Allison-Fisher Barometer of Automotive Awareness and Imagery Study)

![Diagram of Car Brands]

*Original source: Allison-Fisher Barometer of Automotive Awareness and Imagery Study; Booz Allen Hamilton.*

The degree of market involvement is also quite different between each other. Take Percentage of home-made parts as an example. More than 80% of Hyundai’s part is
made in China (auto.21cn.com, 2005). That is even higher for their latest version of Elantra, which reach 92% (citymotors.com.cn, 2005). BMW also claimed its percentage of part made in China is higher than 40% (nanfangdaily.com.cn, 2006), the lowest percentage required by the Chinese government to enjoy the favorable tax rate. Volvo is still importing cars to China market at the cost of a much higher custom rate for complete vehicles. In a word, the difference between the chosen firms in all perspectives grante the representativity as well as generalizability of our model.

3.6. Credibility of data collecting and analyzing

Research technique is referred to the way how the data to be collected. This is significant as qualitative study also relies heavily on data collecting. However, as the five MNC automakers are located in different countries of the world, it is impossible for us to interview their top managers to generate our answer. As a result, the secondary information is our best choice, which we can get from their website and internet databases. Researching on secondary data as how we do, Saunders et al. (2007) mention about its advantages. Firstly, more time and resourced can be saved than acquiring the first hand data directly. There is less unpredictability for collecting secondary data. Secondly, secondary data could provide valuable and reliable data if good sources are resort to. Last but not least important, it provides “comparative and contextual data and can result in unforeseen discoveries”, meaning that, we could make new finding on the base of using the appropriate data source.

However, the other side of the coin is that secondary data may be collected under different research purpose, and this affects the way data was presented (Saunders et al., 2007). During our research, the secondary data we get might be used to supporting other arguments or research questions. Many data in the original source might have little relationship with our own argument and research question. In that case, it is important for us to pick out the relevant data while keep the credibility of them.

Moreover, research on secondary data may have a problem about the quality of the
data as researchers have no real control over the data (Saunders et al., 2007). Trustable sources of data are vital for our study. The way of data collecting and analyzing in this thesis can be better explained by distinguishing the questions to answer:

- What are the degrees of market involvement for different auto manufacturers in China?

In this question, we divided the whole value-adding procedure into six stages: R&D, Producing, Assembly, Marketing, Sales and Services. Auto companies vary in their degree of market involvement in China by taking part in all the six stages or just parts of them. Generally speaking, most of the relevant information is available on the official website of the firms, such as the location of R&D institutions of each firm, the localization rate of components/parts, and the specification of each sedan as well as the distribution channels. Some professional website and official websites of organizations relevant to automobile industry can be another source. Generally speaking, due to the importance of automobile industry and China’s market, the access for such information is considerable abundant. The credibility of the data is reliable as they are from professional and official source.

- Why do they have their current compositions in China?

In answering this question, two perspectives will be covered: domestic perspective and international perspective. Firstly, we find reasons in the changes and uniqueness in China’s market environment. For the second perspective, their global organizational structure is studied which could also explain their composition strategies in China. As for materials source, articles and academic research could provide relevant comments. Articles, journals, magazines, professional website could be the main source. Our analyzing will be a combination of those opinions and our own understanding.
How they balance the mentioned paradox in each stage that takes place in China?

In this question, we go deeper into each specific stage. We want to find out what they are doing in each stage in order to balance the paradox of globalization and localization. We can find some figures for the current industry to analyze the situation MNCs are in, which is helpful to understand why they made the specific decisions. We can access to some specific materials directly describing their businesses in China through the Chinese databases.
Chapter 4  Empirical Study

4.1. The automotive industry

The emergence of automotive industry has a significant influence on technology, economy, energy, environment and everyday life. Automotive industry lies in the downstream of the manufacturing chains. Highly dependent on a series of other supporting industries such as mechanical engineering, steel production, IT equipments, components production, material and rubber, one country’s development of automotive industry need the boom of a cluster of relevant industries.

Generally speaking, the automotive industry is considered as capital and technology intensive. However, labor cost is also very important. The major constitutions of the cost of a car maker are:

Labor cost: While robots and automatic stream lines save lots of labor cost, labor cost still very considerable, especially in designing and engineering vehicles. What’s more, for many car-makers in developing countries where automation is just step up, large amount of labor forces is still needed even in the production process.

Material cost: Specialization is an important trend in automotive industry; car makers have been outsourcing the production of many parts and materials to other specialized companies recently. Nowadays, everything from steel, aluminum, dash boards, seats, tires, etc. are purchased from suppliers (investopedia.com).

Brand image building cost: As an oligopoly market dominated by limited number of major players, price competition is regarded destructive for the profitability of the whole industry. Most companies are adopting differentiation strategy for a long-term sustainable growth and value-creating. Billions of money is spent on advertising every year, for a good brand image is vital for higher premium income.

Cost in Marketing: Car-makers do sale a large proportion of cars into business and car rental companies, but customer sales contribute the largest revenue. As automotive
industry is also updating fast, large amount of money is needed in market research in order to identify the trend and customer preference in the market, especially for those market leaders.

On the whole, car makers are regarded as the major players in automobile industry. However, that is only half-right. The area of parts manufacturing also is very important and highly lucrative. For example, if a customer buys all the components of a car, the cost will be 300%-400% of the price of the car’s original price. The major areas of auto parts manufacturing are:

OES (Original Equipment Supplier): The car makers are not able to produce all of their components; OES supplies all the parts of cars from door handles to seat. Besides the subsidiaries of OEMs which are manufacturing components/parts of automobiles, there are many independent multinational OES in automotive industry operating globally such as Bosch.

Rubber fabrication: This includes everything from tires, hoses, belts, etc.

Parts production & distribution: Many parts of the car need to be replaced after the purchase of the vehicle, such as oil filters and replacement lights. Those products have a comparatively shorter life-cycle and need to be replaced constantly.

Besides the car-makers and part manufacturers, car sales and after-sales are also quiet profitable. Major auto-makers are building their own distribution channels to grab a piece of the cake.

4.2. Business Environment in China

4.2.1. The formulation of auto policy

Since the opening up in the late 1970s, China’s government began to realize that there was little or no development of new technologies. On the other hand, because of the booming economy, the demands of vehicles increased. In order to fill the gap between the rising domestic demands and limited capacity of car production, Chinese
government recovered the high-tech import, to accelerate the modernization of the automotive industry. On the consideration of protecting the China’s own automotive industry, a series of policies and regulations on the field had been set up. In the middle of 1980s, the growth of the need-orientated import forced Chinese government to improve the progress of the opening up process, starting to encourage establishing automobile manufacturing joint ventures and importing the substitutes. However, under the direction of that opening up policies, China’s automotive industry had the opportunities to develop towards the further direction, and the foreign companies got a chance to invest on the huge Chinese market. During 1981-1998, there were altogether 1.45 million units of vehicles sold on China’s market. Investment, including the foreign direct investment (FDI), was calculated approximately 150 billion RMB. By 2001, more than 800 Chinese companies in automobile-related industries had received FDI and the total agreed investment was valued at 233 billion USD with actual registered capital of 12 billion USD. (Zhang, 2002)

Chinese government realized that the Chinese partners did not really manage to learn the core technologies from their foreign partners, which was not helpful for both the Chinese manufacturers as well as the whole industry. The reason is that the key technologies were controlled by the western partners and there were no specific stipulations on technology transfer. It was the time for Chinese government to shape the regulations on investment to fit their domestic automotive industry goals of fostering the local automobile manufacturers.

The Chinese government established 1994 Auto policy, which clarified that the automotive industry would be one of the major pillar industries of the national economy. Simultaneously, a series of regulations on the FDI are lunched according to 1994 Auto policy to protect and improve the domestic auto industry. Because of being lack of international competitiveness, the domestic manufacturers deserved the protection from the government. In order to protect the domestic manufactures, import quotas were issued and the import tariffs were set up from 80% to 100% on
both whole vehicles and parts/components. In order to let the China manufactures gain more control of the joint ventures over their foreign partners, it also required that the China’s partner should not own less than fifty percent share of the joint venture. A minimum 40% localization rate of components/parts was required, which means at least 40% of total value of the car is realized in China.

