Chery Automobile Co., Ltd., which produced its own brand of cars, was one of the few private automobile companies in China. Compared to the state automobile companies, it did not have adequate resources and state support; compared to the joint-venture brands, it could not benefit from popular and profitable international car models. However, it had developed dramatically between 2001 and 2011, becoming the top auto exporter among all automobile companies in China. Chery had created a series of strategic alliances with leading domestic and international players in the automobile industry, including suppliers, customers, governments and competitors. These strategic alliances had contributed to its growth, accelerated the speed of its technological catch-up and helped it thrive in overseas markets.

Since 2012, however, Chery’s domestic sales had continuously decreased. This was due to multiple reasons such as the Global Financial Crisis, a tough period for the automobile industry, and the slowing growth rate of China’s economy, with slower increases in per-capita income. These “external shocks” impacted all automobile companies in China. As a result, they started to look for opportunities in overseas markets, especially high-growth emerging markets. Since 2013, Chery had found its leading position in exportation threatened by growing competition, while its domestic sales kept falling. In the first half of 2013, Chery’s domestic sales dropped 12 per cent compared to 2012 and market share dropped to 2.9 per cent. In August 2013, Chery exported 10,018 units, while Geely, another Chinese automobile company that was previously not a major player in overseas markets, exported 9,313 units.¹

Confronted with this alarming performance in the past two years, Tongyao Yin, Chery’s president, needed to turn things around. What should Chery’s future direction be? What new strategy should Chery adopt that could stimulate and sustain growth and fit with Chery’s culture? Should Chery keep focusing on both overseas and domestic markets? If so, how could Chery exploit its brand image at home and abroad?

OVERVIEW OF CHINA’S AUTOMOBILE INDUSTRY

China’s automobile industry entered its 60th year in 2013. The country’s astonishing economic growth had catapulted China past Germany and Japan to become the world’s second-largest market for

automobiles, trailing only the United States. In 2009, China produced 13.8 million automobiles, including eight million passenger cars and 3.4 million commercial vehicles. Annual production exceeded that of the European Union and that of the United States and Japan combined, and was the highest in the world. The consultancy group McKinsey & Company estimated that China’s car market would grow tenfold between 2005 and 2030.

Automobile companies in China were categorized into two groups: state auto groups, such as Shanghai Automotive Industry Corporation (SAIC), First Automobile Works (FAW) and Beijing Automotive Industry Corporation; and private companies, such as Chery, Great Wall and Geely. In terms of brands, these companies produced cars under two types of brands: joint-venture brands, such as Volkswagen, General Motors, Hyundai, Nissan, Honda, Toyota and Mitsubishi, and local brands, such as Lifan, Chang’an (Chana), Geely, Chery, Hafei, Jianghuai, Great Wall and Roewe.

Of the automobiles produced, 44.3 per cent were local brands, and the rest were produced by joint ventures with foreign car makers. While most of the cars manufactured in China were sold within China, exports reached 814,300 units in 2011. China’s home market provided its automakers a solid base, and Chinese economic planners hoped to build globally competitive auto companies.

Internationalization was thought to be the trend for Chinese automakers. During the 13th Five-year Guideline, more than 10 million Chinese cars were expected to be exported abroad. This large number of exports would lead to at least several million overseas sales. Giant state auto groups were slow to expand overseas compared with private companies. According to the China Association of Automobile Manufacturers, the top five exporters in 2012 were Chery, Geely, Great Wall, SAIC and Lifan. Among these top five, only SAIC was a state-owned auto group.

BRIMS (Brazil, Russia, Iran, Mexico and South Africa) were the key overseas markets for Chinese automakers. In these countries, the auto industries remained undeveloped. To gain advanced technologies and increase job opportunities, the local governments were open to Chinese automakers.

However, trade barriers made China’s automakers unprepared to go global. These barriers stemmed from all kinds of trade dimensions, such as emission and safety requirements. Although the China Compulsory Certificate standard was widely adopted in China, it was rarely recognized in international markets. Furthermore, attaining European certification widely used in overseas markets was very time-consuming.

