Chapter 46
The Internationalization Path of Wanxiang

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EXECUTIVE SUMMARY

This case study examines the internationalization experience of Wanxiang, an auto supplier in China. Once at the lower end of internationalization and controlled by its Western partners without its own brands and distribution channels, Wanxiang has managed to climb the ladder of internationalization and taken a greater share of supply chain profits using its coopetition strategy with Western partners. Two mini-cases are presented and discussed in this chapter. The first describes how Wanxiang obtained more direct market access and the appropriation of supply chain profits in competition with its Western partners. The second describes how Wanxiang acquired more sophisticated technological assets for value-addition and managed them astutely. Two important areas were explored: (i) prudent use of diversification for capital accumulation to support capability building; and (ii) management of technology acquisitions and markets by maintaining a proper balance between autonomy and the integration of the acquired business units.

ORGANIZATION BACKGROUND

Forty years ago, at the peak of the Cultural Revolution in China, when almost all Chinese companies were state-owned, Wanxiang came into existence as a humble repair shop for bicycles and farm tractors, with just $500 as capital, in a small village in coastal Zhejiang Province. After struggling for survival for ten years, it started exploring new opportunities, as China began its economic reforms at the end of the1970s. When the country started restructuring its automotive industry in 1980, Wanxiang took the opportunity to initiate its own restructuring and cut the number of products to only one, 'Universal Joints'. Realizing the market potential in the government's plans to produce greater numbers of automobiles and trucks in 1981, Wanxiang worked hard to enhance

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product quality both by recalling 30,000 units of low-quality products and by hiring external quality experts. Its effort paid off when Wanxiang passed the government's evaluation and became one of the three surviving 'Universal Joint' producers in China and the only non-state owned enterprise in the industry at that time (Abrami et al., 2008).

SETTING THE STAGE: WANXIANG IN THE 1980s

Wanxiang's internationalization began in 1984, when it started exporting its products on behalf of Zeller Corporation, an American auto-parts manufacturer,. Zeller, then one of the top three producers of universal joints in the US, had ordered 30,000 units of universal joints from Wanxiang, making it the first purchase of Chinese auto parts by an American company. When Zeller sent representatives to visit Wanxiang's plant, it was a time when very few foreign firms were entering China and Zeller's representative's visit required special approval from government officials. One year later, Wanxiang signed a five-year agreement with Zeller to produce 200,000 units of universal joints annually using Zeller's brand (Gao 2004). Zeller cut the buying price to the extreme, to even 50% lower than the price in the domestic market. The power in the supply chain was heavily tilted towards Zeller at this time. At this stage, Wanxiang thus had one big customer in the developed countries, without having its own distribution channels or brands.

CASE DESCRIPTION: WANXIANG IN THE 1980s

The initial steps towards internationalization opened the eyes of the Wanxiang management, but it needed much more sophisticated technologies and manufacturing processes to succeed. Its founder, Lu Guanqiu, said:

It was then that we began the process of exploration and experienced what I describe as "stepping out and bringing in". We brought our products and our people into the world, and in learning about the world we discovered our own shortcomings. Once we made it to the outside world—once we saw just how big the gaps between us and the outside world really were—we were just stunned. In response, we eliminated our most unsophisticated products, outdated equipment, and underperforming employees. We imported high-precision equipment and focused on producing high-quality products. By improving on the overall quality of Wanxiang, we built the foundation for our future progress (Gao, 2004).

The early days of the internationalization experience helped Wanxiang to explore new technologies, talent development as well as better management practices. It was able to manufacture competitive standardized products at low cost and of reasonably good quality. However, the dangers of depending on one customer could limit its further growth.

CURRENT CHALLENGES FACING THE ORGANIZATION

Not very long after export activities began, a critical event occurred in the history of Wanxiang in 1987. Zeller, the company's major foreign customer, proposed exclusive distribution rights on all of Wanxiang's exports to the US or else threatened to terminate its orders. Rejection of this request would mean the risk of losing a major international customer and taking on a huge amount of unsold inventory. How should Wanxiang respond to this request? More generally, how should it climb higher on the ladder of internationalization, build its capability and gain in its coopetition with partners to accrue supply chain benefits?

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