

Corporate Strategy of First Automobile Work shop

—A Case Study from China

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Abstract—The research of the corporate strategy of First Automobile Work shop has a great value since First Automobile Work shop have roots in a unique economic and political circumstance. Directed by interpretivism philosophy, the author uses qualitative research methods mainly such as interviews and observation. Then, the main parts involve critical analyses of corporate strategy of First Automobile Work shop using strategy tools and frameworks such as Porter's five forces analysis, value chain analysis. Finally, the author puts forward practical and beneficial recommendation for First Automobile Work shop to gain competitive advantage in the domestic automobile market.

Keywords—*First Automobile Work shop; Corporate strategy; Case study; Competitive advantage*

I. INTRODUCTION

Founded in 1953, FAW is a significant enterprise in the Asian automotive industry. As a giant automobile enterprise playing a leading role in China and a Fortune 500 executive, it employs 118,000 people, the assets of the business are valued at over £18 billion and sell over three million vehicles per annum to over 70 countries. Based on the information of two interviews with FAW Car Co., Ltd, this essay involves analyses using strategy tools and frameworks such as Porter's five forces analysis, value chain analysis. This essay is to suggest practical and beneficial recommendations on possibilities for expansion for this business within and outside the automotive industry will be examined and ways in which the parent can add greater value to gain competitive advantage will be evaluated.

II. PORTER'S FIVE FORCES ANALYSIS

A. Intensity of Rivalry within the Industry

In general, currently there are over 30 automotive manufacturers in mainland China in 2018, which pose a grave threat to the existence of FAW. To be more specific, first, four major companies--SAIC Motor, Dongfeng Motor, Changan Automobile and FAW account for around 70% market share in the national automotive market and Top 15 major automotive companies amount to about 90% market share in the domestic market, which hinders the development of FAW. Furthermore, the competition between different manufacturers has become more complex and the brand power has been further demonstrated. In addition, other brands sales occupy the rest

market share percentage. The following is the analysis of FAW's main competitors in automotive industry.

1. SAIC Motor: One of the China's automotive industry leaders established in Shanghai, it has subsidiaries and sales outlets in Europe, USA, Japan and other countries and regions now and has entered the initial stage of global brand strategy. The majority of contributions to the sales of SAIC automobiles come from subsidiary joint venture companies: Shanghai GM and Shanghai Volkswagen. Therefore, SAIC will pay more attention to the cultivation of independent brand and independent R&D, the goal that the number of the productions with the feature of independent brand and independent R&D need to achieve 40% of the total automobiles is set by the company's 2016-2020 strategic plan.

2. Dongfeng Motor: As a successful brand whose sales volume keeps the first-tier for several years continuously in the domestic automotive industry, Dongfeng Motor has its own special advantages. Compared with the other three giants, the product classification of Dongfeng is the most balanced, the most complete-specification and the most varied-product manufacturers. So Dongfeng Motor can better meet the all-round and multi-level competition in the domestic market, consolidating its leading position in the industry. Nevertheless, compared with the other three giants, Dongfeng still does not form its own brand of passenger cars, which has not yet become the mainstream in the domestic passenger car market.

3. Changan Automobile: As a rising star in the domestic automotive industry, Changan claim to adhere to the goal of "independent innovation" and "joint venture" simultaneously. It establishes strategic partnerships with Ford, Suzuki (Chang'an Suzuki and Changhe Suzuki), Mazda, Volvo, French PSA Peugeot Citroen Group and other multinational corporations. The specialized technical accumulation, strong technical development capacity and economic potential in value-added strengthen the ability to entry the barriers. But compared with the other three giants, there is not a small gap for Changan Automobile in the development of subsidiary joint ventures and commercial vehicles.

In addition, multinational automotive companies, with their absolute advantages in capital, technology, size and management, have comeback, and they occupy a large market share in the automotive high-end market. After the global financial crisis through 2007 and 2009, the market shares of multinational automotive companies show a growing trend in

Chinese market, and they continue to integrate China's decentralized business, products and resources, making FAW faced with enormous challenges and more intense competition.

Currently, the competition between different automotive manufacturers still remains in the price competition and the technical differences have become smaller. Hence, although FAW compete mainly on price, making the sales dramatically increase in the past, it is forced to face a severe test of the market because of its position between the extrusion of the other first-tier brands and foreign brands.

B. Threat of Substitute Products or Services

The main products of FAW are passenger vehicles and commercial vehicles, etc. In general, the number of alternative products is scarcity and the threat of substitute products is weak. Besides, the cost for customers switching to alternative products seems high, so the change intention is low, which means there is not much pressure on FAW.

As means of transport, the alternative substitution of automobile nearly does not exist, but in some areas, there may be a certain amount of alternative pressure, such as the residents of big cities in the face of growing car payment, insurance, parking and maintenance costs who have turned to the use of the public transport system such as metros, buses, etc. As a giant automobile enterprise playing a leading role in China and a Fortune 500 executive, FAW must not segment the target market like small professional car company, because FAW needs to face all-round and multi-level competition.

