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Chinese OEMs' strategies for Europe

Supply chain scale versus going it alone

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Executive Summary

Scale versus control: how Chinese OEMs are entering European markets

Chinese vehicle manufacturers have long wanted to sell their cars in developed markets in Europe and the United States. Over the past 20 years, many have tried but few have succeeded to sell their own brand vehicles at significant volume, even as the Chinese domestic market has become the world's largest for production and sales of passenger cars.

Initially, quality was considered a major barrier, as new car assessment crash tests dented the notion that Chinese cars were worthy of European roads. Today, however, the assumption that Chinese-built vehicles cannot match safety or quality standards in Europe is an increasingly outdated notion. Most major OEMs and premium carmakers produce vehicles in China in partnership with local brands – with companies like BMW, Volvo Cars and Tesla already exporting vehicles from China to Europe. Meanwhile, major Chinese carmakers, along with well-funded startups, have already begun to market in Europe, especially for electric vehicles (EVs).

What's changing is the approach that OEMs in China are taking to enter markets in Europe. Chinese automakers now use three main strategies: acquiring or investing in an established OEM brand; forming or extending joint ventures to include international export and operations; or entering new markets with a standalone brand.

In both the investment and partnership approaches, OEMs form alliances with established automakers to leverage engineering, R&D and marketing capabilities, as well as regional manufacturing, supply chain and distribution networks. In the best case, this arrangement can provide lower cost manufacturing bases scaled with global sales and logistics networks.

However, there are still Chinese OEMs who are planning to enter European markets without a partner, focusing instead on strengthening their supply base and establishing a brand presence. Such an approach allows for more flexibility in manufacturing and product decisions; however, it also requires considerably more investment to build up distribution and recognition. In such cases, Chinese OEMs raise capital on international stock markets. Others, meanwhile, work with independent and specialised vehicle importers and distributors to manage local sales and logistics, rather than immediately building up their own networks.

These strategies are not mutually exclusive, and OEMs such as Geely are expanding through a combination of approaches, including acquisition, joint ventures with OEMs and even between its own internal companies, as well as creating new brands altogether. Great Wall,

meanwhile, has partnered with BMW to build Mini vehicles in China, even as it seeks to grow sales of its own brand in Europe. And SAIC's MG, although an established brand in the UK, is working with local importers to sell vehicles in several European markets. Each approach influences carmakers' production, distribution and logistics strategies.

Table 1: Chinese OEMs strategies for entering European markets

Strategy 1: Acquiring a Brand
Geely acquired Volvo Cars
Geely acquired majority stake in Lotus Cars
Geely acquired London Taxi Company (now LEVC)
SAIC acquired MG (via acquisition of NAC)
SAIC acquired LDV
Strategy 2: Forming a Joint Venture
Smart Automobile Company – JV between Geely and Daimler
Spotlight Automotive – JV between Great Wall and BMW
VW JAC Automotive – JV between VW and JAC
Strategy 3: Going it Alone
BYD
WM Motors
Aiways
Nio
Xpeng
Great Wall
Geely – Geometry, Zeekr

Source: ECG Business Intelligence

Strategy 1: acquiring established brands

Private car company Geely Auto and state-owned SAIC Motor have acquired established international brands in Europe which they have used to strengthen core product line-ups and to leverage supply chains and production bases both in China and elsewhere.

With Volvo Cars, Geely has invested in existing engineering, design and manufacturing capabilities as well as adding new capacity. Volvo and Geely have co-developed shared vehicle platforms and technology, and ultimately improved capacity utilisation at existing manufacturing bases in Europe and China, as well as adding new locations in China and globally, including the US. Sharing engineering, design, technology and supply chain has helped Volvo, but also Geely to grow and develop new models and brands that it plans to bring to Europe with production in China – including Lynk & Co, Polestar and Zeekr. Sharing electric vehicle technology has also been a key pillar of this strategy.

