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Wanxiang Group: A Chinese Company's Global Strategy

On a late night in December 2007, Lu Guanqiu, the founder and chairman of Wanxiang Group, the largest auto-parts maker in China and a supplier to the Big Three Detroit carmakers (General Motors, Ford, and Chrysler), had just finished a phone call with his son-in-law, Ni Pin, the president of Wanxiang's U.S. Operations. The two were discussing how to build on and nurture the synergies in the companies Wanxiang had just acquired in the U.S., and integrate them with the company's operations in China. Lu and Ni were not strangers to post-merger integrations. Since 1994, Wanxiang had acquired more than 15 auto-parts companies around the globe. A key learning experience they did not want to repeat was the failed acquisition in 2001 of Universal Automotive Industries (UAI).

When Wanxiang bought a 20% stake in then NASDAQ-listed UAI, a Chicago-based manufacturer of brakes, it was the first acquisition of an overseas-listed company by a former Chinese Township and Village Enterprise (TVE).[1] UAI was on the verge of bankruptcy, and Wanxiang thought it could inject new strength into the company, given Wanxiang's record of success. However, Wanxiang was unable to turn around the heavily indebted business despite Lu's strategy of "producing at Chinese cost and selling at U.S. prices." A primary cause of failure was Wanxiang's conflicting positions as both a supplier and controlling owner of UAI. Wanxiang's management was advised not to take an active role in management or be more than a silent observer on UAI's board, since it was also UAI's primary supplier. The advice was meant to ensure that the company's two roles were at arm's length to prevent any conflict. However, as a result of its silence, Wanxiang was unable to influence the company in any meaningful way and it continued to sink. Wanxiang's intended cost savings by selling China-produced products at U.S. prices were not significant or quick enough to save UAI. Seeing the writing on the wall, Wanxiang felt it had no other choice but to exit the business. UAI later was liquidated in bankruptcy court in September 2005.

Lu and Ni took the lessons learned from the UAI failure and sought to create a stronger Wanxiang. In order for Chairman Lu to achieve his vision of turning Wanxiang into a multinational company—one that could continue to grow at the tenfold-per-decade pace it had enjoyed for the past 30 years—by 2009 Wanxiang would need to earn RMB10 million in profits per day. This would be a decisive year for the company that had defied many odds to achieve great success in China.

Senior Fellow Regina M. Abrami, Professors William C. Kirby and F. Warren McFarlan, Senior Researcher Keith Chi-ho Wong, and Research Associate Tracy Manty prepared this case. HBS cases are developed solely as the basis for class discussion. Cases are not intended to serve as endorsements, sources of primary data, or illustrations of effective or ineffective management.

The Early Days of Wanxiang

Succeeding as an Entrepreneur in the Wake of the Great Leap Forward

Wanxiang's ascent since the late 1970s had been extraordinary. At that time, only state-owned enterprises (SOEs) were included in the country's central economic plan and could get source materials from other SOEs at favorable prices. Although Wanxiang did not have such benefits, Lu, a poor peasant from Zhejiang who founded Wanxiang at the peak of the Cultural Revolution,[2] managed to grow his business by filling market niches overlooked by SOEs and by circumventing bureaucratic red tape. By the end of 2007, the Wanxiang Group reaped RMB40 billion in revenues (approximately US$5.6 billion[3]) garnered from a diversified set of industries, of which US$1 billion was generated from its U.S. operations. The company operated 20 manufacturing plants across the U.S., Canada, Mexico, and Europe (**Exhibit 1** provides sales growth data for Wanxiang Group).

Lu began his entrepreneurial career under some of the most difficult sociopolitical conditions in China's history. In 1962 China was just recovering from Mao Zedong's "Great Leap Forward," which led tens of millions of people to die from famine. The government was still committed to communism, and private enterprise was essentially forbidden. Lu had just spent three years as an apprentice in a state-owned steel plant but found himself jobless when the plant was forced to downsize. Lu was sent back to the village of Ningwei in Zhejiang province where his "hukou," or resident permit, was issued. Needing work, Lu founded a food processing plant in his hometown but it was forced to close because the government would not grant him a permit.

In 1969, Lu started up another business, the firm that would become Wanxiang. The company was originally a farm tool repair plant under the People's Commune of Ningwei. Together with six other partners including his wife, Lu launched the company with $500 in capital. Despite obtaining legal status under the commune system, this village-based business was still excluded from the central economic plan that regulated quotas. Thus, Lu's plant was not entitled to source its raw materials or sell its output through other SOEs. Lu survived by acquiring scrap steel from nearby villages to make his farm tools, which included plow cutting blades and components for plow tractors. He later was able to acquire high-quality scrap cannon barrels to produce his products. However, Wanxiang still did not have a market in which to sell its products because of its exclusion from the central economic plan.

It was not until 1973 that Lu was given an opportunity to sell his tools to the municipal farm-tool company in Hangzhou, the provincial capital of Zhejiang. Although he was turned away by the local government in his first attempt to get orders from them, Lu left his wares as product samples. In a stroke of luck, demand for plows grew and the local government recognized that Lu's products were of superior quality. The government immediately included Lu's factory in the economic plan and gave it a regular steel procurement quota. From that point forward, Lu's plant gained access to the market in Hangzhou and later to the entire province of Zhejiang.

