Research on Joint Venture Transformation in China's Automobile Market under the New Energy Trend

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Abstract. In recent years, the rapid development of China's automobile market has made its self-developed automobile enterprises gradually erode the market share, and foreign joint venture automobile enterprises are facing the dilemma of transformation. The purpose of this paper is to study the transformation strategies of foreign joint ventures in China's new energy vehicle market, analyze how they respond to competition from local Chinese car brands, and explore the key factors for foreign firms to regain their position in the Chinese market. By analyzing the development status of China's new energy vehicle market and the challenges faced by foreign brands, this paper puts forward the analysis of the response measures of foreign enterprises, including price reduction strategy, technology research and development and market strategy. Foreign brands face severe challenges in the Chinese market, but there are also opportunities for transformation and adaptation. Localization strategies are crucial in product pricing, marketing strategies, and sales channel management. Foreign enterprises need to shorten the decision-making chain, speed up the market response, and realize the change of organizational structure. Therefore, the conclusion of this paper is that the strategic transformation of foreign automobile enterprises needs to flexibly respond to market changes and learn from the practices of local Chinese brands, especially in the field of new energy vehicles. Foreign enterprises need to constantly observe the changes in the demand of the Chinese market and constantly optimize their product and market strategies to cope with the fierce competitive environment.

Keywords: Foreign auto joint ventures, new energy, Chinese market, Transformation.

1. Introduction

In recent years, facing the new development situation of the automobile market, the joint venture automobile enterprises have fallen into the dilemma of transformation. China's homegrown auto makers have gradually eaten into the market share of joint ventures. According to the data, in 2022, the market share of German brands will be about 20%, Japanese brands will be about 15%, American brands will be about 10%, while the market share of Korean and French brands will be only about 1%. With the continuous development of China's automobile and new energy industries, the defects of the original joint venture model have gradually emerged. For example, car joint ventures are unable to keep up with the development of new energy technologies; Although joint venture car companies have tried to develop their own brands, they have not really succeeded in the end due to the disagreement between the two sides of the joint venture and the lack of voice. In terms of transformation, joint ventures face challenges such as slow speed, few new cars and single ecology. For joint ventures, how to properly understand and effectively deal with these challenges will determine their future fate.

Some studies have shown that there is a significant inverted U-shaped relationship between the duration of a joint venture and its equity distribution: when the equity structure is more balanced, the possibility of the collapse of a joint venture is lower, and the survival period is longer; However, when the degree of equity imbalance increases, the survival period of joint ventures is significantly shortened [1,2].

At the same time, some researchers have found that in the transition period of joint venture automobile companies, compared with developmental innovation, exploratory innovation strategy has a more significant positive effect on new product efficiency. At the same time, exploitative innovation strategies have a positive effect on new product performance under strict contract

management conditions, but bring about adverse effects in a close relationship management environment. On the contrary, exploratory innovation plays a stronger role in promoting new product performance in close relationship management, but may have a negative impact in strong contract governance [3].

Some articles show that the real reason for the changes in the automobile market is the rise of new energy vehicles and intelligent and connected vehicles, and it is also related to unique products and demands, independent consumption concepts and tendencies, and localized development of the industry [4].

In addition, some studies have also shown that the ownership and location advantages of joint ventures have an impact on the decision of the level of internal control of joint ventures established in China, that is, there is a positive relationship between ownership advantages and the level of internal control. However, enterprises tend to adopt a higher degree of internal control mode, especially when China has a superior location advantage [5].

This paper will study whether foreign joint ventures can successfully transform in the Chinese automobile market under the general trend of new energy, and gradually transform their weak position in the competition of emerging Chinese local automobile brands. At the same time, this paper will analyze the development status of China's new energy vehicles and the changes made by foreign joint ventures in order not to be eliminated in the Chinese market, such as cooperation cases and market strategies, to find out how foreign enterprises facing severe challenges in the Chinese market will regain a place in the Chinese market through transformation, and the key factors to success.

