

SWOT Analysis and Five Competitive Forces of Chery Automobile Company

Faen Chen/ Graduate school of
Osaka International University
Doctoral Program
Management Information Science Graduate Course
Osaka, Japan
d12m02@oiu.jp

Yukio Kodono/ Osaka International University
Faculty of Business Administration
Dept. of Management Design
Osaka, Japan
kodono@ef.oiu.ac.jp

Abstract—Chinese market is indispensable for the world's automobile enterprises, and all enterprises have strengthened the investment in Chinese market. Therefore, in order to expand more market shares in China, all automobile companies and independent automotive enterprises have implemented a series of management strategies, and, as a result, made the competition in China more intense. However, Chinese automobile enterprises have not been known to the world.

Therefore, this paper selected the independent automobile company Chery as an example, based on the analysis of Chery automobile company, using SWOT and five forces model (5F) analysis to analyze it. Finally, we would like to put forward four solutions to solve the current problems. Through this paper, we hope to make contribution to the development of Chinese automobile enterprises in the future.

Keywords; *independent automobile enterprises, SWOT analysis and Porter's five forces model*

I .Introduction

Chery was founded in 1997 and began selling cars in 2001. The sales numbers in 2001 were only 28,000, but the sales numbers reached 643,000 in 2011. Among the independent automobile enterprises, Chery ranked first due to the sales amount for 11 consecutive years and the export volume for 9 consecutive years in China. Chery is the representative of automotive enterprises in China. But compared with international large automobile enterprises, Chery is still a small one, but it grew at a high rate. In general, automobile enterprises are considered as to have a history of several decades, accumulated an independent development capability to run the enterprises, especially the ability for the core part engines. However, Chery doesn't. Chery has a short history so it is very difficult to research and develop technology independently within a short period of time.

Therefore, Chery made a plan to develop the car engine not only by itself, but also commissioned foreign companies. By implementing the plan, Chery received public recognition of consumers on car engine development and design.

Chery mainly implemented the low-grade cars strategy. As a result, Chery has left an on the consumers, impression that it can only produce low-grade cars. In order to change this image and improve the brand force of Chery, Chery Ltd announced four new brand as " Karry"" Chery"" Riich"" Rely"" in 2009.

We analyze Chery automobile company by using SWOT analysis and Porter's five forces model (5F).

II . SWOT analysis of Chery enterprise

We have simply summarized the condition of Chery enterprises. The common ground of Chery enterprise and other independent car company is for three. 1 the short history, 2 the fast development in China, 3 the increase of market share. However, there are also a variety of problems remaining. As many of the world automobile enterprises entered the Chinese market, it makes the competition more intense. In order to maintain the present marketing share, and to increase more, Chery enterprise has to raise a variety of strategies. Therefore, to analyze the Chery enterprise in the Chinese market and the future strategy, we prefer using SWOT and 5F to analyze it.

Chery enterprise SWOT analysis (Fig.1), the strengths weaknesses opportunities and threats are summarized as follows.

【Strengths】

- Chery does not cooperate with any foreign enterprises, so it can control its product and technology independently, without any infringement of trademark problems.
- Chery enterprise is not a Sino-foreign joint venture enterprise; therefore the enterprise income allocation object is domestic investors.
- Car parts are basically assembled domestically, so cost can be thoroughly controlled, and compete with other company by low price strategy.

【Weaknesses】

- Chery enterprise has a short history, so it is not famous.
- The technology of Chery enterprise is not as advanced as foreign companies.
- Chery enterprise is worse than joint automobile company on quality and after services.
- The amount of money invested in product *research* and development is small.
- Chery enterprise is to make and sale low-grade cars.

【 Opportunities】

- Government support.
- Due to the short appearance of electrical cars, the gap between the China and abroad is small.
- M&A with foreign automobile companies is a good opportunity for Chery enterprise.

【 Threats】

- Foreign joint venture automobile enterprises on one hand use their brand they have had and on the other hand making new brand for the new joint companies.
- Joint ventures and foreign cars company are mainly produce high-level cars for the moment, but are gradually to the low-grade car market.

Fig.1 SWOT analysis - Chery Automobile -

1. Strengths

Chery enterprise is different from foreign enterprises, whose product and technology can be completely controlled independently, without any infringement of trademark problem. Chery enterprise is not a Sino-foreign joint venture enterprise; therefore the enterprise income allocation object is domestic investors. Furthermore, car parts are basically assembled domestically, so cost can be thoroughly controlled, and compete with other company by low price.