COMPANY BACKGROUND

Chery was born on January 8, 1997, at a time when the Chinese national automobile industry was underdeveloped. Headquartered in Wuhu, Chery developed at an amazing pace — it constructed three plants in the first two years, and at the end of the third year, on December 18, 1999, the first Chery car rolled off the production line. The roll-out of its first car signified Chery’s ability to indigenously produce cars.

Chery, like every other Chinese automobile manufacturer, made China’s car dream come true — Chinese people wanted to have their own Chinese-made cars, as having a mature and successful automobile
industry indicates a country’s industrial power. Chery’s automotive aspirations could be seen from its name and logo (see Exhibit 1).5

Living up to the expectations shown in its name and logo, 15 years later, Chery’s registered capital reached RMB3.98 billion6 (US$0.65 billion; €0.49 billion), and the number of employees reached 25,000. Chery produced various vehicle models under four major brands: Chery, Riich, Rely and Karry. Each brand aimed at a specific market segment (see Exhibit 2). Its products covered passenger and commercial vehicles. More than 20 vehicle models were available in the Chinese and overseas markets. From 2001 to 2011, more than 300 million cars had successfully rolled off the assembly line. In 2011, its annual production capacity reached 900,000 vehicles, 900,000 engines, 40,000 manual transmissions and 5,000 automatic transmissions. In 2012, Chery sold over 700,000 vehicles both at home and abroad, winning the top title among indigenous automakers for the 12th consecutive years in China.7

THE BEGINNINGS OF CHERY

At the time of its inception, Chery had no proprietary technology to make cars and had to start from scratch. It clearly understood the paramount importance of technology to the automobile industry. Executive vice-president Tongyao Yin (see Exhibit 3), who later became chairman and president of Chery, sought out car production technology from First Automobile Works (FAW) by collaboration. Founded in 1953, FAW was the first automobile corporation in China and was headquartered in the northeast of China. However, the collaboration was not successful.

In January 1995, when Chery was still registered as Anhui Automobile Parts Industry Co., Ltd., during its visit to the European automobile industry, Chery heard that Ford wanted to sell an engine production line. It immediately purchased this production line and started its automobile project. The first engines left the production line in May 1999. This was to be the first engine installed in the model Fengyun.8 In December of the same year, Fengyun was rolled out.

Unfortunately, this second-hand production line was quite outdated and soon turned out to be obsolete, even though Chery had spent more than US$20 million on the purchase. Afterwards, Chery chose to hire an overseas technology and engineering company to help out. However, after numerous negative responses to repeated requests for more money, the overseas company quit and left the project halfway done.

Without state support, deep funding sources, technology, adequate staff and any formal production ability, the only thing Chery could do was to proceed on its own.9 In turn, Chery started establishing its own R&D team in 1996. At this early stage, R&D consisted of retired specialists from other Chinese automobile companies and students who had just graduated from university. Its car design essentially imitated others.10 Chery relied on suppliers with regard to technology development: what its suppliers developed, Chery adopted in its cars.

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6 RMB, or renminbi (sign: ¥; code: CNY), was the official currency of the People’s Republic of China.
8 The model was originally named the Chery A11 in 1999 and was renamed the Fengyun in 2000.
Chery, however, did not have a license in China to produce vehicles. At that time, China had very strict regulations that hindered the entry of new players into the automotive industry. So between 1999 and 2001, Chery officially only produced “automotive components,” albeit in a fully assembled form. In 2001, it formed a joint venture with Shanghai Automotive Industry Corporation (SAIC), which had a permit to produce vehicles in China.  

Chery gave 20 per cent of its shares to FAW to accomplish the partnership. Thus, Chery finally received government permission to market its cars nationwide in that same year. Based on the agreement, FAW was not involved in any management, investment, responsibility or dividend from Chery. SAIC was essentially a silent partner.

