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Friends or foes? – Tech giants & rookies

This article continues our new mini-series on what we call the “new fronts for the establishment”. This week, we provide a detailed explanation of another new competitive cluster – Tech giants and rookies

+++++ Management summary +++++

- In this article we concentrate on Chinese ‘tech giants’, such as Alibaba and Tencent including their e-commerce platforms like Tmall and JD.com
- We will also cover what we call “tech rookies”, who focus on specific areas only, such as used car sales and aftersales
- The large e-commerce players generate enormous traffic selling cars and aftersales parts & services while the specialized players focus on dedicated domains, where they cover the entire customer journey. Examples are Guazi for used cars and Tuhu for aftersales. Both groups are taking away revenues from OEMs and retailers
- OEMs must find ways to live and cooperate with these players
- While e-commerce platforms can be used as another sales outlet, OEMs should find better ways to create win-win situations for used cars and aftersales

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- For instance, in used cars, OEMs should consider leveraging the digital players' reach and migrating their entire offering to the digital players' platform

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Is this yet another article on tech companies trying to make money with cars?

Not at all. We will take a deeper look at new business models emerging at the interface between "tech" and automotive in China. For each emerging cluster we observe, we want to share our thoughts on possible reactions and strategic implications for traditional OEMs.

May we present the "tech giants":

No surprises here. When we speak of "tech giants", we refer to the usual suspects behind the acronym BATH: Baidu, Alibaba, Tencent and Huawei. This includes the two e-commerce platforms owned by the giants: Tmall (a subsidiary of Alibaba) and JD.com (of which Tencent owns nearly a fifth), who claims to be "the largest retailer in China, online or offline" by revenues.

Traditional OEMs and e-commerce. Beat it or join it?

E-commerce platforms like Tmall and JD.com are very mature online platforms with high traffic and popularity and are part of people's everyday lives in China. Several traditional OEMs already use these sites as an additional sales channel. The offerings are primarily aftersales, accessories, maintenance services and only sometimes new car sales, all offered within the OEM's branded domain.

Some OEMs have dispensed with own web shops for these areas (like many consumer goods brands) while others have created their own web shop in parallel. But what is the best strategy going forward?

Capitalize on Chinese e-tailing habits – the way to go for traditional OEMs

An e-commerce platform can simply be another retail outlet for an OEM, but if the OEM's goal is a direct customer relationship, it must adopt another strategy.

No OEM can fully circumvent the e-commerce giants. If a customer can get something on Tmall or JD.com they will order it there. However, OEMs can utilize specialized offers to route customers to their own site to capture sales and relationships. OEMs can advertise special promotions on the e-commerce site and link interested customers the native OEM website/App.

This way, OEMs can benefit from the high traffic, yet serve their customers directly and thus collect & keep valuable customer data.

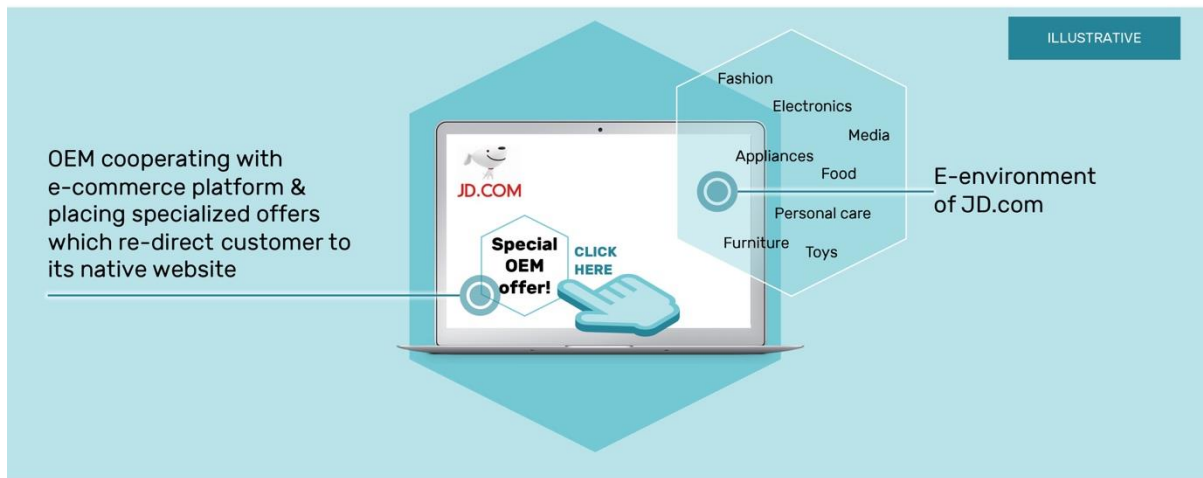
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OEM STRATEGY: COLLABORATION WITH E-COMMERCE PLATFORMS E.G. WITH JD.COM



Source: Statista, Berylls Strategy Advisors

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Success through specialization - the "tech rookies":

The companies appearing here will sound unfamiliar but are definitely worth noting - our so-called "rookies" are specialized tech players. We dove specifically into two areas:

1. Used car players, like Guazi, Uxin or Renrenche, who offer a complete ecosystem
2. Aftersales players, like Tuhu with over 1,000 Tuhu-branded service garages, and an e-commerce platform covering 13,000 ISPs and 18% of the entire car park in China.

