

Marketing Strategies for Chery Automobile Corporation

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Abstract

A marketing strategy is a road map for the marketing activities of an organization for future period of time. It always helps the organization to understand clearly about the questions like these: what are we now? Where do we want to go? How do we allocate our resources to get to where we want to go? How do we convert our plans into actions? How do our results compare our plans, and do deviations require new plans and actions? The paper tries to formulate a marketing strategy for Chery Automobile Corporation which is a Chinese local car manufacturer with short history. Chery's business mission is to improve living standards of Chinese people and people around the world by providing automobiles with reliable quality but affordable price. PEST analysis and SWOT analysis are conducted to help Chery to know its external business environment as well as internal environment well. And then marketing strategies as well as detailed marketing mix including product, price, placement and promotion actions are recommended for Chery, finally, suitable organization structure and effective control mechanism are also stated.

Key words: Marketing strategy; PEST, SWOT; Marketing mix

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1. RESEARCH BACKGROUND INTRODUCTION

In our modern consumer society, any organization which aims to survive and develop in the market should be marketing orientated. Satisfying customers' needs and meeting their expectations are the most crucial ways to retain, expand a business. While marketing plan plays a key role in the actualization of marketing activities. A marketing plan is a road map for the marketing activities of an organization for future period of time. In this business report, we mainly recommend a marketing plan for Chery Automobile Corp through the studies about its external business environment and internal environment by some useful business analytical tools like PEST analysis and SWOT analysis.

Chery Automobile Co. Ltd. was founded in 1997 in the city of Wuhu, in China's Anhui Province, specializing in the production and operation of automobiles and auto components. By 2005, the total assets of Chery stands at 11.8 billion Yuan (\$1.5 billion). So far, Chery personnel number amounts to 13,000.

Chery has developed complete product lines, and the company's own R&D projects have enabled the development and production of vehicles, engines, gearboxes and other core components. So far, Chery has introduced six types of car onto the market: Eastar, Tiggo, A5, Cowin, V5, and QQ. The present production capacity for whole vehicle and gear box is respectively at 400,000 and 300,000 units per year. In 2005, Chery achieved a sales volume of 189,100 cars with a total increase rate of 118%, and exported 18,000 cars overseas, ranking No.1 in the export of domestically made cars. Meanwhile, Chery is engaged in a number of R&D projects, in anticipation of introducing a number of brand-new models onto the market in 2006 and the short future. As a staged target, it expects to produce more than one million cars by 2010 and enhance exportation share to 40 percent of Chery total sales volume on overseas market.

2. CHERY CORPORATION'S BUSINESS MISSION AND MARKETING AUDIT

Initially, an organization or a company should have a business mission in the whole process of market planning process, which means "what business are we in and what business do we want to be in? It could be seen as a means of giving direction to an organization in the sense of deciding what activities to focus upon and where the boundaries of these activities lie." (David, 2001, pp.35-37) we think Chery's business mission is like this: we aim to improve living standards of Chinese people and people around the world by providing automobiles in reliable quality but with affordable price.

"The marketing audit is a systematic examination of a business's marketing environment, objectives, strategies and activities with a view to identifying key strategic issues, problems areas, and opportunities." (David, 2001, p.39) in fact, we do marketing audit to analyze the external environment and internal environment of an organization, that's because any organization conduct its business activities under the business environment, no organization can run its business successfully without considering about its external and internal environment.

External environment refer to Macro environment like Economic forces, Social/Cultural forces, Technological issues, Political/legal influence; The market like market size, customer, market segmentation and distribution; competition: who are the major competitors, what are their objectives and strategies, what are their strength and weakness, market shares and size of competitors, profitability analysis, entry barriers.

Internal environment refer to our own organization's operating results like sales, market share, profit margins, and costs; strategic issues analysis like marketing segmentation, core competence, positioning, portfolio analysis; marketing mix effectiveness: Product, Price, Place, Promotion, etc.

There are two traditional, important tools, PEST analysis and SWOT analysis are very helpful to analyze an organization's internal environment and external environment, although they seem simplified some complex analysis process, they still serve to highlight major issues.

3. PEST ANALYSIS OF CHERY CORPORATION

"Analysis of the external environment may be expressed by the acronym PEST, standing for political, economic, social-cultural, and technological factors, the PEST analysis is a useful tool for monitoring and evaluating forces which affect the organization over the long term (Janet, 2002, pp.23-25).

When we apply PEST analysis to Chery, we find:

3.1 Political-Legal Environment

China is a political stable country although lots of people think Chinese do not have democracy in politics and are dominated by Chinese communist party.

