China Automotive Aftersales Market: A Key Growth Driver in Future
Introduction

China overtook the United States as the world’s largest automotive market in 2009 and has maintained its position for the past seven years. For 2015, total automotive sales have been estimated at 24 million units, of which 21 million are passenger vehicles. While in absolute terms the numbers seem impressive, the growth rate in sales has slowed from 9.89% in 2013 to about 3 percent—and the market has entered a "new normal." This growth trend is reflected in the total number of vehicles in China. There were an estimated 170 million vehicles by 2015 end—with rising vehicle service life. As a result, the aftersales market—including auto parts sales, maintenance and value-added services—is playing an increasingly prominent role in the automobile industry.

As the competition for new car sales gets fiercer, the aftersales service market too gets affected. It is becoming one of the factors critical for closing a sale. In such a scenario, it is imperative for all players in the automobile industry to assess the trends and challenges in aftersales services and devise viable coping strategies. This report delves into the trends and challenges in automotive aftersales and suggests strategies that can help automotive companies, auto part makers and aftersales service providers achieve high performance.

“As many as 70 percent of auto distributors were profitable prior to 2010. Today, however, the percentage is no more than 30 percent...”

——Luo Lei, Deputy Secretary General, China Automobile Dealers Association
The Current Scenario: Policy revs up growth

China’s automotive aftersales market was estimated at 700 billion yuan (US$107 billion) in 2015—up 30 percent from the previous year. This is in sharp contrast to the slowing automotive sales growth rate of 3 percent (Figure 1).

“Competition in the auto market is intense. 4S auto stores are making money mainly by providing aftersales services.”

—a general manager of a Sino-foreign 4S store

Aftersales grabs a larger share of the auto dealership profits

As the number of vehicles on the road keeps on increasing, the automobile aftersales market is expanding. Services such as parts and accessories, maintenance and repairs, financial services, insurance, used cars and retrofit are becoming a major source of revenues for dealerships. Our research shows that automobile aftersales services account for about 60 percent of the overall profits of dealerships.

There is scope for further growth as the aftersales market’s contribution to the total automotive profits in China are lower than those in the developed countries. In the United States, for instance, the rate of contribution is as high as 80 percent.

Figure 1. China’s aftersales market for passenger vehicles
Source: Industry Information; Accenture Analysis Research

Figure 2. Distribution of profits in the automobile value chain: A comparison between China and the United States
Source: Accenture Analysis Research; Industry Information; China Automobile Industry Association
Open door policy helps reduce prices

As the automotive aftersales market continues to expand, the regulation authority is taking proactive measures to open the aftersales market in order to reduce the costs for car owners, and guard against monopolistic practices. The regulator has issued guidelines for the industry that stipulate from January 1, 2015:

- Automobile makers must make technical guideline for repair and maintenance available to both franchised service workshops and independent service operators.
- Original equipment manufacturers (OEMs) should provide original parts and accessories as well as noncertified parts and accessories with proprietary trademarks for aftersales services.
- Authorized dealers of auto parts and authorized service workshops can resell original parts and accessories to non-authorized repair and maintenance service operators and end users.

<table>
<thead>
<tr>
<th>Anti-monopoly Law of the People’s Republic of China was introduced to tackle:</th>
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<tr>
<td>• Monopoly agreements reached between organizations</td>
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<td>• Abuse of dominant market position</td>
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<td>• Concentration of undertakings that lead, or may lead to elimination or restriction of competition</td>
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<th>China Automobile Dealers Association started to investigate monopolistic tendencies and collect related data</th>
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<td>The directive stipulated that:</td>
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<td>• Channel monopoly for auto parts and accessories be broken</td>
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<tr>
<td>• Encouraged original parts manufacturers and auto manufacturers to provide original parts or noncertified parts with proprietary trademarks for aftersales services</td>
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<tr>
<td>The Ministry of Commerce asked China Automobile Dealers Association to conduct surveys on regional monopolies</td>
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<td>Ten departments issued the Guidelines for Promoting Upgrading of the Automotive Repair and Maintenance Services Industry and for Improving its Services</td>
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<th>August 2008 Since 2013 The end of 2013 March 2014 May 2014 September 2014</th>
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<td>China Automotive Technology Research Center, in conjunction with China Automotive Maintenance and Repair Services Association and the automobile maintenance and repair and insurance industries, held a meeting urging that automobile manufacturers make maintenance and repair technical information publicly available</td>
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<tr>
<td>China Automobile Dealers Association submitted to the Ministry of Environmental Protection the Suggestions on Dismantling the Unreasonable Regulation of Cities Restricting Entry of Used Automobiles</td>
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These guidelines have led to a decrease in the price ratio of auto parts to vehicles for all major brands. On January 1, 2015, all Mercedes-Benz retail outlets in China cut prices by 5 to 25 percent. The opening up of the automobile aftersales market has reduced costs of owning a car and stimulated car purchasing. However, this can lead to authorized dealerships losing customers.