2. Weaknesses

Chery enterprise has a short history, so it is not famous. As a result, we can infer that Chery enterprise is worse than joint automobile company on quality and after services. To cover it, Chery enterprise has the guarantee period extended. For example, the guarantee of Toyota Motor is 50 thousand km for 2 years, as Chery enterprise provides a guarantee for 120 thousand km 4 years, which is as twice more than the Toyota Motor company. Chery enterprise has confidence in their products, whether they can get the recognition of consumers may take quite a while to verify. So far, the main product of Chery enterprise is to make and sale low-grade cars, which have small profit margin. Compared with foreign automobile company, Chery enterprise has low profit margin, and is considered that a small amount of money has been invested in product research and development.

3. Opportunities

M&A with foreign automobile companies is a good opportunity for Chery enterprise. For example, with the acquisition of Volvo brand by Geely enterprise, only more than 10 years history of Volvo Automobile has been known widely, and acquired new technology. Moreover, in the policy of the government, in the future, cars used by government are only supports the ones produced by independent automotive enterprise. In recent years, as a result of global warming caused by automobile tail gas and gasoline prices continue to rise, electrical cars started to gain popularity. Due to the short appearance of electrical cars, the gap between the China and abroad is small. From the traditional engine cars to electrical cars, Chinese auto enterprises have great expectation.

4. Threats

China now has many automobile enterprises. Joint ventures and foreign cars company mainly produce high-level cars for the moment, but they gradually to produce the low-grade car market, which is a huge threat for the low-grade car maker Chery enterprise. Furthermore, many foreign joint venture automobile enterprises on one hand use their brand they have had and on the other hand making new brand for the new joint companies.

III. Five forces model of Chery enterprise

Here we try to analyze the stakeholders with Chery enterprise by 5F (proposed by Porter). 5F are 1 : the threat of new enterprises, 2 : the competition inside the industry, 3 : threat from provider, 4 : threat from consumers and 5 : threat of the substitutes. [1]

1. The threat of new enterprises

On the way of globalization process, the world car manufacturers entered Chinese market, leading to the competition more intense. Furthermore each automobile enterprises in order to obtain consumer's recognition, they must continuously improve their technology, save the cost of oil, optimize their design. That is to say, in the auto industry, initial products are the most important.

Therefore, to enter current China's auto market is difficult. What is more, Chinese government attached great importance to environmental issues, and published a series of laws. The car manufacturers must comply with the government policy and improve as soon as possible. For example, according to the annual results of oil quantity, Chinese government allocates allowance to those environment-friendly car users. So to solve the oil problem, car makers must take measures to develop energy-saving cars.

Entering the current market is very difficult, however entering the electrical car market is more easily. Up to now for 100 years, it can be said that the oil created the world. But now that oil prices remain high, and it pollutes the environment, which has become burden to the country economy. Nowadays is the era to make electrical cars replace the traditional cars. Electrical cars can be driven only by Electric engine and batteries, which can be produced easily, even by small and medium-sized enterprises.

2. The competition inside the industry

In recent years, world economy remains low, but China auto market grew rapidly. Each developed country first-class automobile manufacturers have been entered the Chinese market and expanded their market share. For the Chery enterprise, China's automobile market competition becomes intenser. From 2009 to 2011, car sales in China exceeded the United States ranked first in the world for three years. However, sales number for 18 million four thousand in 2011, compared with the year 2010 for 18 million 6 hundred, was grown very slow. Porter said "the slow develops may intensify competition easily in the market"[2]. as a result, in the industry, in order to improve performance, the car makers must adopt a variety of strategies. For instance, automobile joint venture are so far, mainly produced mid-level cars as Chery enterprise produced low-grade cars mainly, but more and more joint venture automobile enterprises to enter the low-grade models market. For the less well-known Chery enterprise is a great threat.

3. Threats from provider

In 1978 the implementation of the policy of reform and opening-up, China's economy grew for thirty years continuously. In its backside, price also rose. In 2011, the Chinese price level was very high. Although the Chinese government issued many policies, it seems to come to nothing. For example, the government has prohibited real estate from raising land price, the rising product price, and food price. Rising price is a big threat for independent car company.

So far Chery enterprise used lower prices strategy to occupy the market, but with price rising, the same as cost increase, leading to Chery enterprise failed to remain the dominant position. If Chery enterprise does not put forward new

measures on enhancing their power of brand it will be very difficult to succeed in the market.

4. Threats from consumers

Many of the world's automotive enterprises have entered Chinese auto market. Many of the World car companies have dozens of years of production experience, of course, their own unique technology what are Chery enterprise lack. That is to say Chery enterprise has many shortcomings compared with joint venture companies. The advances of globalization result in consumers' demand for high-level service and quality. It is said as the development of society, the change of consumers is the threat for Chery enterprise.

