

Chinese Startups Put the Pedal Down on Electric Cars

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Why you should care

Because homegrown producers of electric vehicles are taking on Tesla and foreign giants.

From Alibaba in e-commerce to Didi Chuxing in ride-hailing, Chinese startups have changed the landscape of the global tech industry. And now they are coming for cars.

A handful of China-based fledgling companies have raised hundreds of millions of dollars in venture funding and launched electric vehicle prototypes in the past few months, all aiming to copy Tesla's success in the United States.

Like the US startup, which has shaken up the car industry with its high-tech EVs, Tesla's counterparts in China say their advantage is that they see cars differently — as smart devices, loaded with software and services, rather than driving machines. But unlike Tesla, which has struggled to get into the world's largest car market, they have one crucial advantage.

"If you want to do well globally today, you have to first be successful in China, and we're already here," says Daniel Kirchert, a former BMW executive who co-founded Byton in

Nanjing, which released a prototype five-seat sport utility vehicle at the Consumer Electronics Show in Las Vegas in January. It plans to start producing in 2019.

Experts say the arrival of electrification in the car industry may give new players a slice of the \$620 billion-a-year Chinese car industry. About 28 million vehicles were sold in China last year, one-third of the world's total.

The rise of electric vehicles is dropping barriers to entry.

Michael Dunne, president, Dunne Automotive

"The rise of electric vehicles is dropping barriers to entry" in the car industry, says Michael Dunne, president of Dunne Automotive, a car consultancy in Hong Kong. "Developing an electric vehicle is much simpler than internal combustion engine vehicles. For starters, there are dramatically fewer moving parts. No pistons, crankshafts, spark plugs, etc."

Startups, however, still need billions in funding because large-scale production remains capital-intensive, he adds. "Whoever draws more funding over time will win out."

Critics say startups such as NIO, Byton, WM Motors and Xpeng will struggle to compete with the big conglomerates, foreign and Chinese, which must contend with seven-year product cycles and managing relationships with hundreds of global suppliers.

"Making cars puts a real focus on funding," says Wang Honghao, a columnist on the car industry for Zhihu, a social media site. "I think all of these new EV companies' funding added up would not be enough to support a single product's entire life cycle" of about seven years.

Already one high-profile startup's star has waned due to funding difficulties. Faraday Future launched an ambitious electric smart car at CES a year ago, vowing a direct challenge to Tesla. But the company's future is now in doubt. In January, Jia Yueting, the company's sole investor, defied an order from Beijing's securities regulator to return to China to deal with unpaid debts of his LeEco company.

Analysts say one unpredictable factor is the Chinese government, which has made a priority of EV technology and has a record of giving a home advantage to local companies, including startups.

In the past decade, the likes of Yahoo, Amazon and Uber were forced to throw in the towel against then-upstarts Alibaba and Didi Chuxing. That was partly due to their ability to out-innovate domestic state-owned monopolies, on the one hand, as well as their advantage as domestic companies against larger foreign players. A crucial help in both cases has been venture funding from Chinese state-owned banks.

“Could a startup take the lead in the EV market?” asks Tu Le, an independent car consultant in Beijing. “It might happen, especially if the Chinese government decides it wants to help pick the winners.”

China’s government has set plans for local champions to have a significant share of the global EV market by 2025. That has put a question mark next to the continued domination of China’s lucrative car industry by foreign brands, which accounted for about 60 percent of the passenger car market last year.

However, foreign companies, such as Volkswagen and GM, are fighting back. They have stepped up their plans to compete in the EV market. VW has announced a 10 billion euro (\$12.5 billion) investment in EV technology in China and plans to build 1.5 million vehicles annually in China by 2025, largely in response to environmental regulations that make them mandatory to produce.

Then, the startups have to compete with established domestic groups. China is already the largest EV producer in the world, thanks to companies such as Geely, SAIC and BYD, which makes everything from small hybrids to double-decker buses that can be seen on the streets of London.

One Western car industry executive said NIO, with \$2.2 billion in investment from tech companies such as Tencent, is the only one that has the resources to compete unless others can raise more funds.

NIO has made a partnership with JAC, a Chinese carmaker, to jointly produce a sleek 450,000 renminbi (\$71,400) seven-seat SUV scheduled for sale in the spring of 2018.

A handful of others have said they would start to market cars within the year. Tesla, meanwhile, has said it is in discussions to build a factory in the Shanghai Free Trade Zone. Significantly, the price of a Tesla Model X is about twice that of a NIO model — partly due to high Chinese import tariffs.

The central argument of the startups is that they are better positioned to understand customer tastes and innovate rapidly. “Producing NEVs [electric vehicles] is not a resource issue; it’s a cultural issue,” says Byton co-founder Kirchert.

They also have the backing of internet giants such as Tencent, Alibaba, JD.com and Baidu, which are supporting the startups in the hope of using them as a platform to market shopping and entertainment services.

According to Izzy Zhu, vice president of user development at NIO, artificial intelligence and internet connectivity mean that, in the future, “a car is not just a cold machine; it’s more like a companion with emotions and warmth.”

Research by McKinsey last year showed that connected smart cars are something that Chinese consumers are uniquely ready for — Chinese car buyers value connectivity approximately three times as much as Germans and twice as much as Americans.

“Think about what happened when the first iPhone came along,” says Bill Russo, head of Automobility, a consultancy in Shanghai. “Nokia didn’t see it, Motorola didn’t see it. Within a couple of years, they were gone.”

He says the same could happen with cars. “This is happening way faster in China than it is anywhere else.”

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