In the case of MG, SAIC acquired a notable brand that was otherwise operationally defunct in Europe. Earlier plans to make use of the carmaker's dormant plant in the UK were ultimately abandoned in favour of strengthening the brand in China, including investing in engineering and design capabilities in Europe that supported development in China. It has since been able to both grow in its home market, strengthen sales and distribution in the UK and other European markets, as well as expand in global markets like India. In Europe, the brand is launching new electrified vehicle models exported from China.

MG sales in Europe reached 20,695 units in the first six months of the year (2021) in Europe, of which sales in the UK accounted for 65%. MG is now on sale in 16 markets across Europe, with 200 brand stores to be expanded to 400 by year end. It also works with local distributors across the continent that are responsible for local distribution and aftersales. Earlier this year, for example, it started sales in Sweden, using local importer Hedin Group, which manages distribution from its logistics centre in Gothenburg.

Through the acquisition of the UK's LDV, SAIC has also brought light commercial vehicle brand Maxus to the UK and Europe. It works with a specialised distributor, Alcomotive, to distribute vehicles in several EU countries.

Chinese OEMs' Strategies for Europe

1. Acquiring a global brand

a. Geely Automobile Company:

1986
Geely was registered as a company by Li Shufu to make parts for refrigerators in Taizhou City, Zhejiang Province, China.

1994
Geely began manufacturing and selling motorcycles in Taizhou City.

1996
Geely Group was established highlighting the ambitions of its founder to expand.

1997
Geely Automobile Company was formed in Taizhou City.

1998
Geely Auto's first production model rolled off assembly line in Linhai City, Zhejiang Province.

2001
Geely Automobile Company becomes first private car maker in China, with an official car production license from the Chinese government.

2003
Zhejiang Geely Holding Group (ZGH) was established.

2005
Geely Automobile Holdings listed on the Honk Kong Stock Exchange, incorporated in the Cayman Islands

2006
Geely Holding Group acquires 19.97% of Manganese Bronze Holdings, aka London Taxi.

2010
Zhejiang Geely Holding signs transaction agreement on 28 March to acquire 100% of shares of Volvo Car Corp., from Ford Motor Company.

2013
Geely Holding acquires 100% of Manganese Bronze and subsidiary London Taxi International joint venture in China.

2016
Geely New Energy Commercial Vehicles formed.

2017
Geely acquires 49.9% of Proton Automotive, and 51% controlling stake in Lotus Cars from Malaysia's DRB-HICOM Berhad.

Geely becomes largest stake holder in AB Volvo, commercial vehicle company.

Geely Auto and Volvo Cars form joint venture for technology development, and create Lynk & Co., with first model 01 launched.

2018
Geely Group announces 9.1% stake in Daimler AG following acquisition of shares in open market.

Geely Holding enters railway industry with China Aerospace Science and Industry Corp (CASIC), acquires majority 52% stake in Saxo Bank

2019
Geely and Daimler form joint venture for development and production of smart vehicles, as premium electrified vehicles.

ZGH and Daimler announce 10% stake each in Volocopter, the urban air mobility pioneer.

2020
Mercedes-Benz AG and ZGH establish smart Automobile Company as a global joint venture, following regulatory approval.

2021
Geely Holding Group and Geely Auto form premium global electric car company, Zeekr. Launches first car, 001, in Hangzhou, China.

Geely Holding and Renault sign MOU for joint cooperation in China and South Korea for Renault hybrid vehicles and Lynk & Co platforms.

b. Shanghai Automotive Industry Corp. (SAIC)

1910
Shanghai Machinery Repairs Factory was formed, the beginnings of SAIC.

1950
SAIC began whole vehicle manufacturing and mass production.

1978
The State Council gave formal approval for SAIC to import an automotive assembly line. SAIC began plans to create a joint venture with an international automaker.

1983
A Volkswagen Santana prototype was assembled by SAIC.

1984
The State Council approved SAIC Motor 's car production and sales JV with Volkswagen for a 20 year period. 12 October 1984, Shanghai Volkswagen (SVW) was officially formed with the ground breaking and cornerstone laying ceremony.