In 2001, Fengyun, Chery’s first car model, sold 28,000 units throughout China; the revenue brought in more than RMB2 billion. On December 8, 2001, the 30,000th car rolled out from Chery’s production line. This achievement was considered amazing for a new automobile manufacturer in China. The collaboration between Chery and FAW nevertheless turned out to be unsuccessful; in 2003, FAW decided to cease its joint venture with Chery.

According to the State Intellectual Property Office of the People’s Republic of China (SIPO), Chery had been applying for patents since 2001. In 2001, it registered three patents under the categories of utility and design (see Exhibit 4).

Internationalization was Chery’s ultimate strategic goal. Unlike other companies that considered internationalization only after becoming well established in their domestic market, Chery aimed at internationalization from the beginning. It always carried an “international name card” in its strategic plan.

In October 2001, Chery exported its first batch of 200 Fengyun cars to Syria through Al Burouj, a local car dealer in Damascus, becoming the first Chinese automobile manufacturer to export cars to a foreign country.

CHERY’S TECHNOLOGICAL CATCH-UP

Having the license to produce vehicles, Chery could finally focus on car development. Chery clearly realized its weakness in the technology arena. To catch up, it targeted indigenous innovation as its core development strategy (see Exhibit 5). Under this overall strategy, Chery continued to expand its own R&D team by attracting more experienced and specialized engineers in the automotive industry. By the end of 2000, when Chery heard that the Second Automotive Works (SAW) would dismantle its technology centre due to a joint-venture plan, it immediately contacted engineers from the SAW technology centre. Chery cordially invited these engineers to join its R&D team and formed a special R&D team for the 20-plus engineers. According to the company, these engineers not only had the knowledge and skills it needed, but also exhibited a high degree of internal cooperation, as they already had been a team in SAW. Most of them had received training in France. Their cohesiveness would ensure efficiency in the R&D Department.

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The new team was mainly responsible for developing new models. Based on Fengyun, the team developed an upgraded version and named it Banner Cloud. Just eight months after its establishment, the new team of engineers developed an additional two models: QQ and Eastar. In May and June of 2003, Banner Cloud, QQ and Eastar were launched on the market.

By the end of the year, 7,000 units of Banner Cloud, 25,000 units of QQ and 7,000 units of Eastar had been sold in China. The promising sales of these three models allowed Chery to become one of the top 10 Chinese automobile manufacturers in 2003 (see Exhibit 6).

To further accelerate its technology development and innovation, Chery commissioned foreign companies, which had powerful and world-renowned automobile technology, to undertake collaborative R&D projects. For instance, Chery clearly understood the importance of engine design in automobile production. During 2001 and 2002, it commissioned AVL List GmbH (AVL) in Austria to design 18 different engines, varying between 0.8 and 4.2 litres, which would satisfy European standards. Chery also commissioned Pininfarina S.p.A, which was famous for designing well-known vehicles such as the Ferrari and Alfa Romeo, to design its new model. The result of this grand collaboration came to fruition a decade later in Chery’s model A3. Since 2002, Chery has begun registering invention patents. Compared to 2001, the number of patents registered in SIPO increased approximately 20 times in 2002 and 2003 (see Exhibit 4).

In 2003, Chery exported 1,200 cars, becoming the top exporter among Chinese automobile manufacturers (see Exhibit 6). This counted for half of total Chinese vehicle exports. At the end of 2003, Chery signed a contract with SKT, an Iranian automotive parts manufacturer, to establish a factory in Iran that would produce the Fengyun. This became both Chery’s and the Chinese automobile industry’s first overseas factory.