2. Development Status of China's New Energy Vehicle Market

2.1. Development Trends of China's Independent Brands

With the advancement of electrification and intelligent technology, the competitive landscape of the automotive industry is undergoing fundamental changes. In this transformation, China's automobile industry has won preliminary advantages and opportunities. Compared with joint-venture brands, China's self-branded car companies have shown a faster speed in the process of transformation to electrification and intelligence. The production and sales volume of new energy vehicles in China have been ahead of other joint venture brands for nine consecutive years [6]. At present, the development of new energy vehicles in China has entered the accelerated stage of marketization. From the sales volume of 8,159 Kankan units in 2011, the sales volume has surged to 9.495 million units in 2023, accounting for 31.6% of the market share; Since 2018, the production and sales have exceeded the million marks, and by February 2022, the output has exceeded 10 million units, and in July 2023, the output has exceeded 20 million units, realizing the growth from the 10 million to the 20 million units in only one year and five months.

2.2. Challenges Faced by Foreign Brands

The rapid growth of independent brands in China's auto market has had a significant impact on foreign joint ventures. Sales of Chinese brand passenger cars surged 68.6 percent year on year in January 2024, with the market share climbing to 60.4 percent, according to the China Association of Automobile Manufacturers. In 2023, the market share of Chinese brand passenger cars will exceed 50% for the first time in the year, reaching 56%. From 2020 to 2022, the shares were 38.4 percent, 44.4 percent and 49.9 percent, respectively. McKinsey predicts that by 2025, homegrown brands will account for 65% of the market, while joint-venture brands could fall to about 30% by 2030. Homegrown brands are steadily regaining market dominance.

2.3. Foreign Brand Sales Decline and Price Reduction Response

Gac Honda's 2023 sales fell 13.66 per cent from last year to 640,500 vehicles, while GAC Toyota's sales also fell 5.47 per cent to 950,000 vehicles for the full year. Liangtian, which has been the main revenue force of GAC Group, has seen its revenue decline in the face of declining sales. In 2023,

GAC Toyota's revenue reached 152.869 billion yuan, down 6.52% annually, while GAC Honda's revenue decreased to 93.528 billion yuan, down 18.75%. The company's profitability weakened, resulting in a 39.52% year-on-year decrease in GAC Group's annual investment income, a decrease of 5.657 billion yuan from the previous year.

Joint venture brands such as SAIC Volkswagen and FAW Toyota have launched new energy models and implemented major price reduction strategies to enhance market competitiveness. For example, the price of the SAIC Volkswagen ID.3 has been reduced by 50,000 yuan to 120,000 yuan only. Faw Toyota bZ3 offers a discount of 40,000 yuan, and the price is adjusted to 130,000 yuan; Buick E5, a large SUV, starts at 208,900 yuan, showing better performance than most domestic models [7].

3. Analysis of Joint Venture Brand Response Measures

Although the new energy vehicles of independent brands occupy a large market share, it does not mean that the joint venture brands do not have the possibility of overtaking. On the one hand, the joint venture brand electric vehicle market has just been in the initial stage and has not been fully launched; On the other hand, the level of market share is affected by a variety of factors, and the current leading of independent brands mainly benefits from the first-mover advantage. But the joint ventures realize that cutting prices alone won't keep market share in the long run and that they need to make fundamental changes to adapt to market demand by streamlining marketing systems, electrifying products, improving marketing strategies and localizing supply chains.

3.1. Price Reduction Strategy

Facing the fierce competition in the market, joint venture car companies are actively taking measures to reshape the market position. With the strong rise of independent brands, they began to reduce prices through strategies, such as Dongfeng Nissan and other brands to reduce prices.

In response to China's reduction of auto import tariffs, more and more foreign auto companies have joined the price reduction army. Ford Motor and Lincoln Motor announced reductions in manufacturer's suggested retail prices for their entire range of imported models in China in 2022.

Facing the fierce competition in the market, joint ventures are taking several measures to reshape the market positioning to respond to the competition, among which price reduction is a major strategy. For example, Dongfeng Nissan and other brands have used price cuts to respond to market changes. In response to China's policy of lowering auto import tariffs, many foreign auto companies have also cut prices. Ford and Lincoln, among others, have cut prices for their entire range of imported models in 2022. Ford China has adjusted the retail prices of its entire range of imported models to reduce them by 15,000 to 35,000 yuan. Among them, Ford's V8 GT sports car starts at 556,800 yuan, with a maximum reduction of 35,000 yuan.