By the end of 1970s, the farm-tool repair plant had become a major employer in the village of Ningwei, hiring over 300 local people and manufacturing a wide range of metallic parts such as bearings, steel castings, engine nozzles, and universal joints. A major opportunity emerged in 1979, when the Third Plenum of the Eleventh Central Committee of the Chinese Communist Party started a process of economic reform. Lu decided to abandon all his product lines except universal joints after realizing the market potential in the central government's plan to produce 160,000 automobiles and dramatically increase truck production by 1981.[4] However, seizing this opportunity was not easy. The Ministry of Machinery Industry[5] planned to consolidate more than 50 factories producing universal joints down to only three. Motivated by the risk of elimination, Lu enhanced production

quality both by recalling 30,000 units of below-standard universal joints and by hiring external experts to help improve his factory's craftsmanship. Wanxiang, whose name was truncated from the three-character word for "universal joint," passed the Ministry's evaluation, scoring 99.4 out of a maximum of 100. Despite not having a long history or brand name in the domestic auto industry and without the designation of an SOE (as the other two surviving manufacturers were), Lu's factory's performance was so superior that it was selected as one of the three surviving universal joint producers in China.

Distinguishing Itself from State-owned Enterprises

From his early days of working with the SOEs, Lu realized that the country's planned economic system failed to motivate people to produce beyond predetermined targets due to the lack of incentives. In 1983, Lu became a pioneer in the so-called "contract system" under which he personally guaranteed to submit a fixed annual payment to the government of Ningwei village (with an annual incremental increase of 20%). In return he would have exclusive management rights over the factory for three years. After assuming this control, Lu introduced a "responsibility" system where each employee was given a floating salary structure based on his/her performance. Production improved significantly and the factory output increased from roughly RMB 5.5 million in 1983 to over RMB 19 million in 1985.[6]

The Emphasis on Human Capital

Lu was committed to recruiting talented staff, particularly those with knowledge in engineering and production, to raise the quality of the factory's output. However, in an era when all factors of production including labor were under the central command of the state, all university graduates were "allocated" to various units such as state-owned factories or government agencies. As a TVE, Wanxiang was excluded from the government plan and was unable to recruit qualified employees. To solve this problem, Lu turned his attention toward the talent pool of high-school graduates who could not get into universities. Mo Xiaoping, the general manager of the Chief Representative's Office at Wanxiang, was among the first of these recruits. He recalled:

> I joined Wanxiang in early 80s. After the reinstatement of the national university entrance examinations, there were a lot of people who didn't make it into universities. Lu (Guanqiu) then sought to recruit those youngsters who failed to get into universities. I was one of those. Now most of us have become the top management. We were trained by Mr. Lu. Even today, all key new hires still have to pass through a personal interview by Chairman Lu.[7]

Lu was still eager to get access to university graduates. In 1984 Lu found an opportunity to take this issue up with a state councilor who visited the factory. During the visit, the councilor asked Lu about his most serious concerns. Lu responded that he was hoping TVEs would get allocations from the government for university graduates, but at the same time Lu suggested a novel idea: He proposed paying RMB 6,000 for each university graduate allocated to Wanxiang. While the idea of "buying" university graduates might seem inappropriate, the proposal was eventually approved by the provincial Communist Party office of Zhejiang, and four graduates were allocated to Wanxiang.[8] To buttress this initial group, Lu fully sponsored 44 high-school-educated employees to study at colleges including Jilin University of Technology and Zhejiang University. By the mid-1990s, the State Education Commission had designated Wanxiang as a "major allocation unit" where large numbers of university graduates were formally assigned to work at its Zhejiang plants.

Lu's emphasis on human capital continued. When Lu first visited the United States in 1985, he was shocked at the huge gap in productivity between the two countries. In the U.S. there was a factory that produced more than 4 million units of universal joints with a mere 250 employees. At that time Wanxiang had approximately 1,000 employees but only produced 800,000 units annually. It was then that he decided to initiate the "Three Elimination" policy to eliminate obsolete equipment, products, and personnel. Lu detailed the steps he took:

> We didn't implement the policy in one single step. First, we retired the older staff and compensated them for early retirement. For those who remained, we asked them to follow new standards to improve their quality. We tried to move some of them to new positions if possible and retained their original salaries. We also rotated their jobs to improve their quality. In short, we implemented the policy step by step; you couldn't do it in one single move.[9]

Research and Development

Another focus was Lu's commitment to quality. Lu introduced a policy named "Four Heights" that aimed to heighten investment in technological development, improve equipment to achieve greater precision, nurture higher standards for personnel, and manufacture higher-quality products. Based on this policy, Wanxiang invested around 5%–7% of its annual revenue on research and development activities. The company's research center, which cost more than RMB50 million to build, housed over 200 researchers, many of them holding Ph.D. degrees. Top-ranked among a total of 334 "Enterprise Technology Centers Certified at the National Level," the research center was granted preferential treatment by the state, including tax exemptions on imported subjects used for scientific research.[10] Apart from attaining IS0 9000[11] and QS 9000[12] certifications, Wanxiang was also granted over 300 patents, almost half of them in universal joints.

Embracing State Influence

Wanxiang had become a private enterprise in 1994 after spinning off its automotive parts division, Wanxiang Qianchao, through an initial public offering on the Shenzhen Stock Exchange. But the influence of the Chinese Communist Party (CCP) was still evident in all aspects of the company's operations. First, Lu had become a member of the CCP in 1984. Lu's only son, Lu Weiding, who later became president of the company in 1994, was first admitted to the party as one of the alternate members of the Central Committee of the Communist Youth League around 2000 and then gained full membership in 2007. Also, CCP officials occupied prominent positions within management, particularly in the areas of human resources and corporate administration. Yang Yanle, general manager of the Work Office of the Party Committee, explained how the CCP organization worked in a private enterprise: "Enterprises operating on Chinese soil are under the leadership of the Chinese Communist Party. The Party is an advanced organization and represents the excellent staff and citizens of the society. We will try to gather all the "advanced members" as the core of the sub-branch of the Party and make them contribute to the success of the enterprise."[13]

The Global Auto-Parts Industry[14]

