Automotive Market in China

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Francesco Motta

Timeline

…A visual appetizer…

The fast evolution of the car industry

1959 HongQi

1956 Dong Feng

1991 Shanghai Auto Works SH1020 SP

1974-80 San He

1998-2004 FAW Hongqi CA7220

2012 Chery Concept

2020

Overview

General

- Automobile Industry derived **from Military** Industry supported by USSR.
- Chinese state-owned automobile manufacturers primarily focused on large commercial trucks, with only a small number of passenger cars being produced, approx **100-200k vehicles per year**.

Players in the market:

1940s SAIC

1950s Changan (start ass'y a jeep)

1953 FAW

1969 DongFeng

50s - 60s | 80s | 90s | 2000 | 2010 | 2020

Overview

Political:

- Restrictions and controls on the automobile sector gradually eased.
- In the 1980s the Government began to approve JV partnerships with major global automobile manufacturers in order to :
  - Develop China's domestic production capabilities
  - Transfer Technology and knowledge

Players in the market:

1978 VW started its connection with China

1984 first JV in China, S VW

1991 second JV in China, FAW VW

Overview

Political

- 1994 new Automobile Industry Policy with the aim to attract large manufacturers to operate in China under **JV with foreign ownership** restricted to no more than 50%
- The new policy also urged consolidation in the auto sector, **restructuring** of FAW, SAIC, DF (the so-called ‘big three’)
- **Smaller producers** not involved in JV faced restrictions on market entry and product development throughout the 1990s.

Players in the market:

1997 Shanghai GM was founded

1997 Nanjing Fiat was founded

Many ‘independents’

50s - 60s | 80s | 90s | 2000 | 2010 | 2020

Overview

Political:

- 2004 – updated Automobile Industry Policy : great emphasis on **domestic R&D**
- 2006 Suggestions for the Restructuring of the automotive Industry: Chinese brands should be maintained by JVs
- Intellectual property is getting at political attention
- reliability, quality issues have been a factor for Chinese OEMs

Players in the market:

