

A long-exposure photograph of a city at night, showing a complex highway interchange with vibrant light trails from cars. In the background, several skyscrapers are illuminated against a dark blue twilight sky. A large yellow diagonal graphic element cuts across the right side of the image.

Mega trends shaping the Chinese light vehicle industry

The EY logo, consisting of the letters 'EY' in a bold, white, sans-serif font.

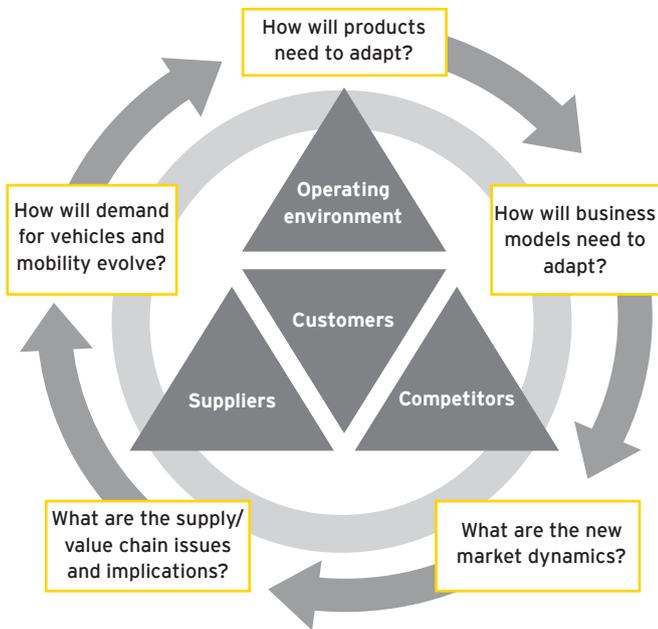
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Executive summary

Stakeholders across the Chinese light vehicle industry are being impacted by fast-changing dynamics across the country's automotive ecosystem – be it in the operating environment, customer preferences, competition or supply chain.

To prepare for the next decade, automotive companies need to raise the following five questions and assess their ability to respond to the opportunities and challenges they present:



In answering these questions, Ernst & Young has identified nine mega trends that will significantly impact the revenues, costs and profitability of the participants in the Chinese auto industry during this decade of tremendous change. From the social media phenomenon to structured government initiatives, these diverse trends influence vehicle manufacturers, suppliers and dealers on multiple fronts. To seize the opportunities that lay ahead, players old and new must leverage their ability to innovate and remain flexible. No doubt it's a new era for the automotive industry.

1 Government and impact of motorization accelerates the introduction of sustainable mobility solutions

The Chinese Government wants to alleviate excessive energy consumption, severe traffic congestion and worsening air pollution. Legislative and financial measures are being used to accelerate the introduction of sustainable technologies and alternative mobility choices. The Government continues to place strategic emphasis on the plug-in hybrid EV and Pure EV while promoting the adoption of energy efficient hybrid and ICE vehicles. Simultaneously, the government is encouraging the introduction of innovative mobility services such as first/last mile mobility solutions and promoting them in the major cities. In addition, the government is also driving intra city transit planning to accommodate future urbanization and city expansion in lower tier cities and interior of the country.

2 Diversity of demand amplifies across China

Chinese consumers want a more diverse offering of cars. Although consumers in major cities seek individuality and access to mobility service, those in lower-tier cities are price-sensitive and seek space, reliability as well as fuel economy. Economic growth over the next decade is likely to accelerate in lower tier cities and inner land China. Consequently, the lower vehicle density relative to a large population base in these regions, varying infrastructure conditions and cultural differences across the extensive geography creates a diverse range of mobility needs. However, the larger cities are already considering restricting the total number of vehicles similar to Beijing's move in late 2010, in order to address traffic congestion.