In the year of 2001, China successfully made her move in to the World Trade Organization (WTO). The principle of the WTO is to ensure that global trade commences smoothly, freely and predictably, to reduce the barriers for international trade. China modified its regulations which might be against the purpose. On the other hand, a special period for the domestic industries which are not able to face the intense international competition is granted according to China’s WTO agreement. Regarded as the ‘infant industry’, the China’s automobile manufacturing industry was allowed a 5-year period for protection. Within this 5-year period, the Chinese customs should reduce the import tariffs on cars gradually to 25%, and reduce the import tariffs on parts/components gradually to 10%. The quota on the import cars should also be cancelled within this 5-years period. (Sohu.com, 2004)

In order to go with the WTO agreements and promote the adjustment and upgrade the industry structure, the new Auto Policy was established when the time came to 2004. Based on the 1994 Auto Policy, the rules in the old Auto Policy which did not fit for the WTO agreements were modified to an extent that is much more relax control on the foreign investors in the new 2004 Auto Policy: the car import quota system would be abolished on the first of Jan 2005 while gradually reducing the import tariffs to lower levels. And some new regulations were also issued in the 2004 Auto policy: if the imported parts/components’ value account for 60% or more of the value of a whole vehicle, these parts/components should be taxed as the finished vehicles. As Chinese government promised the WTO agreements, the Chinese customs on finished vehicles had been reduced to 25% on first of July 2006.
4.2.2. The general situation of auto MNCs’ behaviours in China

- The brand strategy

A variety of brands have been introduced from their parent companies, ranging from the economic brands to more luxury brands, in order to meet the markets’ needs. Some MNCs take the multi-brands strategy, using different grades of brands to cover the different market segments. However there are some companies, which are just focusing on a specific market segment. No matter which segment the brand belongs to, MNCs normally don't introduce sedans directly to China’s market unless they adapt some necessary modifications, because 1. Chinese customers’ behaviour and preference are different from the westerners. Once the joint ventures set up, most of the introduced sedans have been modified according to Chinese preference. 2. The market condition and the parts/components supplying condition probably restrict the overseas sedans come directly to the market.

- Marketing

The MNCs also own their own advanced and collected experience, which is very contributively for the joint ventures in China’s market. The marketing ideas from the MNCs are the key of the marketing perspective, the joint ventures have been aware of not only how to build a car, but also how to sell a car, which roots in the marketing. The western marketing focuses on customer-centric, driving the joint ventures to establish a comprehensive sales-service system and include services into the process of selling a car. The joint ventures could access to the specific skills from the MNCs of using the customer-centric services on the China’s market to promote the car sales.

- The cooperation with local partners

The MNCs have no choice but to co-work with their Chinese partners, establishing their own joint ventures, who gain advantages from both sides. Generally speaking,
the MNCs have more advanced technologies and skills, the Chinese partners could help to adjust the local strategy according to the customers’ needs. However, in order to make sure the profitability and strengthen the competitiveness advantages in the future, the MNCs want to implement some specific ways to gain more power of control inside the joint ventures. First is to keep their advantage in technologies, which is the key to control the joint ventures in China. The most common way is that MNCs normally transfer the basic technology to the joint ventures, but keep their latest ones in their parent companies, maintaining their technology advances in the field. Secondly, with the abolition of quota system, directly importing finished cars is becoming a good way to enlarge the market share and cut the cost in the localized production and distribution channel building. Thirdly, to some extent, the joint ventures control the distribution channels and implement direct sale model, which is conductive to the integration of group operation model, including R&D, production, sales and marketing. The establishment of the various function groups might help to build a more effective operation system and greatly shorten the supply chain gap between manufacturers and customers. Shortening the delivery time and reducing logistics costs could be achieved (Liu, 2007).

- Parts/components sector

China’s automobile parts/components sector is in the midst of a great transformation, which is accelerated by China’s entry to WTO in 2002 and reached a total value of $67 billion in 2006. It is just one fifth of that of U.S. but still a 2.5 times growth in just 4 years (Auto-Resource-Asia, 2007). The main reason for the booming is the fast-growing demand from the automobile manufacturers in China. China has accepted a massive investment for local car-manufacturing facilities from both domestic and foreign makers and nearly all the China’s automotive demand could be supplied by local produced cars. The parts suppliers, both foreign and domestic, are making full use of the huge advantage in China’s labour cost, favourable policies and the large market demand.
Despite of the fast growing rate and great potential, there are still lots of problems on China’s automotive parts/components sector, such as small-sized, fragmentation in distribution channel, low technology content, and counterfeit as well as intellectual property issues. According to ARA (Auto-Resource-Asia, 2007), there are 5,402 registered automotive component companies as of December 2006 and another 15,000 non-registered automotive component companies in China. The suppliers’ size and quality of their products vary largely from each other: The largest 6 registered companies achieved annual revenues in excess of US$1 billion in 2006, of which the parts subsidiary of Shanghai Automotive Industry Corporation (SAIC) is the leader by a large margin, followed by several foreign parts suppliers such as Visteon Corp and Johnson Controls. However, the whole industry is quite fragmented as a large number of players are belonging to the middle or small size group: There are only 245 registered companies achieved an annual revenue of 50 million USD, comparing to more than 4,000 registered component companies with a annual revenues less than 10 million USD. Because of that, it is difficult for China’s automotive companies to achieve an economy of scale. Moreover, the distribution channel of component is also quite fragmented. There are relatively few 3S/4S shops in China, and the prices of components are higher than other places. Small and independent distributors, who usually resort to cheap and counterfeit products, account for about 60% of the total value (China: Automotive Component Industry, 2007). Due to the relatively small size and being immature, most of the component makers are still lack of innovation abilities. Comparing to the major automobile component giants in the world who invest 4%-10% of their revenue in R&D, most component manufacturers in China rely largely on purchasing technologies. In addition, it is also quite common the international suppliers also find their designs are copied by some China’s competitors because of being lack of intellectual property right protection. The quality of the local produced components are still relatively low, comparing to their foreign counterparts and only limited number of suppliers are able to earn the contract from major MNCs.

Due to the auto joint ventures in China who are struggling to meet the required 40%
localization production ratio, the parts/components suppliers can be optimistic about their future, because the growth rate, the learning ability of suppliers and the favourable and supportive policy from the government. On the other hand, the current situation in this sector shows the importance of choosing the right partner carefully.

- The distribution channel of automobiles in China

Joint ventures are mainly using two methods for car sales. One is the acting sales model. The joint ventures delivery their cars to the sales agencies/dealers that are responsible for selling the cars. The acting dealers might have its own distribution channels, with whose help the joint venture can save a lot of cost on the channel building. The acting dealers could be special sale joint venture established by the auto manufacturers or brand monopoly dealers sought locally.

Just like the automobile parts/components sector, the automotive dealership sector in China is also quite fragmented. According to CAAM, there were 30,000 dealers in 2005, 40% of which were second level dealers. The fragmentations lead to low profitability. Chinese government issued new regulations in order to promote the consolidation in the same year. As required in the ‘Implementation Measures Governing the Sales of Brand Autos’ (KPMG, 2007), car dealers should be authorised by automobile manufacturers in order to use their brands and sale their cars. In addition, car dealers should cover a full range of operational functions including market research, strategic planning, marketing, and parts supply chain as well as after-market services. The new policy gets higher the threshold of being a car dealer and excludes the small-sized players, which improve the service quality of the automotive sales significantly.

Another method is the direct sales, which mean cars would be sold by its own sales department, instead of going through any agencies. These two methods are being used by the automobile manufacturers in China. The direct sales model could reduce the inventory, circulation links and could be convenience of information feedbacks.
(Huang & Jiang & Kang, 2004) In the western countries, the 4S sales model is the main stream for MNCs. The 4S stands for sales, spare parts, services and survey (Bao & Yu 2005).

With the consolidation of market, automobile manufacturers relay less and less on distributors in China. Although dealers still play a very important role, automobile manufacturers’ control over their distribution channels in increasing. They build up they own direct sale outlets across the country. In addition, 3S/4S shops were emerging in China. However that could not copy directly to China’s market, because the current condition is not fit for the 4S sale model. The 4S stores’ cost is relatively huge which might transfer to customers’ burden. On the other hand, the corresponding service quality is disproportionate the cost. The main reason is that the stuffs in the 3S/4S shops have relatively insufficient professional trainings and the importance of after-sale service hasn’t been fully understood.

4.2.3. Porter’s Five Forces model analysis for China’s automotive industry

Porter (1985) indentified five major aspects that a company should take into consideration with regard to analgising the intensity and attractiveness of a particular industry. The five forces are: threat of new entrants, bargaining power of suppliers, bargaining power of buyers, threats of substitute and intensity of rivalry among competitors. Using this model, we analyze the automotive industry of China.

- Threats of new entrants

The threats of new entrants are relatively very low in the China’s automobile industry. The China’s automotive industry is not as mature as the American or European, but quite comprehensive. There is a spectrum of brands from the economic manufacturers to the luxury auto makers both existing in the market. However due to the huge demands, most of the manufacturers have already reached economies of scale, which provide the opportunities for mass production. On this respective, the new entering
auto manufacturers, wherever which come from, local or aboard, should contain the eligibilities for mass production. Surely speaking, the mass production will require factories building, employees recruit, paper working and so on, which might cost a huge amount for both money and time. Secondly the import cars with a certain amount of tariff cost comparatively higher than the local produced ones, as the result of this substitute way, the possibility of import is slim. Another barrier for the new entrant is that regulations on controlling of MNCs are tight in China, which might restrain the MNCs’ performance to a large extent. The MNCs have to figure out the cooperation ship with their Chinese partners and most of the best Chinese manufacturers have their own cooperation ship with the MNCs, which leave few spaces for wider variety of inventory.

