Managing the Dragon Blog Post

Chinese Technology Firms Eye Autos

By: Jack Perkowski | May 25, 2015

The global automotive market, which has always been one of the most competitive in the world, is likely to become even more crowded in the years ahead. Although the level of technology required to produce the modern car is considerable, many industry analysts refer to passenger cars as mere "differentiated commodities" because the way in which car companies have historically attracted new customers was to offer new features, many of which were only cosmetic in nature. However, the integration of internet technology is now challenging the fundamentals of car design and radically changing everyone's idea about the car of the future, threatening to take competition to a new and higher level.

As a result of the many new opportunities for cooperation between the global equivalents of Detroit and Silicon Valley, major technology firms are now eying the auto market as their best opportunity for future growth. Google's plans to build driverless cars and rumors that Apple is working on an electric vehicle to compete with the likes of Chevrolet and Tesla have received much press. However, the Chinese technology firms are not standing idly by. Alibaba, Baidu, Tencent and Lenovo's LeTV have all announced plans to enter the industry in recent months.

The major attraction of the auto industry to the technology giants is its sheer size. With revenues of $67.8 billion and $182.8 billion, respectively, Google and Apple need big markets to achieve meaningful future growth, and the auto industry is one of the largest in the world. In a recent report on Apple's plans to enter the auto industry, analysts at Sanford C. Bernstein, a highly regarded investment research firm, estimate that consumers spend approximately $1.1 trillion on cars every year. That is about the same amount that consumers spend every year on smart phones, handsets, HDTVs, watches, DVD players, video games, consumer PCs and tablets in total. In its report, Bernstein noted that gaining just five percent of the consumer spend on autos would add 25 percent to Apple's revenues. There is no other market offering that potential.

Although China is now the world's largest auto market, accounting for over 25 percent of the vehicles produced and sold every year, it is still a growth market. Compared to the United States where there are more than 800 vehicles for every one-thousand people, there are just over 100 vehicles in China. It is no wonder that the Chinese technology giants are now eying the auto market, announcing plans to team up with industry players and bring their technologies and consumer savvy to the industry.

Alibaba Group Holding Ltd. (NYSE:BABA) recently announced a joint venture with SAIC Motor Corp., the largest carmaker by sales in China, to enter the connected automobile market. SAIC and Alibaba announced that they will introduce a jointly-developed connected automobile in the fall of 2016 that will integrate Internet technology with automobiles. Alibaba will contribute to the joint venture by offering services such as digital entertainment, cloud computing, financial data, and GPS mapping features. According to SAIC's Financial Controller Gu Feng: "The company will unveil a production model rather than a concept that may take years before being ready for manufacturing."

Following Google's lead, Baidu, China's leading search engine company, is targeting self-driving cars. In late March, Baidu's CEO **Robin Li** said that his company would roll out its first self-driving car within the year. This followed Baidu's confirmation of rumors last July that its Institute of Deep Learning, which gathers renowned scientists to work on artificial intelligence and machine learning, was spearheading efforts at the company to develop self-driving technologies. Baidu said that it would team up with undisclosed automakers on the project.

Also in March, Tencent, an instant messaging service in China with 829 million active accounts, announced that it was teaming up with Foxconn, which is best known for assembling Apple's iPhone, and China Harmony Auto, a large luxury car dealership in China, to develop smart electric cars. Foxconn said it would invest over $800 million to develop electric car manufacturing in China to build cars priced under $15,000.

Finally in March, Beijing based BAIC Motor Corp. signed an agreement with the LeTV unit of Lenovo, the second largest PC manufacturer in the world, to apply LeTV's internet technology to its cars. LeTV has already finished developing an auto user interface system, which is able to connect cars, smartphones and TVs. BAIC Chairman **Xu Heyi** told media that the company will roll out an electric car model with a better range than Tesla cars and at lower prices. The first car produced under the cooperation was unveiled at the Shanghai auto show held in April, but production models will not be available until 2016. Last year, LeTV and BAIC Motor invested in Atieva, an electric car design firm and lithium-ion battery developer based in Redwood City, California.

Apart from the economics of a diversification into autos, the Chinese government is encouraging the marriage of internet firms with basic manufacturing industries like autos to develop cloud computing, mobile Internet, and big data platforms that will lead to an "innovation-led economy." Referencing the effect this may have in autos, the Minister of China's Ministry of Industry and Information Technology recently said, "China's new-energy vehicle sector is just starting. We hope to have some new fish in the water."

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