

STRATEGY

Why Does BYD Struggle to Penetrate Western Markets?

by Mokter Hossain



Image Credit | Michael Förtsch

BYD surpassed Tesla as the top global electric vehicle seller, yet it faces a challenging journey ahead.

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Although BYD has seen success in its domestic market, this Chinese electric vehicle manufacturer faces considerable challenges in establishing a presence in Western automotive markets, despite possessing several competitive advantages over Western EV manufacturers, such as proprietary battery technology, in-house parts manufacturing, access to essential raw materials, and support from the Chinese government. The main factors hindering BYD's entry into Western markets include weak market demand combined with ambitious sales targets, a flawed pricing strategy, regulatory investigations by Western countries, concerns about quality, and the necessity for extensive post-import adjustments, and significant repairs. This article aims to explore these key challenges to better understand why BYD is struggling to penetrate Western markets.

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Investigation: The European Commission has launched an investigation into the subsidiary provided by the Chinese government to its EV sector, accusing it of distorting the market. The challenge for EU countries is to match the substantial subsidies and tax incentives for EVs and other green technologies offered by China. The European Commission plans to gather data and evidence to determine whether China has breached anti-subsidy regulations. If a violation is found, the EU could take corrective measures, including the imposition of provisional tariffs on Chinese EV imports within nine months from the start of the investigation, and permanent tariffs within 13 months. Chinese cars entering the EU could face 27.5% rate already applied by the US to Chinese EVs. More

recently by the US under President Joe Biden's Inflation Reduction Act. Imposing tariffs on imports of goods benefiting from such incentives might be a strategy to shield local manufacturers as they adjust. In 2023, India rejected a \$1 billion proposal from Chinese carmaker BYD to establish an EV factory in partnership with a local company. Similar action was taken by Australia where Australia blocked the acquisition of a lithium miner by a Chinese-linked company.

Quality concerns: Quality concerns related to EVs significantly affect consumer perception and adoption rates. These concerns typically include battery life and degradation, reliability of charging infrastructure, vehicle range, build quality and finish, software bugs and updates, and safety issues. BYD often faces challenges associated with the perceived quality of its vehicles. It is crucial for the company to overcome stereotypes and preconceived notions about the quality of cars made in China, especially in markets that regard certain regions as benchmarks for superior automotive quality standards. Although EVs undergo the same stringent safety testing as traditional vehicles, high-profile incidents involving battery fires and problems with advanced driver-assistance systems can heighten safety concerns among potential buyers. Navigating the complex landscape of safety and regulatory standards across various international markets poses a significant challenge.

Battery life and charging infrastructure: A major concern regarding EVs centers on the durability and efficiency of their batteries. Over time, EV batteries can experience a decline in their ability to retain a charge, which can affect the vehicle's range and overall functionality. Consumer concerns primarily focus on the potential costs and environmental impact of battery replacements. As the network of charging stations expands, questions about their reliability and the consistency of the charging process emerge. Problems such as malfunctioning charging equipment, slow charging rates, and inadequate coverage in certain areas may deter potential EV buyers. As the network of charging stations grows, concerns about their reliability and the consistency of the charging process have emerged. Problems like malfunctioning charging equipment, slow charging speeds, and limited coverage in certain areas might discourage potential buyers of electric vehicles.

Logistics and supply chain: Establishing a local supply network necessitates efficient logistics and transportation infrastructure to ensure the timely delivery of components and materials. Chinese car manufacturers need to invest in building a robust infrastructure of dealerships and service centers to compete effectively. BYD might encounter challenges in optimizing its supply chain logistics, particularly if the infrastructure and transportation networks in Hungary are underdeveloped. Finding reliable and high-quality local sources for components and materials could be challenging. BYD must meticulously select and assess potential suppliers to ensure they meet quality standards and provide a consistent supply. Developing a comprehensive distribution and service network, especially in regions dominated by established competitors, poses a significant challenge. Navigating the cultural and linguistic differences inherent in operating in a country like Hungary presents a challenge that BYD must overcome to establish strong connections with local suppliers and stakeholders. Navigating the cultural and linguistic differences inherent in operating in a country like Hungary presents a challenge that BYD must overcome to establish strong connections with local suppliers and stakeholders.

Build Quality and Software: The recent report suggests that vehicles exported from China required various repairs and adjustments upon arrival at their destinations. Vehicles shipped to Japan showed signs of scratches, while those sent to Europe were discovered to have mold. Additionally, some users have reported issues with the battery and other minor inconveniences, including frequent discharging of the vehicle's 12V battery, the GPS providing inaccurate directions, and challenges with the vehicle's washer/wiper system. Modern EVs depend significantly on software for a range of functions, such as driving assistance features, battery management, and infotainment systems. Software bugs and the necessity for frequent updates can impact the user experience and lead to concerns regarding the vehicle's reliability and safety.

Extensive fixes: BYD has faced several quality issues with its vehicles in international markets, including scratches on vehicles delivered to Japan, mold in cars shipped to Europe due to improper treatment before shipping, peeling paint and plastics in Thailand, and structural issues in Israel. Furthermore, in Malaysia, a vehicle failed to start after

servicing because of a 12V battery issue, which BYD promptly resolved. These incidents underscore the challenges in logistics and quality control that BYD encounters as it broadens its global presence.

Pricing strategies: Overseas, BYD vehicles are priced higher than they are in China, diminishing the company's price competitiveness against more established brands. In Germany, BYD's key European market, the flagship export model, the Atto 3, has a price tag exceeding \$41,000, as the company seeks to enhance its profit margins. In contrast, the same BYD vehicle is available for less than \$20,000 in China. This pricing strategy places the Atto 3 at just 5% below the price of a similar model from Volkswagen, the ID.3 compact crossover electric vehicle, after both brands have implemented price reductions. BYD is considering the establishment of a facility in Mexico and has already introduced the \$21,000 electric Dolphin Minis just beyond the US border. Vehicles manufactured in China and imported into the US are subject to steep 25% tariffs. In contrast, vehicles assembled in Mexico using Chinese components are only subject to a nominal 2.5% tariff under the terms of the US-Mexico-Canada Agreement.

Sales target: The decline in EV sales can be attributed to broader economic challenges. Overall, demand for EVs is decreasing, although the cost of EVs is declining. Global sales targets set by top management in China are allocated by region and communicated to regional heads without considering the specific situation of each market. This approach to sales targets led to tension during a meeting in 2023. A senior executive in Europe expressed the opinion that the targets set for Europe were not achievable due to weak demand and the need for quality improvements. By the end of 2023, more than 10,000 BYD passenger cars were in storage across Europe. These vehicles are facing an imminent issue as their certifications for sale within the European Union are close to expiring, potentially rendering them unsellable in Europe.

Despite BYD's technological and manufacturing prowess, a combination of ambitious sales targets, pricing strategies misaligned with market realities, regulatory scrutiny, quality issues, and logistical challenges hinder its expansion into Western automotive markets. Addressing these multifaceted challenges requires a nuanced understanding of market dynamics, consumer preferences, and regulatory landscapes, underscoring the complexity of BYD's global ambitions.



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