C. Threat of New Entrants

For an industry, entry barrier is considered as the key concept of analyzing the threat of new entrants. There are some barriers to entry. First, scale economy barrier exists. The annual productions of big international automobile manufacturers reach 7-8 million cars on average, even a single production can produce millions of cars. Despite the rapid growth of China's auto output, especially in 2009, the Chinese automobile production and sales ranked first in the world, but the number of production of a single brand and line is not much. Latecomer is more difficult to replicate the position of scale economy. Second, investment required barrier exists. The automotive industry is a high input and high-yield industry. Although the private economies have achieved a certain amount of capital accumulation, but compared to the huge investment required by the automotive industry, the gap still remains. Since state-owned enterprises must obey the regulation of macro-control, re-entering the competitive field is not allowed in principle, so the plans that the other state-owned enterprises desire to invest in the automobile industry have been limited. Third, technical barrier exists. Automobile production requires a higher technical advantage and the cultivation of experience in automobile production requires a long time, so the technical barrier to latecomers occurs. For example, the Ford Motor Company puts the 10% of annual sales revenue (above 800 billion RMB) in R & D. In mainland China, the awareness of intellectual property rights is low and related laws and regulations are not perfect, besides, the government does not punish and crackdown on violations of the patented technology in automotive industry, therefore, the

technical barrier has a limited influence on the latecomers. However, the policy of the exhaust emissions and fuel consumption promulgated by the government will further restrict new entrants into the market. Fourth, the sales channel barrier exists. In mainland China, the existing automobile manufacturers have established a sales network throughout the country, especially the car sales outlets. For example, Mercedes-Benz has nearly 100 franchise sales and service centers in China, only infrastructure investment costs up to \$ 10,000,000, which formed a barrier.

D. Power of Buyer

Customers always prefer to buy products with the lowest price, but this price will make the suppliers obtain the minimum return on investment. Hence, the customers are always in the bargain, demanding higher quality and more services with lower costs. Besides, competition among enterprises in the industry also makes the buyer a profit.

In the automobile industry, the domestic market has become a seller's market due to the inefficiency of production, where the demand exceeds supply. All of these results in the relatively high price of the FAW automobile product and relatively high profit of the automobile industry on average. On the other hand; consumers have many choices because the switching costs can be relatively low. Furthermore, the participation and development of 4S automobile shops can provide better after-sales service and spare part to make the customers' compromise; the buyers' bargaining power has become one of the factors in the game process. In addition, the automobile brand recognition also affects the competitive pattern of the industry.

According to the interview with researcher, in order to attract customers, FAW manufacturing producers compete with each other and cut prices and offer discounts to some extent, and also provide better after-sales service and spare part. In conclusion, customers have medium bargain on product guarantees and other services

E. Power of Supplier

The supplier may put the pressure on the enterprises in the industry using the threat of increasing the price or reducing the quality of the purchased product or service, the bargain power of the supplier depends on the supplier industry concentration, the ability of drawback integration of enterprises in the industry and other factors. Some large automobile manufacturers were integrated production previously; raw materials, semi-finished products and final production are completed in a factory, so the enterprises have strong abilities in backward integration, resulting in weak suppliers' bargain power. However, the parts of the cars are mainly imported from abroad, and the substitutability of domestic products is relatively poor, so in this case, the suppliers' bargain power is strong. However, with the development of the domestic parts industry, as well as the requirements for localization rate by government, suppliers' bargain power will be weakened. In the high-tech fields of car manufacturing, such as the engine, the suppliers still have big influences on the prices.

III. VALUE CHAIN ANALYSIS

The value chain of FAW car consists of operations; marketing and sales, inbound & outbound logistics, services and other support activities have been laid a solid foundation in the brand enterprise, which is also the greatest wealth of the company.

A. Primary Activities

1) Operations

FAW has accumulated a lot of production experience. The workers especially elderly workers have strong Communist ideological and collectivist qualities and required to be selfless, devoting their time and energies organizing the production process to make full use of the existing production capacity, thus have created productive miracles. However, the production equipment and production technology of FAW have lagged behind, which is unable to cope with multinational competition in the domestic automotive market especially in the truck market.

2) Marketing and Sales

Marketing is quite important to the highly competitive industry of domestic automobile in attracting customers and the layout of domestic sedan market should be reasonable. Accordance with the international standards, the brands of Jetta, Bora, and Audi have established scientific and high-quality marketing networks, achieving the higher level of marketing management. But dealers make the decisions based upon the return on their investment businesses. The dealer is not loyalty to a certain brand. So in this case, the marketing management level of Hong Qi brand is relatively extensive.

3) Inbound & Outbound Logistics

FAW has established a procurement network to achieve the implementation the form of centralized procurement. Compared to the previous time period, the procurement fund is significant saved and the reserve fund is substantially reduced, while the quality of collaborative product has been greatly improved. FAW has developed mature procurement strategies, resource planning methods, procurement procedures and standards. The decision-making power is controlled and concentrated in the Group Procurement Committee. The procurement department of FAW Group Company and its subsidiaries adopt the synchronization procurement and take full advantage of the vendor's development capabilities and experimental means to reduce production costs and shorten the development cycle. However, the modular and systematic supply capacity is lacking, also suppliers are dispersed.

