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4 successful brand strategies for the Chinese automotive market in 2020 and 2021

Chinese OEMs and to a lesser extent Western brands are introducing a number of new upscale/premium and budget brands

- Volume brands are pressured to opt for premium and/or budget strategies because markets drift apart
- The budget strategy requires superior cost structure and the premium strategy means an uneasy uphill battle which quite a few players may fail. The world of gasoline vehicles is difficult to penetrate while NEVs offer vastly more new chances
- Berylls has identified 4 key success factors for any OEM to successfully set up its own new premium or budget brand

Market drifts apart

Our “CUSTOMER BEHAVIOR IN THE FACE OF COVID-19” study has revealed some interesting findings. It shows that a large portion of Chinese consumers are planning to buy a premium vehicle despite the COVID-19 pandemic.

On the other hand, market share of local Chinese brands has been constantly increasing up until 2018. Chinese local brands are mostly volume/budget brands.

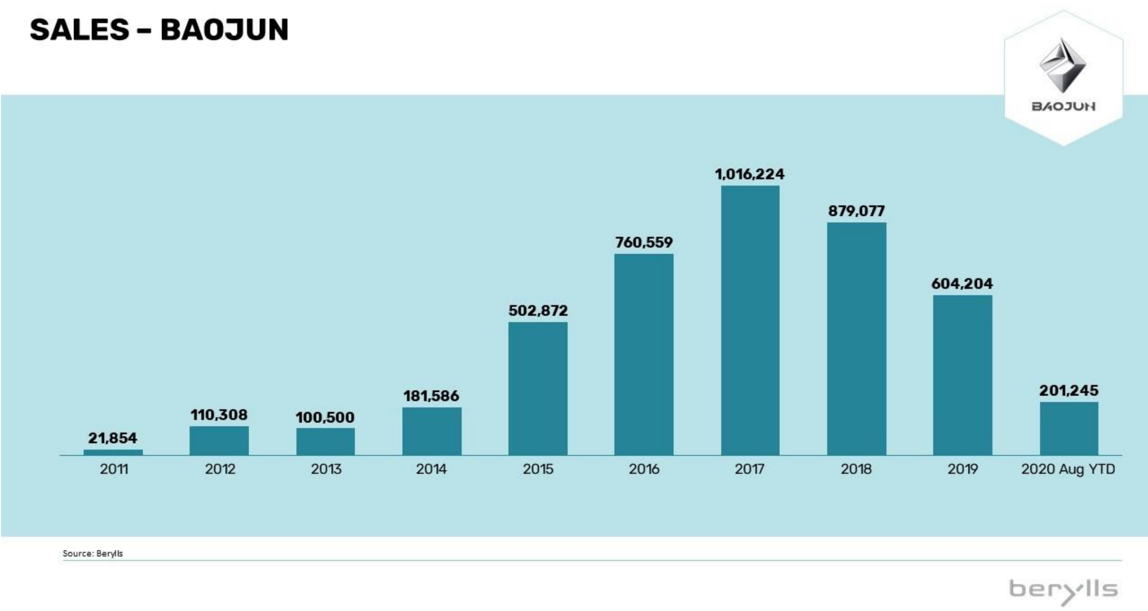
It seems, the market is drifting apart.

New brands change the landscape

Just a few years ago the Chinese automotive landscape was clear. There were basically 4 types of players.

- Premium OEMs represented by foreign brands like BMW, Mercedes-Benz who operate as JV's with some import business (mostly for their luxury line-up/marquee or niche products, e.g. S-Class, Maybach and AMG as for Mercedes-Benz).
- Foreign JV volume OEMs like VW, Ford, Nissan with local Chinese partners
- Chinese volume OEMs like Geely, Chang'An, SAIC who sometimes have JV partners; their vehicles are always cheaper than comparable JV volume models
- Chinese budget OEMs brands like Zotye, Lifan, Chery with even lower prices than comparable Chinese volume brands

This setup changed when SAIC-GM linked up with Wuling motors (specializing in budget micro vans) and formed Baojun in 2010, a budget brand. That marked the first move by a Western OEM moving into the budget segment and it became fully successful with impressive sales. GM targeted residents in lower tiered cities, who were targeted by brands such as Geely and Chery.



