GM Channels 20th Century Toyota With $11 Billion China Bet: Cars
2013-04-28 17:39:13.87 GMT

(Updates to add context to quote in 23rd paragraph.)

By Keith Naughton

April 29 (Bloomberg) -- General Motors Co., the largest carmaker in the U.S., is shifting its center of gravity to China, where it sells more cars and now invests more money.

GM's announcement at the Shanghai auto show this month that it is spending $11 billion by 2016 on new plants, products and people in China demonstrates a change in priorities. GM is investing $1.5 billion in North America this year, where it has a more modest factory footprint.

GM's focus on China parallels the strategy Toyota Motor Corp. employed in the last century, when the Japanese automaker poured investment in the U.S. market, where it saw its greatest growth potential. Now, Detroit-based GM is taking the lead in the world's largest auto market by building four new assembly plants in China to boost its factory capacity to 5 million vehicles annually, twice what it sold in the U.S. last year.

"This is what the Japanese did in the '70s when the U.S. became their most important market," said Rebecca Lindland, an automotive consultant with Rebel Three Media & Consultants in Cos Cob, Connecticut. "What GM is doing is really smart because it's proactively investing in a market that, for the foreseeable future, is going to be the world's largest."

GM rose to a 52-week high of $30.71 last week. It fell 0.7 percent April 26 to $30.50. It has gained 5.8 percent so far this year compared with an 11 percent increase in the Standard & Poor's 500 Index. The company will announce quarterly results later this week.

'Center Stage'

GM already is the No. 1 automaker in China, with 15.1 percent of the market in the first quarter on growing sales of Buick and Chevrolet models and a thriving commercial-vehicle joint venture. It's rolling out 17 models there this year, including a renewed push to sell its Cadillac luxury line to the increasingly affluent Chinese. And it's expanding its Chinese dealer network to 5,100, from 3,800.

"China has become the center stage in the battle for dominance of the 21st century global auto industry and GM is investing to secure its leadership position," said Bill Russo, president of auto consultant Synergistics Ltd. in Shanghai. "GM is investing to ensure that is can differentiate itself from the crowd by having a full product shelf and a dealer network."

China is central to Chief Executive Officer Dan Akerson's plan to diversify GM's sources of profits around the planet.

While North America remains GM's biggest profit center, China has emerged as the leader in other key measures -- sales, output and investment. Analysts say it's just a matter of time before China becomes GM's biggest profit center.

"It wouldn't be difficult to see this flip sometime between now and 2020 for sure," Jeff Schuster, an analyst with LMC Automotive, said of China's potential to become GM's profit leader.

'Big Bet?'

GM's factory build-up will give it 17 assembly plants in China, more than the 12 it has in the U.S. GM's dealer count in China will also surpass the 4,343 showrooms it has in its home market. GM has been selling more vehicles in China since 2010.

While China's economic growth slowed to 7.7 percent in the first quarter, automakers still see it as an attractive market.

Asked why GM is making such a large bet on China, Bob Socia, GM's top executive in the country, scoffed at the idea of a gamble.

"Big bet?" he said. "We're confident about playing here in China. We're here for the long term and you've got to lead and be strong in your commitment. We're very bullish."

Even more bullish than others. While LMC forecasts the market reaching 32 million vehicles by 2020, GM predicts it will grow to 35 million by 2022. That's up from 19.4 million last year. China in 2009 surpassed the U.S. market, where dealers sold 14.5 million cars and light trucks last year, the most since 2007. The U.S. record is 17.4 million in 2000.

Historic Shift

The company that makes the Chevrolet Corvette, Cadillac Escalade and Wuling Sunshine has echoed that shift. GM's U.S.
sales rose 3.7 percent to 2.6 million last year, while sales in China rose 11 percent to 2.8 million and will top 3 million this year, the automaker said at the Shanghai auto show.