<table>
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<tr>
<th>Law / Regulation</th>
<th>Implications</th>
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<tr>
<td>Regulation on the Maintenance and Repair of Automotive Vehicles</td>
<td>• Automobile manufacturers and their authorized aftersales service workshops shall not refuse to provide quality assurance to vehicles which are not maintained at the franchised workshop • Consumers have the option to use original auto parts and accessories from authorized manufacturers or those of matching quality for maintenance or repair services</td>
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<td>Administrative Methods for Publicizing Automobile Maintenance and Repair Technical Information</td>
<td>Automobile manufacturers shall make publicly available online technical information on maintenance and repair for the brands they sell, including information on regular maintenance and repair, assembly, and installing and uninstalling of parts and accessories</td>
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<tr>
<td>GB/T 32007-2015 Uniformed Coding and Identification for Auto Parts</td>
<td>The unified coding and identification for auto parts will enable consumers to check and track the information needed for parts or accessories</td>
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<tr>
<td>The rules for commercial automobile insurance will be reformed and piloted in 12 provinces, including Tianjin, Guangdong and Xinjiang Uygur Autonomous Region</td>
<td>The automobile insurance market will undergo changes in terms of both size and operating models</td>
</tr>
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Figure 3. Major anti-monopoly laws and regulations introduced by China
Source: Industry Information; Accenture Analysis Research

Figure 4. Some auto aftersales services regulations effective from January 1, 2016
Source: Industry Information; Accenture Analysis Research
New entrants and innovative business models

The automotive aftersales market in China, which was dominated by automotive and parts makers, is now being liberalized. Among the dominant players are Shanghai Automotive Group’s Chexiangjia Automobile Service Company, Bosch Car Services, Michelin Tyreplus Auto Supplies Company and Anji Yellow Hat, an independent aftersales service operator.

This scenario is in sharp contrast to those prevailing in developed markets. For instance, in the United States, independent aftersales service operators account for 60 to 70 percent of the market share, while authorized 4S stores account for 30 to 40 percent.

However, in recent times, enterprises from outside the automobile industry are making inroads into the market. For instance, Baidu, Alibaba and Tencent are directly or indirectly providing automotive aftersales services or participating in the construction of sales channels.

With the entry of external capital, advances in Internet technologies and the government’s efforts to promote entrepreneurship and innovation, many innovative business models have come to the fore, including aftersales services delivered through an online-to-offline (O2O) model. For instance, Tuhu and Yangche51 are emerging asset-light O2O ecommerce platforms providing automobile aftersales products and services.

According to statistics of China Automobile Dealers Association, the number of investments in the automotive aftersales market in 2014 was 10 times that in 2013. Market participants from outside the automotive industry focus on frequently used, highly standardized auto parts and accessories, often with free service and low price offers, therefore quickly capturing a high market share in a niche product area.

Customers are more demanding, and ready to switch dealerships

The customer demand for automotive aftersales services is continuously increasing. There are approximately 170 million vehicles in China, a figure that is expected to grow by more than 20 million every year. Also, the average service life of passenger vehicles in the Chinese market is more than 4.2 years, and a growing number of vehicles will retire from service in the coming years. Our research indicates that the average spending on maintenance and repair services by car owners in 2014 increased by 50 percent over the previous year.

Since an increasing array of products and services becomes available in the auto aftersales market and services provided by 4S stores often carry high price tags, authorized dealerships are losing their market shares. According to currently available data, the dealerships are losing 30 percent of their customers every year, and the customer churn rate is growing by 3 percentage point every year.

The longer the service life of vehicles, lower the dependence of car owners on the 4S stores. As the service life of vehicles in China averages at around four years, consumers are becoming less dependent on services provided by 4S stores and increasingly switching to independent or niche service operators.