- Bargaining power of suppliers

Bargaining power of suppliers is low, but not as low as the western countries. In China, there are so many parts/components suppliers for auto manufacturers, which mean manufacturers have many choices. If one supplier is no longer suitable for, the joint ventures could just switch to another one. However the reason for power is not as low as the western countries, is because that not all of the suppliers are eligible for providing that merit-quality parts/components for the luxury cars. The joint ventures have to realize the circumstances that the general techniques in the Chinese auto parts suppliers are not as advanced as those suppliers in developed countries. As the result, the supplier choices for joint ventures are not that many as imagined.

- Bargaining power of buyers

Bargaining power of buyers is relatively high in China. The buyers, also consumers, will purchase nearly everything of the industry products, and the auto manufacturers rely sharply on them to keep in business. If the consumers are not satisfied with their products or services, the auto makers might risk losing them to other competitors. However, according to XinHua.com there are over than 300 auto brands in China’s
market, which provide Chinese citizens thousands of and tens of choices for choosing a car. (Xinhuanet.com 2005) And there always one fits for. As the result, that backed up the bargaining power of buyers. But the Chinese buyers’ switching cost is a little bit higher than the other citizens in developed countries. Because of Chinese household purchasing power and their purchasing concepts in mind, they will not change automobile so frequently. So, the brand images in customers’ mind are more important before purchasing a car. As a developing country, Chinese citizens’ average purchasing power is even not as high as the western people. To make general conclusion of the entire positive and restrict factors related to the bargaining power, we could criticise that is relatively high.

- Threat of substitute products

Threat of substitute products is significant. There are so many substitute products for automobiles in China, such like bicycles, subways, motorcycles or even walking. Public transportation is considered as the major substitute of private cars in China. All those substitutes could cover all distance for a Chinese citizen instead of walking. Perhaps in the United States, regarded as the nation on the wheels, car is a necessary for everyone. But in China the situation is different. In those major cities, like Beijing, Shanghai, Guangzhou or Chongqing, where have the largest demands for vehicles; however the governments are encouraging choosing the public transportation instead of relaxing the control of buying a car. In order to reduce the urban traffic jams, accidents, air pollutions and such problems caused by large-scale using vehicles, the local governments encourage the citizens using the public transportations, such as subways, buses or a little bit more luxury taxies, by issuing some regulations on restricting the registration of a car licence and the driver’s licence and lowering down the cost of the public transportations fees. As a result, a large number of people will choose the public transportation in order to avoid the high cost of owning a car and the traffic jams. All those lead to direct or indirect threat of purchasing a private car.

- Intensity of rivalry among competitors
Intensity of rivalry among competitors is very strong in China’s auto market. The major competitors are closely balanced; they sell cars or SUVs using similar technologies or tastes on the general side. And there are lack of really differentiation and distinguishable opportunities. They could only be comparing to one and another, the price, the quality, the durability and all those other tiny details, in order to distinguish their products from others as far as they could. As we mentioned, more than 300 brands in the market, the rivalry among competitors must be inevitably strong.

4.3. **Empirical studies of five firms**

In the following part we investigate the selected firms, with our self-defined six-stage analysis model, which is developed from the six different stages divided originally divided by De Wit and Meyer (2004).

4.3.1. **BMW**:

- Brief to the company

Bavarian Motor Works (BMW) is an independent automobile manufacture which is headquartered in Germany and started car manufacturing in 1929. Since then, BMW has been setting itself firmly on the premium sector of the international automobile market and trying constantly to make, as their former slogan goes, ‘ultimate driving machine’. With a delivery of 1,500.7 thousand automobiles in 2007, it is just the 16th largest car manufacture in the world by volume, but its higher market segment positioning strategy makes it one of most profitable car makers in the world. With a multi-brand marketing strategy, BMW, MINI and Rolls-Royce, BMW is having a good reputation for their excel quality, which turns to high level of profitability. In the financial year of 2007, the group’s revenues rise to as high as 56 billion Euros, a 14.2% growth comparing to 2006. BMW adopted a ‘number one’ strategy in 2007, with emphasis on profitability and long term value growth, aiming to be world’s
leading provider of premium products and premium services for individual mobility (BMW Group, 2007). Covering 150 countries, BMW has a flexible network of 23 production plants in 12 countries, which aim to pursue global efficiency and synergy. It has been presented in mainland China since 1994 by establishing a representative office in Beijing. BMW’s first plant in China was rolled off in Shenyang province, September, 2003 and the annual volume of car deliveries of BMW in China grows rapidly ever since. There is a 42% growth in 2007 which made the whole sales reached to 51,288 and contributed the major reason for its outperforming of the major competitor in luxury cars, Mercedes Benz (auto.sina.com.cn, 2008).

- Six stages analysis of BMW’s market involvement

R&D stage: BMW has 10 R&D institutions all over the world, including BMW Group Development Office in Beijing, which is the only R&D center in developing countries. The build of the R&D center was according to the investment agreement between BMW Group and Beijing government, which includes an investment of 1.3 billion RMB for the infrastructures and facilities.

**Innovation & Networks.**

**Innovation network.**

*Source: bmwgroup.com, 2007*
This R&D institution is focused on the development of electronics devices which can be used on automobiles. As the R&D center just started to operate in 2007, there are few achievements being reported yet. However, the build of the R&D center shows that BMW Group begin to value China’s role as more than just a market, but a resource of talents and innovations.

Production stage: The production network is the backbone of an automotive company. BMW currently has 17 production facilities in six countries. Within China market, BMW Brilliance Automotive Limited is a 50-50 joint venture by BMW Group and Brilliance China Automotive Holdings Ltd which is located in Shenyang, the capital of Liaoning province. Its plant launched the first BMW 3 series in the October of 2003 and the first 5 series one month later. In 2007, the production growth of BMW Brilliance was 36%; while the growth of sales was 42%. As a result, the second plant will be build by BMW Brilliance to meet the fast growth in market demand and reach more scale economy. In addition, BMW 1 series will also be introduced by the new plant. In spite of the incapacity of local suppliers, all the cars made in China still reached the strict global standard.

The first block of BMW made by BMW Brilliance is assembled in a CKD (Complete Knock Down) with a localization rate of parts and component of mere 1%. However, the localization rate reached to above 43% in 2007. As said by Luo Guomin, vice president of BMW Brilliance, the purchase of components and parts to local suppliers was 2.5 billion RMB, comparing to a 3.5 billion purchase to imported components. What need to point out is that the sedans of BMW is producing and importing at the same time.

Assembly stage: The BMW Group currently engages in assembly with the help of external partners in the following countries: Jakarta, Indonesia; Kaliningrad, Russia; Cairo, Egypt; Kuala Lumpur, Malaysia; Rayong, Thailand; Chennai, India (BMW Group, 2007). BMW Brilliance is regarded as a production center rather than an assembly partner. However, the BMW 1 series, which will be introduced to China
market, will first be assembled in CKD way before local suppliers become able to provide the qualified parts. In 2007, 20,988 BMW cars sold in China market were imported from abroad. While 30,600 were made in China. It is still quite common that Chinese customers still regard the imported sedans of better quality and thus are willing to pay extra money on it. As a result, the importing of a sedan will be ceased if it starts being produced in the plant of China.

Marketing stage: BMW positions itself as luxury car producers and its market position doesn’t change in China’s market. Chinese people recognize the quality of every BMW car and that owning a BMW car is a symbol of success. With a merit reputation, the brand name has become a great source of premium revenue. BMW’s emphasis and investment on marketing in China are the same as other markets. Due to the importance of advertising and brand image, BMW Group announced in 2006 that they would invest 3 billion Euros in following 3 years for the development and maintenance of the market. Instead of using the brand name of BMW as in other markets, BMW has a localization strategy in its brand name. In the Chinese name of BMW means ‘precious horse’ which is known as the best horse in Chinese legend. BMW’s Chinese name makes it easily to be related to the top cars by ordinary Chinese people thus strengthen the brand name. The choice of sedans to lunch in the China’s market also reflects BMW’s consider on localization. For example, to meet with Chinese customers’ high preference on spacious cars, BMW530Li was launched in the end of the year 2006. Redesigned particularly for the China market, 530Li has a lengthening wheelbase of 3.028m, 140mm longer than the standard type.

One major difference of BMW’s marketing strategy is the choice of major rival. BMW regarded Benz as its only competitors in the world. When they came into China market, thing was different. Audi entered the Chinese market much earlier than BMW and had already formulated a good brand image as the only luxury car producer in China. BMW regard itself as a superior car manufacturer than Audi and set a higher price accordingly, which lead to unsatisfactory performance in sales. It was until
BMW changed their pricing strategy and set Audi as the competitor that people saw a surge in BMW’s sale. The targeted customers are slightly different from that in other developed countries. In western countries, BMW’s targeted customer lie in the middle class who has comparatively high income; while in China, it aims mainly at successful entrepreneurs, as it still too expensive for China’s middle class.

Sales stage: The BMW Group is committed to maintaining and enhancing its presence in key markets worldwide. BMW Group marketing subsidiaries are present in 35 countries including many developing countries such as Brazil, Malaysia, Indonesia and Thailand (BMW Group, 2007). However, China is not one of them as the regulation on auto sales. In China, BMW’s sedans are being sold by 70 authorized dealers, who have the right to sale both imported BMWs as well as domestically made ones produced by BMW Brilliance Ltd. The qualification requirements of authorized dealers are extremely high, their location, a specific marketing plan, reliable sources of capitals, high qualification of working staffs even their understanding of the brand of BMW must be shown during the application stages. It is reported that the first 7 all-line authorized dealers are selected out of 2000 applicants. BMW China Automotive Trading Ltd. was registered in September, 2005. Headquartered in Beijing, this fully owned subsidiary will be responsible for the import, sales, marketing and after-sales services of sedans under all BMW and Mini brand.