Moving in the opposite direction Great Wall with their best-selling Haval line of SUVs introduced the WEY brand as its premium SUV brand in 2017.

From this point of time Chinese OEMs have actively pursued "premiumization" and "budgetization" with the premiumization movement certainly prevailing in terms of number of efforts. One of the most active

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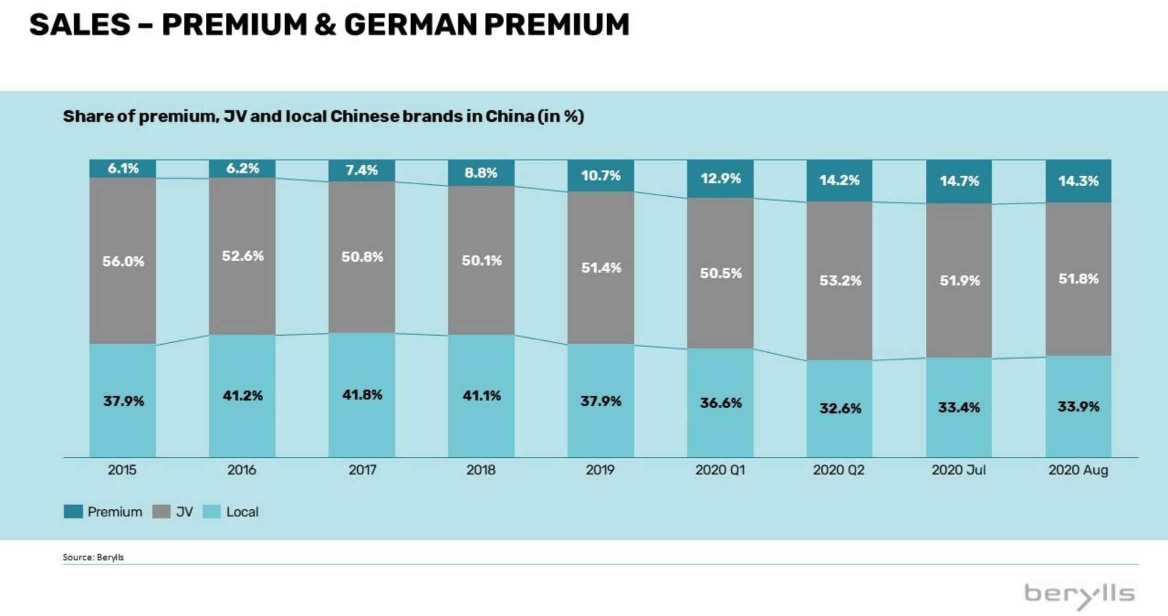
OEMs is Geely, who introduced Lynk & Co and Geometry (as upscale/premium NEV brand) and uses its Yuanjing product line to attract budget customers. Other examples include Chery with Exceed (upscale/premium) and Jetour (budget), BAIC with Arcfox (upscale/premium NEV) and BEIJING (budget), SAIC with MAX variants of its RX product-line, e.g. RX5 (upscale/premium). And Western OEMs are not resting on their laurels either. Jetta as a budget brand by VW is a notable example. In addition, new NEV OEMs/brands like NIO and Li Auto mostly strive to go upscale.

The rationale – address 2 types of customers

Why are OEMs doing this? When we look at sales numbers, it's clear that Chinese customers love premium vehicles. Local brands sales has been increasing until 2019.



The increase of local brands is driven by buyers from lower tiered cities, who are mostly buying their first car and with a smaller budget. In contrast, JV OEMs have larger cities firmly in their grip.