**CHERY’S INTERNATIONAL COLLABORATION**

Between 2003 and 2008, Chery undertook a number of three- to five-year collaborative contracts with prestigious Western automobile suppliers to acquire engine production technology and rapidly grasp the basic knowledge needed to design cars (see Exhibit 7). In 2003, Chery co-developed its customized Anti-lock braking system (ABS) for the Eastar together with Delphi, a leading global supplier of electronics and technologies for the automotive and commercial vehicle segments. This new ABS enhanced the security level of Eastar by improving breaking performance, particularly in rainy conditions. The collaboration with AVL allowed Chery to develop and apply world-class petrol and diesel engines to its cars. At the 11th Shanghai International Automobile Industry Exhibition in 2005, Chery showed all the models with the new engines.

Chery also established joint ventures with its suppliers to improve the interior systems for its vehicles. In 2006, at the Chery Annual Overseas Distributor Conference, Chery announced the establishment of its joint venture with Johnson Controls, Inc. in Wuhu. The total investment in this joint venture reached US$30 million. Johnson Controls would produce high-quality interior systems together with Chery. In 2008, Chery set up another joint venture with Lear Corporation to produce car seats. Annual production capacity was expected to reach 370,000 seats. Yin said that these collaborations would not only improve Chery’s interior systems but also make its cars more competitive in international markets.

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13 Chinese production of the Fengyun ended in 2006.
The collaborative R&D with these companies provided the R&D employees with a learning opportunity from external sources. They rapidly grasped the knowledge and development process needed to design and produce vehicles. In turn, these employees also became Chery’s key technical personnel.14

During this period, Chery invested more than 10 per cent of its annual sales in R&D, working with leading motor-design companies and hiring around 20 engineers from Detroit. The result was impressive — a number of new models were introduced to the market: Cowin (2004), Tiggo (2005), Cowin 2, A1 and V5 (2006) and QQ6 (2007). In addition to the upgraded versions of previous models, the new models increased the diversity of Chery’s products — Cowin was the first sports sedan, Tiggo was the first sport utility vehicle (SUV) and V5 was the first SUV sedan.

Sales continued to increase significantly. While the number of vehicles sold in 2004 was under 100,000, this jumped to 185,000 in 2005. This number doubled in 2006 and remained stable in 2007 and 2008. Exports to the overseas markets followed a similar trend. The increased number of vehicles sold in international markets allowed Chery to remain the top exporter among Chinese automobile manufacturers. In 2007, the number of cars exported exceeded 100,000 units for the first time (see Exhibit 6).

Between 2003 and 2005, Chery gradually increased its patent registration at SIPO every year (see Exhibit 4). Between 2005 and 2008, the increase was dramatic. Particularly in 2008, the total number of patent registrations reached 1,143, twice as many as any previous year. The increase in registered patents of invention was especially significant. The cumulative number of patents in this category had been only 33 until 2006. However, during 2008, a single year, Chery registered 421 patents of invention. This signaled Chery’s increasing position as an innovator in the market.

In 2004, Chery began setting up manufacturing bases in Russia and Argentina to produce its vehicles. The establishment of these overseas factories, in the form of either direct investments or joint ventures, allowed Chery to gain access to growing markets. “Setting up plants firstly in developing countries can give Chery enough time to learn from their mistakes before entering more mature and competitive markets, which helps Chery to penetrate into other, bigger and more developed markets in the neighbouring regions,” Yin explained.15

To enhance customer satisfaction, Chery gradually established its international service network by setting up dealerships in foreign markets, including Russia, Ukraine, Belarus, Iran, Serbia, Macedonia, Turkey and Italy. The extensive service network enabled Chery to provide its customers with timely and quick service and to build up its reputation.

**NEW TECHNOLOGY AND QUALITY CATCH-UP**

In general, Chery’s innovation focused on core automobile technologies, such as turbocharged gasoline direct injection, dynamic variable valve timing and continuously variable transmission. These innovations enabled Chery to complete the overall technology upgrade it needed to compete locally and abroad.