Chinese government's legislation on automobile industry will be more comprehensive, the legislation includes strong encouragement of Chinese automobile companies' R&D, innovation capabilities and protection on automobile industry's Intellectual Property Rights, which is good news for Chery because the company's strategy is to enhance company's core competence by improving its own R&D capabilities and innovation. Therefore, it means Chery's strategy will be encouraged and supported by central government; besides, as the largest corporation in Anhui province, Chery is also supported by provincial and local government abundantly.

"The Chinese government has placed resources saving and environmental protection in an important strategic position as it works out the country's development goals." (2006 White paper on environmental protection, Chinese government). China is now at a stage of accelerated industrialization and urbanization when the contradiction between economic growth and environmental protection is particularly prominent. In some regions environmental pollution and ecological deterioration are still very serious. China's population will keep growing, and its total economic volume will quadruple that of 2000. As the demand on resources from economic and social development is increasing, environmental protection is facing greater pressure than ever before. Therefore, Chinese government will impose stricter control on automobile emission pollution. They encourage development of energy-saving and environmentally-friendly cars were long overdue like some battery Hybrid energy or mixed breed energy.

3.2 Economic Environment

As we all know, as a developing country, china's economy grows very rapidly, especially in year 2006, "China's economy accelerated at the fastest rate in more than a decade in the second quarter, growing by 11.3 per cent year-on-year on the back of a swelling trade surplus and rapid expansion in investment. The surprisingly strong growth in gross domestic product, which was up by 10.9 per cent in the first half of the year" (Richard McGregor, Financial Times, Jul 19, 2006) therefore, china's fast economic growth will definitely spur the development of automobile industry and people's consumption of automobiles.

With the fast development of economy, Chinese people's income have also been increased, for example, "The income of Beijing's urban citizens grew 13.7 percent and rural residents' revenues rose 10.4 percent in the first 10 months of this year, sources with the local statistical bureau announced on Tuesday." (China Daily, Nov15, 2006) More Chinese people become capable of

purchasing private cars which once were regarded as very luxury products beyond their consumption capabilities. "In the first three quarters of this year, sales of domestically-made vehicles grew by a quarter to 5.17 million units with car sales rocketing by more than 30 per cent. Full-year sales are expected to total 7 million units, enabling the country to dwarf Japan as the world's second biggest vehicle market." (China Daily, Nov20, 2006)

3.3 Social-Cultural Environments

China has the world's biggest population, it has 1.3 billion people, and therefore, China can be viewed as the biggest potential market in the world.

In recent years, Chinese university graduates are facing unemployment problems because of extra enrollment by Chinese universities in past years. This may be bad news for graduates but good news for business enterprises, since they can hire better staffs with less payment.

3.4 Technological Environment

As we have mentioned above, Chinese enterprises' R&D and innovation are greatly encouraged and supported by Chinese government and provincial, local governments, "We aim to set up a technological innovation system that has enterprises as the main participants. It will be market-oriented and supported by close cooperation between industry, colleges and research institutions," said a Chinese government official. "China aims to raise spending on scientific research and development to 2 percent of GDP by 2010, according to a government document issued on Friday." (China Daily, Oct28, 2006)

We think a good technological environment should be based on a high level of technology education and training which would benefit the enterprises' recruitment of skilled workers, china seems shortage of skilled workers comparing with its fast growing manufacturing industry. Therefore, Chinese government has planed to strengthen the technology education and training, "Chinese Prime Minister Wen Jiabao said more efforts should be put into developing occupational and technology education, as it would help alleviate the shortage of skilled workers and help more migrant workers and urban unemployed obtain jobs." (China Daily, Nov 22, 2006)

4. SWOT ANALYSIS OF CHERY CORPORATION

While the SWOT analysis is a commonly used planning tool, which assesses the firm's profile in terms of its strength, weakness, opportunities and threats. Focusing on both internal and external environments, it serves to highlight a firm's distinctive competences, which will enable it to gain competitive advantage. When we apply SWOT analysis to Chery, we find that:

4.1 Strength

Chery has strength of independent R&D capabilities, Chery has established its own R&D institution with more than 1000 expertise and knowledgeable staffs, it contributes about 10% of its annual sales to the R&D activities, which was regarded very high comparing with its competitors. Chery also has independent intellectual property rights on its core technologies, such as engine named by "Chery power".