"The goal of the Alibaba automobile division is to make the cars more user-friendly and affordable and a more enjoyable possession for car owners.”

—Mr. Wang Licheng, General Manager, Alibaba Automobile Division

![Average vehicle life in China](Source: Industry Information; Accenture Analysis Research)
The Future Scenario: Gearing up for standardization, digitalization and on-demand service

Increasing market size and profit contribution

The automotive aftersales market in China is expected to see high growth and reach 1 trillion yuan (US$154 billion) by 2020. Its contribution to the total profits of the automobile dealerships too will keep rising. It is estimated that aftersales services will account for about 80 percent of the overall profits of automotive dealerships.

Further opening of the market

The automotive aftersales market will further open up thanks to a series of policy changes. Some of the major changes that are expected include:

- Automotive suppliers shall not fix prices or impose restrictions on minimum prices of parts and accessories.
- Automotive makers shall not restrict franchised dealers and maintenance and repair service workshops from reselling parts and accessories for the purpose of performing maintenance and repair services.
- 4S stores shall be allowed, conditionally or unconditionally, to resell parts and accessories to the aftersales market.
- Automotive manufacturers shall not restrict parts suppliers from selling products with full or partial intellectual property rights.
- Aftersales parts and accessories suppliers, and maintenance tools and diagnostic equipment operators shall be allowed to use their proprietary trademarks in selling their products.
- Franchised dealers and aftersales service workshops shall decide whether to adopt the original parts or accessories, based on their technical judgment.

We believe that the timelines for implementation of the related laws and regulations for the automotive aftersales market as well as the extent to which these will be implemented will be closely watched by the various stakeholders in order to adjust their business strategies well in time.

“...but any legislation aims to protect consumers' legitimate rights and interests, balance the auto maker-dealer relationships, and maintain fair market competition.... China should step up its efforts to establish rules of the game for the auto sales market, introduce measures for preventing dealer monopoly, and further improve the existing laws and regulations for the industry.”

—Huang Yonghe, China Automotive Technology and Research Center

Certification and management of auto parts and accessories of same quality

Both the industry and consumers are in favor of certification of automotive parts and accessories of matching quality. Its implementation will mark a crucial step toward further opening up the automotive aftersales market.

In September 2015, Alibaba Automobile Division joined hands with a total of 12 leading global automotive parts suppliers (including those of Bosch, Shell, Exxon Mobil and Federal Mogul) to launch a platform for certification of auto parts.The platform, the first of its kind in China, will enable consumers to access auto parts and services of assured quality at affordable prices.

Certification of auto parts is expected to be adopted more widely and recognized by more consumers. This could lead to industry leaderscornering a large chunk of certification qualifications.
New technologies and increasing importance of data analytics

New technologies or applications such as Internet of Vehicles, mobile Internet, Big Data and online payment technologies will take the aftersales market to the next level of growth. In addition, the continuous development of new energy-powered vehicles will facilitate the use of innovative technologies such as Over the Air (OTA).

Data is the basis for new technologies or applications to generate value. It is imperative to establish uniform data standards for the aftersales market. On September 17, 2014, GSI China and China Automobile Dealers Association signed an agreement on jointly undertaking the project of applying GSI standards in the automobile maintenance and repair service industry. By adopting GSI standards for automobile parts and accessories, the project will accelerate development and widespread application of Big Data and ecommerce platform technologies in the industry. This will lay the foundation for opening up of the aftersales market.

In addition, although automotive manufacturers and dealerships have huge amounts of customer data, day-to-day data uses are often based on data of one to six months. As a result, a substantial proportion of these data resources remains idle and untapped. We believe that going forward participants in the aftersales market will attach greater attention to data, and market leaders will place more emphasis on harnessing the power of Big Data in an effort to achieve precision services to gain competitive advantages.

Changes in consumer demand

As the automobile consumption keeps increasing, consumer demand for aftersales services tends to become more heterogeneous. Also, the proportion of young automobile owners is expected to grow. Younger consumers often prefer personalized products and services over the standardized and undifferentiated. This is especially so in the Internet age as new technologies and applications, including social media apps, foster the demand for personalized consumer experience anywhere and anytime. As a result, the automotive aftersales market may have to make changes in product and service offerings, such as body and interior maintenance, more customized and value-added services.