However, the joint venture also realizes that it is difficult to maintain market share only by lowering prices, so it turns to adapt to market demand by refining marketing system, promoting product electrification, optimizing marketing strategy and localizing supply chain.

3.2. Technology R&D

In the context of the epidemic and changes in the international situation, multinational automobile enterprises are restructuring their supply chains in China and improving their intelligence level. Such as the strategic investment of Dazhong and Horizon, multinational enterprises have adjusted their strategies, strengthened cooperation with local enterprises, and grasped the new energy market.

Examples include VW's streamlined marketing channels and Stellantis' asset-light model; Another example is the cooperation between Smart and Geely, and BMW is considering moving the production line of MINI electric vehicles to China. Japanese brands are also actively moving toward electrification and launching new energy vehicle plans. It provides a variety of models including fuel, electric and hybrid to meet the diversified market demand, launches ten self-designed new energy

models, and plans to start the export business with an annual export of 100,000 units from 2025. Dongfeng Nissan's comprehensive strategy and independent research and development strength demonstrate its competitive foundation in the field of new energy vehicles.

In terms of supply chain system, the cooperation between joint venture brands and Chinese battery and intelligent driving enterprises is increasing day by day, such as the joint venture between Volkswagen and Guoxin High-tech, the joint research of intelligent driving between Mercedes-Benz and Tencent, the establishment of a unified battery procurement company by GAC, and the cooperation between Toyota and Momenta to study HD map production and battery procurement business [8].

3.3. Market Strategy

Taking GAC FICK Jeep as a case study, the joint venture has implemented the integration strategy of production and sales in the Chinese market and successfully expanded to the Southeast Asian market, realizing the strategic transformation of business model by virtue of its international standard production and research and development capabilities. For sustained growth and future competitiveness, the Company is strengthening its independent research and development capabilities and comprehensive innovation level, while actively integrating with the Belt and Road Initiative, aiming to enhance its market competitiveness in the global market.

Through strategic investment in brand building and sales channels, Dongfeng Nissan flexibly responds to rapid market changes. At the brand level, the introduction of Qichen and Infiniti brands further expands the company's market coverage. Dongfeng Nissan will consolidate its technological strength, focus on meeting the needs of younger and intelligent people, and dig deeper into the luxury car market segment. In terms of sales network, the Company has established a strong network covering more than 300 core cities across the country with more than 1,100 service outlets, ensuring quality after-sales service for a wide range of consumer groups.

It is worth noting that many multinational automobile companies have chosen to increase their direct investment in the Chinese market in 2022. For example, CARIAD, a software company owned by Volkswagen Group, has formed a joint venture with Horizon Intelligence, investing about 2.4 billion euros. At the same time, BMW Group announced the expansion of the power battery production line in Shenyang base of about 10 billion yuan. These increases in foreign capital have further promoted the competitive pressure on domestic independent brands and prompted local automobile manufacturers to accelerate reform and innovation. With the cancellation of the foreign ownership limit in China, the market competition environment will become more intense, and the foreign brands with weak competitiveness may gradually withdraw, while the domestic independent brands with strength are expected to achieve stable development in the competition.

4. Expectation

4.1. Challenges of Foreign Manufacturers

When evaluating the effectiveness of foreign auto companies' transformation strategies in the Chinese market, we should first understand the reasons for the weak competitiveness of foreign investors. First, in the past three years, the epidemic has to some extent hindered the opportunity for foreign parties to change their perception of the Chinese market and consumer behavior. Joint ventures may lack sufficient understanding and adaptability to the new Chinese market. Second, in the process of electrification and intelligent transformation, electric vehicle technology and business model are not mature and their profitability is limited, which also restricts the pace of joint venture transformation.