Chery has strength of cost-saving by its location. Wuhu is a medium-sized city in Anhui province, compared with Chery's competitors' locations (always big cities like Beijing, Shanghai), Chery's cost of operation will be much less because of relative lower wages of workers in medium-sized cities. While Wuhu is very near from Nanjing where the second largest amount of universities, vocational colleges are in China, therefore, Chery accesses skilled workers while still maintaining relative lower costs.

Chery has strength of entrepreneurial and flexible spirit in running business. It is not a classic state-owned enterprise but was actually managed by some talented and energetic entrepreneurs. Chery is less bureaucratic and more entrepreneurial than state-owned competitors.

Chery has rapid growth rate, especially, in micro-car markets by its model QQ which has gained good reputation and brand image for Chery.

As an independent Chinese car manufacturer who doesn't rely on foreign core technologies to produce engines, Chery has won some nationalistic sentiment among Chinese patriots.

4.2 Weakness

Comparing with world-famous car giants, Chery still lags behind in R&D, product design, quality and management expertise because of its short history and limited resources.

Chery's brand image and influence can not match those world-known car makers like Ford, GM, Toyota, Nissan, etc. Though it has gained certain market share against those famous brands, consumers still regard it as a just emerging brand, of which the most attractive thing is low price, but no more.

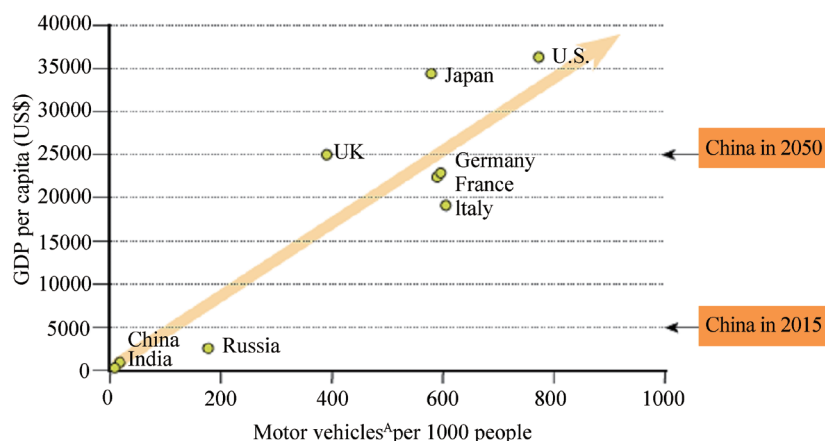
4.3 Opportunities

Chinese market has great potential, China has much less cars per 1000 people than developed countries.

More Chinese people will buy cars. Because of fast developing economy, consumer's purchasing power in China has been picked up rapidly, especially in the country's prosperous coastal urban areas. More middle-income Chinese families can afford cars in the coming years thanks to rising income and falling car prices. "The China Automotive Show has opened in Beijing amid rocketing sales and few signs that growing traffic congestion, pollution and rising fuel prices were clouding the future of the industry (AFP, Nov 20, 2006)."

Specialization in micro-car manufacturing can be an opportunity for Chery because of rising fuel prices. Micro-car consumes less fuel.

Penetration into middle-end markets but with lower cost is still an opportunity for Chery. Strengthening R&D on environment-friendly energy is the most beneficial opportunity but with the greatest expense.



Note: ^ACars, buses, and freight vehicles, but not two-wheelers.

Source: "World Development Indicators 2005," "The World Bank, March 2005; Wilson, Dominic and Roopa Purushothaman, "Dreaming with BRICs: The Path to 2050," Goldman Sachs, October 1, 2003; IBM Institute for Business Value analysis.

4.4 Threats

The biggest threat is more and more fierce competition in automotive industry and It's a tough market because every global manufacturer is there" said Bruce Belzowski, an auto industry researcher who works at the University of Michigan's Transportation Research Institute. (Investor's Business Daily, Oct 26, 2006) Because of fierce competition, customers have so many choices of car models and price has been cut down by many producers. "Competition has kicked in. People can choose from 120 models now," said Michael Dunne, president of Automotive Resources Asia, a consulting firm that was recently acquired by J. D. Power & Associates. "There's a lot of pressure on pricing, which is coming down double

Chinese auto-market. "China is the wild, Wild West of the digits each year." (Investor's Business Daily, Oct 26, 2006)

Infrastructure challenges affecting automotive development, such as road infrastructure, gas station distribution, traffic management and parking space availability. Road infrastructure needs to link rural and urban China; there is an abundant of gas stations, but they are unevenly distributed; management of the transportation infrastructure is a key challenge; a parking space shortage aggravates the situation.

Higher fees for fuels and routine maintenance.