5. Threat of the substitutes

As China's economic developed, city area expands gradually; the population from countryside to the city has increased. Therefore, city traffic is becoming more and more crowded. The Chinese government issued many policies for traffic congestion. For example, the capital of China --- Beijing government has issued that car buyers should be chosen at random to control the number of buyers. It means even people who buy cars; the car's license plate number can not be immediately issued. In order to further alleviate the city traffic, subway construction has stepped up. Usually because of traffic congestion it may take 2-3 hours on the road, but only 30 minutes by subway.

Through the above two reasons, many people in the city prefer to use of vehicles of subway, train, bus, bicycles instead of cars. Therefore, life with no cars can be also imagined.

The above content summary in Fig.2

IV. Making strategies according to the Chery enterprise analysis

As above analysis with SWOT and 5F we would like to put forward as below: 1 enhance brand awareness, 2 strengthen the research and development efforts, 3 improve product quality, 4 strengthen the sales and after service.

4.1 Enhance brand awareness

To enhance brand awareness, there are two main methods: by accumulating of experience and the quality of credit and by acquisition of foreign well-known company or cooperate with well-known enterprises. These two methods have both advantages and disadvantages. To improve product quality and credit without relying on other enterprises is the most feasible way but it takes a long time. The acquisition of foreign well-known enterprise or in association with foreign company needs a quite amount of fund, but it can be a short-cut. The M&A with domestic automobile enterprises which have short history will have little effect, so it is better to do with the well-known foreign enterprises.

Now the competition of Chinese auto market became intenser, every company was made to expand their market share in a short period of time. It is also important for Chery enterprise. Foreign car companies and joint ventures produce a variety of models, so it appropriates the most if Chery enterprise makes cooperation with foreign enterprises.

Independent automobile enterprises, Geely Automobile signed the agreement to buy Volvo in March, 2010, and completed the acquisition by paying \$1.8 billion in August [2]. In 2011, the sales amount in Chinese car market is relatively small, but thanks to the acquisition of Volvo Geely Automobile enhance the brand visibility, so that it could increase sales smoothly. Fig.3

4.2 Strengthen the research and development efforts

Research and development are very important for an enterprise, and also known as the vitality of the automotive industry. So automobile companies must be committed to research and development of new technology. As for Chery enterprise, whether it can produce high quality cars at low cost in a short time is the key to gain consumers' recognition.

Therefore, in order to produce different cars from other companies, Chery enterprise will have to make more efforts in research and development field. That is to increase fiscal budget in research and development.