50s – 60s | 80s | 90s | **2000** | 2010 | 2020

Overview

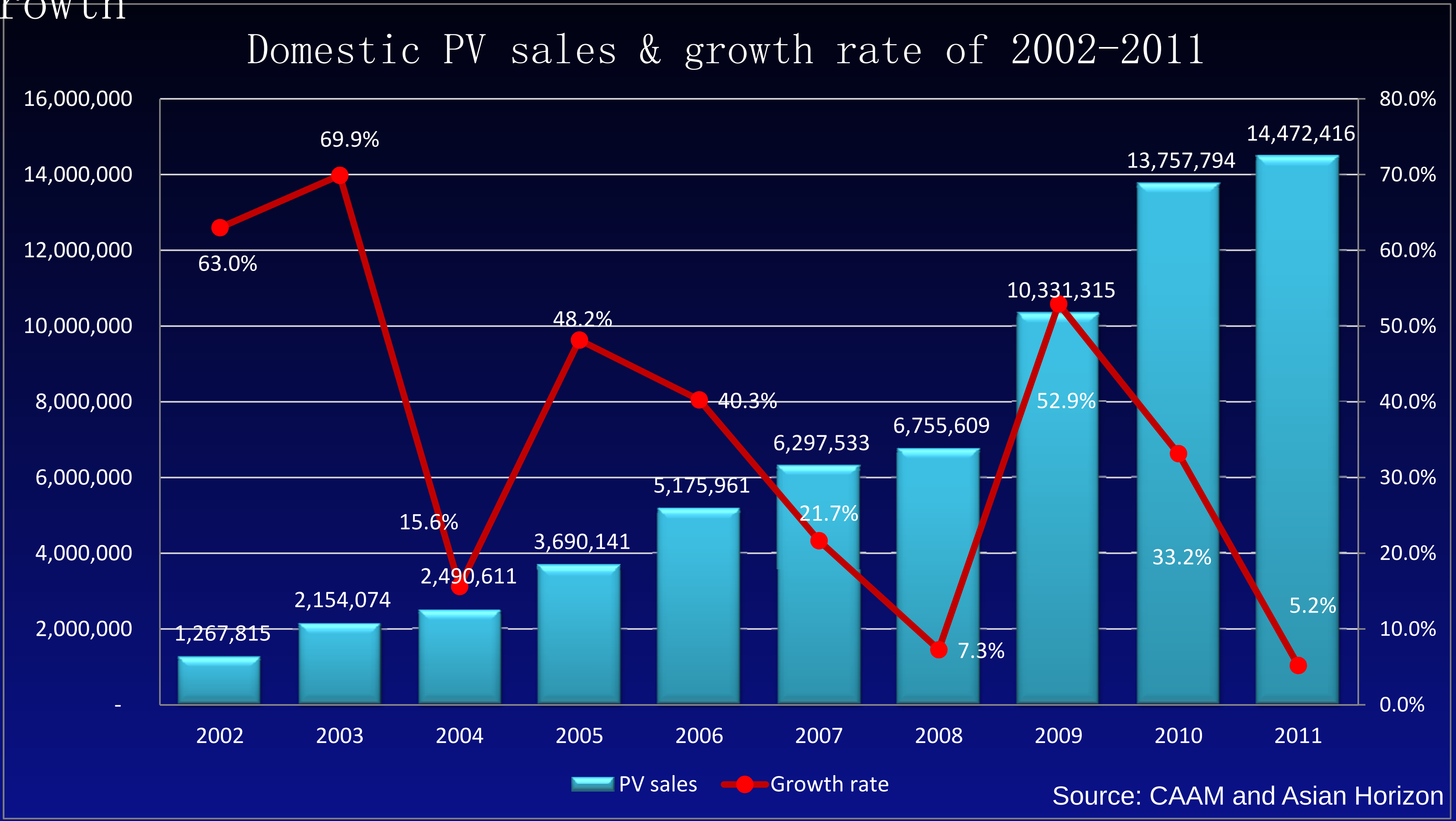
Political

- After 2008 (Global financial crisis) Chinese authorities **stimulated** the economy, including **Automotive**: a number of policies aimed at increasing purchases of passenger vehicles: a car-scrappage scheme was introduced
- In 2009, the government issued a restructuring and revitalization plan for the auto industry, encouraging China's 4 biggest auto groups to conduct national **mergers and reorganizations.** New EV products are required

