China's automotive market
How to merge into the fast lane with consumer and digital marketing insights

High performance. Delivered.
China’s spectacular economic growth over the past 20 years is reflected not only in a tenfold increase in its gross domestic product, but also in the emergence of the world’s fastest-growing consumer market and a vibrant, burgeoning middle class.

As incomes in China have risen, so have Chinese consumers’ interest in products that were previously out of their reach. Automobiles fall squarely into this category. In 2005, approximately six million vehicles were sold in Greater China. In 2012, that number had climbed to nearly 19 million, making Greater China the largest automobile market in the world. While this exceptional compound annual growth rate (CAGR) of 18.1 percent is not expected to continue, there is no doubt that Greater China will remain the number one car-buying nation for years to come. Market analysts of IHS Automotive estimate that vehicle sales will grow by a healthy 8.8 percent in 2013 and average about 6 percent year-over-year growth through 2020. In that year, 31 million passenger cars and SUVs will be sold in Greater China (see Figure 1). By comparison, the second largest market, Europe, will report auto sales of only 23 million. It is not surprising that automobile manufacturers from around the world are placing China at the very center of their long-term growth strategies. Currently, Volkswagen is the undisputed sales leader. However, the consumer market is still quite immature and consumer behaviors are continually evolving. There is still plenty of time and plenty of room for other local and foreign auto manufacturers to capture significant market share. At Accenture, we believe the OEMs that will fare best in China are those that will truly understand the needs and preferences of Chinese consumers and then give them what they want—in terms of vehicles and the overall car-buying experience.

Figure 1. While China’s automotive market growth is cooling down, it is still expected to reach 31M new registrations in 2020.

Greater China Light Vehicle Sales Development (2005-2020; Millions of Units)
Who's in the driver's seat?
China is a huge and highly complex automobile market. The sheer expanse of its geography, the complexity of its sales channels, and the rapid pace of urbanization—which has created 14 modern metropolises with populations of more than 10 million and 150+ cities with populations of more than one million—can all be overwhelming.

Regardless of how and where automakers choose to compete in China, they will need to address a diverse mix of values, preferences and behaviors that influence consumers’ buying decisions.

Several years ago, Accenture identified major consumer segments in China. We believe the distinctions among these groups are particularly relevant in today’s burgeoning auto market. One group is “domestic leaning.” They tend to buy Chinese brands either because of a feeling of loyalty to their country and local companies or because their lack of disposable income forces them to focus on the more affordable domestic vehicles. Three groups are highly interested in foreign brands. One, which we call the “Young Royals,” is keen on exclusivity and is willing to pay more for the latest high-end products. The other two groups comprise lower-income people who aspire to buy trendier and sophisticated brands (the “Aspirationals”) and higher-income men and women (the “Established Money”) who also want exclusive products, but value brands that are established and have been in the market for a long time.
“Nice ride”
While the Chinese market is expanding to include buyers of second (or even third and fourth) vehicles, the majority of consumers continue to be first-time car-buyers. Of the top 20 models currently being purchased in China, Volkswagen accounts for 54 percent of sales, followed by Hyundai at 19 percent. Volkswagen and Hyundai also top the list of the top 20 SUVs sold. Other manufacturers, however, are catching up and demonstrating a strong projected CAGR over the next seven years (see Figure 2).

At this point, car and SUV bestsellers tend to be “C Compact” models sold by foreign manufacturers. Yet, many of these vehicles have wheelbases that extend to 2.7 meters, which makes them nearly the size of the typical D-sedan. This reflects a noticeable growing preference for larger vehicles among Chinese consumers, both in the sedan and SUV segments. Many OEMs are following the lead of Hyundai and Volkswagen and developing new models to meet the Chinese market’s demand for larger sedans.

Most auto consumers around the world are attracted to tangible, distinguishable features such as brand, appearance and engine performance. This is certainly true in China, where brand prestige—even among smaller vehicles—will continue to play an important role in purchasing decisions. Several luxury car manufacturers are setting up production facilities to be closer to the growing pool of brand-conscious Chinese buyers. For example, in 2013, Audi will begin producing its A3 sedan in FAW-VW’s Foshan facility. The A3 will be China’s first locally sourced compact luxury-branded sedan. BMW, Mercedes and Jaguar Land Rover are expected to also localize production of several vehicles in the near future.

Telematics services are also playing an increasingly important role in Chinese consumers’ vehicle purchasing decisions. By some estimates, 85 percent of consumers look for in-vehicle technologies and 75 percent acknowledge they would spend more for a vehicle with the right telematics services. Consumers are particularly interested in services that provide navigation support and facilitate emergency rescue, Wi-Fi connectivity and access to real-time traffic data. Accenture estimates that in-vehicle technologies could generate up to $200 in added revenue per car sold. Such technologies are now common in luxury vehicles, and we believe the availability of telematics services will grow quickly in all segments. The challenge for vehicle manufacturers will be to incorporate the right technologies for a given vehicle’s price range.
What do you think?
Recent Accenture research confirms that when it comes to deciding which car to buy, Chinese consumers rely predominantly on four factors: friends and colleagues, family members, manufacturer websites and social media.

Compared to their global peers, Chinese consumers are much less likely to simply visit a dealership or order a vehicle from a call center after conducting preliminary research. The car-buying experience for them is much more deliberate and involves Web-based searches, combined with test-drives at local dealerships. These findings confirm earlier Accenture research, which found that Chinese consumers, in general, are considerably more likely to rely on the Internet when deciding what and whether to buy. In 2012, the proportion of consumers conducting research online topped 90 percent. Like shoppers in other parts of the world, Chinese consumers tend to “research online, purchase offline.” And this so-called ROPO effect is growing. In 2010, 33 percent of Chinese consumers purchased products offline after looking online for pricing, product and brand information, as well as for customer reviews. In 2011, that figure jumped to nearly 43 percent. While that research assessed purchasing practices across the consumer goods space, one can assume a similar phenomenon is occurring in the area of vehicle sales.