The global auto-parts and equipment industry consisted of products sold both as Original Equipment (OE) and as aftermarket parts. Products sold as OE were used for assembling new vehicles, whereas products sold to the aftermarket were used for replacement parts in repairs and/or

as accessories. OE parts accounted for about 70% of the production in the United States. In 2005, almost 75% of Wanxiang's business structure was dedicated to delivering OE auto parts.[15] The size of sales in the global auto-parts aftermarket was estimated to be $504.9 billion in 2006, reflecting a compound annual growth rate (CAGR) of 2.2% during the five-year period spanning 2002–2006.[16] While the auto industry in the United States was facing constant downward pressure due to higher costs of source materials, lower sales, and stiffer competition, the aftermarket business was able to maintain positive growth rates due to the consolidation in the market, which produced economies of scale, and the fact that people were holding on to cars longer and therefore demanding replacement parts.[17] The U.S. accounted for 37.7% of the global market for aftermarket auto parts. (**Exhibit 2** shows a breakdown by value of the global auto-parts aftermarket.) In 2005, Wanxiang, which expanded production beyond universal joints to include other parts such as suspension systems, shock absorbers, exhaust systems, brakes, hub units, and constant-velocity joints, had aftermarket sales that accounted for almost 25% of its business.[18] (**Exhibit 3** details Wanxiang's product line). In 2006, the value of auto-parts exports from China had topped US$8 billion, with more than half of the product going to the United States.[19]

U.S. car manufacturers employed just-in-time (JIT) processes that carried zero inventory in their assembly lines. This business model not only allowed the manufacturers to put the inventory risk in the domain of the parts suppliers, but it also forced additional production risk on the suppliers when product specifications changed. Knowing that offshore suppliers were improving in their technical know-how, the Big Three encouraged their U.S. parts suppliers to shift their production overseas to achieve further cost savings. For example, Superior Industries International Inc., a manufacturer of aluminum wheels based in Van Nuys, California, was told by General Motors and Ford, which combined 85% of the company's $840 million annual sales, to lower its prices to match those offered by Chinese suppliers. The company's president, Steve Borick, recalled, "It's presented very simply. This is the price we (General Motor and Ford) are getting for this product. Close that gap no matter how"[20]—otherwise they would source it directly from China or find a North American supplier who would do so. Eventually, Superior started making wheels in China to maintain its profit margin.

The OE market in the U.S. amounted to $184 billion in 2006.[21] Delphi, previously owned by General Motors, was the largest supplier in the North American market, generating over $16 billion revenues from the U.S., Canada, and Mexico. Visteon Corporation, a former subsidiary of Ford, was also a top supplier, whose 2005 annual revenues from North America reached $9.7 billion. (**Exhibit 4** compares the Top 10 OE suppliers from North America.) Both Delphi and Visteon were facing great financial hardship amid high operating expenses caused by increasing fuel prices, production cuts from their customers due to overcapacity, and high interest rates. More importantly, the hourly wages for U.S. workers on assembly lines making components such as electric-wire cables, small motors, brakes, and suspension systems averaged $22.50, and made it difficult for the U.S. suppliers to compete with low-cost producers in places like China where a worker was paid around 90 cents.[22] To make matters worse, U.S. suppliers also had to continue to pay wages to its laid-off staff. For example, Delphi paid 95% of the monthly base pay up to a maximum of $40,000 for almost 4,000 workers it had laid off.[23] After losing $4.8 billion in 2004 and another $750 million in the first half of 2005, Delphi filed for bankruptcy in October 2005.[24] Visteon, on the other hand, fared better when its former parent, Ford, arranged a $3 billion bailout plan. The company was able to transfer most of its hourly-wage and salaried employees to another company held by Ford. As a result, Visteon lowered its average hourly labor cost from $37 to $17, while its staff in Mexico became its primary production base with 56% of its global workforce.[25]

The Big Three were increasingly sourcing raw materials and components from offshore locations. In 2004, $64 billion (approximately 34% of total) of OE parts used in vehicle production in the U.S. were imported, representing a CAGR of 7.3% since 1997 (**Exhibit 5** shows a breakdown of imported

OE parts). In 2006, the combined share of Canada and Mexico imports dropped by 1% to 49% of total imports. China, which increased its imports to the U.S. from $5.4 billion in 2005 to $6.9 billion in 2006, accounted for the decline in share from these NAFTA partners. While indigenous Chinese part suppliers like Wanxiang had increased their market shares, most of the major suppliers had also established production plants in China, thus contributing to the growth of imports from China. Most of the products from China (such as tires, wheels, and glass) were of low-tech content. However, Chinese parts suppliers had improved production quality, which resulted in multinational carmakers such as Volkswagen and DaimlerChrysler stepping up their orders for brakes, fuel pumps, and steering systems from Chinese suppliers.[26]

The demand for lower prices by the Big Three resulted in a huge wave of consolidation in the auto-parts industry. There were at least 36 bankruptcy protection filings submitted by auto-parts suppliers since 1999, with eight filings in 2006.[27] Small and medium-sized suppliers found it ever harder to survive the competitive forces brought by a globalizing auto manufacturing supply chain. Out of the 800-plus auto-part suppliers that existed in the 1990s, only 450 were left in 2001.[28]

The Globalization of Wanxiang

Wanxiang's path toward internationalization began in 1984 when it developed a relationship with American auto-part manufacturer Zeller Corporation. Zeller, then one of the top three producers of universal joints in the United States, had ordered 30,000 units of universal joints from Wanxiang, making it the first purchase of Chinese made auto parts by an American company. Zeller's move came as a surprise to Wanxiang because of its timing. When Zeller sent representatives to visit Wanxiang's plant in Ningwei, it was a time when few foreign firms were entering China. (Lu had to seek approval from the Communist Party Secretary of Hangzhou to accept their visit.) In 1985, Wanxiang signed a five-year agreement with Zeller to produce 200,000 units of universal joints annually for the U.S. company. Within two years, however, Zeller proposed that it obtain exclusive distribution rights on all of Wanxiang's exports to the U.S. or else it would stop its orders. Despite the risk of losing a major international account and taking on a huge amount of unsold inventory, Lu declined and explained his reasoning to Zeller's representative as follows:

> So be it. If you (Zeller) can find universal joints of better quality and lower prices anywhere else in the world, then you can terminate the contract anytime you want. Nonetheless, we are still very grateful for the support you gave Wanxiang in the beginning. We shall welcome you to cooperate with us in the future.[29]

Zeller terminated the contract with Wanxiang, leaving hundreds of thousands of universal joints in Wanxiang's warehouses and resulting in substantially reduced bonuses for its employees. To resolve this situation and unload its inventory, Lu quickly moved his attention toward find new customers in other overseas markets such as Japan, Italy, and Germany, and to develop new products to diversify the company's offerings. The company successfully found new clients at the Guangzhou Trade Fair, then almost the only window for exporters to show their wares in China, and sold more than 700,000 units of product totaling $1.4 million. These efforts enabled Wanxiang to overcome the hardship of losing its strategic partner. In 1988, Zeller renegotiated with Wanxiang and signed a new contract worth over $1 million. By 2000, in a turn of events, Zeller was facing financial difficulties and its owners proposed selling the company to Wanxiang. Together with LSB, another American auto-parts company, Wanxiang struck a deal to assume ownership of Zeller's brands and patents while LSB took over its other fixed assets. Wanxiang immediately added $5 million revenue to its U.S. operation, and more importantly, gained access to a strong local brand and sales infrastructure.

From its early experience of exporting through Zeller, Lu established his philosophy of "going out," whereby Wanxiang aimed at "earning foreigners' money, using foreigners' resources, being foreigners' bosses, in a foreigners' land."[30]

Wanxiang America

We didn't have a plan. We were taking a ride and seeing what we could do.

—Ni Pin[31]

Wanxiang's entry into the U.S. was not the result of a grand strategic plan. Ni Pin, president of Wanxiang's U.S. operations, had intended to have a career with the Chinese government after completing his studies at Zhejiang University. Historically, and until shortly after the Tiananmen Square incident in 1989, the best and brightest students in China aspired to work for the government. Ambitious and eager to make a change in China, Ni Pin graduated in 1989 with a degree in economics. Ni opted to work at the provincial level for the Chinese Academy of Social Sciences in Zhejiang. As part of his role in the provincial government he was sent to Wanxiang for training. Believing that his prospects for having an influential role in government were diminished (at least for the immediate-term given the aftermath of Tiananmen Square), Ni chose to stay on at Wanxiang. There he met his wife and became a member of the Lu family. Although he now had strong ties to the family business, Ni still hoped for an opportunity to contribute to the Chinese government. With this in mind, he decided to pursue his Ph.D. in Economics at the University of Kentucky in 1992.

Once settled in Kentucky, Ni's father-in-law encouraged him to test the waters of the U.S. market. Ni set up Wanxiang America and registered the 100% owned subsidiary as a Kentucky corporation in 1993. Within a year, Ni dropped out of school and moved to Chicago to dedicate himself to the family business.

Growing the Export Business

Beginning in 1994, Wanxiang America set out to generate new business. At the time Wanxiang did not directly export to the United States. It did not have an export license and thus Wanxiang sold its products through Chinese trading houses that sold directly to U.S. customers. When Dana Corporation, one of Wanxiang's earliest customers, learned that Wanxiang had established a U.S. presence, it urged Ni to export directly to them because the trading houses were chaotic: they undercut each other on price and had even sold downstream to Dana's customers, affecting its business. However, given the restrictions against exporting at the time, Wanxiang America had to work as the bridge between Wanxiang China and its ties to the trading houses, while also maintaining its focus on establishing new customers and building the business in this new market.

Lu was enthusiastic that Wanxiang was headed in the direction of becoming an exporting company, despite the challenges. According to Ni, Chairman Lu viewed exporting as critical to the growth of Wanxiang. Ni said, "Mr. Lu believed that if the company could achieve that, it would help change the company and put it on a path to reach a higher level."

By the end 2007, Wanxiang America had generated sales of over US$1 billion (18% of the total revenues of the Wanxiang Group) and reinvested all its profits back into the business.[32] Its 168,888-square-foot headquarters and warehouse, which sat just off the highway in Elgin, Illinois, more than subtly began to make inroads in its branding in the U.S. (**Exhibit 6** shows the U.S. headquarters). Wanxiang America counted General Motors, Ford, and Chrysler among its biggest clients and

partners. With the goal of establishing itself as a global supplier as well as a local entity, Wanxiang entered the U.S. by acquiring and reviving ailing U.S. companies.

Building the business as a matchmaker Ni Pin originally set up Wanxiang America not as a manufacturing company but as a matchmaker. He stated, "Our job is to find resources that have strengths and weaknesses, then go to another area of the world and find other companies with their own strengths and weaknesses, and try to put them together to see if they match."[33] This philosophy was central to Lu's own overseas expansion plan of "producing at China's cost, selling at U.S. prices." Lu explained how he came up with such a strategy:

> In the beginning, we were not strong enough and we were inexperienced. We were not able to maintain the productivity of the companies we acquired. Later on we changed our strategy. We had to strive for a win-win situation. For the low-added-value processes, we moved them to China. Those processes that remained in the United States were offering higher added value. We were then able to produce at China's cost and sell the product at the American price because the sophisticated processes there helped maintain the prices. A component that was originally priced at $100, for instance, could now be sold at $95. The car manufacturers could get their cost advantage. As a result, the component manufacturers that we acquired could also increase their output. As costs were lowered and output volumes increased, our acquired companies could turn losses into profits. Both parties won.[34]

The dramatic increase in productivity at the acquired firms, which also enhanced shareholders' returns, enabled Wanxiang to acquire more and more companies in the U.S, including Universal Automotive Industries, Rockford Powertrain, and a portfolio company of Automotive Components Holdings (formerly part of Ford Visteon's auto parts division).