1985
March marked the founding of SVW with salles commencing in September.

1995
The State Council approved SAIC to form another JV, this time with General Motors.

1997
Shanghai General Motors (SGM) was founded with investment of USD 1.52 billion.

1998
Shanghai General Motors (SGM) began production of cars.

2002
SAIC GM Wuling Automobile Company (SGMW) was formed, a three-way joint venture.

SAIC buys a 10% stake in GM Daewoo in South Korea.

Joint venture with VW extended for a further 20 years.

2005
SAIC Motor acquires the intellectual property rights for two models, the Rover 35 and the Rover 75.

2006
SAIC launches own in-house brand model Roewe 750 based on ex-Rover platform.

2007
SAIC Motor, IVECO and Chongqing Hongyan form SAIC-IVECO Hongyan Commercial Vehicle Company.

SAIC Motor begins cooperation with Nanjing Yuejin Automotive Company (NAC)

2009
SAIC completes acquisition of NAC, gains MG brand (NAC had acquired it in 2005).

HASCO -Huayu Automotive Systems Co- established as the supplier arm to SAIC, with 30 joint ventures with international and local suppliers.

2010
SAIC Motor acquires UK's LDV Group, launches Maxus brand light commercial vehicles.

2012
SAIC Motor sets up a joint venture with Thailand's Charoen Pokphand Group.

2013
SAIC sells 5 million cars amongst its joint ventures and in house brands.

2015
SAIC Motor and Alibaba Group invest CNY 1 billion to develop connected cars.

2020
IM 'Zhiji' Motors founded by SAIC Motor, Alibaba, Zhangjiang Hi Tech, an all electric vehicle brand.

HASCO has 95 overseas bases, SAIC ANJI Logistics operates in 40 countries, SAIC Motor has 3 innovation centers outside China in London, Silicon Valley, Tel Aviv, and 4 production bases outside China in Thailand, Indonesia, India and KD base in Pakistan.

2021
SAIC Motor announces aim to export over 1.5 million vehicles in the five year period 2021-2025 inclusive.

Strategy 2: joint ventures between European and Chinese OEMs

International OEMs have long had joint ventures in China to access the large domestic market, which until recently was a requirement under Chinese regulation. Increasingly, those OEMs are leveraging existing joint ventures to serve global markets – such as BMW Brilliance exporting the electric iX3 SUV to Europe, and the Volkswagen Group establishing production of its all-electric MEB platform across plants in China. Volkswagen has also taken a majority stake in one of its Chinese partners, JAC, which produces electric models.

Chinese OEMs are also developing new joint ventures with established international OEMs that will eventually produce new, often electrified, products aimed at both Chinese and developed markets. Geely, for example, has a joint venture with Daimler for the production and sales of all-electric Smart cars, while Great Wall and BMW plan to build Mini cars for the global market in China.

Renault, meanwhile, has also agreed to establish a new joint venture with Geely focused on the development and production of hybrid electric cars both in China, as well as in South Korea. While the scope of the joint venture is to serve Asian markets, Renault may eventually use the technology to support increasing hybridisation in European markets, too.

These JVs will have access to the large local production and supplier bases in China, with Chinese partners often having in-house logistics assets or partners with established capacity. In Europe, the OEMs can benefit from an existing dealer and sales network, including logistics and shipping partners.

Strategy 3: Chinese brands going it alone

Most Chinese OEMs originally set out to break into the European market on their own. A number, including Chery, Great Wall and Geely, expanded sales in Russia, Ukraine or other eastern European markets, but were unable to penetrate the developed markets of the EU with significant volume. These and other brands also partnered with local companies for knockdown kit assembly, but few of these vehicles were built to EU specifications.

