STILL SKYROCKETING WHILE PRIORITIES CHANGE

China's Automotive Industry: The New Significance of Quality and the Need for Structural Changes
By Stefan Weiler, Managing Director of ROI Management Consulting Co. Ltd., China

Stefan Weiler, Managing Director of ROI Management Consulting Co. Ltd., China

China's auto sales smashed through the 20 million mark last year, growing nearly 14 percent and extending the country's lead as the world's biggest car market. But despite a strong increase in Chinese auto sales last year, the domestic market share for Chinese brands continued to shrink, falling to 39 percent year-on-year, a 3 percent decline from the year before – and a steep drop from just over 50 percent in 2010 according to estimates of the government-backed China Association of Automobile Manufacturers (CAAM).

And while Chinese companies like Shanghai-based SAIC Motor Corp. Ltd. and Wuhan-headquartered Dongfeng Motor Group Co. Ltd., the nation's top two automakers, struggled to hold their own, Western multinationals such as Volkswagen AG, the best-selling brand in China with a 15.1 percent market share in 2013, and General Motors Co., with 14.5 percent, have thrived primarily through joint-venture agreements with large domestic auto companies.

Knowledge is King

Through its JVs, China wanted to transfer the technical know-how of automotive manufacturer from Europe, US or Japan to its own automotive industry. Despite this, most of the Chinese brands lag behind with respect to quality and safety tests in comparison to not only European, also American and Japanese vehicles.

> "Most Chinese car manufacturers have still the strategy to focus on quick sales including copying design elements versus investing in state-of-the-art R&D."

One reason is that Chinese automotive manufacturers mainly focus on lower-level cars, which are no longer in such high demand on the Chinese market since people's income has increased significantly. Chinese cars are mainly bought because of the low price – if a Chinese consumer has more than around 15,000 euros to spend, a 'joint venture car' or foreign brand is preferred, as the Chinese always think that the foreign brand is better than their own.

Most Chinese car manufacturers have the strategy of focusing on quick sales including copying design elements and components versus investing in state-of-the-art R&D structures and processes, which results in a lot of technology and quality issues in their cars. This behavior negatively impacts the brand reputation, leading to the fact that Chinese don't trust their own brands with respect to safety, quality, reliability etc.

However, the situation seems to be starting to change as, according to the latest J.D. Power report, some Chinese automakers have been improving vehicle quality.

The Crucial Lever: Improved Quality is Key to Growth

At the China Quality Conference in Beijing in September, the first meeting of its kind held in China, Premier Li Keqiang called for a drive to improve the quality of Chinese products. Quality management has to be put in a more important position, and he also stressed the importance of developing educated laborers.

These statements have a strong meaning especially in the automotive industry, as quality is, apart from the price, one of the top purchasing criteria for Chinese car buyers, no matter which age group the buyers are in or whether they want to buy a Chinese or premium brand.

> "Rapid response systems, like QRQC, help to tackle quality and manufacturing issues, whether it's an external / internal customer or a supplier."

But how can the car manufacturers be enabled to build products with a much improved quality? As China used to be a very poor country, high product standards were not affordable for most of the people. Thus, people are used to lower standards of quality, safety etc. – and education did not focus on quality and safety, either.

In China, ROI is using methods in quality management which work especially well there, as they consider the specific educational background of employees as well as cultural aspects.

In quality management-related projects or new vehicle launches, ROI China has gained good experience in training and implementing easy-to-use quality systems and at the same time paying attention to the specific mind-set and culture of Chinese clients. A system has to be established that allows workers to report defects.

To communicate quality requirements to employees it is paramount to implement systems which use pictures and visualizations e.g. checking paths, visualizing defects on real products and pictures – avoiding words in quality requirement checklists & descriptions. This helps to motivate operators. In order help workers to recognize quality problems at all, limit samples have to be produced and the people trained on those real examples, e.g. painted car bodies for identifying diffrent kinds of surface-related defects and for creating a standardized defects catalog.

Rapid response systems, like Quick Response Quality Control – QRQC, help to tackle quality and manufacturing issues, whether for an external/internal customer or a supplier. QRQC mainly deals with problems on a day-to-day basis to improve shopfloor indicators (customers concerns & internal scrap rate, OEE, accident rates …). This approach is more than a problem-solving tool; it is rather a culture or mindset which is applied, leading to fast quality improvements.

Quality gates and loops along the processes from the press shop to the final assembly and in the rework areas are implemented to achieve transparency about the current top problems. Discussing and following up the results across workshops and departments and applying a structured problem solving approach to the top problems is finally reducing the defect rate significantly.

Applying the Poka Yoke principle also helps to reduce errors, especially where workers with low education and qualifications are used and a high fluctuation of workers is common.

When the quality management (QM) principles and processes are understood by employees, the implementation of an IT-based QM system helps to support the scalability and flexibility of the whole system.

Apart from implementing QM tools and methodologies, it is also key to work with the HR department to adapt the bonus system for employees in order to ensure that people are financially awarded when they care for quality and can show improvements.

The Road Ahead

It is hard to predict when Chinese car brands will finally be competitive outside China, too, e.g. in comparison with European vehicles.

Many Chinese auto buyers today believe that developing a successful Chinese premium auto brand is within reach. In a McKinsey survey from 2013, 41 percent of (Chinese) respondents said that Chinese automakers would build a globally recognized premium car in the next 5 to 10 years; 18 percent said that it would take 10 to 20 years. Successfully launching a premium auto brand will be a long journey for the handful of Chinese automakers with the aspirations and resources required for such an effort. But whenever that might happen, a strong automotive sector must start from the quality management of its products.