China’s Automotive Consumer Behavior & Trend

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Chinese middle class Consumption culture

Chinese auto consumer Complex segments

City development/REIT growth Impact for vehicle needs
The largest consumer group in the world

The Chinese Middle Class
“中国中产阶级”
Chinese Middle Class Evolvement

1978
• Just emerge

1990
• Very limited
• Owning a bike was still the most prestigious and shows society status.

1992-1999
• Deng Xiaoping’s “Go to sea” policy creates first round of wealth for those who can afford a car.

2000-2008
• Private enterprise owner
• State owned entity’s leader
• White-collar working in multi-national companies

2008 >
• Younger and other professionals
• Doctors, lawyers, teachers, government works
• Owning a car becomes norm
Define the Chinese Middle Class

**Income:**

60K – 500K Chinese Yuan
($10K- $80K)

**Profession**

- White collar professional
- Private enterprise owner
- Government Officials
- Mid –management (MBAs)
- Professionals

**Lifestyle**

- Own car
- Mid-range apartment
- Night life
- Travel
- Brand name
Impactful consumer group

- Income is not the only matrix to define Chinese Middle Class. A comprehensive view has to be taken:
  - Status
  - Education
  - Title
  - Lifestyle
Middle class in proportion of total population

* For illustration only, scale is not representative
Typical Profile

- Young - age 25-35
- Not interested in politics
- Care about economical status, wealth and have concern about future
- “Elite Group of Family”
- No genetic inherited wealth
Move from basic needs to higher level desire

Chinese Middle Class

Basic Needs
- Safety
- Social & Respection
- Self-fulfillment

Purchase Motivation
Consumption Culture is emerging

- Trend consumption.
  - Constantly “in vogue”.
  - Using foreign products is still regarded as “white collar” middle class’ differentiator

- Brand name consumption
- Culture consumption
- Style consumption
- Leisure & entertainment consumption
Purchase Motivation Changes

- Change from “low key show off” to “Low key Luxury”
- transform from “buy to others” to “buy for self”
- Put more focus on “freedom and sophistication” than on “achievement”
  - Refined detail instead of showing features
- More confident and dynamical
  - Bold details
- Chang from “need based” to “consumption desire based”
- Change from “go with the crowd” to “fit me”
Where the Chinese Middle Class is heading?

- Chinese Middle Class is around 25% - 35% currently and would grow to 40% - 60% of total population by 2025 *
  
  o With Chinese government’s new next five year economic goal of increasing country internal consumption, the government will push for increasing lower class income and economical standard. This will significantly increase the middle class population
  o Rising per-capita income
  o Country’s continued urbanization

* Definition of Middle Class is a challenge for experts, so a range is used
You can’t treat China as just one country

Fragmented Chinese auto consumer market

汽车顾客群细分
Who is your consumer?
What are they doing? What is their concern?
What is their expectation to the future?

The answer to these questions is the road map to communicate to Chinese consumers.
Chinese auto consumer is one of the most complex in the world

US segments $\times 10 = \text{Chinese consumer segments}$

- Only companies understand these consumer segments, create specific brand and fulfill consumer spending behavior and lifestyle, then you can expect to grab a piece of this significant market.
Different lens to segment Chinese Auto Consumer

- Location variable
  - Different tier cities
  - Various development stage

- Demographic variable
  - Age/generation difference 70s/80s/90s or older
  - Profession
  - Education
  - Income
  - Family

- Psychological variable
  - Status
  - Lifestyle
  - Personality
  - Purchase motivation

- Behavior variable
  - Benefit
  - Frequency of usages
  - Brand Loyalty
  - Purchase method
# Social Entity and Private Consumers

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How multi-national penetrate?