Strengths and weaknesses of matchmaking The matchmaking strategy did not always work as intended. In 1998, when Wanxiang tried to buy Guidion Manufacturing Co., a financially distressed engine-parts maker based in Michigan, its labor union rejected Wanxiang's offer of reduced benefits and the deal fell apart, after which bankruptcy ensued. Even the general manger of Guidion, Roger Malcolm, noted, "The city leadership was disappointed, as they wanted the Wanxiang deal to occur. It could have preserved jobs."[35]

Despite the failures that Wanxiang experienced with Guidion and later with UAI, it still sought to find good partnerships and opportunities. To do so, it decided to look at the successful partnerships it had already created. Specifically, the company encouraged plant visits between its Chinese and U.S. personnel. The goal of the visits was to get managers on each side to provide their insights on potential "matches." For example, after a recent visit of Chinese managers to 12 of Wanxiang's U.S. plants, Ni had them answer three key questions.

1. "What can I sell into this plant? If I cannot sell them something, then who can?"
2. What do I need from the plants. Did one of the sites they visited have a particular strength in technology, engineering, process, software, hardware, etc., that the Chinese managers could bring back to their plants in China?
3. What improvements could I provide to help the plants I visited be more cost effective and run more efficiently?

Ni found that this exercise provided a good way to share ideas, generate value-added products and projects, and help find areas of synergy not previously identified.

Localization Localization strengthened Wanxiang's overseas operations, particularly in the United States. As a general principle, Wanxiang did not intervene in the daily operations of its overseas subsidiaries. Rather, it exercised its control by suggesting performance targets at the board meetings of its subsidiaries.

Ni further implemented the localization process in four major areas: talent, product, capital, and management system. First, in the U.S., the general managers, chief operating officer, and chief financial officer were all recruited locally. At present, out of more than 4,000 employees in its U.S. operations, only 15 were from China. Ni explained, however, that localization also meant putting the right people in the right place, no matter where they were from. He explained:

> Each of our Chinese staff plays a very important role—not from the standpoint of job title—but they are the bridge. Most have transferred from Wanxiang's tech center, which relates to the automotive business. They are engineers, but not really engineers. They are salespeople, but not really salespeople. They are customer service representatives, but not really customer service representatives. They are a combination of taking care of customer needs; taking away the fear of uncertainty; and sharing knowledge.[36]

In terms of product development, Wanxiang delegated the responsibility to each local subsidiary to follow and execute the latest guidelines for product specifications, packaging, and quality, in order to stay close to client demand. Wanxiang also strove to adhere to local production standards that prevailed in each market it entered. For example, Wanxiang U.S. was one of the first companies in the U.S. to achieve QS 9000 certification, which enabled it to meet the procurement standards of the Big Three. Wanxiang also adopted a strategy that built on the longevity of its acquired brands rather than promoting the Wanxiang name. To this end, Ni consciously chose not to have Wanxiang America exhibit at any auto shows or conferences while its subsidiaries continued to have a marketing presence.

The focus on keeping a low profile and behaving as suppliers and contract manufacturers positioned Wanxiang as an unthreatening partner to its key customers. As a key bidder in acquiring some of the largest auto-parts suppliers in the world, Wanxiang was happy in its behind-the-scenes role.

The Road Ahead

The Chinese Path

As Wanxiang grew into a large conglomerate with a core business in auto parts (Wanxiang Qianchao was the public auto-parts entity), it added various other operations ranging from agriculture to solar energy to fisheries to golf course development to financial services, and even hotels. Lu began to turn his thoughts toward an even larger dream. He aspired to develop and manufacture an electric car for China. Lu reasoned that having already made most of the components on the underside of a car, the company should be able to fully assemble a car and market it under the Wanxiang brand. An electric car would connect Wanxiang's expertise in auto-parts manufacturing with its corporate social responsibility to help resolve the environmental issues posed by gasoline-powered automobiles.

Wanxiang had begun its efforts to develop an electric car as early as the 1990s, and signed a strategic agreement with French industrial group Dassault in 2004 to jointly develop an electric car. It completed some prototype cars, which in 2004 led the company to win four trophies in an electric car

competition in Shanghai. In 2005, several electric buses developed by Wanxiang were put into operation on sightseeing routes surrounding West Lake, the historic scenic spot in the city of Hangzhou. Despite these early successes, Lu understood the risks of branching into auto manufacturing. He knew he would face fierce competition while incurring substantial costs for research and development as well as marketing.

Lu knew the task would be daunting given Wanxiang's lack of expertise in engineering and design. But he conveyed his long-term commitment by suggesting that if he were not the one to oversee this goal, then it would be his son or his son's son. He also knew (better than anyone) that the Chinese and Asian appetite for automobiles had just begun, and that the competition from within China and even from India was likely to be extreme.[37] Yet as he commented on these challenges, Lu remained ambitious:

> We have already developed the abilities to build systems based on electric power supply, electric control, and electronics components. Even if we can't produce an electric car, we can go back to the component business by manufacturing any of these subsystems. If we can be successful in all of these fields, we can successfully manufacture an electric car.[38]