On the first question, they need to shift from their traditional marketing strategy, which relies on extensive dealer networks for lead gathering and advertising, and is costly in the process. Moving to refined operations management tailored to the needs of new user groups is a big test. It is also a challenge to fit the portrait between marketing, users and products. Given that joint ventures are still

dominated by foreign capital in terms of R&D, organizational structure and product iteration, whether they can lower their posture and establish cooperation with new technologies and new platforms in the future is the key to determine whether they can quickly adapt to market changes [9]. At the same time, this paper observes that some joint ventures are imitative of the sales model of emerging Chinese automobile brands. For example, SAIC Volkswagen ID series, smart brand and Buick have all tried to enter the retail environment such as shopping centers, aiming to increase the popularity of new energy vehicles and the flow of people, to change the public's traditional image of "fuel to electric" products. The price reduction decisions and market strategies made by the joint venture in the transformation are also based on the understanding of the Chinese market which has changed dramatically after the epidemic. However, to fully understand and grasp the general trend of the Chinese market, it is still necessary to continuously analyze the preferences and market trends of Chinese customers. Therefore, these methods of foreign investment in brand building and sales channels are effective but require foreign enterprises to keep a long-term observation of changes in Chinese market demand.

As for the second question, those foreign companies that have shown a strong willingness to develop in the Chinese market for the long term need to consolidate their business roots and are likely to expand their electric vehicle business by leveraging on the competitive advantages of their internal combustion engine models. If these companies can further work on plug-in hybrid (PHEV) and hybrid (HEV) technologies to compete with domestic mainstream brands, they may be able to recover lost market share. Therefore, the practice of reorganizing the supply chain of foreign enterprises and improving the level of electrification and intelligence can bring diversified product choices and a broader performance market for customers, and can effectively recover a part of the market share in the Chinese market [10].

In conclusion, for joint ventures to successfully transform in the Chinese market, they must adapt to rapidly changing market demands, improve product development and marketing strategies, and enhance their understanding and responsiveness to domestic consumer trends.

4.2. Suggestions

In the era of new energy, joint venture brand localization strategy is particularly important, technical cooperation is one of the rings, product pricing, marketing strategy, marketing channel construction and many aspects, such as supply chain system, must be to learn from Chinese brand.

The first is that product pricing needs to keep pace with independent brands. In the new energy era, joint venture brands are in a weak position and need to adapt to the pricing system of Tesla and independent brands. This is a necessary adjustment to better adapt to the Chinese market. Joint ventures have advantages in technology, talent, organization and quality. Today, many talents of independent brands and new car-making forces also come from joint ventures. At present, the first thing that joint ventures need to adjust and change is their ideas.

Now, software and the Internet are much more important, and the way companies work is changing. We need to build a network like structure where information and decisions can flow freely within the organization without hierarchical restrictions. This is a challenge for any organization because it requires changing old ways of working and managing. For joint ventures that partner with other companies, it may be more difficult to make the change, because getting used to the old ways can be as difficult as unscrewing the screws in one direction.

The biggest problem in joint ventures is the reaction time and speed, because the decision-making chain is too long and there are too many decision-making parties. In a rapidly changing market, this is a barrier. If corresponding adjustments are made in the internal organization and process, the joint venture will quickly adapt to the current development. As for the joint venture will be able to get out of the suppressed situation? What is followed, keep up with, or led? A lot depends on sensitivity to the external environment and the ability to quickly adapt and iterate on internal organizations and processes.

5. Conclusion

To sum up, this paper finds that foreign-funded enterprises are facing severe challenges in the Chinese market. With the rise of local brands in China, foreign joint ventures have been unable to make timely changes to electric and intelligent vehicles, resulting in a reduction in sales and market share, and joint ventures have fallen into crisis. However, there are also opportunities for transformation and adaptation in foreign joint ventures. Foreign joint ventures can stabilize the sales of their products by lowering prices appropriately, make their products more intelligent and electric by improving scientific research and technology, and re-occupy the position in the Chinese market by formulating market strategies that are more in line with China's localization.

Therefore, the strategic transformation of foreign car companies needs to adapt to the rapidly changing market, and at the same time, they need to learn and learn from the practices of Chinese brands, especially in the field of new energy vehicles. Foreign automobile companies need to change their machinery to electronic and software, and need to change their organizational structure. Joint ventures need to transition from the traditional bureaucratic system to a more flexible and rapid decision-making and management mode. At the same time, the importance of market localization strategy lies in product pricing, marketing strategy, sales channels and supply chain management. Foreign investment should shorten the decision-making chain and speed up the market response.

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