Service stage: While BMW’s major competitors are still investing on brand advertising, BMW has already transferred its focus on their after-sale service. The signal BMW wants to deliver to the customers is that BMW is not only sales excel cars, but also sales equally excel after-sale services. All of its 70 4S/3S shops across the country was build according to an extremely high international standard. In order to improve the quality of service and customer satisfactory, BMW has been increasing their after-sale network sites as well as investing heavily on the training of staffs, allowing a full coverage of service to customers. Despite of the extremely high requirement and investment, another 20 after-sale service sites are on the agenda to strength the service network. A parts distribution center was established in Beijing,
which allows more efficient and fast delivery of parts all across the country. In addition, road rescue service was launched by BMW, offering prompt and professional road rescue services.

As market saturation means little room for growth, retention of customers is considered as extremely important and supplying the best service is much more important. However, BMW’s emphasis on after-service in fast-growing China’s market is not weaker than that in developed countries. We can see a global standardization strategy in after-sale service in the China market

4.3.2. Volvo

Brief to the company

According to Volvo.com (2008) in 1924, two young men, Assar Gabrielsson and Gustaf Larson, decided to start to build a Swedish car, and in 1927 the first Volvo car was finished from the production line at the factory in Gothenburg. Since then, Volvo started to develop the production of heavy trucks, buses and the construction equipments. The Volvo brand image is always related to the Scandinavian style with the most safe security equipments. Volvo contains many characters as the Scandinavian people have, which is connotative, reserved, elegant and simple. The Volvo group involves in a lot of fields, such as manufacturing trucks, buses, penta for leisure boats, Powertrain and parts. Beyond the manufacturing, Volvo group also has the Logistics, services, or even real estate. Volvo group owns the brands as follow: Volvo, Renault trucks, Mack and so on. But the Volvo Cars Corporation (VCC) has been 100% owned by Ford Motor Company, since 1999, with the ‘Volvo’ brand name is still the property of Volvo Trademark Holding AB. In 2007, VCC had broken its own sales record reached sales of 458,323 cars globally. VCC’s sales and services network covers almost 100 countries with its 4 main markets, Sweden, Germany, the USA, and the Great Britain. As we have always focused on the passenger vehicles, so we will focus on the Volvo Car Corporation’s globalization and localization.
The Volvo group’s involvement in China market could date back to long time ago, since the establishment of the diplomatic relationship between China and Sweden. But the VCC is the late comer among all the automobile manufacturers. According to 315che.com (2007), the VCC Beijing Brach set up on Jan. 24 1994. By that time, the Volvo S40 was introduced into China’s market. With the media spread, Volvo came to be more and more familiar to Chinese consumers with its Scandinavian safety and elegant. Volvocars.com (2008) demonstrates that the Volvo growth rate 2005 in China’s market ranks the first among all the markets, 83% growth rate and 2177 vehicles. In 2006 the VCC was producing the S40 sedan in China, and in the recent two years VCC has been considering producing the sedan S80 in China.

- Six stages analysis of Volvo’s Market involvement

R&D stage: Obviously, Volvo does not have any R&D center in China. Every Research and Develop process is finished in its headquarters located in Gothenburg Sweden. It is reported that Volvo has a lot of most advanced technologies which are based on over than 4000 experienced employees in Gothenburg. Its owner Ford also co-works with Volvo development (Volvocars.com.cn, 2008). However, there is no even any R&D for localized adaptation of Volvo Car for China’s market.

Production stage: The VCC had authorized the Chang’an Ford Mazda Automobile Corporation, a Ford joint venture in China, to manufacture Volvo cars in the form of technologies transfer. (sohu.com, 2008) Right now, only sedan S40 is being manufactured in China, which had taken a long time for decision making. The localized production of Volvo S40 was one of the hottest topics on automotive industry in 2006. Especially the lunching of the sedan had been delayed because of the localization ratio of component/parts was not qualified by the requirement in the Auto policy. (qingdaonews.com, 2006) Now the S40 localized production ratio is a little bit more than 40%. Another sadden S80’s localized production is still in progress of qualification inspection and decision making.

Assembly stage: Actually from the Volvo cars official website, we read that Volvo is
being assembled but not manufactured in China. Obviously, the so called China produced Volvo has a large percentage of parts imported from Sweden and then assembled with some local produced parts/components in China. From now on, those cars are only referred to the sedan Volvo S40, but no others. Sedans like S80, XC70 are wholly imported to China.

Marketing stage: The VCC Company only has one brand, the Volvo. And the brand is positioned in the middle higher class market segment. Volvo has always kept its Scandinavian style all over the world, elegant, safety, reserved and simple. The brand image does not change so much when it came to China and is used to distinguish Volvo from other brands. The S40 is in the middle higher class, with its rivals like BMW 3 series, Audi A4 and Mercedes C-class. (iautos.cn, 2006) On Volvo pricing strategies, Volvo’s price is not lower than its rivals, demonstrating its royalty and luxury. With this positioning, Volvo’s target group is those young successful people who have elegant stylish taste, which could be distinguished with those parvenus driving BMW or Mercedes. However, comparing to its rivals, Volvos are relatively low-pitched luxury reflecting on both its design and its marketing launching, which fits the Scandinavian style. So on the marketing perspective, Volvo reflects its own special style and taste.

Sales stage: Volvo cars are sold by its authorized sales agencies in China, whose exhibition centers are all built according to Volvo standardized Scandinavian style.

Services stage: The Volvo Cars declares that its company’s services contain in the cars themselves, its safety, comfortable and environment-friendly all reflecting Volvo’s service concept: to concern more about their customers. On the sales agencies, Volvo out-sources a large percentage of the services to the authorized agencies that send staffs to special training for the Volvo standard services.

4.3.3. GM:

• Brief to the company
According to GM.com (2008), General Motors Corp., founded in 1908, has been the annual global industry sales leader for 76 years and is currently the second largest automaker in the world. With its global headquarters in Detroit, GM manufactures cars and trucks in 33 countries under the following 12 brands: Buick, Cadillac, Chevrolet, GMC, GM Daewoo, Holden, HUMMER, Opel, Pontiac, Saab, Saturn and Vauxhall.

According to Gallagher K. S., General Motors’ (GM) influence on China’s automotive industry could date back to 1922, when GM started to export vehicle to China. In the 1930s, one out of every six vehicles in China was the Buick sedan. GM started to invest the China’s market in 1994, and the GM China office was opened in Beijing. Then after two-year’s bidding for the partnership with Shanghai Automotive Industry Corporation (SAIC), which was regarded as the best and most potential automobile manufacturer, Shanghai GM was established in 1997. Shanghai GM is a 50-50 joint venture, with an annual capacity of 480,000 vehicles. Shanghai GM builds and sells a comprehensive range of products, from the luxury sports cars to economic sedans, which currently under the brands: Buick, Chevrolet, Cadillac and Saab. Shanghai GM has 9 series with 33 sedans, containing the most advanced technologies, which ensure the security, power, comfortable and environment-friendly. All these factors make Shanghai GM the leading position in the market. (GMChina.com 2008) According to GMChina.com (2008), GM right now is operating 7 joint ventures and two wholly foreign owned enterprises in China, employing more than 20000 workers. In 2005, GM ended with a market share in China of 11.2 percent.

- Six stages analysis of GM’s Market Involvement

R&D stage: The Pan Asia Technical Automotive Center Co. Ltd is a 50-50 joint venture between GM and SAIC. It provides automotive engineering services including design, development and testing. Its achievements including reengineering of Buick LaCROSSE, Buick Excelle and Buick Regal; designing concept cars Qilin, Kunpeng; engineering and validation of new Buick Sail and localization of the
Chevrolet Epica for Shanghai GM and so on. The establishment of Pan Asia Technical Automotive Center demonstrates that GM has realized the importance of the ability of developing localized products, which is a significant part of its China’s strategy. The GM R&D stage contains both localized adaptation of the introduced sedans, such as the reengineering, and the pure R&D ability, such the development of the concept cars Qilin and Kunpeng. Through Pan Asia, GM could be much closer to the target market and be aware of the different needs for carrying out necessary modifications for China’s customers in a short time. And the technical center could also make full use of the latest technologies form GM, supporting its running. To conclude, the global advantage could be adapted and the local needs could be covered by the establishment of this GM Shanghai R&D center.

