

Thinking Development Way of Tianjin FAW in the Financial Crisis

Yufei Hou

School of Business, Tianjin Polytechnic University, Tianjin 300387, China

Email: monkey17420@163.com

Abstract: The automotive industry is one of the six pillar industries of dominant industry determined by the Tianjin Municipal Government. In recent years, it has made great contributions to for Tianjin economic growth and employment, but with a sudden and violent global financial crisis, and the domestic and foreign competition, Tianjin FAW faced a series of pressure and challenges. Therefore, we must adopt corresponding measures to improve the Tianjin FAW market competitiveness, and ensure the development of Tianjin FAW.

Keywords: financial crisis, Tianjin FAW, economy cars, core competitiveness, Independent brand

1. Introduction

The automotive industry is one of the six pillar industries of dominant industry determined by the Tianjin Municipal Government, in recent years, it has made great contributions to for Tianjin economic growth and employment .the competitiveness of automobile industry is closely related to Tianjin economic and social development, and it is a pillar industry development that is not only the economic development, but also the leading force will be further improved, and improve the quality of life in Tianjin, solving the employment, increasing household income also will play a tremendous role. However, the suddenly hitting of the financial crisis has made a major impact to the development of the entire national economy. For automobile industry, financial crisis have aggravated the market slump beginning from the of April 2008, thence car sales stagnated; operating rate declined in enterprise and all levels of manufacturers have emerged the phenomenon of merchandise accumu-

lation. In face of such domestic and international situation, it's a long way for Tianjin FAW to keep the rapid development.

2. The financial crisis on the impact of Chinese automotive industry

2.1 Making the national economy turn from the export-oriented to domestic type---- affect the export of automotive products

Institute of World Energy Finance's executive dean, department head of China Financial Research Institute Shihong He said: "financial crisis made the global economic slowdown, which severely spread Chinese exports manufacturing... and with the sharp slowdown in these countries of consumption demand, China's export will be sharply inevitably affected." Chery, Chang'an and other auto enterprise have also suffered in recent years, independent brand relied heavily on the export began to enter "winter" (see table 1).

Table 1. 2008 Domestic Auto Sales Charts (part)

	Model	2008 Sales (car)	2007 Sales (car)	Year-on-year growth (%)
10	Tianjin FAW--Xiali	120969	132544	-8.7
11	Beijing Hyundai Elantra	115719	120333	-3.8
12	Chang'an Ford Focus	112552	124991	-10
28	Chery A5	59484	69306	-14.2
32	Great Wall Hover	56669	58452	-3.1
147	Tianjin FAW Vizi	1088	1977	-45

2.2 Austerity policies and the basic raw materials price up ----lead to increase the cost of production enterprises, and shortage of funds

For the original impact of rapid economic development,

a series of tight fiscal policy adopted by the state, coupled with the basic raw material prices generally rises, will set out the main means of competition of domestic car manufacturing bring fatal suppressed. With the rising prices of raw materials, it has made originally the meager

profit economy-car manufacturer's profit tended to zero, and can't digest upstream pressure from cars.

As most of the enterprises to produce components use steel as the main raw material, but the proportion of steel consumption is different from each other, so the extent of the impact of the rising steel prices on the cost is different from each other too. For products of high technology content, it has certain market pricing power components, can pass costs rise pressure, however most of the enterprises will bear the burden of steel price hikes and cannot shift the cost of the downstream vehicle business, which will worsen their operating environment.

2.3 economic situation worse consumption policy adjustment, consumer demand atrophy and changing structure

A financial crisis, the momentum of its development has more than most people imagine, just more than half a year, most economies are around the, and in accordance with the general economic law, when people to feel pessimistic future economic prospects and uncertainty, people only can do is to reduce unnecessary spending all possible, to prevent the risk of reducing unemployment and income, in order to survive. Automobile consumption is one of the bulks, the developed economic regions in the world more particularly outstanding, the world's largest car market of American 2008 10 months, auto sales totaled 10.90 million vehicles; lower than the same period last year, nearly 200 million vehicles by 14.6 per cent year-on-year in sales.