After more than 15 years of continuous effort, in addition to its central research institute, Chery had established its own specialized research institutes, including a commercial vehicle research institute and a

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powertrain research institute, as well as an auto testing centre. The R&D team had in total more than 5,000 employees by 2012, consisting of experts from foreign automobile companies, overseas returnees and students graduated from domestic universities. More than 50 per cent of Chery’s investments were spent on R&D every year\(^6\). Since 2002, Chery had accumulatively registered more than 7,000 patents, possessing the most technology patents among all the Chinese automobile manufacturers.

Overseas experiences in developing countries allowed Chery to understand that every country had its specific regulations. Only when these regulations were satisfied could Chery’s vehicles enter that market. Therefore, Chery needed to adapt the design of its cars to the specific regulations and requirements of different countries.

During the internationalization phase, Chery gradually became aware that consumer requirements for a car were also different between the overseas and domestic markets. Overseas consumers, in general, required higher quality, particularly higher safety and more environmental friendliness.\(^7\) In turn, Chery started concentrating on R&D to reduce carbon dioxide emissions by creating new types of engines, gearboxes, electric controls, hybrid cars and cars running on alternative fuels.\(^8\) In June 2007, Qoros Auto Co., Ltd., a joint venture with Quantum LLC, an American subsidiary of Israel Corp., was set up. Initially, the joint venture had registered capital of US$500 million, 55 per cent of which came from Chery and 45 per cent of which came from Quantum, and the planned US$950 million total investment focused mainly on a vehicle plant in Wuhu, Anhui, where Chery was based. This Chery-Quantum venture allowed Chery to offer an extensive range of electric vehicle (EV) products and services.

This alliance was a big step for Chery to further its strategic goal of expanding its share in emerging markets, specifically to manufacture and build a new, well-differentiated brand of premium and Western-standard vehicles. The vehicles had to meet high safety and environmental standards which required Chery to integrate manufacturing capabilities and Western design, engineering and safety standards.\(^9\) Initially, the automobiles were expected to be sold in the fast-growing Chinese domestic market and eventually offered for sale in Western countries as well.

June 25, 2008, was a memorable day for Chery. On that day, Chery successfully completed its 66-day, 100,000-kilometre, non-stop, uninterrupted public testing of its new model, the A3. This model was characterized by a higher level of safety, comfort and environmental friendliness. According to Chinese media, the success of this test indicated that Chery was entering another phase of its development — from quantity to quality. Chery would aim at raising its product quality to an international standard and becoming more competitive in international markets. During the celebration, Jianhui Lu, Chery’s vice-president, announced a new collaboration between Chery and Tsinghua University to disassemble the three tested cars and further examine the A3. The objective of this collaborative project was to continuously improve the quality of the A3 and other Chery vehicles. Chery quickly expanded the project-based collaboration by working with Shanghai Jiao Tong University and Tianjin University. Joint ventures were established between Chery and these universities, leading to an industry-university research collaboration. These projects focused on EV design and development.

By the end of 2012, Chery had cumulatively exported 660,000 cars to more than 80 countries and regions all over the world. These overseas markets were essentially in developing countries, mainly in South

\(^6\) “Chery Case Study,” Academic Seminar (3), Zhu Xi Society, Institute of Marketing and Management, Week 10, 2010-2011 Academic Year.


America, the Middle East and Southeast Asia. As of 2012, Chery’s cars were also available in Australia, Singapore and South Africa.

Furthermore, Chery established 12 overseas factories in Brazil, Egypt, Indonesia, Iran, Malaysia, Syria, Taiwan, Thailand, Ukraine, Uruguay, Venezuela and Vietnam. As local production mainly served local markets, automobile parts were no longer necessarily imported from China. As a result, after-sales service costs dramatically decreased.

CHERY’S INTERNATIONALIZATION

In 2012, the A3 was officially introduced to the market. This model was considered the culmination of Chery’s efforts throughout the past decade. Between 2001 and 2011, Chery aimed to firmly establish its brand in the Chinese domestic market. It spent 10 years developing its indigenous automobile manufacturing capabilities, including creating a complete R&D system, greatly increasing production capacity, and noticeably increasing domestic market share.