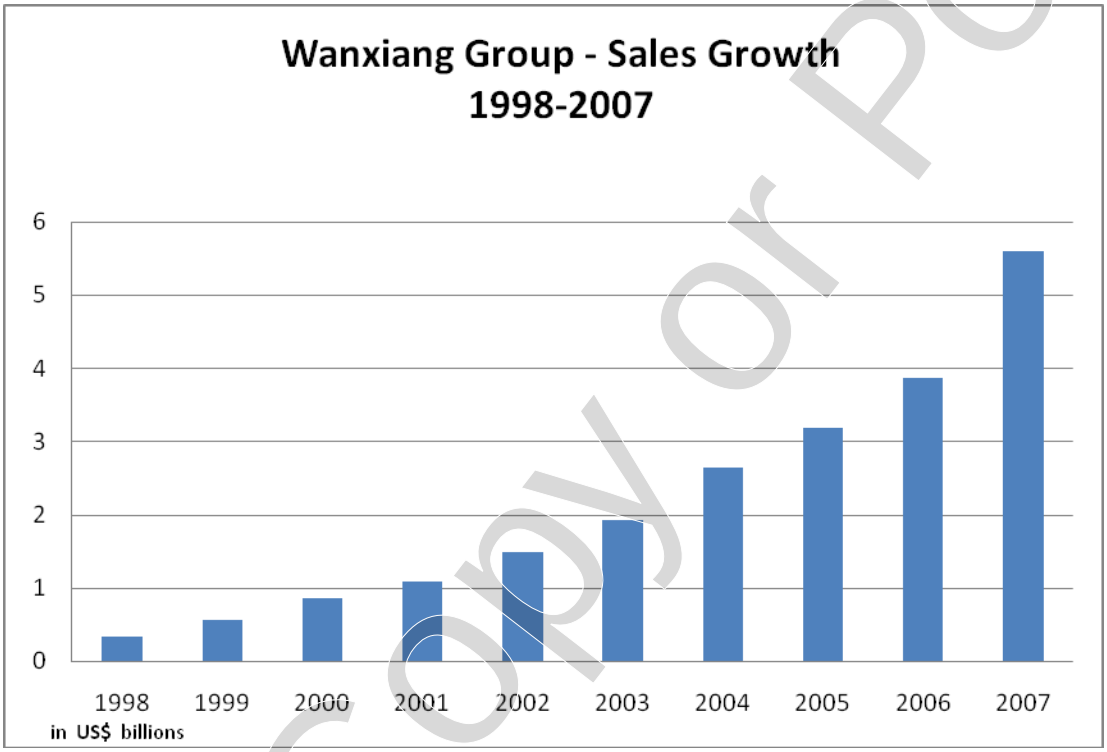
The U.S. Path

Meanwhile, back in the core business of supplying auto parts, Wanxiang was facing challenges in managing its overseas customers and subsidiaries. First, the quality of Wanxiang's output from China remained a concern. Randy Whelchel, a representative to the United Auto Workers union at Rockford Powertrain (a company acquired by Wanxiang in 2003), complained that the parts they received from Wanxiang were made with inferior steel of variant sizes.[39] Other partners argued for Wanxiang, such as David Piejak, a purchasing manager at Visteon, who claimed that Wanxiang's product was capable of attaining "zero defects per million parts."[40] This inconsistency nagged at Lu and especially Ni, since the company needed to build its credibility to continue meeting customer needs and more importantly, to be in a position to bid for and take over well-established companies.

The Global Path

Was Wanxiang's "localization strategy" the path that could lead the company to its goal of becoming the global leader it aspired to be? Would its hands-off approach remain effective as Wanxiang's product and geographic coverage broadened? Did the ambition for vertical integration and the prospect of an electric car threaten the core business? Were these goals mutually reinforcing or mutually exclusive?

Exhibit 1 Wanxiang Group Sales Growth 1998–2007



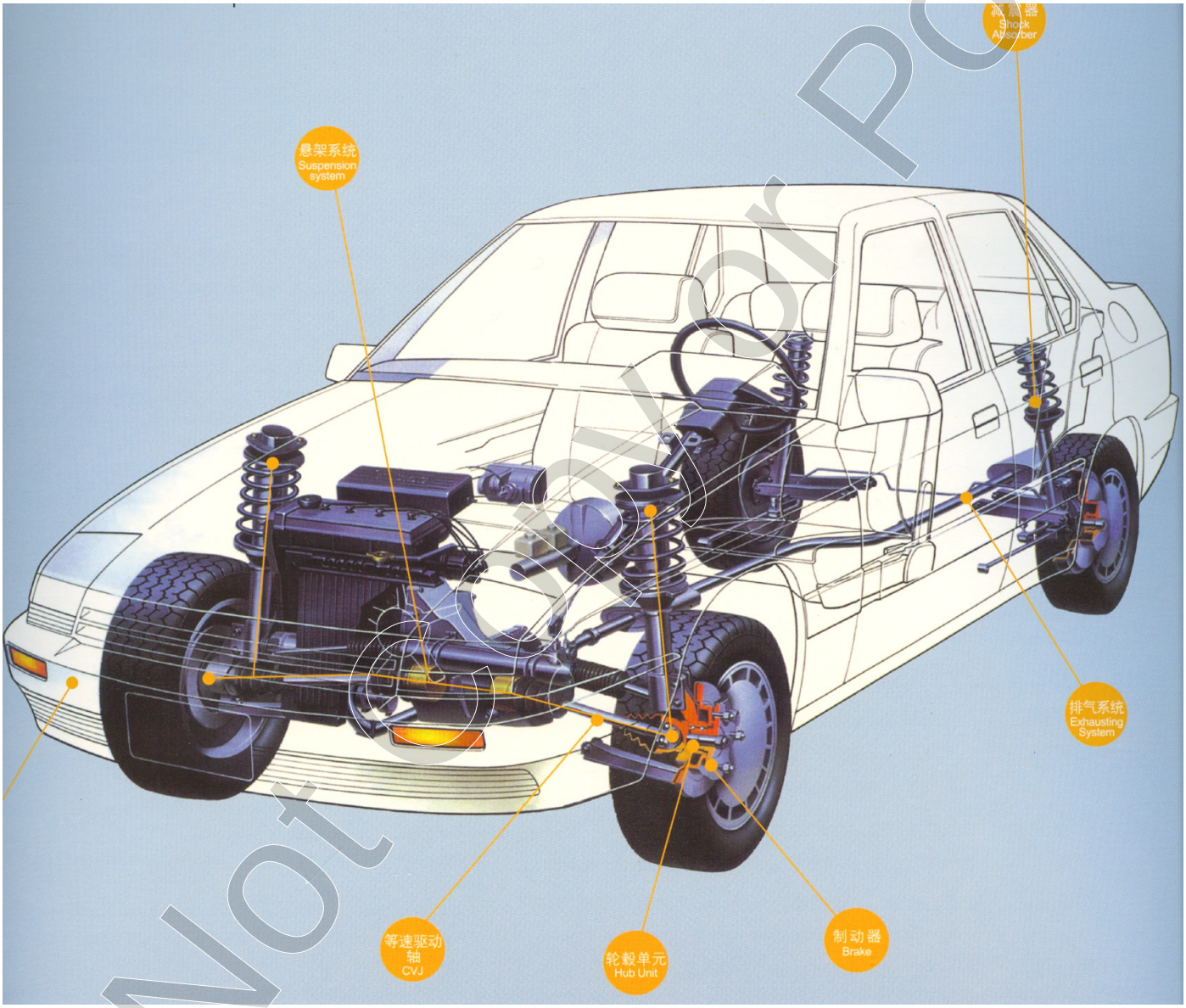
Source: Wanxiang Group corporate brochure.