3 Demand and competition driving proliferation of products and state-of-the-art in-vehicle technologies by OEMs

The increasingly demanding and diverse needs of the Chinese consumers will soon be met with an abundance of products. For example, some of the new vehicle segments being created in China include CDV (Car derived van), SAV (sports activity vehicle) and FUV (fashionable utility vehicle). While local OEMs are creating new brands to move up the value chain, global OEMs are launching China-only brands to tap the low-end market. The time lag in technology introduction between the developed markets and China is shrinking rapidly.

4 Disparity between market size and R&D capacity drives investments across research functions

R&D capacity and capability in China is relatively under-developed despite the country already becoming the world's largest auto market. The Chinese government is playing a pivotal role in driving local R&D investment. It envisions the country becoming an R&D hub by 2020 for vehicles and technologies. Local OEMs and suppliers are aggressively building up R&D capabilities and capacities not only organically, but also through domestic and international acquisitions. Global OEMs and suppliers are also creating advanced research and product development capabilities in China and will change their role from homologation to developing models for the Chinese market. In particular, companies inside and outside the automotive industry are collaborating to in the alternate powertrain and connectivity technology areas.

This is an executive summary of a detailed analysis conducted by Ernst & Young's Global Automotive Center. Please contact the automotive professionals on the back of this document for more in-depth information.

Mega trends

5 ICT and social media driving paradigm shift in industry's sales, marketing and supply chain management functions

Today, consumers are sharing uncensored feedback and information on their perceptions of products and services via social media platforms, which may influence their purchasing decisions. OEMs will need to capture these opportunities by communicating with consumers through online and social media tools. These communications may take the form of precision marketing, creating "online 4S shops" to complement and compete with conventional dealerships and managing the customer's experience as they build a perception of the brand. The Chinese government's 12th Five Year Plan lists next generation Information and Communication Technology (ICT) as one of the seven strategic emerging industries, enabling the emergence of an intelligent supply chain in the country. OEMs are pushing their local suppliers to adopt and integrate IT system to enable better visibility across the supply chain.

6 New entrants and innovative business models take the lead on connectivity, electrification and mobility

New players such as telecom operators, charging infrastructure companies and mobility providers are shaking up the automotive industry through new mobility-related business models. They are looking at major Chinese cities as the ideal place to launch their mobility and EV related services to customers. These entrants have a first mover advantage as experienced in the developed markets and present a significant threat to the automotive industry.

7 Global OEMs aim for "glocalization" while local OEMs attempt globalization

Chinese OEMs are striving to strengthen their brand and scale locally while simultaneously aiming to build a global footprint. The government is also pushing to form two to three globally competitive domestic automotive powerhouses. Global OEMs are strengthening their China presence as the country rapidly becomes one of their biggest markets, and aim to integrate China into their global strategy. Over the next decade, Chinese and global OEMs are going to compete directly in segments, regions and global markets. Success of global and local OEMs in China will become a game changing factor for their global competitive position.

8 New risks challenge OEMs to devise responsive operational strategies and effective risk management systems

OEMs' initiatives in China are facing a reality check. From potential overcapacity and volatile raw materials price to changing regulatory policies and rising labor cost along the coastal regions, there are many risks for OEMs today. In the face of these risks, OEMs are challenged to devise responsive operational strategies and effective risk management systems for the China auto sector.

9 Suppliers building local capacities to capitalize on OE and aftermarket opportunities

Automotive suppliers are building local capacities to capitalize on the world's largest OE and rapidly growing aftermarket opportunities in China. Domestic suppliers are setting up advanced automated production lines to improve their product quality and are actively scouting for opportunities to buy core technology capabilities and building up R&D capacity. While global lower-tier suppliers and Japanese suppliers are beginning to set up production capacity in China, global aftermarket brands are developing a China-specific strategy.



The Chinese auto industry defied the global recession to become the largest market for light vehicles. As growth cools and competition heats up, automotive companies across the value chain must carefully evaluate their investments in China to not only establish a strong local presence, but also protect their global competitive position.

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