Production stage: In China most of GM’s joint ventures contain the capability for producing. The balance of the paradox could not achieve better. The GM offers technologies, and the Chinese partners supply the well-trained labor forces and useful advises for market adaptation. On this perspective, the cooperation could save a mount of labor cost. We mentioned about the localization ratio of component/parts as one of the most important figure for the producing stage, which depends on the different brands. For the most economic private car brand, Buick Sale, firstly lunched in 2000, had a ratio of localized production over than 40% just at the beginning production (Chinaccm.com, 2001). Another sedan, Buick Park Avenue, lunched in 2007, the localization rate is over 50% (ce.cn, 2007). For the luxury brand, Cadillac CTS was planned to be produced in China, however, because of the quality of the local components could not reach the GM requirements for a luxury car level, resulting with the localized production ratio was lower than 40%, which is not qualify the China’s auto policy. The localized production plan had to be called off in 2005.

Assembly stage: From the production stage, we have been aware of that most of the sedans have not been totally produced in China yet, so there must be some percentage of the whole vehicle imported from outside market, and assembled in China. However,
those brands which are positioned in a higher market segments, are mostly imported, such as the Cadillac.

Marketing stage: GM has 7 joint ventures in China, each of which has its own functions for the GM’s wholly China’s strategy and produces different brands of sedans. GM adapts the ‘comprehensive series under multi-brands’ strategy, all of the GM brands could cover most of the market segments, from luxury Cadillac, to economic Buick Sail. The Buick GL8 is positioned to be the official vehicle and the top MPVs (multi-purpose vehicle); however the Buick Sail is positioned to be the economic private car (Liu & Huang 2002). Secondly, to have a global integration, GM always uses the same brands all over the world, however, the GM’s brands in China are differentiated from the global image. GM is trying to establish a superior brand image in the same market segment in China’s market. According to Car.com, the Buick in the US market is just only a normal brand, however the Buick in the China’s market looks much higher classic in the same segment. Especially the brand-new Park Avenue, with rich-looking leather on the internal decorations and larger rear seats, the sedan expresses that it is the one especially for those successful and tasty people. Thirdly, strengthen the brand images locally, through sharply advertising that GM vehicles are built by world-class manufacturers. According to Artsma.com (2007), Shanghai GM divided the original marketing department into 4, each of which charge one brand’s marketing, in order to differentiate the 4 brands marketing. Zhang indicated (2003) that GM’s plan is to build a product which can reflect the local specialties. As all we can see, the GM brands have the exotic style with some local taste.

Sales stage: GM mostly entrusts the authorized agencies for selling automobiles. GM does not have its own sales channels, and authorizes agencies for selling cars. On one hand, this way might save the investment in distribution channels buildings and realize gain profit in a shortest time. However, on another hand, GM lose huge amount of profit in the sale because of lacking control of the distribution channel.
Services stage: We can see that on the GM China’s official website that each brand has its own corresponding services. GM mostly authorized to the sales agencies. The services would be sold with the cars, and the agencies are responsible for the after sales services.

4.3.4. Toyota

- Brief to the company

When we mentioned about Toyota, this brand might reflect an energy-saving and environment-friendly Japanese brand. Toyota is the top automobile manufacturer in the world now. And in the US market, Toyota overcame Daimler Chrysler to be the third auto maker in 2007. The Toyota motor corporation was established by Kiichiro Toyota, who spent his entire life on car manufacturing. And the success of completing the A1 Prototype vehicle in 1935 was the starting point of Toyota Motor Corporation. According to the Toyota official website (2008), with all the 522 consolidated subsidiaries, the corporation employ 299,394 workers and acquire net revenue of 23,948.0 billion yen (about 231.1 billion USD). The corporation owns 4 main brands: Toyota, Lexus, Hino and Haihatsu. The main brand Toyota has many sub-brands such as Crown, Camry, Corolla, Land cruiser and so on. Lexus is a separated luxury brand in the corporation, established in 1989.

According to Toyota.cn (2008), its involvement in China could date back to 1964, when the first Crown was exported to China. The localized production in China started in 2000, which is a little bit late comparing to GM or Volkswagen, firstly establishing a joint venture Tianjin FAW Toyota motor Co., Ltd with First Auto Work, and manufacturing Vios, Corolla, Crown and Reiz. And after that, Toyota has established many wholly foreign-owned enterprises and joint ventures with FAW and Guangzhou Automobile Group in China. The companies are located separately in China, including Sichuan province, Liaoning province, Shanghai, Guangzhou and Beijing. Toyota is more popular in south of China, especially in Guangdong province.
According to HC360.com (2008), Toyota’s market share in China’s south area consists of 11.4%. Even though Toyota is the No. 1 auto maker in the world, Toyota’s market share in China is only 4%, behind Volkswagen and GM’s, even lower than Honda’s (Zhang 2007). Toyota is aiming to reach a market share of 10% in China by 2010.

- Six stages analysis of Toyota’s Market Involvement

R&D stage: Toyota set up Toyota Motor Technical Research and Service (Shanghai) Co., Ltd., Toyota Motor Technical Research and Service (Guangzhou) Co., Ltd. and Toyota Motor Technical Center Co., Ltd., all of which are Toyota’s fully-owned subsidiaries. However, according to the Toyota website, the three corporations mainly provide the technical consulting services of automobile maintenance and fault diagnosis for Toyota’s Chinese companies. Toyota Motor Technical Center provides vehicle and vehicle-related parts/components’ research, development and the technical consulting services of localization. Obviously, the Toyota does not contain the pure R&D ability in China, but only the ability for technologically local adaptation.

Production stage: Most of the joint ventures contain the capabilities of manufacturing automobiles or the parts/components, and different companies charge different sedans: Guangzhou Toyota mainly produces Camry, Sichuan Toyota produces Coaster, Land Cruiser and Prius. On the localized production ratio side, Vios is a sedan which has relative high localized ratio of production, raised to nearly 80% within two years. Except the engine and the gear box are imported from Japan, most other parts/components are local produced (auto.QQ.com, 2004). Camry, one positioned in middle-class sedan was the sales Champion lasting for at least 11 months in 2007, and its ratio of localized production is over 70% (auto.sina.com, 2008). However, the higher class sedan Reiz and the classic sedan Crown have an average over than 60% ratio of localized production. Lexus, the most luxury brand in the corporation introduced into China’s market in 1999, is almost wholly imported.
Assembly stage: As we mentioned about the production stage, all of the sedans except the Lexus are produced in China, meaning that most of the vehicles have the assembly stage in China’s factories.

Marketing stage: Toyota implements the branding strategy in China the same as it does globally, the corporation does not only launch one brand, the Toyota is the main one and with other smaller brands. The Toyota brand has many sub-brands which are divided by different sedans for different market segments. The Toyota sub-brands, including the Vios, Camry, Reiz, Crown and so on, could cover most of the lower, middle and higher market segments. And the Lexus brand is the luxury brand of Toyota Corporation, which is separated from the Toyota in order to distinguish its noble, elegant and luxury temperament from the Toyota. Using all the sub-brands and the Lexus, most of the market segments could be covered as a big auto manufacturer. On different market segments, Toyota is facing different competitors, like Camry is facing the Accord of Honda, the Passat from Volkswagen and GM’s Lacrosse, and Crown is competing with Mercedes C-class (auto.QQ.com, 2006). Toyota is always focusing on building a fuel economic and environment friendly brand, with a lot of effort on R&D and advertising. On the pricing strategy side, Toyota also needs to use the pricing strategy for expressing it is a brand that contains good quality, the latest technology but not very expensive price. As a result, the pricing of the cars is neither very high nor very low, the Camry price is the best prove.

Sales stage: Toyota is well-known by its sales ability all over the world, and brings its good techniques into China’s market. Toyota has built its own sales company and its own distribution channels, FAW Toyota Motor Sales Co., Ltd, a joint venture between Faw and Toyota, established in 2003 Sept. It only charges the sales, after-sales services and market management of 8 main sedans produced by FAW Toyota, but not Guangzhou Toyota. However in order to distinguish Lexus’ luxury, the company separates the sales of the brand from the Toyota’s sales. And Lexus are sold through other’s sales channels, firstly opening authorized sales agency stores in 2005. (Zhang
2007)

Service stage: Nowadays everyone has been aware of the importance of the after-sales services, so does Toyota. Toyota also makes fantastic services advertisements which are very attractive for customers. But because of the old-fashioned service concept in the employees’ minds in the 4S store, the low employees’ education level and the chaos of the market situation, the promised after-sales services could be barely implemented.

4.3.5. **Hyundai**

- Brief to the company

Hyundai is an independent automobile manufacturer headquartered in South Korea which started car assembling for Ford in 1968 and lunched their first sedan, the Pony, in 1976. Making full use of the cheap labor cost in Korea and the favorable government policies, Hyundai was developing fast since then. Due to the limited volume of domestic market, all the automotive manufacturers in Korea set ambitious goals of exporting their cars to the world, of which Hyundai is the most successful one. Hyundai produced 2,462,677 units of vehicles in 2006, making it the No.1 in Korea and the No.10 in the world (worldwide.hyundai-motor.com, 2007). Hyundai has been setting itself on the no-premium sector of the international automobile market and trying constantly to make price-competitive cars with high quality. In 2006 Initial Quality Study performed by J. D. Power, Hyundai automobiles outperformed famous brands that are famous for their superior quality such as Toyota, Mercedes-Benz, and BMW etc. and won the number one position in the general brand category that excludes luxury brands (worldwide.hyundai-motor.com, 2007). Because of the improvement in the quality, technology as well as the consistent global expansion, Hyundai has been changing their brand image from an inferior car manufacturer gradually into a steady but robust way. In 2005, Hyundai brand was elected as one of the top 100 most valuable brands of the world by Business Week and
Interbrand for the first time. Its value experienced another 17% growth in 2006 (worldwide.hyundai-motor.com, 2007). Hyundai has established plants in Korea, U.S., China and India. In addition, the plants on construction in Turkey and Czech Republic will become its critical footholds for expanding itself in European market. With 6,000 dealers across the world, Hyundai cars are running in the roads of over 200 countries and regions.