Exhibit 2 Global Auto Parts & Equipment Market Segmentation by Share Percentage and Value, 2006

Geography	% Share
Europe	39.5%
United States	37.7%
Asia-Pacific	12.9%
Rest of the World	9.9%
TOTAL	**100%**

Source: Datamonitor report, Global Auto Parts & Equipment Industry Profile, March 2007, p. 11.

Exhibit 3 Diagram of Auto Parts Produced by Wanxiang



Source: Wanxiang corporate brochure, p. 22.

Exhibit 4 Top 10 Original Equipment Auto-Parts Suppliers from North America, 2005

Company	Sales from North America ($ millions)
Delphi Corp.	16,307
Magna International Inc.	12,768
Visteon Corp.	9,684
Lear Corp.	9,228
Johnson Controls Inc.	8,924
Dana Corp.	5,425
Robert Bosch Corp.	4,828
Denso International America Inc.	4,803
Arvin Meritor	4,499
TRW Automotive Inc.	4,456
Top 10 Total	**80,922**
Top 150 Total	**202,942**

Source: Office of Aerospace and Automotive Industries, U.S. Department of Commerce, "U.S. Automotive Parts Industry Annual Assessment," March 2007, http://www.ita.doc.gov/td/auto/domestic/2007Assessment.pdf, accessed January 2008.

Exhibit 5 Breakdown of Imported Original Equipment Auto Parts by Country-of-Origin

	Volume, 2003 (US$ billion)	Volume, 2004 (US$ billions)	Percentage of Total (2004)	Percentage of Growth from 2003
U.S. OE Parts Market	104.4	95.0	59.5	(9.0)
Parts Imported from				
Canada	15.7	17.0	10.7	8.3
Mexico	15.8	17.6	11	11.4
Japan	11.4	13.0	8.1	14.0
China	1.7	2.4	1.5	41.1
All other countries	13.1	14.6	9.2	11.5

Source: Office of Aerospace and Automotive Industries, U.S. Department of Commerce, "U.S. Automotive Parts Industry Annual Assessment," March 2007, http://www.ita.doc.gov/td/auto/domestic/2007Assessment.pdf, accessed January 2008.

Exhibit 6 Wanxiang America Headquarters, Elgin, Illinois

Source: Wanxiang America website, http://www.wanxiang.com, accessed February 20, 2008.

Endnotes

[1] Township and village enterprises (TVEs) were enterprises collectively owned by rural households and run by either town, township, districts, or village governments, or by individuals partnering with these government administrative units. Many TVEs had originated from production teams or brigades working under the People's Communes in rural China formed during the era of Mao Zedong. As Deng Xiaoping came to power in 1978, China started to reform its centrally planned economy and phased out the People's Commune system. Many of these former production teams or brigades reorganized themselves into TVEs to manufacture industrial products on a contract basis under the new "Household Responsibility System," which entitled them to retain their shares of profits after submitting the guaranteed payout to the township or village governments. TVE thus represented a unique ownership structure that allowed certain degree of private control of a company before private ownership was formally introduced in China. (Reference: Mario Biggeri, "The Township and Village Enterprises: The Success of Small and Medium Enterprises in Rural China," Università Commerciale L. Bocconi Working Paper, 2001, http://www.uni-bocconi.it/doc_mime_view.php?doc_id=5734&doc_seg_id=1, accessed February 2008.

[2] The Cultural Revolution generally refers to the 10-year period between 1966 and 1976 when Mao Zedong, then chairman of the Chinese Communist Party, staged a series of political campaigns to remove intellectuals and political rivals from the ranks of party leaders, through the mobilization of the so-called Red Guards, who were mostly college and high school students. Although Mao called an end to the campaign in 1969, the chaos endured mostly until 1976 after Mao's death and the arrest of his associates or the so-called Gang of Four.

[3] US$ 1 = RMB 7.1

[4] *Lu Guanqiu cheng gong zhi lu* ["Lu Guanqiu's Path of Success"], *Zhejiang Daily*, May 21, 1984.

[5] The Ministry of Machinery Industry was one of the ministries under the State Council, the highest administrative authority in the People's Republic of China. This ministry was abolished in April 1998 following a resolution passed by the Second Session of the Fifteenth Central Committee of the Chinese Communist Party, in order to streamline the structure of the government. Its duties were assumed by the State Machine-Building Industry Bureau, which was under the State Economic and Trade Commission.

[6] Li Feng and Lin Nan, "The miracle of the rural soil: an account of a peasant entrepreneur, Lu Guanqiu" (*xiang tu qi pa: ji nong min qi ye jia, Lu Guanqui*), *People's Daily*, April 10, 1986.