Fuel and maintenance costs (authorized and unauthorized dealerships)	Average annual expenditures (USD)*		%of Households' gross annual salary for 2005*
	2001	2005	
Fuel	\$710	\$986	8.0%
Routine Maintenance	\$111	\$119	1.0%
Total	\$822	\$1,105	9.0%

(Source: J. D Power & Associate, 2006)

5. MARKETING STRATEGIES FOR CHERY CORPORATION

The results of PEST analysis and SWOT analysis lead us to form some marketing strategies for Chery.

5.1 Product Development

Chery can have product development strategy which involves increasing sales by improving present products or developing new products for current markets. Chery's micro-car model QQ has been very successful in the

market by its low price, less fuel consumption as well as fashionable design. QQ has established some brand image and customer loyalty for Chery. We suggest Chery develop and improve its micro-car models to increase market shares. Chery's middle-end models like Eastar also have stable market shares by its similar quality with famous brands but with lower price. We think Chery has possibility to increase its middle-end models sales by continuing to improve middle-end cars' quality and design while still maintaining lower price than its competitors.

5.2 Market Development

Second, Chery can expand its sales in foreign markets, especially, in emerging markets like Vietnam, Thailand, Middle East countries, etc. in fact, Chery has achieved good performance in those emerging markets by its inexpensive, reliable cars. The profits generation in those foreign markets can strengthen and provide more funding for its domestic operation.

5.3 Target Markets and Market Segmentation

Third, we think Chery should be very clear about its target markets or market segmentation. According to our research, Chery's target markets can be classified into two categories. First, young people and people young at heart, they mainly buy Chery's micro-cars. Second, middle-class customers who have stable income but not so wealthy, they mainly buy Chery's middle-end cars.

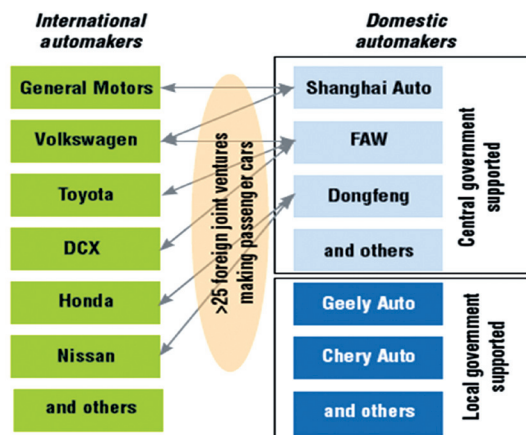
5.4 Competitor Targets

Chery should be alert about its competitors, the competition in Chinese automobile market become more fierce, any company who want to survive and develop in that tough market must understand and be careful about its competitors. We believe Chery's competitors can be classified into three categories:

First, foreign giants who have world-famous brand, strong R&D capabilities as well as long history management expertise, although they mainly aim to control high-end markets, they also have continuous discount to compete in low-middle end markets

Second, Joint ventures between Chinese state-owned enterprises and foreign car giants like SAIC (Shanghai Auto Industrial Corp). Those joint ventures actually have both the strength of local marketing expertise and world's class technology.

The third category is other Chinese local brands such as Geely, Hafei, Tianjin, etc. those companies provide similar products with Chery, they can be viewed as the same class of competitors. Besides, there are also lots of potential competitors who attempt to enter into Chinese automobile market in the near future.



Source: OSAT and IBM Institute for Business Value analysis.

6. MARKETING MIX OF CHERY CORPORATION

Having selected the target market consumers and understanding its target competitors, Chery should take steps to satisfy those target customers' needs, the organization, especially, the marketing department should take some action and develop a complete marketing program to reach consumers by using a combination of four tools, often called the "4Ps or Marketing Mix: Product, Price, Promotion and Place" (Berkowitz, 1997, p.13) we will analyze those 4Ps for Chery in turn.

6.1 Product

According to our analysis, chery should continue to develop its product to satisfy its target markets better. We suggest Chery develop its products in the three following ways:

First, continue to specialize in micro-car manufacturing and have further improvement in its micro-car, for example, it can add some fashionable entertainment in the car like MP4, or computer games like PSP or redesign the space of the car to provide fixed place for basketball, football, or tennis, etc. although all those things can be just placed randomly, if you have special design for them, it will be better. It can also redesign the outlook of the car, make the car seem more fashionable, and cute. Do some research to know young people's expectation about the design? A good name is very important to win customers; young people seem not like names that represent glory success or luxury, that will represent old age and worldliness by their sights. However, a cute, fashionable and easy-to-remember name always win young people's heart.