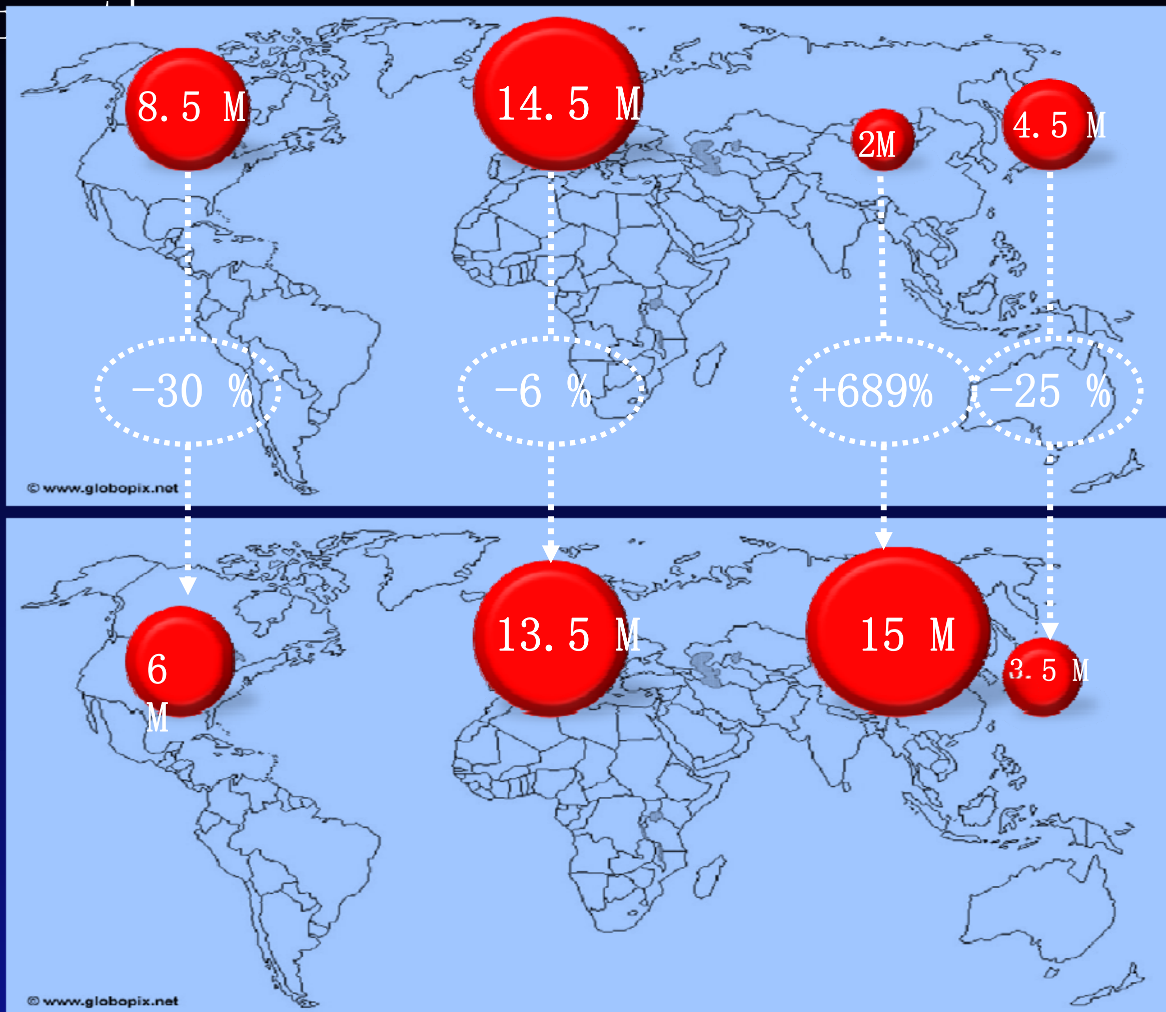
Market

- Passenger cars in China dominated by models of **foreign brands**
- Some of the **independent producers** that entered the passenger vehicle market in the late 1990s and early 2000s have gained market share
- Side effect of the domestic market: **vehicle exports**