As a matter of fact, many entrepreneurial startups in the market are differentiating themselves by meeting consumers’ personalized demand by, for example, providing on-site quick repair/maintenance services anytime these are requested. BMW has also upgraded aftersales services by launching the remote delivery of cars in multiple cities, highlighting its pledges of convenience, trust and care.

Apart from convenience, there may be a gradual shift from mileage-based maintenance services to on-demand service based on a vehicle’s actual functional status. Such a shift will undoubtedly rely on Big Data analysis of consumer behavior and vehicle conditions.

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![Age structure of passenger vehicle owners in China](Figure 6. The evolving trends of the age structure of passenger vehicle owners in China)

Source: Industry Information; Accenture Analysis Research
To improve the end consumer satisfaction.

To make dealer networks sound and stable.

To improve the end consumer satisfaction.

To strengthen competitiveness of local brands (this is important for Chinese automobile brands to establish themselves in the global market).

According to Accenture research, in the short term, the competition among different participants lies in operational efficiency, but in the medium and long term, it lies in the business models. Therefore, in order to build up their competitive advantages, service operators should focus on a number of strategic goals consistent with market conditions and development of new technologies.

**O2O commerce to gain momentum**

As the name suggests, O2O commerce represents the integration of online and offline business models in the virtual and real worlds. Since 2014, most startups in the automotive aftersales industry, including Tuhu and Carparts, have been built on the O2O model, with a focus on tires and gasoline and other frequently used, highly standardized parts and accessories. With the aid of Big Data analytics, the O2O model will enable aftersales service operators to cover more of this category, the current market for which is quite dispersed. This will have a profound impact on the aftersales service industry.

In addition, with the development of the sharing economy, more car owners will seek users. Automotive aftersales service operators may create a wealth of service models by capitalizing on the O2O model to link together car owners and users.

**Recommendations: Igniting growth and powering digital**

In developed countries, the aftersales service sector forms a stable source of profits in the automotive value chain. As the aftersales market in China becomes larger and more competitive, some leading players are taking effective strategic measures:

- To make dealer networks sound and stable.
- To improve the end consumer satisfaction.

### Figure 7. Differences in demand of passenger vehicle owners of different age groups

Source: Industry Information; Accenture Analysis Research

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<tr>
<th>Age groups</th>
<th>Most salient characteristics of demand</th>
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<tr>
<td>Millennials</td>
<td>Expected to be more diversified and personalized…</td>
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<tr>
<td>Born in 1990s</td>
<td>Personalized, experience-driven, convenient, interactive…</td>
</tr>
<tr>
<td>Born in 1980s</td>
<td>Personalized, experience-driven…</td>
</tr>
<tr>
<td>Born in 1970s</td>
<td>Services that are one-stop and high quality…</td>
</tr>
<tr>
<td>Born in 1960s</td>
<td>Services that are professional and high quality…</td>
</tr>
<tr>
<td>Born in 1950s or 40s</td>
<td>Services that are professional and affordable…</td>
</tr>
</tbody>
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“Profit comes from value-added services, including automobile financial services, insurance, boutique, used cars and so on. As we can see, all 4S stores are in a process of transformation. This is necessary for survival…”

— A dealer of a German automotive brand

### Adoption of new technologies

**Internet technologies should be adopted across the board to achieve “Internet + Aftersales Service”**

Aftersales service providers should aim for full integration of online and offline channels for differentiated product and service areas, including:

- Auto parts and accessories: Establish ecommerce platforms for conducting exhibitions, consulting services, transactions, quality assurance and payments.

- Maintenance services: Provide online standardized and customized solutions based on product information and customer and maintenance data, so that customers can choose from a variety of services with varying service standards, locations and times. This will increase customer stickiness and reduce churn rate.

- Value-added services: Provide customized, homogenous services online and offline based on customer data, such as scheduling appointments, consulting, placing orders and return visits.

Market participants could integrate these online platforms to create synergy and enhance customer experience, in line with their operation and strategic goals.

