

Institute for
High Performance

SGM Wuling: Bringing affordable vehicles to low-income consumers

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Case Study

A large, close-up photograph of a human hand, with fingers spread, framing a view of the Great Wall of China. The wall is a long, stone structure with a watchtower, set against a backdrop of green, forested mountains under a clear blue sky. The lighting is warm, suggesting late afternoon or early morning.

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Building products that appeal to low-income customers is rarely straightforward. Their demands for high value and low prices often exceed those of consumers in higher-income markets. Further, they often require products that can serve multiple functions. China's SGM Wuling has tackled both issues with its lineup of vehicles, offering innovative products at prices that low-income entrepreneurs can meet.

Impact of the inclusive business initiative

In 2002, SGM Wuling was incorporated as a joint venture of General Motors, Shanghai Automobile Industry Co. and Liuzhou Wuling Motors. The company aimed to operate in rural China, where customers were highly price sensitive.

From the beginning, the company has focused on building automobiles for rural entrepreneurs and small business owners. These customers typically require affordable, multi-use automobiles for personal transport and also to carry small-to-medium loads for business.

Competition for this customer segment in rural areas was intense and margins were thin. Recognizing the tough competition, SGM Wuling focused on including local businesses and entrepreneurs in multiple parts of its business model. For instance, the company partners with local dealers to market its automobiles and works closely with local suppliers to develop new product features. By including local partners in its operations, the firm aimed to gain insight into its target customer group—rural entrepreneurs—and also better manage operational costs.

SGM Wuling relies heavily on local suppliers. While most of these suppliers are small when they first start working with the auto company, SGM Wuling has focused on helping them grow organically by providing them with advice and ensuring a steady demand for their parts. In the city of Liuzhou, where SGM Wuling's plant is located, some of the small suppliers the company initially worked with now serve much of the country.

Along with its supplier network, SGM Wuling also focuses on supporting and working with small local dealers. The company is now offering local dealers it has worked with over the years the opportunity to open and manage new dealerships to support SGM Wuling's expanding sales reach.

Perhaps the greatest inclusive impact of the SGM Wuling venture has been its ability to expand car ownership in rural areas by providing high-quality multi-purpose minivans at affordable prices. It maintained affordable pricing through innovative design, but also by building minivans that could take advantage of government subsidies for fuel-efficient vehicles – a combination that has made SGM Wuling a leader in the minivan segment. In 2009, SGM Wuling became the only Chinese manufacturer in this segment to have produced and sold over a million automobiles in a single calendar year.

Barriers to scale

Accommodating the evolving tastes of low-income consumers: Consumers' incomes are quickly changing in China and so are their tastes. Most consumers who buy minivans do so out of business necessity, as it provides important cargo-transport utility while also being affordable. But as the income levels of SGM Wuling's customers improve, they move to other automobile models or brands that are not strongly associated with minivans. The image of a low-cost minivan maker has made it challenging for SGM Wuling to retain its customers as their incomes rise.

Maintaining focus on low-income markets: As the company grows larger and starts to introduce more upscale models in an effort to retain customers across multiple income groups, top management is concerned that they may get carried away by the higher margins and lose focus on how to maintain their leadership position in rural markets.



"We insist on mutual development with our clients, constantly discovering and meeting customer demands, and providing amazing products with a wonderful performance-price ratio."

—Shen Yang, general manager



Strategies for success

Ensuring that inclusive ambitions remain at the heart of corporate culture:

Liuzhou Wuling Motors was born in the rural province of Guangxi and has always served rural consumers. Inclusive growth was not a deliberate choice made during a board meeting. It was just an obvious, normal part of everyday business. When GM and SAIC partnered with Wuling Motors in 2002, the priority was to leverage and maintain this characteristic of Wuling's business. As a result, its "low cost, high value" motto was spread through all levels of the joint venture. The company's modest beginning is reflected in its unassuming four-story corporate headquarters in Liuzhou.

Attaining market intelligence through partners: SGM Wuling uses a combination of sources to collect market information. Rather than just relying on traditional quantitative sales data, it is also heavily dependent on its network of external dealers to get qualitative customer feedback. It sends regional sales managers and staff to dealer floors to help sales, and to listen in first-hand to what customers have to say about Wuling's models.

SGM Wuling's deep understanding of the rural consumer is clear from the success of every one of its minivan models. Today, its four minivan models jointly account for 90 percent of the total 1.3 million units sold by the company. The Wuling Sunshine is among the top 10 bestselling car models in the world, having sold more than 730,000 units in 2011.

Deepening integration with government partners: Government-owned Liuzhou Wuling Motors holds only a minority share of 5.9 percent in SGM Wuling, but the Guangxi government provides support in terms of access to land, funding, and utility infrastructure, all of which are critical for the company's production expansion plans. SGM Wuling helps drive the government's industrial policies, favoring fuel-efficient vehicles as part of China's official campaign to conserve energy and reduce carbon emissions. All of Wuling's models have engines that qualify for lower sales taxes and vehicle registration fees, further lowering the cost of ownership of these vehicles.

Company information

SGM Wuling is a joint venture of General Motors, Shanghai Automobile Industry Co. and government-authorized Liuzhou Wuling Motors Co., Ltd. It is the largest automaker in China in terms of sales volume, with more than 1.3 million units shipped in 2011. It specializes in low-cost utility vehicles, such as minivans, for rural markets. Employing around 20,000 people, SGM Wuling realized total revenues of over RMB 460 billion (US\$ 7 billion) in 2011.

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