10 years Market and Growth



10 years Market and Gr



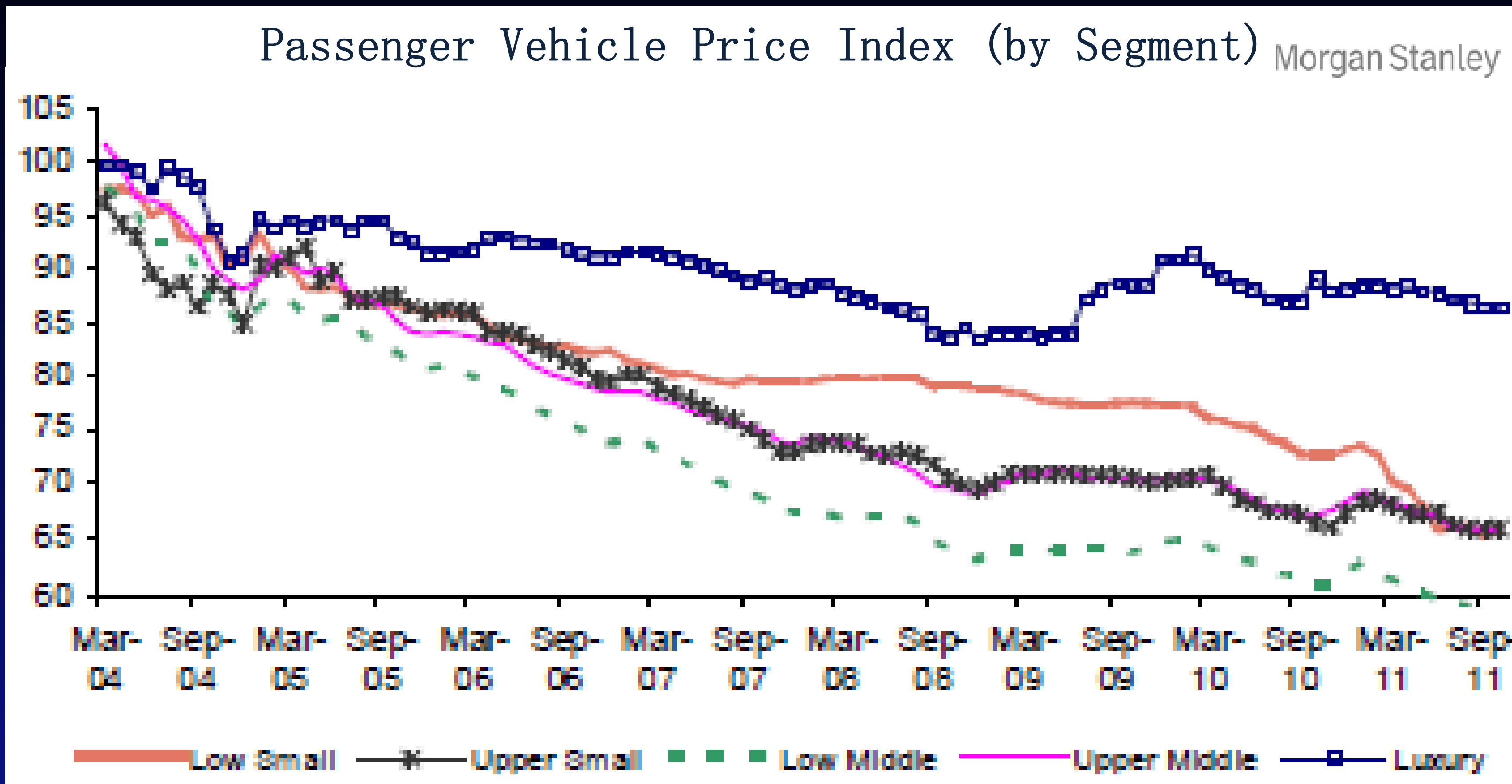
2002

2012

Market Size around the Globe

50s – 60s 80s 90s 2000 2010 2020

10 years of Price War



50s - 60s

80s

90s

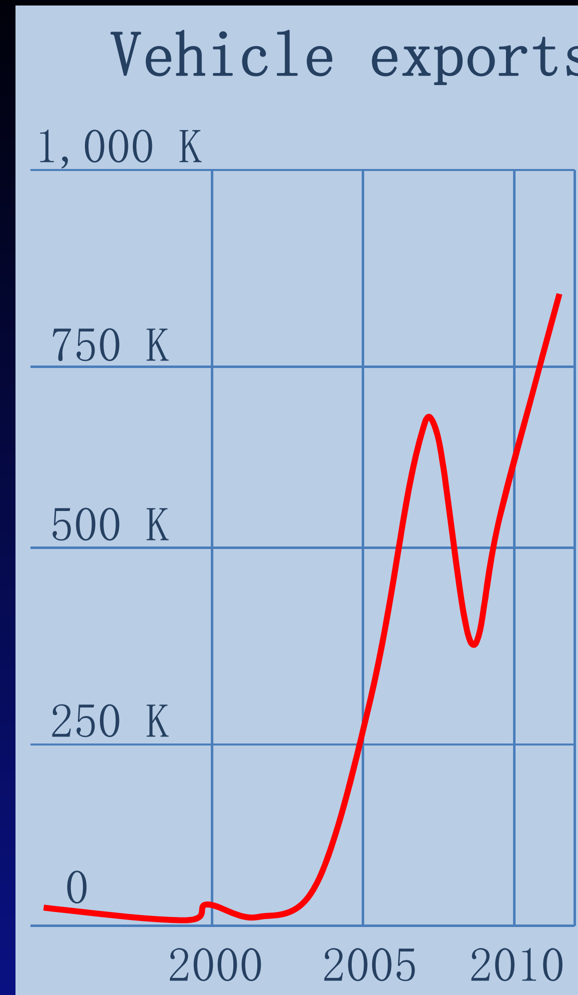
2000

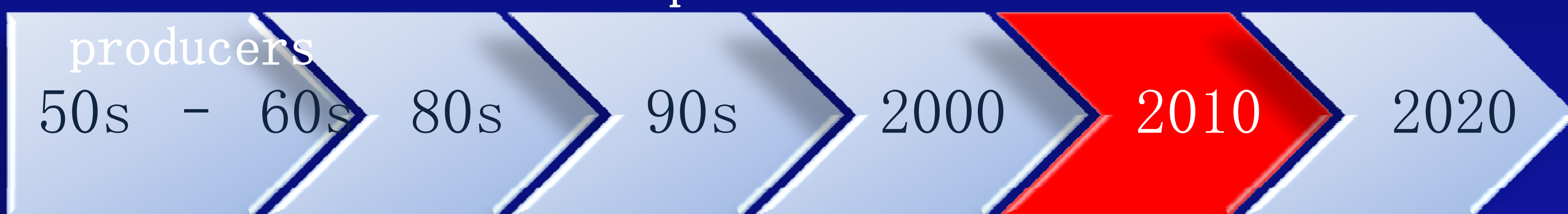
2010

2020

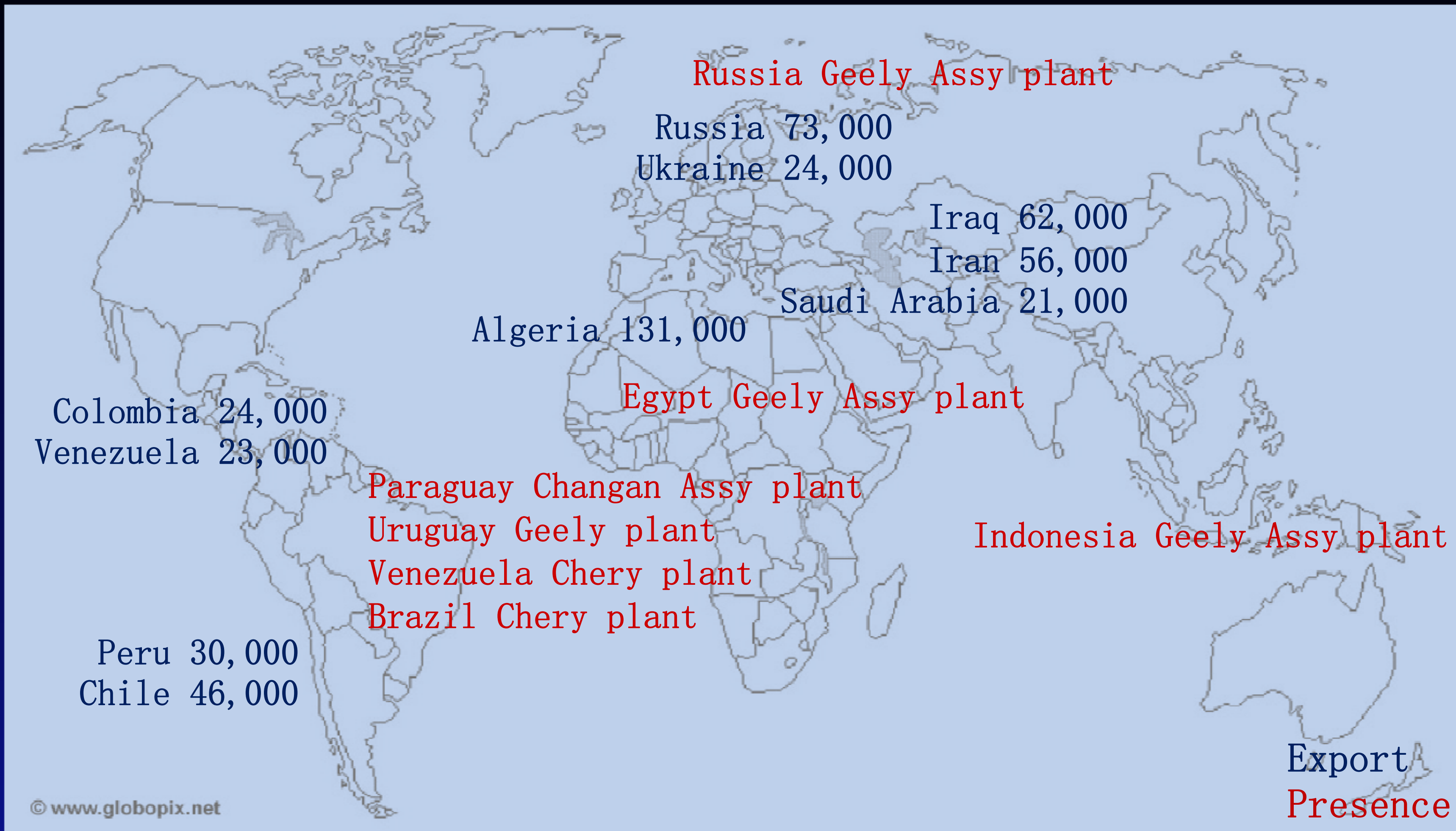
Export Market

- **2008** vehicle exports accounted for around **7%** of Chinese automobile production
- **2012** YTD 770,000 +23% growth
- Passenger vehicle exports by Chinese carmakers could almost **double** in the **next 3 years**, up from an estimated 600,000 units this year to about **1 million in 2015**
  [HIS, 2011]
- The majority of exports of motor vehicles are from **independent** producers



