Click here now to watch SportsMoney >

Forbes.com

Leadership

Where General Motors Is Thriving Right Now

Shaun Rein, 06.03.09, 4:33 PM ET

Yes, General Motors filed for Chapter 11 bankruptcy on Monday, June 1, and its share of the domestic auto market continues to sink. However, its operations in China have been shining. In the first five months of 2009, GM's sales there increased 33.8%, to 671,148 units. They were up 75% in May over the previous year. While the company shutters factories and lays off workers by the thousands in the U.S., it has announced plans to build a new factory in China and unveil 30 new or updated models, with the goal of doubling its sales in the country to 2 million vehicles within the next five years.

General Motors as a whole has not been an example of a company run with strategic foresight since Alfred Sloan retired in the 1950s, but business leaders can take two big lessons from GM's China strategy.

The first lesson is that companies need to invest in potential high growth areas even when they have to cut to the bone elsewhere. Too many businesses are paring down their most profitable divisions right now, out of fear rather than rational decision-making. They are thereby impairing their long-term ability to grow. Of course GM needs to reduce costs, and in places where it is unpopular internally and politically, but it realizes it cannot cut back in China, as that country must become its main driver for growth.

In the first quarter of this year, China became the world's largest automobile market, and that growth is continuing. Auto companies need to invest there. GM has benefited tremendously from strong demand in China, with its low-end Buick Excelle, midrange minivans and Park Avenue line rolling off the showroom floors at breakneck pace.

The Chinese government has aggressively tried to bolster the auto sector by implementing policies to encourage sales of cars with engines under 1.6 liters and more energy-efficient cars. Chinese consumers have not stopped dreaming of owning cars, despite the rocky world economy.

My firm, the China Market Research Group, has conducted interviews with Chinese consumers in the last month that found that 70% said they expected to increase their spending in the next six months. Owning a car is their second highest aspiration after purchasing a home. This continued consumer confidence and demand also explains why it is a Chinese construction company, Sichuan Tengzhong Heavy Industrial Machinery, that just agreed to buy GM's Hummer brand for around $500 million.

The second lesson to learn from GM in China is the importance of being aggressive in getting out in front of the competition, especially in a downturn, which always provides a great chance to get ahead of the pack. Foreign car makers like Volkswagen and Jaguar are redoubling their efforts to gain a greater share of the crucial China market. Porsche recently decided to showcase its new Panamera sedan at the Shanghai auto show, and BMW is launching models of its 5 Series localized for China, with increased backseat legroom for owners used to having chauffeurs.

The real story and competition for GM, though, will be Chinese auto manufacturers, such as Chery, Geely and Warren Buffett-backed BYD, which are pushing ever harder for growth by becoming more innovative and more focused on coherent branding strategies. In order to ensure its own growth in China long term, GM needs to fend off those encroaching competitors.

Domestic Chinese automakers have a 20% and growing market share in the country, with little or no debt and the tacit support of the Chinese government. They are gaining rapidly by producing more innovative and fuel-efficient cars for China's emerging middle-class and youth markets, markets underserved by most foreign auto manufacturers, which have preferred to go after the country's wealthy elite.

China is getting serious about electric vehicles, and Chinese car makers, with the help of the government, are looking to leapfrog the foreign competition and use EVs as a way to strengthen their position in the automotive world. BYD already has a plug-in electric car, the F3DM. It sells for roughly $22,000, and the government is offering incentives of $8,800 for government

agencies and taxi fleets that purchase electric and hybrid electric vehicles. The government is pushing electric cars as part of an effort to contain spiraling health costs it blames partly on pollution.

Unlike American car companies, Chinese automakers haven't invested billions in outdated assets that make it desirable to stick to the status quo of gas-guzzling cars and SUVs. Moreover, the country doesn't have gas stations on every corner. So it has a chance to adopt new forms of automotive technology the same way it largely skipped dial-up and went straight to cellphones and broadband Internet access.

Chinese auto firms remain far behind on branding, but they have global ambitions. They already sell cars throughout Africa, the Middle East and Eastern Europe, and within a few years the U.S. and Western Europe be battlegrounds for them too. Staving off that competition is one reason GM knows it has to do battle in China despite its hurting sales elsewhere.

Any company that hopes to emerge stronger from the global downturn must give its profitable segments the best chance of success by supporting their growth, as tough a sell within the organization as that can be. GM's decision to continue to invest in such a critical growth market as China and to compete to stay ahead of the competition there should go a long way toward restoring the company's fortunes. If GM even now, in its direst hour, can be getting so aggressive in using adversity to gain advantage, rather than succumbing to fear, then other businesses everywhere can learn from it.

Shaun Rein is the founder and managing director of the China Market Research Group, a strategic market intelligence firm focused on China. He writes for Forbes on leadership, strategy and marketing. For more from Shaun Rein, click here.