Volume brand OEMs see an uptake in the budget market. Volume/budget Chinese OEMs on the other end of the spectrum gain an ever-growing premium market share, and both want a chunk of the respective markets. Yet, both directions face pitfalls on their own. One remark: even though Chinese local volume OEMs are becoming upscale; they are not really premium as they are still cheaper than comparable premium models in the same segment. So, we are talking about "near premium".

An uneasy uphill battle

Of course, movements between these market segments are equally complicated.

As seen in the cases of Exeed, WEY and Geometry, it's quite difficult for a budget/volume OEM to simply go the premium/upscale road. For Exeed, Chery is best known for low budget cars. Thus, people still associate Exeed with Chery. Since its market introduction in April 2019, its sales have continuously

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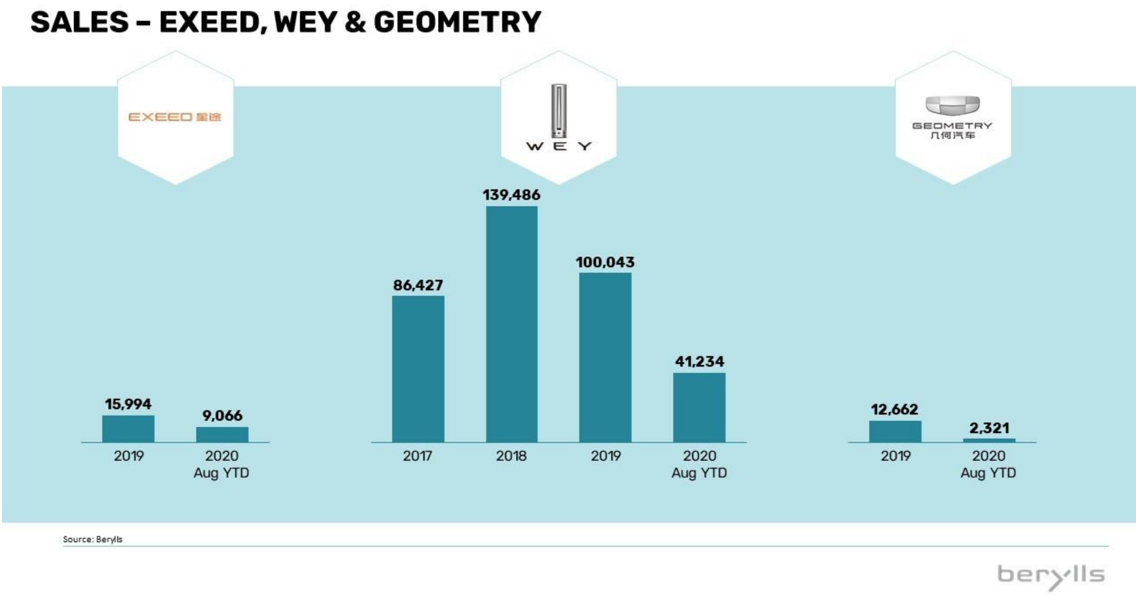
dropped after an initial peak. WEY follows the same pattern: introduced in 2017 and after some initial success, the brand's sales has been declining fast.

Geometry seems to have the same problem with rapidly declining sales. Yet, behind Geometry is Geely, the best-selling local Chinese brand.



Other methods of premiumization were more successful. To leverage another brand as Geely did with Volvo proved to be a good idea. Geely uses Volvo to establish its Lynk&Co brand. Lynk&Co made a good splash into the Chinese market and sales have also been solid this year. Just like Lynk&Co, Polestar could also be a success.

Another successful strategy is gradual premiumization through a model line-up or certain variants as in the example of Roewe. Roewe uses its MAX variant to upgrade its RX SUV product line. This is now common practice among Chinese OEMs who use “PLUS” and “PRO” variants to upgrade their product portfolio.