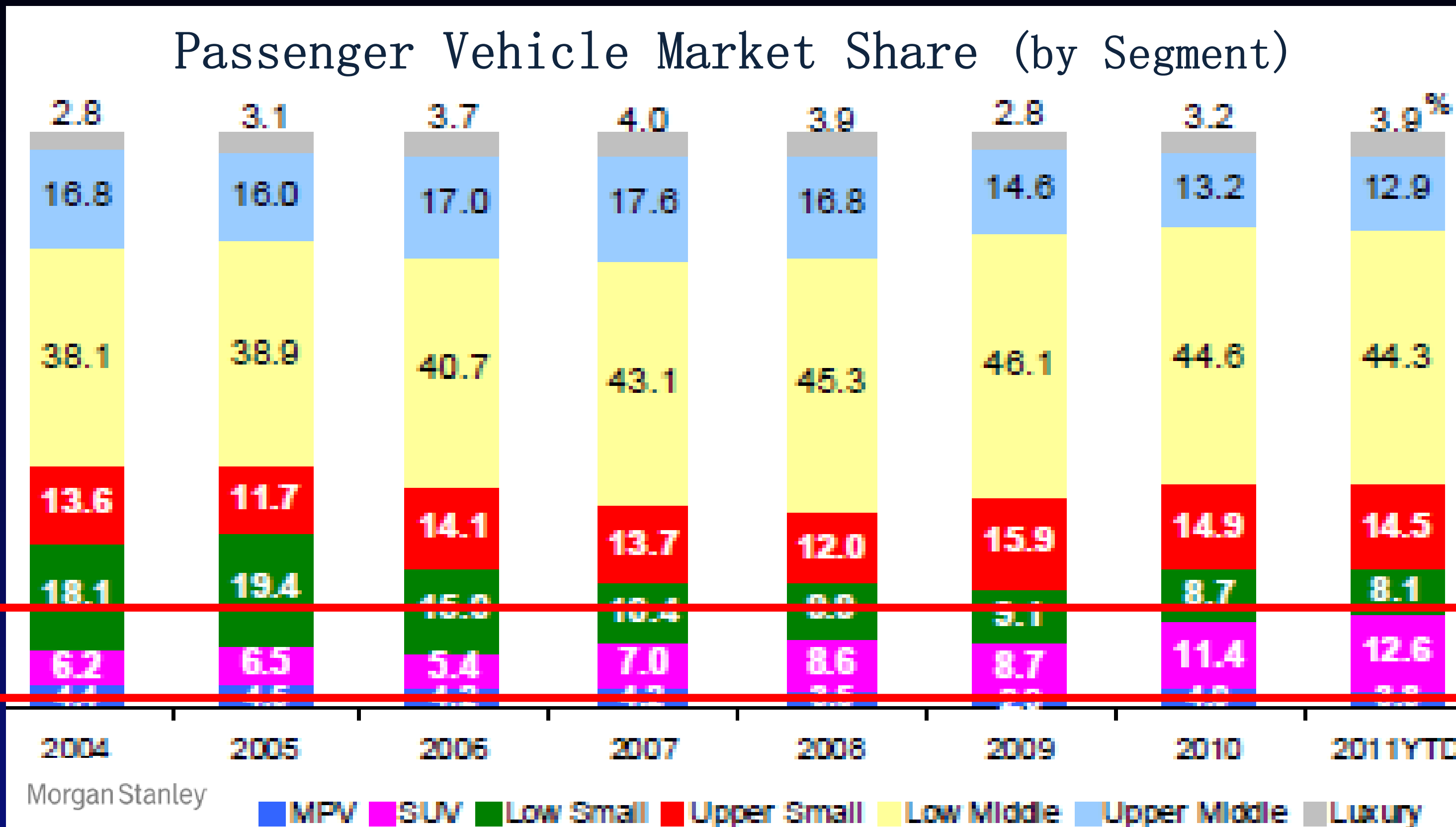


Export Market and Chinese OEM presence



50s - 60s | 80s | 90s | 2000 | 2010 | 2020

Market Composition



Luxury (C)

Upper Middle (B)

Low Middle (A)

Upper Small (A0)

Low Small (A00)