Hyundai entered in to China’s market by forming the joint venture Beijing Hyundai Motor Co. (BHMC) with its Chinese partner, Beijing Automotive Industry Holding Co., in 2002. With the launch of several successful sedans at the same time, Hyundai’s market share had been rising ever since. Sonata, for example, occupied a 9% market share in B class cars while Elantra as high as 15% in A class car niche. After the setback in 2007 when Hyundai’s market share shrank to less than 4%, Hyundai enlarged their investment in China: a second plant with an annual production of 200,000 is established by BHMC. With an estimated capacity of 600,000 units, Hyundai will become the largest car producer in China.

- Six stages analysis of Hyundai’s market involvement

R&D stage: Hyundai pays great emphasis on the uniqueness of China customers’ preference and most of the sedans sold in China are redesigned and tailored to China market. Hyundai has R&D centers in Korea, Japan, USA and Europe. However, till now no R&D center has been established in China and most of the redesigning is performed in its R&D centers out of China. On the other hand, Hyundai’s Chinese partner takes initiatives on innovation. Beijing Automotive Industry Holding Co. accumulated its technology and know-how during the cooperation with Hyundai and has made lots of improvements on the sedans produced in China.

Production stage: Hyundai’s existing plant is currently producing five models: EF Sonata, NF Sonata, Elantra, Tucson, and Accent. Yuedong, a variant of the all-new Elantra which has been modified to suit the tastes and needs of the Chinese car buyer will be produced in the new plants (worldwide.hyundai-motor.com, 2007). The
localization rate of parts/components of all the sedans is relatively higher than others. For example, the most two successful sedans, Sonata and Elantra reached a localized production ratio of 79% in 2006 and will rise to 92% in 2008 (auto.163.com 2008). The latest sedan, NF Sonata also reaches a localization rate of 60%. It is reported that the rate will continue rise in the coming years. From the high localized production ratio of parts/components, we can see that Hyundai has been integrating its production in China’s market.

Assembly stage: Comparing the amount of local produced cars, the number of imported cars is relatively small. In the first eight month of 2007, Hyundai only exported 15,155 cars into China’s market (auto.163.com, 2007). Compared to Beijing Hyundai’s annual output of 300,000 cars, Hyundai’s annual importing of approximately 20,000 to China’s market is just a fraction of domestic made ones. There are five imported sedans in China market: Sport car Coupe, Azera, Equus, New Santa Fe SUV and Veracruz. It needs to point out that Hyundai’s imported cars are mostly of top grade, which are hard to produce locally due to the incapability of suppliers.

Marketing stage: With a relatively shorter history of making car, Hyundai is labeled as cost-effective cars in the entry segment of the whole industry in developed countries. In the developing Chinese market, Hyundai wanted to have some changes but wasn’t able to. Comparing to GM and Volkswagen, Hyundai’s entry to China market was relatively late. Those well-established competitors had already acquired a large proportion of the market share. Moreover, they also come with a reputation of high product quality and customer loyalty. In front of those competitors, Hyundai took the same low-price policy in China as it does in the world. With a wide range of sedan ranging from low end to high class, Hyundai positions itself as lower prices of similar quality. For example, in the B-class car market of China, Hyundai’s Sonata sedan is cheaper than the PASSAT of Volkswagen and the Accord of Honda. Same thing happened in the A-class car market, Elantra is also considered as more cost-effective than its major competitors, say, Buick Excelle and FAMILY of Mazda. Moreover,
because of the similarity of cultures between the two China and Korea, it is easier for Hyundai to interpret the customer preference in Chinese market. Hyundai laid great emphasis on local addictiveness on customer need.

Hyundai’s basic marketing model in China can be described as ‘offering the cheaper cars with features that Chinese like’, which lead to a great success for the first several years. In front of the success, Hyundai didn’t want to stay in China’s non-premium car sector all the time. Since 2006, Hyundai began to alter its low price strategy and set higher price tags for its new sedan, NF Sonata. Spontaneously, Hyundai invested much heavily on advertising to improve its brand image. However, Hyundai’s attempt to enter the premium sector ended up a 24% drop in sale in 2007, while the whole industry experienced a 24% growth in sales. It is obvious that the time of a new marketing strategy in China for Hyundai has not come yet.

Sales stage: For multinational automotive manufacturers, there are two ways for the distribution. The first one is through distributors and the retailers: OEM>>Distributor>>Retailer>>Customer. The second one is through 4S shop, which goes directly to the customer: OEM>>4S shop>>Customer. Entering to China relatively later than its competitors, Hyundai has mainly been resorting to the second channel.

There are two sets of distribution channels for Hyundai. The first one is established by the joint venture, which is authorized to sale the domestically made cars. The second is established by Hyundai itself, which is responsible for the sale of exported cars. However, Hyundai seize more control on the joint venture over its Chinese partner by authorizing its own distribution channel the right to sale domestic made cars. As the sales of cars are one of the most profitable sectors in the industry, the control on distribution channel is being paid more and more attention to by Hyundai.

Service stage: With the establishing of its oversea service quality center (OSQC) which improves the delivery of feedbacks form the customer and the launch of its
worldwide ‘Oversea Service Vehicle’ program which provide better vehicle maintenance, Hyundai has been improving its after-sale service consistently. By 2007, there are 350 4S shops as well as 130 maintenance stations all across in China for Hyundai, providing high and convenient service for its customers. According to the latest customer satisfactory investigation by J. D. Power, Hyundai ranked the fourth in China’s market, outperforming its major competitors such as Toyota, Honda and Volkswagen.
Chapter 5  Comparative study

In this chapter, we analysis the data and information we get form the empirical study. As we research each of the five firms in a similar way, it is easier for us to do comparative study between those firms, which is also called vertical comparative study. After that, we analysis the 6 stages one by one, drawing conclusions from each stage, which is a horizontal comparative study.

5.1. Comparative study between firms

As we have done the analysis of each company and each company’s different detailed stage, we have been aware of how they have been running in China’s market. However, right now the new problem came to us: Are the achieved results fit for their original goals as they firstly planned? Are the MNCs running in China’s automotive industry towards their strategic global blueprints? Or in another word, do they successful balance the paradox of localization and globalization?

As we can see that all the automobile MNCs are facing the same situation in China, including the same laws/regulations, the same opportunities and the same restrictions, the same customers preferences, the same market demands, the same supplication conditions and the most important factor: the same group of customers. However, the MNCs still implement different localized strategies for their China’s business. This difference could be caused by the different MNCs’ global expending strategy. In this part, we analyze their achievements standing on a comprehensive strategic perspective, by vertically and horizontally comparing with different MNCs. And we try to make conclusion on 1. Which degree of market involvement are the 5 MNCs in; 2. What kind of organizational structure (Bartlett and Ghoshal, 1989) the 5 MNCs adapt from a global perspective. Finally, we answer our question according to our analysis results, and try to predict the future trend.

BMW, the most luxury brand studied in our paper, its global aim is to build the
ultimate driving machine for the world. BMW is always doing its best to develop and build the greatest vehicles, offering nothing less than the best driving experience for their customers. BMW is one of the few manufacturers who are focusing exclusively on the premium international automobile market segment with a high price for outstanding its brand image of luxury, which could be barely afforded by normal Chinese citizens. Despite of that, the demands do exist in China’s market and actually BMW is the one of the best choices for that specific market segment. There is a Chinese saying, directly translated as ‘sit the Mercedes or drive the BMW’, which vividly describes the image BMW has in China’s customers as the ultimate driving machine. The redesign and the propaganda of the BMW 5 series 530Li particularly for the Chinese mainland customers, reflect that BMW is an honourable, young, vibrant, exquisite brand for the successful men, with a very distinguishable social symbolic image. Even though some of the BMW cars localized production in China, however the BMW declaims that the BMW cars sold all over the world are all have the best quality no matter where them are built. As we could conclude that the BMW China’s localized strategy conforms its global expanding principles to a large extent.

From all the information we collected, the BMW adapts a Centralized Hub organizational structure. What BMW does in China fits for the characters described by Bartlett and Ghoshal (1989): national units are relatively unimportant on the global strategic decision perspective, as all main activities are carried out in the home country.

The BMW’s China strategy has been carried out and achieved phenomenal results: the profit is growing in China’s market; the brand impression is well built in Chinese citizens’ minds. But, mistakes or negative issues could not be avoided. Because of the special Chinese culture and some marketing advertising mistakes, the BMW brand image has been, to some extent, related to the parvenus’ cars, who would probably be using his/her expensive BMW to show off around, which has been distracting from the original brand image: the successful man’s car.