These two are of special interest as oligopolies (in used cars a highly publicized 3 way competition has broken out between the top players) or quasi-monopolies like in aftersales where the top player now dominates the market.

"Tech rookies" in used cars: Clean up the chaos. Build trust. Cash out.

Despite many governmental efforts to structure and strengthen the used car market with regulations, it is still quite difficult for sellers and buyers to maneuver it easily as both parties lack trust.

Used car players benefit from these issues. They consolidate used car resources, establish a trustworthy appraisal & pricing system like traditional OEMs' certified pre-owned programs. Thus, they create a one-stop shop for buyers & sellers covering the entire customer journey.

They are expanding quickly and have attracted heavy investments. Guazi is financed by Sequoia and Softbank among others with total funding of USD 3.6 bn. Tencent, Goldman Sachs and Didi invested USD 760 mn. in Renrenche (source: Crunchbase). Hence, traditional OEMs must react swiftly to get a piece of the Chinese used car market cake.

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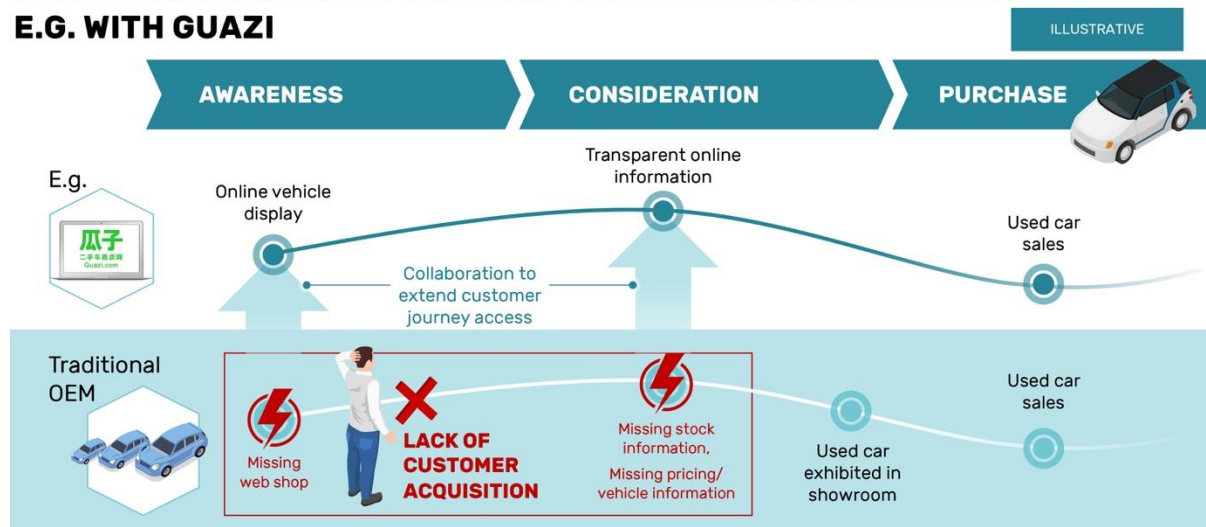
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Collaborate to consolidate. And: Nothing beats traditional OEMs' promise of quality

Instead of running their own used cars portal and/or relying on its own physical used car stock in various 4S dealerships, traditional OEMs should consider having exclusive branded domains within used cars platforms. OEMs' used car businesses typically suffer from various factors, starting with limited used car resources, fragmented across many 4S dealers. Through a collaboration with a used car platform, these issues can be circumvented, and OEMs can benefit from these players' reach and customer base.

OEM STRATEGY: COLLABORATION WITH USED CAR PLATFORMS

E.G. WITH GUAZI



Source: Statista, Berylls Strategy Advisors

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However, the OEM's offering needs to be clearly differentiated. As the "tech rookies" invest heavily into transparency regarding appraisal and pricing, OEMs must point out that their certified pre-owned cars are fully up to the highest quality standards. Of course, OEMs also need to find ways to place their vehicle stock more prominently.

From a convenience standpoint, OEMs can shortcut own investments and use the "tech rookies'" functionalities along the entire customer journey, such as reservation and deposit, test drive booking, and financial services.

"Tech rookies" in aftersales: A comprehensive & convenient ecosystem

Tuhu is the most prominent example of the other group of specialized players that can be found in aftersales.

Tuhu's business model consists of 3 parts:

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1. E-commerce of service parts & accessories including tires, maintenance, beautification, and general supplies
2. Finding and booking of services at a workshop
3. Operating own workshops under the Tuhu banner

Tuhu's e-commerce site for auto parts is a direct competitor to OEM operated portals. And their garages provide a real alternative to OEM-authorized workshops. Its scale is already stunning, built on strong investor backing: Tencent, Sequoia and CICC are among its investors with more than USD 870 mn. of funding.

