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New Generation of Chinese Enterprises: Its Implications for Global Business

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Chinese Companies in a Glimpse

- The landscape of China's industry comprises of three kinds of firms, each with their own distinctive features: the state-owned enterprises, the foreign invested enterprises, and the private enterprises.
- A new generation of Chinese enterprises are emerging at the global stage.
- The SOEs, controlled and administrated by the government agencies, serve as the instruments to reach the goals of profitability and other policy objectives.
- A increasing large group of private companies turns the comparative advantages of the country into firm specific competitiveness, become global players in a number of industries.

The BYD Way

- BYD is a private firm incorporated in 1995 in Southern China.
- Within 15 years, it becomes one of the largest producers of rechargeable batteries for mobile phones in the world market and one of the leaders in mi-sized passage car market in China.
- What's the secrets behind the success of BYD and companies like it?

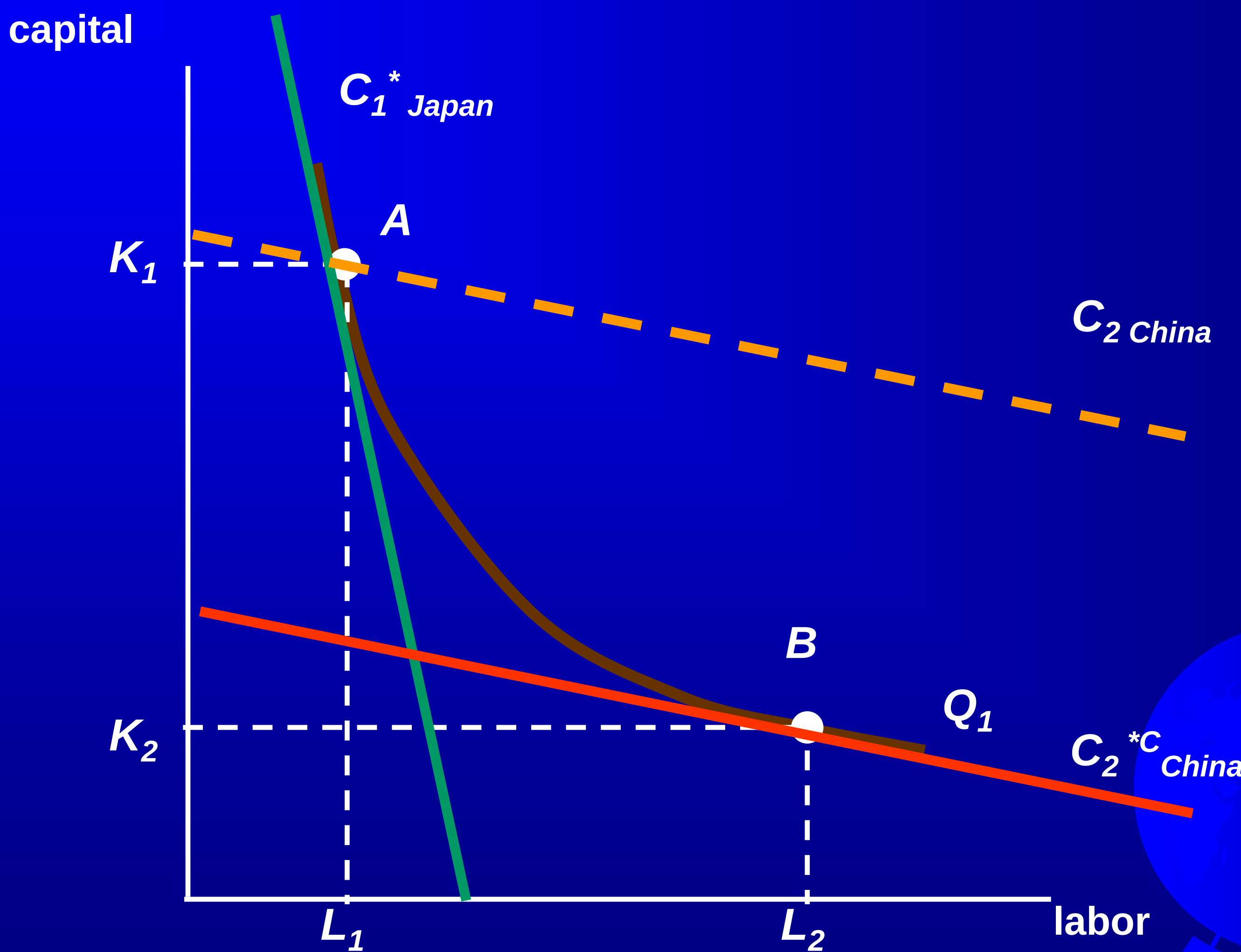
The Born of BYD

- Mr Wang Chuanfu （王传福） earned his graduate degree in metallurgy. After working a few years as the general manager in a state-owned enterprise in Southern China city of Shenzhen, he decided to quit his job and found his own company to produce batteries.
- He studied the leading producers then, mainly Japanese companies and found he could not find sufficient capital to import the technology and equipment to produce the rechargeable batteries.
- He must find an innovative way to survive.

Where does BYD's Competitiveness Come from?

- China is the most populous country in the world. The national endowment of large number of unskilled labors determines that China enjoys comparative advantage in labor intensive of China would give him competitive advantage.
- The prevailing technologies are developed in advanced countries where the capital is abundant and labor is relatively scares.
- In China, the situation is different. Therefore it will be a mistake by directly adopting the production technology from Japan.
- BYD reinvented the way to make wheels by hand.
- Its product costs as half of the cost of Japanese competitors. With 50% profit margin, it still costs much less than the products from Japanese companies.

Economics of BYD



Seeking Growth by Diversification

- BYD bought a car company in 203 and ventured into automobile industry
- It combined its battery technology with auto manufacturing and entered into dual mode car market with strong battery technology.

If You Want Something Done Well

- Barriers to enter are high for new ventures like BYD.
- To circumvent those barriers, BYD carries out a lot of in-housing work in both battery and auto business, particularly on molds making.
- Unless it is absolute necessary, BYD rather carries these works in house.
- The benefits of vertical integration include reduction in costs substantially and increasing flexibility of production adjustment, therefore make the final products very competitive.

Internationalizing BYD

- Strengthening its financial base by bringing in Warren Buffet's investment group
- To creating a new research venture with Daimler on new energy cars
- BYD bought a company in Hungary to service its major clients Nokia's operation.
- It will start building new energy car manufacturing capacity in California

Key Success Factors of BYD

- Strong leadership
- Localized operations
- Related diversification
- Supply chain management
  - Economics of vertical integration
- Intensive and cooperative R&D

Challenges

- Upward pressure of labor cost and industrial relations
- Appreciation of RMB
- Technical uncertainty
- Managing a global company