However, the rise in sales and incentives for EVs has in some ways turned the tide, with several established and startup OEMs from China entering Europe's fast-growing EV markets. BYD, for example, is already a strong player in China with annual sales of 426,972 units in 2020, of which electric vehicles accounted for 44.4%. The OEM has also established itself in the electric bus market in Europe where it marked its entrance into the passenger vehicle market in Europe in September 2021 with the shipment of 1,000 Tang electric SUVs to

Norway. Isbrand Ho, general manager of BYD Europe told ECG Business Intelligence that the carmaker will use Norway to ensure that it understands customer user experience, using these lessons to integrate into other European markets.

Norway is one of the leading markets in Europe for EV sales and continues to serve as a test bed for other startup Chinese OEMs. Startup Xpeng has shipped several hundred of its G3 EVs to Norway and in the fourth quarter this year is planning to launch its P7 sedan in the country. Xpeng, a newcomer with strong tech backing and a high stock valuation, sold 27,041 units in 2020 in China but has been growing significantly this year, with sales topping 45,000 in the first eight months of the year.

New startups such as WM Motor and Nio also have their eyes firmly set on Europe. WM Motor aims to bring its electric SUVs to Europe having achieved sales of 22,500 in China last year. Nio, meanwhile, which has seen huge gains in its share price, is aiming to sell its ES8 electric SUV in Norway this year and also plans to bring its ET7 sedan to markets including Germany. Nio sold 43,728 cars in 2020 in China but has delivered significant growth this year, topping 131,000 units through August.

Startups such as Aiways have also brought their first shipments to Europe, with 1,000 U5 models imported into Belgium in 2020 (though sales data show just 20 sold). It is selling cars in several European markets through electronics distributor Euronics. Great Wall, meanwhile, will begin sales in Europe in 2022 of its Coffee 01 plug-in hybrid model under its own Wey brand. The OEM is expected to open a brand experience center in Munich in early 2022, and to start taking orders for the model in Germany from the end of 2021.

The success of these strategies is still to be determined. OEMs such as Nio and Xpeng have strong financial backing, though that is still no guarantee of succeeding in the highly regulated and established European market. For now, these brands continue to ship vehicles in low volume for early trials and distribution, building distributor and logistics relationships in the meantime.

Leveraging logistics

An advantage of acquisitions and joint ventures is that there are established skills, capacities, and distribution networks in place that Chinese OEMs can use to enter European markets. At the same time, Chinese OEMs can often access local logistics capacity in China, as well as in central Asian and eastern European countries as part of its Belt and Road initiative, which also plays a role in vehicle exports, notably developing rail as an alternative to ocean.

Geely brands benefit significantly from Volvo's engineering, design and marketing prowess, as well as its established processes and partners in logistics. The Lynk & Co brand, for example, is working along with Volvo on new models of distribution, including subscription model services. The premium electric brand Polestar, meanwhile, is sharing supply chain and R&D partners even as it expands its own engineering and production capacity.

Geely is also targeting the European market for newer brands. Geometry, its mass market electric vehicle marque, began exports in September 2021 to Israel with the first 2,000 units of the Model C, with small shipments also set to sail to Belarus. Geely's premium electric vehicle Zeekr brand, meanwhile, is expected to begin sales in Europe in the fourth quarter 2022 with its first model the 001. Zeekr will also share production capacity with Lotus at a Geely plant in Wuhan.

In partnership, Chinese and western OEMs benefit from each other's networks for logistics. Volvo, for example, uses a mix of modes to export its vehicles, including introducing long-distance rail flows from a mix of Chinese and international providers between China and Europe in 2017. It expanded rail services further in 2019, by which time rail accounted for over a quarter of Volvo car exports from China globally.

Volvo has further diversified shipping flows, including shipping vehicles by rail directly to the port city of Dalian, in China's Liaoning province, from where vehicles are shipped by sea. In April this year, Volvo began exporting its S90s from the Dalian Automobile Terminal, a joint venture operated by Japan's NYK, to Europe. The Dalian terminal is also used by BMW for export of its ix3 electric SUV to Europe.