Generally speaking, the company’s strategy and the BMW cars’ character decide its
organizational structure needed to be highly integrated. BMW’s R&D is not yet capable of making innovation on core technologies; the marketing strategy and service doesn’t show obvious distinction between rests of the world; combined with a low localization rate in production and a lack of control on its own distribution channel, people can say that BMW has a relatively low degree of market involvement. Nevertheless, the BMW China’s strategy is still very successful, which is proved by their car sales growth. However, some negative criticizes could not be avoided. In the future, making sure the best quality of the local produced BMW cars is still being a challenge for the company: on one hand localizing the production in China to reduce the labour and the transport costs, on another hand, to maintain the BMWs’ global quality and brand image requires the good-quality parts/components, which might be barely provided by the local suppliers in a short future.

Volvo, the Scandinavian luxury brand, also contains the ambitions to become one of the most successful and luxury automobile brand, which is more or less the same with BMW. However, the two brands contain different connotations. In the six stages analysis, we are aware of that Volvo does not have the R&D, the sales stages, and the localized production is more or less the same with the assembly, the localization rate is only a little bit more than 40%. Volvo even does not have any local adaptation redesign for the S40 built in China. Comparing to BMW, who has a relative high requirement of quality control and brand image maintenance, Volvo’s requirement is even more critical, Volvo has its own principles to follow: first is the Volvo cars sold in China, no matter wherever they are made, must tally with the VCC Company’s key values, and must only contain the pure Scandinavian style and tastes. Secondly, to find the suitable partner, the Chinese auto manufacturers must be qualified with the VCC’s values and good capacities of parts/components processing abilities. The third is to choose a sedan which has great market potentials and to plan a practical marketing implementable blue prints (sohu.com, 2006).

Volvo is the last one who entered and localized the production in China and does not have that high degree of market involvement in China. Because of Volvo’s global
brand image and its brand strategy, the company also adapts the Centralized Hub organizational structure, with an even higher centralized integration than BMW: BMW redesigns a sedan 5 Series 530li for the China mainland market, but Volvo seldom modify anything since it came to the new market. We can say that Volvo is the least localized automobile manufacturers in China’s market.

Realizing the importance of China’s market under its global expanding strategy, Volvo achieved great progress in China, with the huge sales growth in 2005 proving that the Volvo brand has been accepted by the Chinese customers. However, Volvo cars’ global market share is small and so is that in China. Probably Volvo is too Scandinavian to promote its growth. Volvo’s marketing is too reserved in China’s market and the high price of the cars resulting that is hardly to boost the large-scale growth all over China. While comparing the BMW sales and the Volvo sales as we mentioned in the firms chapter, so we can conclude that even though Volvo’s China’s strategy is fit for its global strategy, but the company still has a really long way to achieve its global dream to become a most successful and luxury brand.

GM: With the fast growing brand images, market share and profits, GM seems to be the best player in the market. GM is the second automobile manufacturers in the world, focusing on the lower and middle market segments. Because the luxury level market segment is not big enough to occupy the whole industry; there are just a small number of people who can afford an expensive car. GM’s global expanding strategic goal is to occupy the world’s 20% automobile market share. However, due to the mature and saturation of the North American and European automobile market, the GM cannot expect too much to gain most future growth on the two markets. As a result, GM would switch its focus to Asian.

According to China’s condition, which is not as developed as the western world, GM switches its position to a middle and higher market segment, and tries to establish a superior brand image in the same market segment also adapting a correspondent higher pricing strategy. GM’s achievements in China prove that GM is the best player in China’s market: the fast growth of market share to 11.2% in 2005 as a late comer, the
establishment of 7 joint ventures in China, a relative comprehensive market segments covering and a well-known brands reputation.

Actually, GM’s global goal is to occupy the larger market share all over the world, the larger the better, and the profit is the best persuasion. Unlike the luxury brand Volvo or BMW, GM does not need that much soul and characters containing inside its brands, which allow GM to build cars have the exotic style and with some local taste inside, such as the reengineered Buick Royal sedan. With the Decentralized Federation structure, few activities are centralized and little is coordinated across borders (Bartlett and Ghoshal, 1989). All the specialties of this organizational structure allow China GM to build its exotic style cars with local tastes.

With its well-developed R&D center, high localization rate in production and independent marketing strategy in China, we can say that GM has the highest degree of market involvement among the 5 chosen firms in China’s market. In the recent future, GM might keep focusing on the middle and higher level segment cars, meanwhile GM should also develop the R&D abilities for the both luxury and economic cars. Through this GM could be the auto leader in Asia.

Toyota, the most successful Japanese auto player, seems like not doing well enough in China’s market. As the largest auto manufacturers in the world, Toyota has only more or less 4% China’s market share, not fitting for its global auto giant image. Due to the huge temptation of profit, Toyota would struggle to keep its advantage all over the world, also in China. Like GM, Toyota also established a series of joint ventures in China with the FAW and Guangzhou Automobile Group. Toyota also has set up a wide market segments covering sub-brands line in China and tries to occupy more and also focusing on the similar market segments. However, Toyota as a Japanese brand, is trying to build a brand with very high cost-efficiency and good quality. So, comparing to GM, Toyota’s price is a little bit lower than GM’s in the same market segment, But Toyota is not as decentralized as GM does, adopting the Coordination Federation instead, whose national subsidiaries have a closer relationship with the international headquarters in its home country Japan.
Comparing to GM, Toyota came into China’s market even later, nearly missed the fast growing period, which probably a reason for occupying the small market share. Except the R&D stage, Toyota seems has an even deeper degree of localized involvement in China: Toyota has its own sales company, with its own distribution channels; its localized production ratio is also higher than the GM vehicles. With a strong intent of localization and still a relatively high degree of market involvement, but from the practical achievement side, Toyota is far behind GM in China. The technologies from the outside of the local market are not originally designed for the market, even though it has it modification for the local market, anyway, them are not motivated by the local needs. The modification still might have a gap between the original manufacturers and the parts/components suppliers on the technique side, as a result, the modified version of Reiz and Crown, which belong to the middle higher class cars and have a relatively high localization rate, once were troubled by petrol leaking (sina.com, 2006). Secondly, Toyota’s integration on China’s market is far from enough, which reflects on the FAW Toyota Motor Sales Company does not charge of the sales of Camry sedan produced by Guangzhou Toyota. The separation of the sedans sales under the same brand would influence on the brand integrated impression in customers’ mind.

This phenomenon reflects that Toyota excessively localized its market involvement for China’s market in a relatively insufficient time and triggered some problems. Toyota did its best trying to win back China’s market share in a short time, which is quite fit for its global aim. However, its localized strategy seems does not achieve its original global expanding goal so well. Under the extremely intensive quick movement, Toyota encountered setbacks and barriers.

Hyundai, comparing to GM and Toyota, is playing a character of low-price, with declaiming its cars also contain the good quality as its competitors’ in the same market segment. As a Korean brand, Hyundai’s Sonata and Elantra are two of the most popular sedans in China’s market. Obviously from this point, Hyundai is one of the successful brands in China’s market. Even though Hyundai does not have its R&D
in China, the localization rate is probably the highest among the automobile MNCs in China. The organizational structure adopted is the Cooperation Federation and in a middle degree of localized market involvement. Hyundai’s success would probably relate to the similarity of the Korean and China’s market demands.

But Hyundai 2007 performance was not as good as that was, while the whole industry achieved a 24% growth, but Hyundai suffered a 24% sales shrink. This might relate to that Hyundai was trying to change its image, the low-price car maker, which would express Hyundai is cheap and not good quality. It is true that no automobile manufacturer would like to see that its own brand’s image for the public is cheap and low quality. Hyundai probably would like to establish a reputation like GM a superior brand even in the lower middle market segment. As a result, Hyundai introduced a new sedan the NF Sonata with a higher price in 2006. Even though Hyundai invested a lot of money on the advertising, but the sales still shrink. Hyundai has already given the market an impression that its cars are cheap, but suddenly it sold the expensive cars, which might disappoint the old customers and do not have good enough reputation for attracting the new buyers. The shrink was the direct strategic mistake result. We agreed that Hyundai changed so fast, which did not allow a time for the public to accept. The improvement of brand image takes time, and apparently Hyundai is bit too rush.

General speaking, different global expanding strategies have been adopted by our five selected MNCs, leading to their own localized strategies on different market segments. Directing by their localized strategies, the MNCs are running towards their goals and most of them have achieved huge progresses.
5.2. Comparative study between different stages

5.2.1. R&D

<table>
<thead>
<tr>
<th>BMW</th>
<th>Volvo</th>
<th>GM</th>
<th>Toyota</th>
<th>Hyundai</th>
</tr>
</thead>
<tbody>
<tr>
<td>Focus on local adaptation on Sedans sold in China.</td>
<td>None</td>
<td>R&amp;D center, with the capability of the development of core technologies.</td>
<td>Focused on local adaptation on Sedans sold in China.</td>
<td>None</td>
</tr>
<tr>
<td>Just opened in 2007</td>
<td></td>
<td></td>
<td></td>
<td>Local adaptation for the China market is made in its R&amp;D centers out of China</td>
</tr>
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Volvo and Hyundai have no R&D centres in China at all. BMW and Toyota have R&D centres, which are focus on local adaption on sedans. GM is an exception, with a R&D centre capable of developing core technologies. Most of the firms studied don’t have their R&D centres in China and those who have R&D in China with limited ability of making technological innovations. In some cases, establishing a R&D centre in China is more out of public relationships than making technological achievement. As a R&D centre could convoy a message to the public that the company is emphasising the Chinese market greatly.