How to react? More reach means more business for OEM aftersales

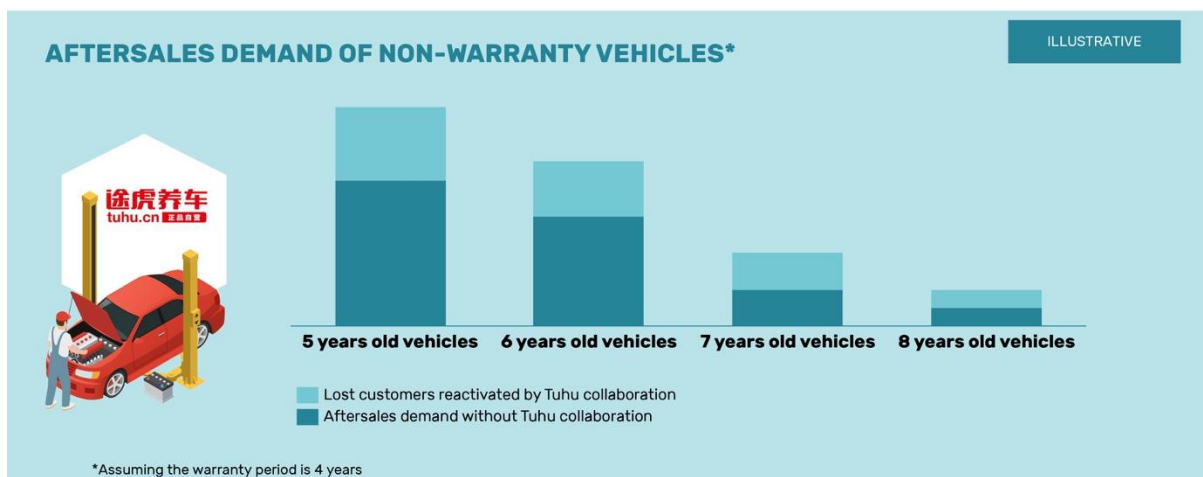
There are several strategies to cooperate with Tuhu.

OEMs can use Tuhu's e-commerce site as a sales outlet for its aftersales parts and services. OEMs should also consider introducing a second line of parts for cars with higher age which Tuhu typically targets.

OEMs can register their aftersales networks on Tuhu so that they can be found by Tuhu users. These workshops can offer the 2nd line of parts and specific services for older cars at lower prices.

OEMs should consider licensing their aftersales services to Tuhu - a viable strategy in times when cost to cover lower tiered regions are becoming too high. An alternative is to use Tuhu's outlets as dedicated quick service stations, or as drop-off points. Again, these services can be focused on cars with higher age.

OEM STRATEGY: COLLABORATION WITH AFTERSALES PLATFORMS E.G. WITH TUHU



Source: Statista, Berylls Strategy Advisors

As OEMs are gradually introducing service factories to consolidate aftersales into high-efficiency setups, free slots or work bays in these service factories can be offered and rented out to Tuhu for its aftersales service offerings (like body & paint) for non-warranty vehicles of the OEM's brand. This way, Tuhu can increase its credibility by offering its customers aftersales services at the very own service facility of their car make and the OEM can profit through the collaboration by earning their part when the vehicles are serviced and by being able to track the car way beyond warranty period.

Let us sum this up – is the competition worth a fight?

Digitalization develops very fast in China, which has made the growth of technology giants and rookies possible. With a tremendous pace, backed by large investments they have all set up their own ecosystems around their business models and built a lead over OEMs and their franchised networks. Even if OEMs can eventually close this lead by building their digital capabilities, we recommend finding ways in the meantime to benefit from the ecosystems of both tech giants and rookies, e.g. through cooperation. This can immediately bring them significantly closer to today's purchasing patterns of Chinese customers. Being firmly rooted in the Chinese market we would be happy to discuss these and other digital opportunities with you.

This article continues our new mini-series on what we call the "new fronts for the establishment". Continue reading in the upcoming weeks for more insights. Up next: Autohome, Bitauto and the like – how long will the friendly co-existence between verticals & intermediaries and traditional OEMs prevail?

Berylls Strategy Advisors is a top management consulting firm specialized in the automotive industry, with offices in Munich and Berlin, in China, in Great Britain, in South Korea, in Switzerland and in the USA. Its strategy advisors and associated expert network collaborate with automotive manufacturers, automotive suppliers, engineering services providers, outfitters, and investors to find answers to the automotive industry's key challenges. The main focus is on innovation strategies and growth strategies, support for mergers & acquisitions, organizational development and transformation, and profit improvement measures across the entire value chain.

In addition, together with our clients, experts at Berylls Digital Ventures develop solutions for digitizing and transforming the business models of OEMs, suppliers, and engineering services providers. Longstanding experience, well-founded knowledge, innovative solutions, as well as an entrepreneurial mindset distinguish Berylls Equity Partners provides automotive industry companies with know-how and entrepreneurial capital. Strong anchor investors provide financial support for companies at all stages of the value chain in special situations. Berylls's consulting teams are characterized by many years of experience, profound knowledge as well as innovative solution competence and entrepreneurial thinking. Through partnerships with experts, Berylls can draw on in-depth technology expertise, a comprehensive understanding of the market, and powerful networks in order to develop workable solutions.