On November 21 2008, by the economic crisis Toyota motor announced that dragged the world's major car market downturn in consumer demand, Toyota will be laid off 3,000 employees in Japan. Similarly, Nissan also released in early 20 million vehicles, while worldwide production jobs, and laid off 3,500 ,fiscal earnings expectations of the report is almost cut 65.9% simultaneously, Toyota, Honda, and Mazda also issued a notice of a serious decline in performance. China's recent market sales has been exacerbated by the dismal state of global demand. To cope with the crisis, China adopted a series of measures on the car industry, such as tax reform, fuel small-engine reform, crisis of earnings, consumer psychology influence etc, which have also made the automobile consumption demand structure rise a corresponding change.

2.4 China to become the international automobile industry "havens" -- competition further intensified

Due to the foreign auto giants shared the view that China's car market will be better, in the following two years, many multinational auto companies build factories accelerated the pace in China. the direct result of the joint venture of Multinational company is that a large

number of joint venture brands only 100 thousand Yuan or less appeared on the market, which was a tremendous impact to domestic autonomous brands, so that the price advantage of them was no longer evident.

3. Pressures and challenges of Tianjin FAW faced

3.1 Profit was increasingly fewer under the pressure of the price reduction and rising raw material price

Tianjin FAW's economy-car service object is natural for average family, so the price is the first sensitive factor the consumers concerned. Compared with high- end sedans, economy-car was low meager profit, thence Tianjin FAW cannot equalize income by high-end products. In addition, steel, petroleum and other raw material prices surged, Tianjin FAW must quickly digest this part costs by itself, and therefore it is more difficult for Tianjin FAW to make profit under the premise of meeting the national regulations and consumer demand.

3.2 Old-fashioned car pattern and lacking of alternative

FAW group's of independent brand strategy mainly divided into three parts, Tianjin FAW Xiali cars, FAW Hongqi sedan, and the Pentium. Red flag brand, although it is domestic well-known brand awareness and the highest value of brand of car, but nearly 20 years, because there is no suitable car model for cars, red flag brand has become a FAW's weak point. And the same is Tianjin FAW Xiali, the main market is still relatively old models of the entrant N3. The following brands, like Vela, Vizi, etc, cannot be optimistic about the current market because of the inaccurate product positioning.

3.3 The increasingly fierce competition in the domestic same industry

In the same industry, Tianjin FAW's biggest domestic competitor is Geely Group of Shufu Li. Geely's success lies in its full use of the original Tianjin Xiali mature technology, and in this technological improvement. Before Tianjin Xiali restructuring for FAW Xiali there are many technical personnel, they turn left TianQi threw Geely group. And the price of vehicles, Geely, after continuously FAW Xiali, makes the entrant in our possession of mini car market share gradually reduced. In addition, Huachen, Hafei and Swift products in price and the market orientation and FAW Xiali, which has become the entrant similarity rivals. This market segment, Shenlong Fukang, GM Sail, Honda Fit, Changan Suzuki Swift and other dozens of models are also strong competitors.

4. The Thinking of Development Way of Tianjin FAW

4.1 Accurate positioning, and adhere to the road of developed economy-car

Before the financial crisis in 2006, after 2003 China's automobile production and sales of the fastest growth year, including the typical car most arrestive, monthly average annual sales more than 30 million, total sales 382.89 million in 2005, more than 100 million vehicles, net up 37 percent year-on-year growth. Compared to the national car sales of the top ten brands sold a total of 1.3925 million sedans, accounting for 36.37 percent car sales. It is noteworthy that the short-listed the top ten

brands in more than 60% are economy cars, and almost all the occupied ranking, including Tianjin FAW Xiali (see chart 2), showing in family and private car continue to become the mainstream, under the situation of economic car for energy conservation and environmental protection, easy maintenance, low cost, driving advantage of China's car market gradually become the mainstream consumption.

Table 2 The Top 10 National Brand Car Sales in 2006

Ranking	1	2	3	4	5	6	7	8	9	10
Brand	Jetta	Excelle	Elantra	Santana	Xiali	QQ	Accord	Passat	Cowin	Corolla
Sales(million)	17.68	17.65	16.97	16.29	16.19	13.2	12.32	10.81	10.13	8.01

August 2007 started in America's subprime mortgage crisis, eventually evolved into the global financial crisis. Because its high economy-car price will rise ,the financial crisis of automotive sharply reduced the consumption ability and desire for consumption. Since March 2008, t the stock market plunge, the financial crisis is to stock all the way down, which lasted for half a year's stock prices are low trap too much capital, the result is greatly weakened capacity crowd of China's most consumer purchasing power. Transmission to the market, the influence is medium high-end car, while economy-car because the price is relatively low and became high ratio of people's car of choice.