Since 2011, Chery’s domestic sales, however, had been decreasing. In the first half of 2013, Chery sold 222,000 units in China. Compared to the first half of 2012, sales had dropped 12 per cent and market share was down to 2.9 per cent. In contrast, its sales in overseas market had continued to grow. In February 2013, Chery exported 11,035 units. Compared to the same month in 2012, this number had increased 56.7 per cent. Among all the Chinese automobile manufacturers, Chery remained in the lead position in terms of exports. Moreover, since February 2013, Chery’s overseas production had exceeded its domestic production, reaching 55.5 per cent of its total production.20

Chery’s fundamental objective in its internationalization strategy was to become a reputable international brand. To meet this objective, it continued to encourage innovation, actively seeking out and diversifying international collaborations, and strengthening its competitive advantage and technological capability. Chery understood that it was not easy to achieve this goal, and it took time to achieve. It had a very clear and unique strategy to gradually achieve its goal of internationalization — entering developing markets first and then pursuing more developed ones. At the beginning of 2013, Chery announced further expansion of its sales network in South Africa, which would increase its dealers from 33 to 40 by the end of 2013. Total sales in South Africa for 2013 were expected to increase 15 per cent compared to 2012.

However, other Chinese automobile manufactures had been catching up in terms of internationalization, and their exports to overseas markets had been rapidly increasing. Geely was considered the most significant competition. In August 2013, Chery exported 10,018 units, while Geely exported 9,313 units. Would Chery lose its leading export position after 10 years at the top?

As Chery faced a continuous decrease in domestic sales, should it focus on overseas markets? To further expand internationally, should Chery focus on the lucrative high-growth markets or begin entering more competitive, mature markets? Chery’s outstanding export performance in developing markets had been severely challenged by its Chinese competitors. However, Chery had established numerous strategic alliances in lucrative high-growth markets. Could Chery make good use of its alliances to secure its leading position? Alternately, if Chery began to enter more competitive, mature markets, should it follow the same strategy — setting up various strategic alliances with local partners — used in the developing markets? What kind of strategic alliances could Chery establish for its entry and further internalization in mature markets? All these questions required resolution.

20 Sohu, op. cit.
EXHIBIT 1: DESIGN OF CHERY’S LOGO

“Chery” originated from the English word “cheery,” which meant cheerful and joyful. Chery’s logo contained multiple symbolic meanings. The logo was designed in accordance with the abbreviation of Chery Automobile Corporation, using the stylized acronym “CAC.” The letter “A” in the middle looked similar to the Chinese character for “people” (人). This represented Chery’s people-oriented business and management philosophy. The two letters “C” next to the “A” were shaped into two wings. The wings surrounding the “A” symbolized unity and strength. The space between the “C”s and the “A” signified Chery’s unlimited pursuit, potential and development. Additionally, the stylized logo was composed of the letters “W” and “H,” the initials of its location, Wuhu. This special design was created in appreciation of the local government’s outstanding support of Chery since its inception.


EXHIBIT 2: KEY BRANDS AND PRODUCTS

Chery produced various vehicle models under four major brands: Chery, Riich, Rely and Karry. Each brand targeted a specific market segment.

Chery was the first Chinese automotive brand producing saloon cars. This brand targeted the middle-class market. By the end of 2012, there were over 10 models under the Chery brand. The small-size models were particularly popular in the middle-class domestic market due to their significantly lower prices. As the major customers were young people, Chery’s car models were designed to fulfil young people’s tastes, by being stylish, cute, personal and happy. The most representative model was the Chery QQ, a low-emission model, sold between RMB26,600 (US$4,335; €3,299) and RMB50,000 (US$8,149; €6,201) per unit, which had been the number-one-selling Chery car over seven consecutive years in China.