SUV

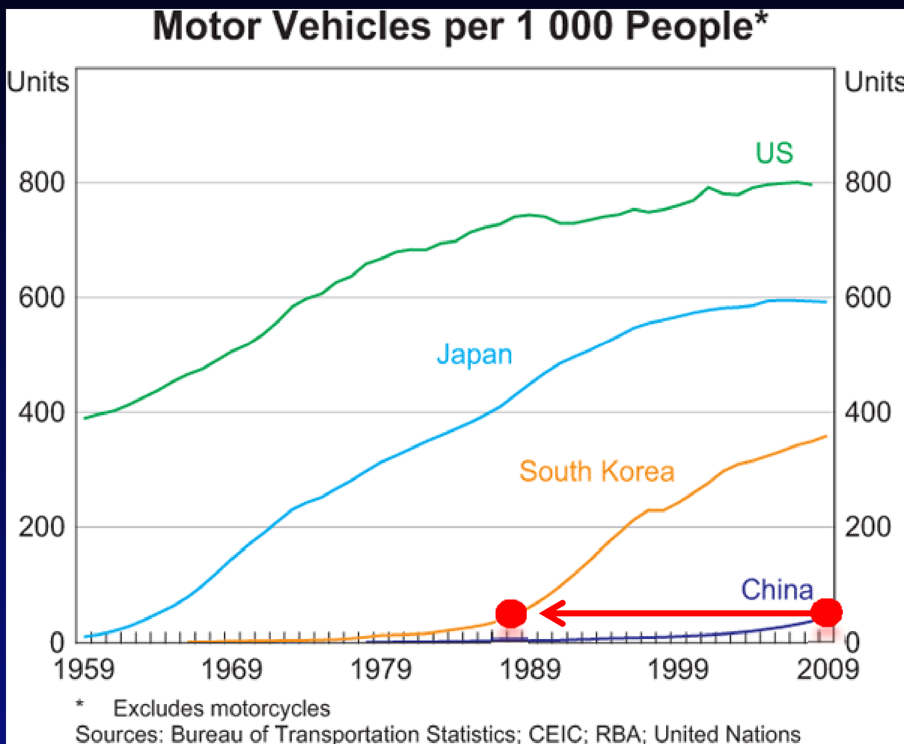
MPV

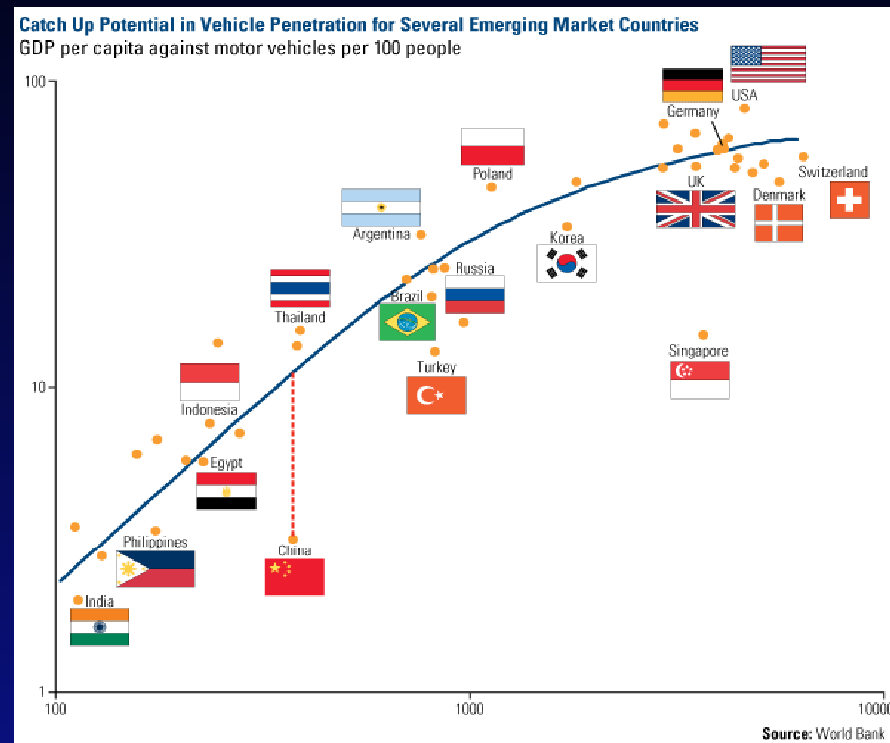
2012 SUV accounts for 17%

50s - 60s | 80s | 90s | 2000 | 2010 | 2020

Forecasting the future

Significant growth in the domestic market based on the average per vehicle in developed countries and GDP vs





China: 2.25 million km of paved roads for 60 million motor vehicles.
US: 2.6 million km of paved roads for over 250 million motor vehicles.

50s - 60s | 80s | 90s | 2000 | 2010 | 2020

Forecasting the future

General

- Over the years…many incredible achievements, at rocket speed (biggest market in the world, number of foreign investments, nr of brands and sub-brands, nr of independent producers, …) but signals of market maturity are popping up
- In the next 3-5 years Half of the independent brands will not survive *[CAAM VicePresident]*
- Domestic sales are likely to remain high for the foreseeable future, as the **urbanisation** rate continue to improve in China, means demand for automobiles from first-time buyers. 80% of growth in the next decade will come from outside the 10 cities.
- China's passenger vehicle sales will expand about 8% a year to 22 million units in 2020, driven by demand for SUVs *[McKinsey]*
- SUV sales will triple in the 10 years from 2011 for the fastest growth among all vehicle segments *[McKinsey]*

2020

Forecasting the future

Political:

- Government is still the key driver
- Car Congestions in the cities: new Government or Municipal Policies? (already in place in Shanghai, Beijing, Guangzhou)
- Push of other means of transportation? buses, coaches, metros, trains, small airplanes?
- EV? 500,000 vehicles for 2015?
- (potential territorial disputes or other political implications -> China vs Japan)

2020

Forecasting the future

OEMs key factors:

- PRODUCT: Product rationalization -> less models, less investments, sharing platforms
- PRODUCT: more quality and reliability
- SALES: Export is the only possibility to make big numbers? Big pressure from International Brands to push 'out' the Domestic Brands
- SUPPLY CHAIN: from Supplier to Partner? Some signals…
- HR: International team, key positions open to global Managers with knowhow and experience in international teams and multicultural skills

2020

OEM

Evolution

	80s	90s	2000	2010	2020
Hierarchy	HIGH	HIGH	HIGH	HIGH	HIGH
Bureaucracy	HIGH	HIGH	HIGH	HIGH	HIGH
Political vs Managerial	Political	Political	Managerial (Political)	Managerial	Managerial
Transparency	NOT	NOT	Somehow	better	better
Processes	Confused	Confused trying to learn from JV	Some trying to learn from JV	Some	improving
Costs /	Not an issue	Not an issue	An issue	A big issue	A major issue
Spending	unlimited	unlimited	efficiency	limited	Key element
labour resources	--	--	--	A need	A must
R&D	--	--	--	A promising start	A necessity
Marketing					

OEM Key Drivers

50s - 60s

'produce cars'

80s

- Learning from 'outside world'
- Facing the cultural challenge (both sides)

90s

- Learning from 'outside world' (still today a key driver)
- Reverse engineering as a quick solution to fill the engineering gap
- A strong push to understand potential cooperation with foreign counter-parts
- Supplier