"We are at an important point in our history and the industry's history in China," Socia told a packed ballroom of journalists, analysts and employees April 20 at the Kerry Hotel in Shanghai, where he laid out the largest single investment GM has announced since emerging from U.S.-government backed bankruptcy in 2009.

In the U.S., GM has announced $8.5 billion of new investments since emerging from bankruptcy in 2009, which includes part of the $1.5 billion it is investing this year in North America to boost production of fuel-efficient engines and vehicles, said Greg Martin, a company spokesman.

"This certainly, from a sales volume and a manufacturing standpoint, does sway their focus and their center to China,"
said Schuster, who is based Troy, Michigan. "It doesn't mean GM is ignoring the U.S. by any means. They have strong plans here.
However, we're in a global automotive market."

Global Crown

GM secured the global sales crown in 2011 before surrendering it again to Toyota last year. The Toyota City-based carmaker, is suffering from strained relations between China and Japan over disputed islands in the East China Sea. Chinese protesters last year called for a boycott of Japanese goods, which helped lead to a 6 percent decline in Toyota's sales there in 2012, according to LMC.

Toyota had just 4.4 percent of the Chinese market last year and was outsold in the country in the first quarter by Ford Motor Co., long an also-ran in China.

"Toyota is not in a position to invest in China because of the political relationship between China and Japan," Lindland said. "That situation leaves Toyota at a disadvantage in an emerging and growing market."

Toyota's Focus

Toyota isn't announcing new factories anywhere in the world, as CEO Akio Toyoda tries to gain volume from partnerships and by beefing up existing assets. This month, the company said it will spend $360 million to add production of its Lexus ES model in Kentucky, a first for the luxury brand in the U.S.

That leaves Toyota dependent on a mature, slower-growing market while GM rides a wave of expansion in China, where the ability to afford an automobile is "beginning to move through the country" rapidly, Tim Lee, GM's president of international operations, said April 19 in Shanghai.

For now, Toyota is reaping the payoff in profits, which it forecast to double to 860 billion yen ($8.77 billion) for the year ended March 31.

GM earned $2.2 billion, before interest and taxes, last year in its international operations, which include China, Russia and India. GM had global profit of $7.9 billion, before interest and taxes, most of it from North American operations.

As Chinese buying power grows, profits will follow, Schuster said.

"It's an issue of expansion of the middle class in the middle markets and further development of the luxury market,"
Schuster said. "As the market matures, you'll see transaction prices start to edge up."

'Definitive Plan'

GM's China expansion capitalizes on a growing appetite for sport-utility vehicles and luxury cars. The automaker will introduce nine SUV models into China over the next five years, complementing the five it already sells. It also will debut a new Cadillac model a year through 2016, Socia said.

"We have a pretty definitive plan," Socia said.

That plan includes boosting Cadillac sales in China to
100,000 models in 2015, from 30,000 last year.

GM's focus is on "continuing to lead in China," Socia told the Kerry Hotel audience April 20. As he bounded from the stage to applause, loudspeakers blared the theme song GM had selected for its big China announcement: "Back to the Future."

For Related News and Information:
Finding Chicago in China Brings Slim Margins-Fat Volumes: Cars GM-VW China Rivalry Heats Up as Both See 3 Million Auto Sales Lexus Shift Underscores Toyoda's Desire for Speed, Localization Autos and U.S. economy: TNI AUT USECO <GO> U.S. auto-sales pace: SAARTOTL <Index> GP <GO> Bloomberg Industries analysis of automakers: BI AUTM <GO>

--With assistance from Alan Ohnsman in Los Angeles and Tim Higgins in Southfield, Michigan. Editors: Jamie Butters, John Brecher, Bill Koenig

To contact the reporters on this story:
Keith Naughton in Shanghai at +1-248-827-2941 or knaughton3@bloomberg.net;

To contact the editor responsible for this story:
Jamie Butters at +1-248-827-2944 or
jbutters@bloomberg.net