Another viable method of premiumization is by electrification. As seen in the example of NIO and Xpeng P7, electrification allows an easier uphill battle. Yet, the field for premium local NEVs is now quite crowded. Other presumably premium players like Aiways, Qiantu and even Geometry have a rather difficult time.

Difficult downward spiral

As we mentioned before, the downward spiral also presents difficulties. In 2019, the market share for local volume/budget decreased from previous 41.1% to 37.9%. The decrease is continuing into 2020.

So, is this the end for the budget brands? Certainly not! Jetour, the brand of Chery introduced in 2018, managed to increase its sales from approx. 40,000 units in 2018 to approx. 139,000 units in 2019. Jetta,

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FAW-VW's budget brand managed to sell 67,564 in the first 6 months this year. So, despite the general decrease of the lower end market, there are still nuggets.

Full package for success

No matter if an OEM goes up or goes down, it has always provided the full package. The full package means achieving an equilibrium between brand image, product substance and quality, pricing and retail. If one single factor is missing or not well executed, the brand story will not be consistent and won't stand a chance in the market.

To achieve a positive brand image, the distinction between the original brand and premium/budget brand need to be visible. Brands need to employ different brand messages and channels to create a stand-alone image. For upwards movement, an OEM would strive for complete separation, so that the upscale/premium brand story is nowhere linked to the original brand, while an OEM would do the opposite for a budget strategy. Here, an OEM would try maximum leverage the brand strength of the volume brand and make it part of the brand story.

While upscaling means better product substance and product quality, the downward movement doesn't simply mean the opposite. Rather, it means de-contenting, i.e. taking out those product features (and thus costs) which are less relevant in the target customers' eyes.

For example, Jetta. Considering that Jetta's target customers are first time car buyers and probably want to have a value-for-money vehicle, the brand is fully focused on the most practicable and essential product features such as large space, high configuration and low fuel consumption (as shown through big data analysis). Ideally new products differ from the original products in all its facets, especially exterior and interior. This is critical for a new upscale/premium where product differentiation is necessary to reflect brand differentiation.

Now pricing comes into play. A volume brand going upwards probably wants to offer a strong product substance at a lower price compared to vehicles from other brands in the same segment. As the brand story is new, product substance (and hence value-for-money) is the main selling point to attract customers. This can be done by lowering prices, more configuration/options or cheaper after sales services. NIO is a case in point and provides life-long free vehicle maintenance.

Now, a brand taking the downward path can put on higher price tag than competitors. Yet, the slightly more expensive route is only temporary. In the budget segment, customers do pound-for-pound product comparisons and brand image sometimes count for nothing.

Retail strategy is the final key factor. For an upscale/premium brand, a separation of retail network and showroom is crucial reflecting the stark distinction between the brand stories. As for a budget brand, the presentation within the same showroom yields some benefits, e.g. expansion of the product line-up and avoidance of discounts on non-budget core products.

Premium OEMs can relax (at least for a moment), volume ones need to move

Right now, newly created premium brands by Chinese OEMs are not yet threatening the position of the current premium OEMs, especially the German ones seem nowhere under threat. We currently don't see real contenders for the BBA trio. The last newly created brand that could rival the position of BBA was Lexus. Yet, this is true for gasoline vehicles only.

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For NEVs, the story is different. Tesla is already wildly successful and brands like NIO and Li Auto are picking up steam. Geely has brought Lynk&Co and Polestar, just to name a few. Here, we believe a certain shift of power could happen with these brands becoming more dominant. They have good product substance at a lower price. Hence, premium brands need to react quickly and introduce their NEV products.

Volume brands need to consider if they want to benefit from the situation and go the upward or downward path.

Berylls provides you the optimal support in such an uncertain situation. Our premiumization and budgetization toolkit provides you all necessary tools to design your optimal premium and budget brand. Our Automotive Heartbeat gives the extensive customer insights, periodically and automatically using big data and AI.

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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.

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