

# Chapter 9

## 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 co-competition 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.*

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## **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 the 1970s. 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 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:

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