

China- Options for Automotive Related Businesses

见风转舵 (jian feng zhuang duo) - "See the wind, turn the rudder".²⁶ This Chinese proverb means the need to "change one's position when having difficulties." This is exactly what many non-automotive industry U.S. based companies have done and what Chrysler and GM have recently done in order to save their companies and survive in the short term.

Many U.S. based automotive industry suppliers, distributors, and service providers still need to consider how this "wind of change" in the automotive industry has impacted their business operations and how they may need to "turn the rudder" and make changes in their strategic business direction and objectives.

As the automotive OEM's change and as leaner, less bureaucratic organizational structures become empowered to operate in a more entrepreneurial fashion, there may be widely divergent paths and opportunities for automotive suppliers, distributors, and service providers that have to date not been possible or achievable in the U. S. automotive industry. While individual company strategies will be determined by each company's executive management team, following are a few of the paths and opportunities that may be possible for these companies:

1. Follow GM to China and Abandon the U.S.

While China's GDP is less than one-third of the United States' GDP, China's GDP rose 11.4% in 2007 and 9% in 2008, with a combined annual GDP increase for the last five years of over 10%. Contrast this to the U.S. GDP, which increased at an annual rate of 2.4 % from 1997 to 2008, and decreased from the 4th quarter of 2007 to the 1st quarter of 2009 at an annual rate of -2.8%.²⁷

If these trends continue, what this means is that there are opportunities to grow your businesses in China as the market for manufacturing and service related businesses is growing at a high annual rate. In the U.S., where the market for manufacturing and service related businesses is shrinking, a business' opportunities for growth are limited to taking market share from competitors in a shrinking manufacturing and services base. As more automobiles are produced and operated in China, there will be a continuing demand for the manufacturing, servicing and distribution of high quality components, parts, and supplies in China. Establishing a Chinese sales or distribution presence via a representative office or a branch office; or setting up manufacturing or service related business locations may be viable options for U.S. automotive suppliers that have not yet considered and implemented a China strategy.

2. Expand the Business Model and Become a Distributor

One of the challenges for a Chinese company coming to the United States is the establishment of a distribution network. Despite this challenge, in 2007, China surpassed Canada as the largest source of products shipped into the United States.²⁸ A manufacturer can produce a high quality product, but if they do not have an appropriate sales and distribution strategy and a designated channel to distribute the product, the product will never be sold. As U.S. automotive related companies consider the strengths of their industry contacts and their understanding of how products are marketed and sold in the United States, they should keep this in mind. How to market and distribute Chinese products and services in the United States to U.S. automotive industry consumers could be very valuable information to Chinese based manufacturers, and could provide many U.S. based automotive related companies with opportunities to expand their own businesses. Establishing a distribution channel and entering into distribution agreements with Chinese companies to distribute Chinese-made automotive products may be a viable option for U.S. based automotive companies wanting to grow their business and customer base.

3. Seek out Chinese Counterparts for Investment or Purchase

To China and the rest of the world, the United States has long been seen as the land of economic opportunity. Despite our current economic troubles, it still is. To U.S. companies now facing a stagnant domestic economy, Chinese based companies available for purchase can be the opportunity they have been waiting for and that must be acted upon in order to continue to prosper. China is facing its own challenges and there is over capacity in many sectors. It may be an opportune time to

identify, conduct due diligence, and consider the purchase of Chinese companies that produce goods, distribute products or provide services in the automotive industry sector.

4. Form Strategic Alliances for Market Access and Market Share

The old axiom of “Two Heads are better than one”²⁹ is true under the right circumstances. Consider the strengths and weaknesses of your company and then compare this with the strengths and weaknesses of Chinese companies operating in your business segment. A U.S. based automotive supplier’s superior design and engineering capabilities may be a perfect complement to a Chinese company’s superior manufacturing cost structure; or the product manufactured with a few branding, design and market dictated changes, may be a perfect product for distribution into China. A strategic alliance or joint venture may be the answer for a U.S. based automotive related company wanting to expand their product offerings or geographical reach.

5. Exit the Auto Industry and Invest in Growth Industries

骑驴找马 (qí lǚ zhǎo mǎ) - “Riding a mule while looking for a horse”³⁰ In other words, it is permissible to settle for what you currently have while looking for something better. Change is always difficult. Letting go of businesses that you have run or that have been in the automotive industry for generations is not easy. However, change also allows for reflection and the opportunity to dream of new possibilities. Michigan, with its wonderful natural resources, its great abundance of freshwater and its strong human resource talent base of skilled engineers and management personnel, will continue to provide businesses with opportunities to learn, grow, and prosper in new business ventures. The sectors noted below are three possible growth sectors in which current automotive industry company owners and investors might consider investing. In the Energy sector, legislators in Lansing are already working on plans to catapult Michigan forward in alternate energy and make the state a magnet for clean, renewable energy jobs.³¹ As this article was being written, Vice President Joe Biden announced that over \$1 billion in grants were to be invested into Michigan, which many claim will make Michigan the electric vehicle battery capitol of the world.³² In the Biotechnology and the Michigan Drug Discovery sector, investors could also benefit as drug related patents expire. There could be many opportunities to invest in small companies in need of funding as venture capitalists cannot fully provide the major capital infusions needed.³³ In the Nanotechnology sector, it is believed that “the current rate of increase for innovation using nanotechnology worldwide might well bring about the estimate made in 2000 by the National Science Foundation that the global market for nanotechnology products would be around one trillion US dollars by 2015, and Michigan seems poised to enter the race as one of the leading manufacturing states in the country.”³⁴

6. Exit the Auto Industry and Enjoy the Pursuit of Other Non-Economic Interests

Over the past year, we have witnessed one of the greatest seismic shifts ever in the U.S. and the world economy. Stable businesses and daily routines have in many cases been altered forever. But this is not the end, this is just the beginning- “from troubles, many new opportunities arise”³⁵ Now may be the right time for owners and managers of U.S. based automotive companies to look at opportunities they may have never otherwise considered.

Michigan business owners and their company management teams will need to determine if a China strategy is a viable option for their businesses to continue to survive, grow, and prosper. However, no matter what path is chosen, the key to business survival in the short or long term is “Not to Fear Going Slowly, but to Fear Only Standing Still”³⁶ Business owners and operators must consider their options and choose the correct path for their own companies. As they look at options, none will be easy and all paths will have obstacles. However, business owners should remember-

千里之行，始于足下 (qiān lǐ zhī xíng, shǐ yú zú xià) - “A journey of a thousand miles began with a single step and even the longest journey begins with a single step”³⁷ It is time to take that step.