Tianjin FAW has always been providing consumers safe, saving, environmental protection, "affordable" national car to work, and so they should continue to uphold "build high-quality, trolley car development vision, the master" creating "with the most economical way and the fastest speed development for manufacturing, saling the highest quality economy-car core competitiveness," continued the development road of economy-car.

4.2 Keep up demand, micro-car and small car production

According to the statistics, 2006 in sedan market appeared two obvious features: mini-car (AO), and compact car (class A) market share growth ahead, as the growth of mini 58.3%, compact growth to 33.3%. Compared with advanced automobile market, but appeared about 5% of the slide.

In recent years, beautiful appearance, the optimum performance, the new model are increasing ceaselessly. Currently China's auto market sells small approximately 30 varieties. The big car manufacturers make great importance of compact products and market development, research production of the new one, increased a lot of new technology and new configuration, the increase of various technical content, performance is improved in 2005 such as the Fukang, QQ 05 version, Geely models such as freedom of ships etc. With the arrival of financial crisis, the oil crisis, covers an area of less space, low fuel consumption, energy conservation and environmental protection are becoming the world's global automotive technology development trend. In the consumer psychology influence by financial crisis, under the premise of a lot of mini-cars and small car sales are still maintained a certain degree of growth (see Table 3).

Table 3. Micro / Small Car Sales Data In 2008 (part)

	Model	2008 Sales (car)	2007 Sales (car)	Year-on-year growth (%)
1	Chery QQ	133398	130186	2.5
4	Geely CK	81076	79844	1.5
7	Geely King Kong	56300	45438	23.9
8	Tianjin FAW Ville/Weizhi	54580	45759	19.3
9	Changhe Suzuki Big Dipper	50895	43151	17.9
11	Chang'an Suzuki Lingyang	47291	39337	20.2
17	Chery A1	28481	11356	150.8

4.3 To increase r&d investment, improve product quality, and enhance core competitiveness

According to the 2005 China's automobile quality and service quality complaints analysis report, car quality issues have been accounted for various types of cars complaints 67% of the total, of which 33% of the quality of service quality problem of consumer complaints. The quality problems are mainly concentrated in car accessories and electric parts, including indoor noise, sealing lax, and combination instrument is not normal work, etc. Engine problems accounted for the overall quality of the second complaint, the main problem there is noisy, high fuel consumption, burning oil, a running flame, idle instability. For users of Internet survey reflects the quality problem of Tianjin FAW Vela basically has: air conditioning system cannot work normally, Gearbox squeak&rattle, front squeak&rattle, Glass Windows lifter problem, Service default don't do. Therefore, to improve product quality is to improve the market competitiveness of the core.

New Product R & D work should focus on security, environmental protection and energy saving on several major themes, to adapt to the relevant state policies, standards and regulations in the new requirements to the market in more initiative, Another is the clean fuel vehicle technology with alternative fuel automobile and electric cars and other major key technology. Tianjin FAW's development depends on oneself, absorbs the learning FAW Toyota, and adapts to the national technical support, the small-engine cars to meet consumers' demand, the small subcompact and market demand.

4.4 Insist on independent research and development, and actively introduce independent brand

Chinese brands are growing rapidly; its product portfolio also increasingly rich, domestic brand design and manufacture are improving rapidly. Even so, Chinese brands still cannot rival with multinational auto manufacturers. But compared with foreign brands, Chinese brand still has special advantages. These advantages include the cost advantage, although the advantage is gradually diminishing, With local talent, and on the domestic market and consumers more understanding, "Stood on the shoulders of giants", that have the ability to learn from foreign companies.

Recent reports that FAW would fully integrated its independent brand. Analyzing the three "big" brands, they are not "strong", the three brands together, it may not be able to achieve "bigger and stronger" objective. Therefore, Tianjin FAW more should use these peculiar advantage and avoid pay no attention to the r&d, just make large scale of strategic development, adhere to independent research and development, production with independent intellectual property rights to the brand, with independent brands as dominant strategy landscape.

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