The marketing management department of FAW Group analyzes product inventory regularly, sets up inventory warning lines and takes measures on inventory in time. Because of the scientific methods and strong execution, FAW's inventory is greatly reduced.

4) Service

'Service is another predominance of the FAW car', Researcher told me "the competitive field of automobile enterprise gradually turned to after-sales service". Take FAW-Toyota for example, it improves the maintenance skills of the workers in order to realize the personal training, timely

feedback and handling of technical problems. FAW-Toyota makes full use of three large-scale, advanced training center located at Beijing, Shanghai, Guangzhou respectively, training the dealer's technical workers and the maintenance workers. Besides, FAW-Toyota accelerates the network construction of after-sales service, which has achieved the goal of "5 km radius of maintenance" in China's center city. FAW-Toyota turns from "the top one-time repair rate" to "the best customer satisfaction", which demonstrates their strength and judgmental services.

B. Support Activities

1) Technology Development

Compared with other domestic automotive enterprises, FAW have a strong R & D capacity in the competition domestic market, For example, FAW-Hong Qi is the first invented domestic sedan, but there are not much R & D capabilities and advantages in the face of competition of multinational automobile manufacturers in the domestic market. FAW claim that the high-end sedans of FAW-Hong Qi are completely independent innovations; they are entirely "Made in China". One Indian employee who graduated from Cardiff University in R&D department told me "The lie, corruption and overstaffing are three chronic diseases in R&D department.

In general, FAW adopt two ways to overcome the technology gap and realize the knowledge transfer to gain competitive advantage. One is to set up joint venture with foreign giant automotive company. For example, in 2002, FAW Group Corporation and Toyota Motor Corporation established a strategic cooperative relationship for joint cooperation. Then, the two parties commenced a wide scope of joint activities including related transfers of technology. The other is to seek cooperation with world-leading university and achieve university-industry collaboration. For example, FAW has signed a MoU with The University of Nottingham to undertake research into low carbon technologies. The research project will investigate the development of numerous technologies, including heat transfer for low carbon vehicles and thermal management.

2) Human Resource Management

Researcher pointed out that 'FAW pay attention to attract the talent and hardworking people, such as the company provide senior managers or professionals who have doctorates with free medium sedans, also the company offer an annual subsidy of car costs, implement the policy of high salary incentive for talent employees and provide honored incomes with the company's performance per month'. However, some employees told the researcher since FAW is located in the northeast of China, where is not attractive for non-indigenous even indigenous talent people because of the atrocious weather, low quality of some residents, a society that they define as bureaucratic and inefficient, thus a geographic disadvantage exists. The FAW is experiencing a brain drain to mega-cities as well as the developed eastern coastal cities of China.

3) Firm infrastructure

FAW take the form of decentralized management, through the funding the connection between the HQ and its subsidiaries works, and specific operating processes are conducted planarily

by subsidiaries. Each subsidiary has established a preliminary modern enterprise system, property rights arrangement and governance structure. The listed companies are in the processes to gradually achieve the implementation of diversification of property rights, most of the joint ventures (FAW-Toyota, FAW-Mazda and FAW-Volkswagen, etc.) adopt western-style advanced enterprise systems. The HQ of FAW strengthen the necessary management and control of each subsidiary, the formation of the scale effect is realized through centralized financial management, procurement management and R&D management which is aimed at the integration of internal resources, eliminating of order competition and waste of resources.

IV. CONCLUSION

It can be drawn from the above analysis that the suggestion of FAW's development is to develop vertical integrated supply chain further

As mentioned above, currently there are over 30 automotive manufacturers in mainland China in 2018. Many of them, such as SAIC Motor, Dongfeng Motor and Changan Automobile, have great advantages in many fields, which pose a grave threat to the existence of FAW. How to create value throughout the whole process is also the most important question requiring immediately resolved.

It is said that someone took the enterprise as one metaphor for mouse which is looking for "cheese", how keen the "mouse" is decides how much "cheese" and how much market share it would have. And what's more, every enterprise wants to keep this advantage as long as possible. In a multi-business firm, valuable resources must be deployed throughout process to provide coherence to the firm. Therefore, FAW car manufacturer should enhance its abilities in a ductile supply

chain of spare parts procurement procedures, which would contribute to its cost reduction.

Since nowadays, the competition among different car manufacturers in China still remains in the price competition. FAW car manufacturer should make use of its in house expertise to develop vertical integrated supply chain. For example, since the parts of the cars are mainly imported from abroad, the FAW need to increase the percentage of the parts homemade. Although to develop vertical integrated supply chain needs to overcome the tendency to procrastinate current resources, it is still one good way to realize the effective self-management.

In such a rapid expansion car manufacture homogeneity market, if FAW want to keep its advantages and make sure develop, try to build a value chain based on market share and cost will create competitive advantage. The market advantage relies on the scale and price.

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