[7] Casewriter interview with Mo Xiaoping, Ningwei, Zhejiang, November 12, 2007.

[8] Xu Chaojiang, Qian Zhuwei, and Xu Liangwen, "*A Distinguished Chinese Peasant Entrepreneur: Lu Guanqui*" (*zhong guo you xiu nong min qi ye jia—Lu Guanqui*) (Beijing: Economy and Management Publishing House, 1991).

[9] Casewriter interview with Lu Guanqiu, Ningwei, Zhejiang, November 12, 2007.

[10] The Ministry of Science and Technology of the People's Republic of China, May 23, 2005, http://www.most.gov.cn/tjcw/tczcwj/200708/t20070813_52397.htm, accessed February 2008.

[11] ISO 9000 focuses on quality management and is administered by the International Organization for Standardization, a non-governmental organization that develops and publishes international standards. For more information, see http://www.iso.org/iso/iso_catalogue/management_standards/iso_9000_iso_14000.htm, accessed February 26, 2008.

[12] QS 90000 is a system standard developed by the International Automotive Sector Group, a consortium of automotive-OEM representatives, accreditation bodies, registrars, and suppliers that focuses on helping automotive suppliers ensure that they are meeting/exceeding automotive customer requirements. QS 9000 is based on ISO 9000 but is customized for the auto industry. For more information, see http://www.qs-9000.org/index.html, accessed February 26, 2008.

[13] Casewriter interview with Yang Yanle, Ningwei, Zhejiang (China), November 13, 2007.

[14] For more information, see Office of Aerospace and Automotive Industries, U.S. Department of Commerce, "U.S. Automotive Parts Industry Annual Assessment," March 2007, www.ita.doc.gov/td/auto/domestic/2007 Assessment.pdf, accessed January 11, 2008

[15] Wanxiang Group corporate brochure, p. 7.

[16] "Global Auto Parts & Equipment," Datamonitor industry profile, March 2007 (Reference Code: 0199-2009), p. 7.

[17] Datamonitor report, p. 8.

[18] Wanxiang Group corporate brochure, p. 7.

[19] Keith Bradsher, "China Finds a Fit With Car Parts; Export Factories Are Gearing Up to Challenge Global Suppliers," *The New York Times*, June 7, 2007, via Factiva, accessed July 16, 2007.

[20] Norihiko Shirouzu, "Chain Reaction—Big Three's Outsourcing Plan: Make Parts Suppliers Do It; Using Chinese Prices as Base, Car Makers Set Targets That Force Firms Offshore; Superiors Takes Venture for Spin," *Wall Street Journal*, June 10, 2004, via ProQuest/ABI Inform, www.proquest.com, accessed January 2008.

[21] Office of Aerospace and Automotive Industries, U.S. Department of Commerce, "U.S. Automotive Parts Industry Annual Assessment," p. 9.

[22] Norihiko Shirouzu, "Chain Reaction."

[23] Nick Bunkley, "Delphi workers may give up layoff pay benefit," *International Herald Tribune*, June 26, 2007, http://www.iht.com/articles/2007/06/26/business/delphi.php, accessed February, 2008.

[24] John W. Schoen, "Auto industry rocked by Delphi bankruptcy," *MSNBC*, October 10, 2005, http://www.msnbc.msn.com/id/9644882/, accessed February 2008.

[25] Office of Aerospace and Automotive Industries, U.S. Department of Commerce, "U.S. Automotive Parts Industry Annual Assessment," March 2007, p. 16.

[26] Andrew Batson, "China's Rise as Auto-Parts Reflects New Manufacturing Edge," *Wall Street Journal*, August 1, 2006, via ProQuest/ABI Inform, www.proquest.com, accessed February 2008.

[27] Mark Douglas, "United States: The Year in Bankruptcy," Mondaq Business Briefing, January 30, 2007, via LexisNexis, accessed February 2008.

[28] "Auto Industry Consolidation: Is There a New Model on the Horizon?" Knowledge@Wharton article, published January 25, 2006, http://knowledge.wharton.upenn.edu/article.cfm?articleid=1365,M, accessed January 11, 2008.

[29] Wanxiang Group, "The Agreement of the New Century" (*xin shi ji zhi yue*), *The Story of Wanxiang Series No.1*, p. 20.

[30] Lu Guanqui, "Insist on marching on three steps, implement 'going out'" (*jian chi san bu zou, shi shi zou chu qu*), Wanxiang Group company literature.

[31] Casewriter interview with Ni Pin, Chicago, IL, January 21, 2008.

[32] Casewriter telephone interview with Ni Pin, February 15, 2008. [TRACY – SPECIFY LOCATION OF INTERVIEW?]S

[33] Casewriter interview with Ni Pin , Chicago, IL, January 21, 2008.

[34] Casewriter interview with Lu Guanqiu, Ningwei, Zhejiang, November 12, 2007.

[35] Peter Wonacott, "Shopping for China: A Scourge of the Rust Belt Offers Some Hope There, Too; Auto-Parts Maker Wanxiang Invests in U.S. Partners as Its Ambitions Expand; Mr. Lu's Bet on Bicycles," *Wall Street Journal*, November 26, 2004, via ProQuest/ABI Inform, accessed January 2008.

[36] Casewriter interview with Ni Pin, January 21, 2008.

[37] Indian carmaker Tata Motors recently announced its plan to produce the Nano, a micro-sized car with a pre-tax selling price of US$2,550. For more information, see the Tata website at http://www.tata.com/0_media/features/interviews/20080110_one_lakh_car.htm.

[38] Lu Guanqiu, interview by author, Ningwei, Zhejiang, November 12, 2007.

[39] Peter Wonacott, "Shopping for China."

[40] Kerry A. Dolan and Quentin Hardy, "The Challenge from China," *Forbes*, May 13, 2002, p. 72–76, via ProQuest/ABI Inform, accessed January 2008.