Twelve years after Chery’s inception, Riich was officially introduced to the market on March 19, 2009, as a new brand. Saloon cars were the primary models of this brand, aimed at high-end users in the Chinese domestic and overseas markets. The brand name showed Chery’s high expectations of Riich, as Riich was thought to represent its most important achievements in R&D, technology, production and management over the previous 12 years. Riich embodied the spirit of “responsibility,” “intelligence,” “international,” “creativity” and “high technology.”

The target market of Rely was high-end commercial vehicle users. SUVs and multi-purpose vehicles (MPVs) were the vehicle models produced under Rely. This brand name embodied Chery's focus on “reliable,” “economical,” “leading” and “young” for Rely’s products. “Reliable” meant safety and high quality for the vehicle; “economical” indicated environmentally friendly design; “leading” demonstrated Chery’s ability to lead the automobile industry; and “young” meant Rely possessed young people’s characteristics of being energetic, pragmatic and ambitious.

Karry was introduced on January 12, 2009. The van was the major vehicle model for this brand. By 2013, there were seven representative models available in the market. Chery specifically incorporated elements of the MPV into the design of Karry’s models, which differed from conventional vans. Therefore, these vans fulfilled users’ multiple purposes, being not just business-oriented but family-oriented as well. Its core competitive advantages in the market were its low cost, high standards, advanced technology and highly comfortable design. The homophone of Karry was “carry,” indicating that Karry’s vehicles were particularly adept at carrying passengers, equipment or luggage for a trip. Its target market included companies needing working vehicles, SMEs’ logistical vehicles and self-employed users’ tool vehicles.

EXHIBIT 3: BIOGRAPHY OF TONGYAO YIN

Personal
Born in November 1962 in Chaohu, Anhui, China

Education
1980–1984 BSc in automotive manufacturing, Hefei University of Technology, Anhui

Career
Chery Automobile Co., Ltd.
February 2004–present: Chairman and president
November 1996–February 2004: Executive vice-president

FAW-Volkswagen
October 1991–November 1996: Director of assembly workshop and chief of Logistics Department

First Automobile Works (FAW)
October 1989–October 1991: Training in Germany and the United States, preparing for the establishment of FAW-Volkswagen
1984: Technician in factory of Hongqi passenger cars

Personal Accomplishments at Chery

Tongyao Yin (Yin) was famous in FAW, as he won the “Ten Outstanding Young Persons of FAW.” This award and FAW’s reputation in the Chinese automobile industry during the 1990s made Yin stand out. In 1995, when Chery was still preparing for its establishment, Yin was invited into the company. In 1996, he agreed to join Chery. From that point on, he led Chery in achieving a number of significant milestones.

After joining Chery as executive vice-president, Yin’s first task was to establish a team. The team initially consisted of only eight persons. In 1997, it expanded to 50 people. The Chery team was more than a group of enterprising entrepreneurs; it was more like a family. Yin invited two former classmates from university to join the team as project manager of Eastar and project manager of QQ. During a media interview, they both said they were convinced and touched by Yin’s dream of making a car in China. For that reason, they decided to join the Chery team. Yin also made use of his network in FAW and attracted approximately 100 other employees from FAW to work for Chery. Most of them remained working in the organization.

Yin understood that it took time to catch up on the technological front of manufacturing vehicles. He continuously thought about how to accelerate this process and initially decided to focus on engine design, the heart of a vehicle. Therefore, in 2002, he decided to invest more than RMB3 billion to build a plant for producing engines. His approach to developing a world-class quality engine included inviting in senior overseas engineers, building up advanced production lines, making Chery’s own brand of engine, ACTECO, and exporting the engines to developed markets, such as the United States.

Having achieved technological equilibrium, Yin then addressed Chery’s competence in international competition and internationalization. His efforts were rewarded by a number of international awards, including Most Globally Competitive Companies in China Top 20 (2007), 100 Competitive Companies in Developing Countries (2007), Most Admired Companies in China (2008)\(^2\) and Most Globally Competitive Companies in China Top 10 (2008). Yin also received notable personal awards, including ACFTU\(^2\) National Labor Medal (2004), National Model Work\(^\text{er}\) (2005), and CCTV\(^2\) Chinese Economics Figures of the Year (2005).