Second, develop middle-end models to meet some middle class consumers' needs, Chinese middle class like high school teachers, university teachers, doctors, civil servants actually have stable income but still not so wealthy to afford expensive cars from world-famous brands. Therefore, Chinese brand with relative lower cost but in reliable quality are still attractive to them. We recommend Chery compete for middle-end market shares against those world famous brands, on the basis of providing similar quality but with lower price products.

Third, strengthen its R&D on environmental-friendly energies usage although it seems expensive to invest in short-term, it will be strategic beneficial in the long run. as we have mentioned above, environmental protection and alternative energies have become more and more influential to car manufacturer. We believe environmental-friendly energy's R&D and practical usage will give a car-maker great competitive advantage because the society becomes more aware of the importance of environmental protection and maintenance.

6.2 Price

Chery must be very clear about its pricing objectives, methods and the factors which influence price setting, it

can also use some price strategies like discount, sales, and allowance to attract customers. Since the company adopts cost-leadership strategy, Chery must set its price below the average industrial level. Comparing with its strong brand competitors, Chery should set price much lower in similar models. In order to maintain profits, it asks much for Chery to control its cost effectively.

6.3 Place

Basically, lots of car giants set up 4S store, (4S means Sales, Service, Spare parts and Surveys) as their main placement.

4S store is a good placement for Chery too, but we think Chery's placement could be wider. We recommend it set up small service store near residential area which provides basic spare part, after sales service, repairs, it will be cheaper than setting up 4S store but it will be more convenient and less expensive in providing services to customer. Auto trader market which like a super center for car sales is also a good placement, Chery should establish good relationship with those retailers to have better place to sell cars. Franchising can be a cost saving but rapid way for Chery to expand its business. However, it should be on the basis of uniform management. Online market will still be a significant try for Chery although e-commerce is still with lots of problems in China. Chery can develop its online sales mainly among youth; they may accept that way more willingly.

6.4 Promotion

According to David, "promotion can be viewed as promotional mix like advertising, personal selling, sales promotions, public relations, direct marketing and internet and on-line promotion. By these means the target audience is made aware of the existence of a product or service and the benefits that it confers to customers." (David, 2000, p.15) we suggest Chery improve its promotion in the following ways:

First, Chery should cooperate with its retailers to improve advertising and promotion for its products, a cooperative and mutual-dependent way should be established to conduct better promotion.

Second, conduct promotion in a cool and fashionable way. Because Chery's target markets are mainly composed of young people, Chery had better conduct its promotion in a special way to suit young people's tastes. For example, organize a competition about cool beautification of Chery cars among the owners, young owners always like to decorate their cars in a way they believe cool and fashionable, therefore, we can organize some competitions and vote for the coolest and most fashionable decoration among owners, owners can just vote for coolest decoration on the internet because all the candidates' decoration photos are displayed on the internet.

Third, auto exhibition is still a good way for promotion, for example, 2006 Beijing international

auto exhibition, which is a practical way to promote the products to consumers, by which consumers can see the real, latest model, or ask professional staff for the information about the car, or even have a ride for try in the car. It is also an opportunity to establish good relationship with customers, and a channel to establish right public relation with government, press media, and other corporations.

Fourth, the promotion can be connected with sport events like car racing, football league, basketball match, etc. although it is always expensive, we do have lots of successful examples of promotion through sport activities.

Fifth, promotion on the internet, it is the most popular, relative inexpensive way, cooperate with some big servers like Yahoo, Google, MSN, etc. Chery can have a good display of its products on the internet; it can also design interesting flash games for its products or issue some essays to have brief explanation about its products and service

Sixth, traditional media like TV, newspaper, magazine, Bus-advertising can still be applied for promotion. TV is the most expensive way, as a developing enterprise, Chery should be very cautious about the cost of TV advertising.

7. ORGANIZATION AND CONTROL

No marketing plan will succeed unless it 'degenerates into work' (Drucker, 1993, p.128.) therefore, Chery should have a dedicated marketing department to implement the marketing plan, it can have several specialized teams to implement different functions of its marketing plans in company, for example, it can set up a specialized team for internet promotion activities. Besides, a marketing plan can not be realized by only marketing department, all departments like production, R&D, Finance, HRM, etc must cooperate with each other to form integrated efforts. Therefore, Chery should have reasonable management in coordinating different departments to realize its marketing plan together.

The final stage in Chery's marketing planning process is evaluation and control. Chery should have short-term control systems which control and evaluate the results on a weekly, monthly, quarterly and annual basis as well as long-term control systems like some strategic control system to check whether the plans keep pace with real capabilities and environment.

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