2000

- Learning from 'outside world' (still today a key driver)
- 'grabbing' ideas (reverse engineering, 'cloning' exteriors)
- New models just to fill the market
- Price war to gain market share
- 'big'

2010

- Learning from 'outside world' (still today a key driver)
- Price war
- Quality
- Reliability
- Design
- M&A or alliances

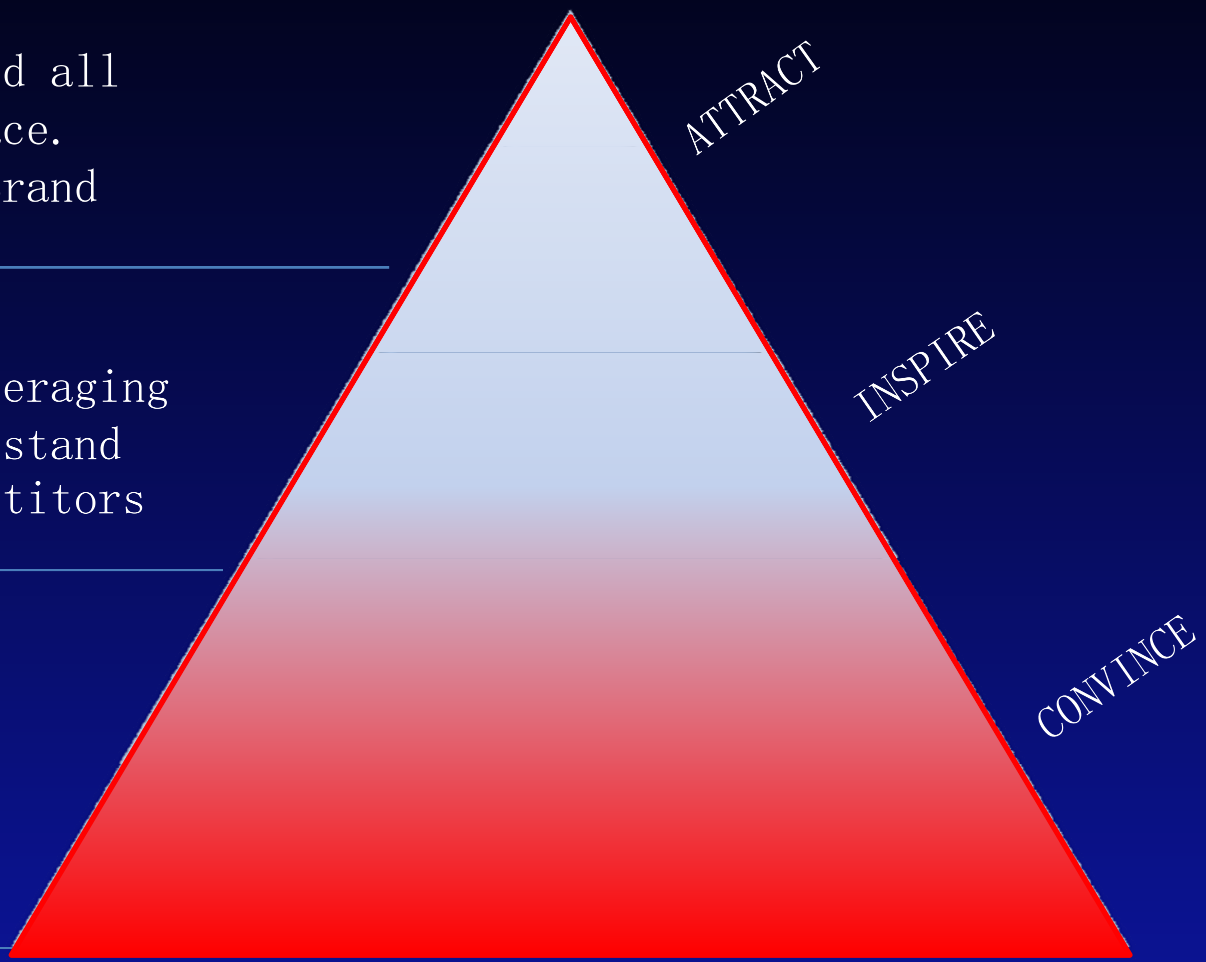
2020

- Learning from 'outside world' (still today a key driver)
- From price war to product war (focus on profit)
- Quality
- Reliability
- Brand
- M&A as a strategic tool (geographical, technology, plants)

OEM and Brand

Chinese OEM

Consumers



To build a brand you need all the below already in place. Some confusion between Brand and Product

Few Chinese OEMs are leveraging their Marketing to understand the Market and the Competitors

Most of the Chinese OEMs are still developing the main base of the pyramid

Brand means the state of the art technology that involves commitment, feeling and sentiment *[Kastner - BMW Brilliance President]*

Thank You