Chinese consumers’ prolific use of social media is particularly important (see next page). It suggests that auto manufacturers and their dealers may be wise to eschew large investments in television and radio advertising in favor of establishing a strong social media presence.

Four factors influencing Chinese consumers’ car buying decisions

- 49% look to recommendations from friends and colleagues.
- 64% seek advice from family members.
- 53% look at manufacturer websites.
- 64% are influenced by opinions shared via social media.
The impact of social media on consumer behavior in China

Accenture's 2011 and 2012 Global Consumer Research studies found that social media is having a significant effect on Chinese consumers' purchasing behaviors:

>90% More than 90 percent Chinese consumers use social media and microblogs (known as "weibos") to learn about companies' products or services.

60% 60 percent interact directly with companies on social media sites about their products or customer service.

2/3 Two-thirds say that positive or negative comments have some impact on their decision to buy a given product. Interestingly, it is not just the opinions of friends and family that matter. In 2011, more than a third of Chinese consumers based their purchasing decisions, at least partly, on posts made by complete strangers. In 2012, that number climbed to nearly 44 percent.

72% 72 percent Chinese consumers read about companies' products or services on social media sites at least several times a month.

25% Nearly 25 percent post their opinions about a company's products or services several times a week.

2/3 Two-thirds think that a company's presence on social media sites increases the likelihood that they will do business with them.
Rev your digital engine

Despite their differences in demographics and vehicle preferences, Chinese consumers share at least one important characteristic: the expectation for a personalized and satisfying customer experience. At Accenture, we know that creating a satisfying end-to-end customer experience is a hallmark of high performance and an imperative for all companies, in all markets.

In China, however, the issue is made more complicated by rapidly growing and changing expectations, the high influence of others’ experiences (both positive and negative) on purchasing behaviors, and the variety of direct and indirect sales channels that are needed to cover a country and customer base of such considerable size. When multiple touch points are employed, the process of interacting with customers must be seamless and consistent. If it is not, the consumers may well go elsewhere.

We believe that digital marketing holds particular promise for automakers looking to build strong consumer relationships and ultimately sell more cars. In fact, we believe the digital channel will soon be the predominant method of interacting. We are not the only ones. Some 3,000 Chinese respondents to a recent Accenture survey made it clear that they would like the auto industry to offer a better and more customized online experience. More than 80 percent indicated their desire for more integrated digital marketing experiences from manufacturer and dealer sites. Even more noted that a better interactive digital marketing capability is “a must” for the auto industry.

Upon analyzing the survey findings in greater detail, we found that Chinese consumers basically want three things when it comes to their digital experience. The first is more access. Nearly 80 percent would welcome more mobile-enabled websites. This is hardly surprising, given the tremendous rise in smartphone and mobile Internet penetration in China over the past three years. Manufacturers need to realize that mobility has taken hold in China and will be a driving force in purchasing behavior moving forward.

The second thing Chinese consumers want is more content and/or digital features. Large numbers of survey respondents indicated their interest in a range of digital options. For example:

- 84 percent want easier and clearer pricing to help expedite the car-buying process.
- 82 percent are interested in using digital communications to find out more about new in-vehicle technologies.
- 80 percent would like to be able to compare additional options within an automaker’s product line.
- 74 percent would like more intuitive content, customized to their preferences.
- 74 percent would like to see more integration with dealer sites and inventory search functions.
- 70 percent would welcome the ability to chat online with a dealer.
Finally, consumers in China want a digital experience that is simple to navigate. Approximately three-quarters of respondents noted the need for simpler digital experiences related to three distinct activities: information gathering, vehicle comparisons and vehicle configurations.

OEMs can use these insights to develop a truly differentiated and customized experience for consumers. Opportunities abound for automakers to use digital marketing in new ways to strengthen relationships and brand loyalty. For example, OEMs and their dealers might consider making the entire end-to-end purchasing process—including financing, price negotiation, back-office paperwork and home delivery—available via the online environment. Approximately one-third of consumers indicated they would definitely take advantage of such an option. Another 60 percent said they would consider it.

“Virtual dealerships” that make better use of videos or 360-degree tours are also a possibility. Approximately 80 percent of consumers noted they could see themselves buying a car virtually, without ever visiting a dealership.

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Over the past 20 years, profound social, economic and cultural changes in China have converged to create a consumer auto market that is unlike any other.

Complicating matters is the speed at which it continues to evolve. To win the hearts and wallets of Chinese consumers, automakers need to understand the preferences and behaviors of the consumers they are hoping to reach. They then need to translate those consumer insights into quick action.

Consumers believe that digital marketing can help align the automaker’s message and value proposition with their own reasons for buying. We agree. When insights and digital marketing converge, consumers can take advantage of a car-buying experience that is faster, simpler and more enjoyable. And automakers can more confidently move into the fast lane of growth, profitability and high performance.
About Accenture

Accenture is a global management consulting, technology services and outsourcing company, with approximately 266,000 people serving clients in more than 120 countries. Combining unparalleled experience, comprehensive capabilities across all industries and business functions, and extensive research on the world’s most successful companies, Accenture collaborates with clients to help them become high-performance businesses and governments. The company generated net revenues of US$27.9 billion for the fiscal year ended Aug. 31, 2012. Its home page is www.accenture.com.

Reference

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