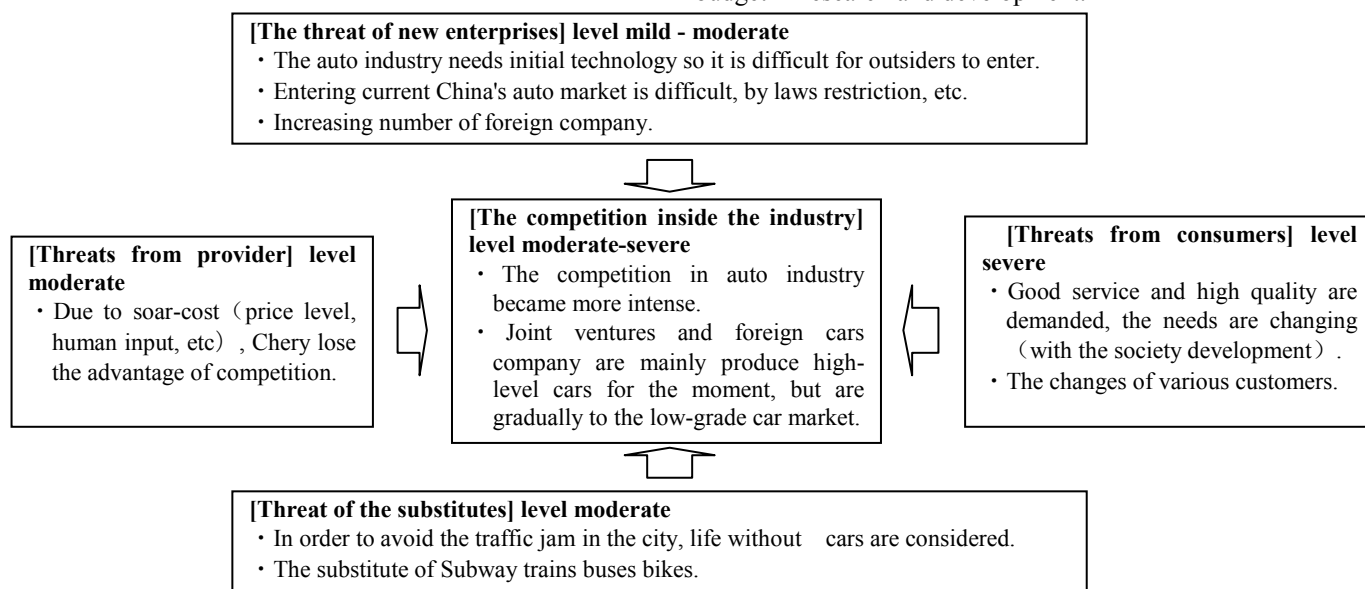


Fig.2 Five Forces Model -Chery Automobile-

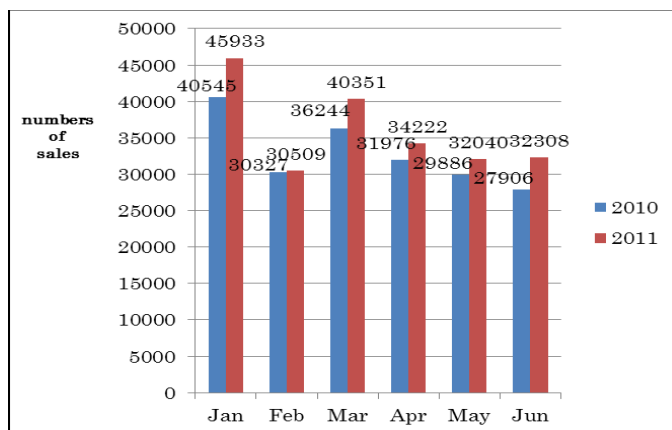


Fig.3 The compare of sales amounts from January to June in 2010 and 2011 of Geely company [2].

To date, cars produced by Chery enterprise are said the copies of other companies'. The reason why Chery enterprise imitated world auto brands Benz, Honda auto is to make its cars be accepted more easily by consumers and to reduce their cost. But in the future, automobile market competition will be intenser, so Chery enterprise must produce its own products that are different from the others to gain a foothold in the market.

The fund which Chery enterprise invested in research and development, compared with the sales amount, is small. In 2009 world car companies, the investment in research and development of Volkswagen, GM, Honda accounted for above 5% overall, and it accounted for 4-5% of Toyota and Ford on research and development. But the independent car company BYD only for 2.9% [2], which in the independent car companies is a high one. Therefore, Chery enterprise should invest more in research and development.

4.3 Improve product quality

Along with China's economic growth, China's road condition, national infrastructure has been improved, the highway network has been roughly completed. Especially the coastal city highway network has been perfectly developed. However, for a vast area of China big city construction is only a small part of in whole. Along with the economic growth, rural road construction must be implemented. Because of the bad condition of the rural road, automotive fault rate increased. Therefore the automobile enterprises must devote major efforts to improving quality. Japanese cars are considered having excellent quality, but to some extent Japan's infrastructure is also earlier than China. In China, the awareness to obey the vehicle weight limit rule is not enough, so traffic accidents caused by overweight get cars to damage seriously. In another word, Chinese auto enterprises are expected to produce higher quality of automobiles than Japan.

4.4 Strengthen the sales and after service

There is a saying goes in China, "the customers are the God", but in fact the attitude of the staff doesn't go well. Since the reform and opening in 1978, state-owned enterprises have had been basically reformed to privatization, except for the school, bank, hospital, hydraulic branch. As a result, the attitude of the staff has improved, but still not enough. For

Chinese enterprises, there are many things to learn. Especially sales and after service in the automobile industry, should be improved a lot. The author also has experienced several times for the different attitudes of sellers before and after buying a car. For service attitude, enterprise should pay more attention to staff training. The quality of services related to sales amount directly, so the enterprise should aim at providing excellent service from the beginning to the end.

V. Conclusions

With China's modernization developing, especially the leap-forward development in automobile industry, the sales amount from 2009 to 2011 had exceed the United States and ranks top in the world. After 2000, the Chinese government issued a series of favorable policy for auto industry, so foreign auto enterprises began to enter the Chinese market, at the same time, Chery enterprise also began to enter the market.

Foreign enterprises and domestic enterprises made Chinese car market become intense. Based on the background the author raised Chery enterprise which with a history for over 10 years. The authors analyzed the strategies taken by the enterprise, and put forward advise for the further development. What's more, this paper raises the Chery enterprise as an example whose car-selling amount was top in china by 2010, which has been not known over the world.

After analyzing the situation of Chery enterprise in China auto market with SWOT analysis and 5F, the authors proposed some advice from strengths, weaknesses, opportunities and treats.

Finally, according to the results of analysis for Chery enterprise, the authors put forwarded four ways to overcome its own shortcomings proposes. They are to enhance brand awareness, to strengthen the research and development efforts, to improve the quality of product, and to strengthen the sales and after service for improvement. In the future, the development of computer system by which we can use it to analyze companies with SWOT analysis and 5F are highly expected.

References

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