The current situation in R&D show that, at least this stage, China is still not regarded as a major source of innovation and talents by most of the players in the industry. The lack of talented people and well-established intellectual property protection law could be the major reason. The potential of localization of R&D in China is huge, but those firms can afford to wait for that day. As to R&D, most of the auto-makers adopt a globalization strategy which leverages their global technological resources. Although local developed technology is more suitable to the market, automobile manufactures still prefer to take their technology into China directly rather than have it developed in China.
### 5.2.2. Production and assembly

<table>
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<tr>
<th>BMW</th>
<th>Volvo</th>
<th>GM</th>
<th>Toyota</th>
<th>Hyundai</th>
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<tr>
<td>An overall localization rate of 43% in 2007.</td>
<td>Reached a localization rate of 40% in 2007 for its sedan S40.</td>
<td>Launched its Buick Park Avenue, in 2007 with a localization rate over 50%. Other low/middle class sedans have a higher localization rate.</td>
<td>Its three major sedans: Camry: 70% Reiz: 60% Crown: 60%.</td>
<td>Sonata and Elantra reached a localization rate of 79% in 2006. A higher 92% is to be reached in 2008.</td>
</tr>
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</table>

| In 2007, 20,988 BMWs were imported, while 30,600 were produced in China. BMW 3 series and 5 series are being produced in China, while 1 series is going to be made domestically soon. | The domestically produced sedan Volvo S40 was launched in 2006. Other Sedans like S80, XC70 are still being imported to China. | Most sedans are made in China, while only several luxury brands, and are imported, such as the Cadillac. | All of the sedans except the Lexus are produced in China. | 15,155 cars were imported while more than 300,000 cars were made in China. The imported cars were mainly high-end sedans, for example, sports cars. |

Most of the firms reach a minimum localization rate of 40% required by the automotive policy. Through the study we can notice that, at the first beginning, MNCs raised the rate passively, pushed by the regulatory forces. However, firms are raising
their localization rate voluntarily. Similar to production, the percentages of imported cars are becoming lower and lower as more and more sedans are being produced in China.

As the imported custom levied on vehicles dropped significantly since China’s entry into WTO, imported cars are becoming more competitive than it used to be. Moreover, it is a widely believed by Chinese customers that imported cars are of better qualities. However, given those favorable factors for car importing, the localization rate of parts and components and percentage of home-made sedans are still rising, which shows that those automobile manufacturers prefer a localized strategy in these two stages.

The establishment of auto plants in China is an accumulation of time, investment and human resources. Automobile manufacturers are unlikely to change their product portfolios from home-made to import directly, even though it becoming more and more profitable for car-importing. The progress of local parts/components suppliers who can supply the products with fair quality and much lower price to auto-makers is another reason for their localization strategy in production and assembly. The automotive industry is not just determined by auto-giants, but constituted and influenced by a cluster of related industries. The mature of those industries provide the environment which is suitable for MNC auto-makers to localize their production and assembly in China.
### 5.2.3. Marketing

<table>
<thead>
<tr>
<th>BMW</th>
<th>Volvo</th>
<th>GM</th>
<th>Toyota</th>
<th>Hyundai</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stay exclusively on the luxurious car segment.</td>
<td>Position itself in the premium segment in China.</td>
<td>Covers a wide range of market segments from cost-efficient cars to luxury cars. The sedans of GM are considered as relatively high class in each specific segment.</td>
<td>Sedans have the reputation of good quality, the latest technology with reasonable price. A same multi-brand strategy in China as it has in the world.</td>
<td>‘Provide cheaper car with features that Chinese like’. With obvious price advantage over other competitors. An effort to enter into the premium segment in China in 2007 ended up a 27% drop in sales.</td>
</tr>
<tr>
<td>Set Audi, instead of Benz as its major competitor.</td>
<td>Stick to its unique Scandinavian style in China market with its low-pitched luxury.</td>
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Most sedans are redesigned to fit the China’s customer preference. The uniqueness in China’s market is taken into consideration during the selection of sedans as well as the features.

The automakers adopt the same strategy in market positioning in China as they do globally. Despite of the minor difference such as the choosing of major competitor of BMW, a global standardization strategy can be observed in their marketing. BMW is still luxurious cars and Volvo keeps its pure Scandinavian nature. GM and Toyota reach the scale of economy and present in a wide range of market segment. Hyundai is taking its price as major competitive advantage. As Hyundai’s latest attempt to entry a more superior position ended up with a substantial 27% drop in sales in 2007, the market positioning and brand images of car-makers will stay stable in China in the coming years.
### 5.2.4. Sale

| BMW’s Group marketing subsidiaries are present in 35 countries including many developing countries; China is NOT one of those. | Volvos sedans are being sold by 70 authorized dealers in China. | Volvo does not have its own sales channels. It authorizes agencies for selling cars. | GM does not have its own sales channels. It authorizes agencies for selling cars. | Toyota has built its own sales company and its own distribution channels. Separate distribution channels for its luxury sedan Lexus. | Two distribution channels both through distributors/retailers and more popular 4S shops. Separate distribution channels for imported and home-made sedans |

The sale of automobiles is an important source of income for most auto-makers and China is not an exception. The regulatory forces play a major role in affecting the decision-making of auto-makers in their sales. Most of the firms studied in this paper haven’t established their own distribution channels due to the protectionism policy which restricted foreign companies from owning their own sales subsidiaries.

It is always the case that successful business strategies being used in western markets are not functioning well in China. As a result, auto-makers have to adopt localized strategies with regard to sales. Great flexibilities and wisdosms are shown by multinational auto-makers who are making full of the ambiguity and bugs in law and regulation in a somewhat creative way.
5.2.5. **After-sale service**

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<tr>
<th>BMW</th>
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<th>GM</th>
<th>Toyota</th>
<th>Hyundai</th>
</tr>
</thead>
<tbody>
<tr>
<td>Provides equally excel after-sale services as the quality of the cars. All of its 70 4S/3S shops across the country was build according to an extremely high global standard.</td>
<td>Volvo out-sources a large percentage of the services to the authorized agencies, still keep a high customer satisfaction rate.</td>
<td>Each brand has its own corresponding services. The authorized agencies are responsible for the after sales services.</td>
<td>Advertisements highlight its quality of service. The promised after-sales services could be barely implemented due to the old-fashioned service concepts and lack of training among the staff.</td>
<td>Hyundai ranked the fourth in China’s market, outperforming its major competitor such as Toyota, Honda and Volkswagen.</td>
</tr>
</tbody>
</table>

For those auto-makers, adopting a globally standardized strategy in after-sale services mainly means providing service of global standard. All the firms in this paper are doing quite well and Chinese customers are enjoying the after-sale service with a quality no inferior than that of developed markets. Comparing to the service of local state-owned manufactures, multinational auto-makers come to China with much advanced service concepts and much higher service qualities, which seemed more than necessary to just make the customers happy. The increasingly intensive competition is the major reason for this globalization strategy, as after-sale service is widely regarded as part of the product and is vital for brand image as well as customer retention.

To sum up, automobile manufacturers tend to take different preference within different stages. For production and assembly, a localization preference is obvious, while a standardization strategy is observed in R&D and after-sale service. The
decision-making processes in sales are highly influenced by external forces from the governmental policy. About marketing, two sides of the paradox are coexisting in those automobiles’ activities, as they are adapting themselves for the uniqueness of China’s market while keeping a similar market position as they do in rest of the world.
Chapter 6 Conclusion

Let’s go back to the research problem of this paper: How do the multinational auto manufacturers balance the paradox of localization and globalization in China’s market? In other word, is there one specific perspective they prefer within the specific frames of different strategic contexts?

From the research of the 5 firms, we find that it is hard to say that a company is taking a mere localization or globalization strategy or which perspective do they prefer. In most of the cases, the automotive manufacturers are dealing with the dilemma flexibly. However, a preference can be observed in each of the six stages. Their decision-making process of entering the China’s automobile industry is influenced by a range of external factors as well as their own strategic preference.

As China’s automotive industry itself is becoming more and more international, we can say that the activities of automobile manufacturers are getting globally standardized. However, as long as the uniqueness in this market is out-there, those auto giants should never neglect it.

During our study, we also notice that the local brands are also rising, which started form almost zero to a substantial market share of 25%. The multinational auto-makers are definitely going to confront those new but tough competitors in the future. The competition between those emerging Chinese automobile manufacturers and multinational automakers will be of great interest. On the other hand, those Chinese brands are also expanding their operation area to the world. Being successful or not, their own way of balancing the paradox of localization and globalization could possibly be another research topic.
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