**Adoption of data analytics to maximize the value of data**

Based on analysis of product and customer data, businesses can provide auto parts and services as an integrated package to customers in order to be more competitive and reduce the costs of car owners. Cross-industry research has shown the strategy to be effective. In the printer industry, for instance, some leading enterprises have transformed their business model from one of selling products to one of selling printing services based on printing frequencies, thus eliminating competition from printer accessory manufacturers and improving competitiveness. Accenture has, through Big Data analysis, assisted its customers in the automobile industry in enhancing operational performance by offering the following strategies:

- Design for maintenance.
- Differentiated pricing of auto parts and accessories.
- Planning and dynamic management of logistic networks for auto parts and accessories.
- Inventory management of auto parts and accessories.
Transformation of business models

Building auto aftersales service and channel brands. Automobile manufacturers can establish independent aftersales service brands with differentiated pricing schemes to reduce the costs of car owners and the customer churn rate. In 2015, Shanghai GM purchased AC Delco’s China business, with plans to combine the business with its own independently operated chain of repair stores, in a bid to strengthen the competitiveness of its aftersales service networks. In October 2015, Ford Motor Company announced its “2020 Vision” that it would partner with Chang’an Ford 4S stores in establishing Quick Lane outlets in China designed to provide quick services to consumers who are Ford vehicle owners.

This business model has precedents. In response to competition in the Japanese auto aftersales market, in 1996, Toyota, Denso, and Aisin Seiki established a joint venture for developing franchised aftersales service networks through JMS stores (Joyful Motorist Shop). Franchise JMS stores are funded by Toyota dealerships, and the auto parts sub-stores under their umbrella are designed to enhance their price competitiveness.

Aftersales service outsourcing. Automotive aftersales services can be outsourced, partially or entirely, to specialized, independent aftersales service operators. This improves operational efficiency, lowers operational costs and increases competitiveness. It is a widespread practice in the household appliances and mobile phone industries to outsource aftersales services for the entire industrial value chain to independent aftersales service operators.

Outsourcing experiences of the consumer electronics industry suggest that outsourcing in the automotive aftersales service industry may cover a variety of services, including parts and accessories planning, warehousing, distribution, transportation, inventory management, maintenance and repair services, and management of consumer complaints and claims. Through outsourcing, automobile manufacturers will have more resources to devote to branding, improving personalized services and augmenting consumer experience.

Figure 8. Select Accenture services for automotive aftersales services

A higher-order operational model of an aftersales service operators in the consumer electronics industry

Contractor operations: Service operator's operations

Source: Industry Information; Accenture Analysis Research
Separation of sales and aftersales services. With rapid development of ecommerce for the automobile industry, the asset-heavy 4S stores are facing big challenges. China’s top three online platform-based automobile retailers, Yiche, Autohome and Tmall, sold a record number of 139,000 vehicles on Singles Day (November 11), 2015. Among them, Autohome achieved 40 percent increase over the same day of the previous year. The O2O sales model, more transparent vehicle prices and increasingly homogenous product offerings are forcing physical 4S stores to focus their attention on providing unique consumer experiences. Although currently there are about 450,000 motor vehicle maintenance service operators in China, only 5 percent are 4S stores. Therefore, OEMs can, with a view to maximizing the efficiency of the use of resources, separate traditional sales and aftersales operations of 4S stores into two independent categories of business:

- Sales: Reduce the number of physical auto showrooms and focus on collection and management of sales leads, customer experience and membership management, by leveraging Internet, virtual reality and other technologies.
- Aftersales services: Integrate internal and external resources to focus on maintenance and repair services, auto parts sales, car trade-ins and customer relationship management.

4S stores and car makers can adopt flexible business models for two independent business divisions of sales and aftersales services. For instance, the two divisions can serve a single automobile brand or multiple brands separately or simultaneously. They can involve a single investor or multiple investors. The separation of a sales division and an aftersales division will enable 4S stores to switch to operational models that are asset-light, cost-effective and highly efficient.

The next three years will be a crucial period for transformation of China’s automotive aftersales market. For traditional automobile manufacturers, meeting customer needs accurately and efficiently by using new technologies and innovative business models will hold the key to building quality, competitive aftersales services.

For independent aftersales service operators, who face an increasingly open market and expanding consumer demand, fostering and making the best use of their unique competitive strengths (such as convenience, affordability and deep customization) will be critical in beating competition.

For venture capital-supported, O2O platform-based aftersales service operators, maximizing their advantage of asset-light operations and using the Internet and other new technologies to construct their own monopolistic aftersales service platforms or ecospheres will be crucial.
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