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\(^2\) Hosted by Fortune Magazine.
\(^2\) All China Federation of Trade Unions.
\(^2\) China Central Television.
EXHIBIT 4: NUMBER AND CATEGORY OF CHERY PATENT REGISTRATION, JANUARY 2001–AUGUST 2013

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EXHIBIT 5: INDIGENOUS INNOVATION

“Indigenous innovation” was mainly linked to China’s innovation policy. The original Chinese term was zi zhu chuang xin (自主创新). Specifically, zi zhu (自主) meant “self-governed” or “self-determined,” and chuang xin (创新) meant “innovation.”

The Chinese government identified indigenous innovation as a national strategy, as it considered innovation capability as the core of national competitiveness. This strategy was in line with the national grand goal: establishing China as an innovation-oriented country. The Chinese government aimed to transform China into a scientifically advanced country by the year 2020 using self-driven, unique scientific and technological capabilities, knowledge and intellectual properties. In turn, the government invested increasingly in innovation-related projects through the 10th, 11th and 12th National Five-year Plans.

At the firm level, Chinese firms adopted indigenous innovation as the main strategic goal. In line with the national policy, Chinese firms were expected to develop three dimensions of innovation: original innovation (which was named as basic research in the literature), re-innovation (which was defined as an upgraded version of reverse engineering innovation by absorption, digestion and re-innovation), and integrative innovation (defined as basic research and development in combination with the former two categories). To achieve indigenous innovation, firms needed to obtain a benchmark of absorptive capacity via various strategies, develop the dynamic capability to adapt to the changing environment and integrate knowledge innovation and technology innovation.

### EXHIBIT 6: SALES PERFORMANCE, 2001–2012

<table>
<thead>
<tr>
<th>Year</th>
<th>Domestic (Units)</th>
<th>Ranking (Domestic)</th>
<th>Market Share (Domestic) (%)</th>
<th>Export (Units)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>28,000</td>
<td>18</td>
<td>1.2</td>
<td>200</td>
</tr>
<tr>
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<td>2003</td>
<td>90,000</td>
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<td>2.0</td>
<td>1,200</td>
</tr>
<tr>
<td>2004</td>
<td>86,000</td>
<td>9</td>
<td>1.7</td>
<td>8,000</td>
</tr>
<tr>
<td>2005</td>
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<td>7</td>
<td>6.4</td>
<td>18,000</td>
</tr>
<tr>
<td>2006</td>
<td>305,000</td>
<td>4</td>
<td>5.9</td>
<td>50,000</td>
</tr>
<tr>
<td>2007</td>
<td>381,000</td>
<td>4</td>
<td>6.0</td>
<td>119,800</td>
</tr>
<tr>
<td>2008</td>
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<td>5.5</td>
<td>135,000</td>
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<tr>
<td>2009</td>
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<td>4.8</td>
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</tr>
<tr>
<td>2010</td>
<td>682,000</td>
<td>6</td>
<td>6.0</td>
<td>92,000</td>
</tr>
<tr>
<td>2011</td>
<td>643,000</td>
<td>11</td>
<td>4.7</td>
<td>162,000</td>
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<tr>
<td>2012</td>
<td>560,000</td>
<td>13</td>
<td>3.7</td>
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<tr>
<td>Average</td>
<td>322,167</td>
<td>9</td>
<td>4.1</td>
<td>68,223</td>
</tr>
</tbody>
</table>

Source: Sohu, op. cit.

### EXHIBIT 7: OVERVIEW OF CHERY’S ALLIANCES, 2003–2012

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of Alliances</th>
<th>With Firms From Developed Countries (%)</th>
<th>With Firms From Developing Countries (%)</th>
<th>JVs Outside of China (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
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<tr>
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Source: The original data are Thomson Reuters SDC Platinum and media announcement. The result is based on authors' own calculation.