COMMENTARY

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Nio and BYD build for the future with different strategies

People spend peacetime studying how to fight the last war. In the global vehicle industry, executives continue to scramble to obtain enough semiconductors. It’s the biggest bottleneck in production. The procurement of chipsets is dominating the discussion from the boardroom to the factory floor. The danger is people are not preparing for the next battle.

Here is the obvious question: who will become the next Tesla? Could Nio and BYD stand a chance?

BYD is a classic play of low-end disruption. It never intended to be a carmaker from day one. Back in the mid-1980s, it was a battery manufacturer for Motorola, Nokia and Sony Ericsson.

Then, like all things in China, the company moved up the value chain, expanding into segments such as electric bikes, electric scooters and electric buses. Every step along the way, it reverse-engineered other brands’ vehicles. It copied, improved and started to innovate.

What BYD innovates is in the engineering process. It invested in areas that required heavy capital investment, such as battery factories and assembly lines. These are also areas that are labour-intensive and that its Western counterparts have shunned for a long time.

So when BYD began building vehicles, it was the only carmaker that possessed an integrated supply chain. Yet it was smart enough to follow the playbook of Taiwan Semiconductor Manufacturing Co, the world’s biggest chip manufacturer. The company doesn’t just compete against other carmakers, it supplies critical components to FAW and Toyota Motor. So if manufacturing in the past was about the mastery of internal combustion, BYD is the powerhouse of tomorrow.

Then you have Nio starting from the top end.

Nio’s strategy is unusual, especially among mainland firms. Its obsession is not on manufacturing, but business model innovation for the high-end segment. It is going international. It is selling a lifestyle.

A Nio car is not cheap, going for as much as US$70,000. Buying one feels like joining a membership. There are Nio owner clubs in posh malls across the mainland. There is the Nio app through which an owner can speak to human assistants. And with all the data that Nio is gathering, owners get to browse a curated e-commerce store by Nio and see other members’ comments on the user forum.

And Nio is taking that package abroad. Norway has been the firm’s global beachhead. If it excels in Norway, it will replicate its model.

Though Nio isn’t big on manufacturing like BYD, it goes big on software. What distinguishes Tesla’s software platform is its over-the-air update. It makes updates not only on software such as infotainment and user interfaces, but also on safety-critical features. It is rewriting its firmware on the fly. No one else could do that except Nio.

To have firmware updated over the air, a carmaker needs to master a lot more in cybersecurity, connectivity and computing power. But that’s exactly what investors see as crucial capabilities going forward.

Whether it’s a scheme of folly or a game changer, we don’t know. But to break into an old industry, you’ve got to play a new game.

Nio and BYD are built on capabilities of the future, not of the past. Semiconductor shortage or not, they are busy getting prepared for the next battleground. Traditional carmakers must be on high alert.

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