

SEMINAR

Losing Market Share in a Growing Industry: BYD Company and Electric Vehicles in China

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Lingnan University

ABSTRACT:

Using rich data from a major Chinese city, we find a large and persistent decline in the market share of BYD Company in the Electric Vehicle (EV) market: from above 95% in 2014 to close to 10% in 2020. We study the contribution to this dramatic decline of strategic decisions on prices and product characteristics by BYD and its competitors in a changing environment characterized by growing demand, rapid technological progress, disruptive market entry, and frequent changes in government subsidies to EVs. Our results are based on the estimation of a structural model of demand and price competition in an oligopoly differentiated product industry, and on a large set of counterfactual experiments that identify the contribution of different factors to the observed decline. We find that most of the decline in BYD's market share can be explained by product proliferation and product design from early competitors like Tesla and Porsche: their brand names and product designs generated substantial business stealing from BYD. A second important factor was the rapid technological improvement in the industry during this period that made BYD to lose its initial cost advantage. Market entry from startups played a much smaller role in the decline on BYD's market share. Despite the decline in its market share, BYD increased its average price cost margin during this period, from 12% in 2014 to 45% in 2020. Our counterfactuals show that the decline in BYD's market share and the increase in its markup are both closely related to changes in product design by BYD and its competitors. As a response to increasing competition, BYD's strategy was to concentrate in higher quality products, with lower market share but larger margins.

BIOGRAPHY:

Dr. Jasmine HAO is an assistant professor at the HKU Business School. Before joining HKU, she did her Ph.D. at the Vancouver School of Economics, the University of British Columbia. Her research interests are in Industrial Organization and Econometrics.

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