SAIC, meanwhile, has significant logistics capacity in China, including through its own logistics service provider, Anji, which has even established a dedicated ro-ro shipping service. In October 2020, it launched the SAIC Anji Phoenix ro-ro ship specifically to serve growing European sales of electric vehicles, shipping 1,800 SAIC electric and PHEVs from the port of Shanghai to Bristol in the UK and Zeebrugge in Belgium. According to Yu De, head of SAIC's international business, this shipping service was a way to "enhance the competitiveness of our cars in the local market".

These networks can help partnering OEMs to combine capacity and reduce logistics costs, while reducing lead times to market.

Conclusion: Complexity in EV and battery imports, but opportunities for the real deal

For some Chinese OEMs, changing trade and rules of origin requirements could force a rethink in their approach to entering European markets, especially as related to battery supply chain regulations. While growing EV sales in Europe are expected to considerably increase levels of local EV manufacturing, the requirement to localise battery production might encourage Chinese OEMs to continue to import EVs from China – although other sustainability requirements could make things even more complicated.

A draft EU framework for rules of origin around complete EVs and batteries, which is set to be phased in from 2021 to 2027, maintains that electric vehicles must have a minimum 55% EU or UK content. For the battery cell, this component must have a 30% EU/UK content rate in 2021 rising to 65% by 2027. For the full battery pack, the EU/UK content rate must be 45% in 2021 onwards increasing to 70% by 2027. Failure to comply would likely result in vehicles built in Europe still being subject to import tariffs (i.e. 10% for finished vehicles), which would push up the price of locally made EVs at a time when governments want to encourage EV sales and production.

Further proposed legislation is likely to mandate that batteries produced or sold into the European Union are certified as being sustainably produced in terms of recycling levels and carbon footprint. It is unclear if batteries that do not comply would be banned outright, and thus effectively ban some EV imports, too. This approach would challenge the current Asian dominance of battery cell production (part of the EU's intent to stimulate and capture a domestic European battery supply chain) but would raise complexity for Chinese-made EVs.

If the laws are applied as currently drafted, Chinese OEMs would have to consider local production in Europe, including establishing or accessing a European-based battery supply chain to meet these requirements. Chinese OEMs, including SAIC, have said that they will establish global supply chains for EV and battery production, with major battery producers currently investing in new factories. Great Wall's battery spinoff, S-Volt, for example, is planning gigafactory expansion in Europe.

It is not clear if the EU requirements will be adopted in full, as meeting the requirements looks challenging even for Europe-based OEMs. The VDA, Germany's automotive manufacturers' association, has voiced concerns since the value of imported materials currently makes up 80% of the value of finished lithium-ion cells.

If imported electric vehicle imports were to continue, then more Chinese OEMs might choose to maintain production in China rather than establish local bases that need to meet these requirements.

In China, meanwhile, the government has continued a long-standing call to consolidate automotive manufacturers, especially among the many that have flocked to build electric vehicles. Tu Le, managing director at Sino Auto Insights, told ECG Business Intelligence that, while he does not expect a formal policy to force consolidation, there are many “zombie companies” in China inflating the number of players in the EV sector. Some of these companies have international dreams that simply won’t materialise. Recent casualties include Zotye, which had established a joint venture with Ford before going bankrupt, as well as Byton, which had recruited considerable talent from European OEMs before also running into financial difficulty.

However, the rise of electric vehicles, along with the strength of the Chinese supply chain and increasing quality of production, have led more Chinese OEMs to focus their ambitions on European markets. As carmakers like Geely demonstrate, some OEMs will pursue blended strategies of acquisition, joint ventures and establishing their own brands.

For supply chain and logistics, there are opportunities both in leveraging collaboration and synergies – such as working across distribution and logistics strategies for multi-brand OEMs or partnerships – as well as in supporting smaller, niche players, such as the various OEMs trialling EV markets like Norway. Vehicle logistics partners should at the same time be mindful to establish genuine partnerships, and not to mistake zombie players for the real deal. With the EV market growing in Europe, more Chinese players are sure to be looking for competitive new routes to market.

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