- Company who know the differences of these emerging groups will win
- Identify clusters of similar consumers across multiple cities to gain scale
- Serve niche segments
- Offer more but still has cost advantages
Want various experience when they drive
- They are not only looking for budget car, they are looking for sophisticated automobiles
  - Will fulfill their various activities
    - Being a home, office, entertainment center
    - Accommodate parents, kids, women and guests needs
  - Will attract to more features
  - Low gas mileage
  - Price/may opt for domestically made vehicle
  - Many of them will become 2\textsuperscript{nd} and 3\textsuperscript{rd} time vehicle owner
  - Shift towards vehicles and segments offering more appealing content and features
City Development & Real Estate Growth

Impact to Consumer’s Auto Needs

中国城市发展
Chinese city development is in different stages.
Where the development is going?

- Trends of urbanization and growth of per-capita GDP
- Rapid development of Chinese lower tier cities
  - Four top cities only account for 3% of the population
  - Total urban: 45% of population

- Permanent migration of rural population to existing urban areas
Impact to automotive needs

- With limited urban space, increased costs coupled with severe pollution and rapid city development, more people are willing to migrate to suburban areas for living
  - City development outward with infrastructure made the transition possible

- Growth is easier to come about through geographical expansion, than competitive fight in the current markets
Impact to automotive needs

- They live more spread
  - Own multiple houses

- More car sells
  - Tenfold increase predicted from 2005 – 2030 (Mckinsey)

- Prolonged drive demand nice design, functional content for office and home task, certain degree of luxury. Music, cell phone and other tech cool function would be nice pluses
  - Car is not only a functional transportation, it becomes a small living space
Final take away...

- Pay attention for rural population
  - 750 million residents
  - First half of last year per-capita incomes in rural areas were up by 12.5%
- Rising of special market
  - Special market – female, Bi-sexual, pre-teen, etc…
- Individualism & diversity
- Luxury consumption and conspicuous consumption still have market
- Opposite trend may grow at the same time
- Purchasing will shift towards more lower point vehicle brands
- Broader consumer needs to be met
- When Chinese currency becomes more equivalent to U.S. currency, the perceived wealth of Chinese auto consumers who can purchase automobiles will increase significantly
Final take away...

- Pay special attention to the dynamic nature of Chinese market with changing at a phenomenal pace

- No one-size-fits-all approach will work in China, because consumer behavior patterns differ widely across regions and income groups
  - Target specific consumer segment and improve product mix
  - Consumer mood and sentiment will affect the brands and products that they buy

- Breaking out of Chinese cities is a challenge, but more and more companies — local and foreign — know that they must venture outside the established cities

- Marketers need to put their ears firmly on the ground and listen to every change of beat, every nuance of the consumer mood and continue to fine tune the strategy
The China Market is Lucrative and Rewards are Tremendous

BUT... it is an extremely competitive market!

It takes special planning and commitment

- Know your target market and your positioning
- Plan well and have a strategy
- Make a long-term commitment
- Form the right team
- Factor in extra time for your market penetration
- Set realistic expectations
Mission & Vision
- Dedicated to assist small and medium-sized US enterprises in capturing opportunities in China
- GWT helps companies to assess China market entry viability and strategy; identify opportunity & evaluate target markets; provide roadmap for expanding to China and recommend entry plan

Service
- Market/consumer research
- Business consultation
- Long-term Entry strategy/Plan
- Steps to start

Felicia Chang - founder & partner
- GM Forecast/Engineering/Design Global
- Strategic Planning – China strategy/Segment
- Marketing/research/forecast
- Starting company/set up operation
- Global Business Practice & Chinese knowledge
Why is **Global Wave Today** different?

- Deep China contacts
- Strong market, cultural and language knowledge
- We lead the process
- Combined business best practice and China local market knowledge
- Offer various package to fit specific needs

**We bring unique insights...**

We transform China’s complexity and ambiguity into clarity.
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Back Up
OVERALL:
- Combined Chinese background, US education, over 10 years global business experience, and fluency in English and Chinese equipped Felicia with unique perspective on international market opportunity and profitable business model.
- Strong connections in both Landscape Architecture, Architecture and Business.

BUSINESS EXPERTISE
In the U.S., Felicia Chang spent many years in corporate America, including GM.
- Possesses broad business background such as strategic planning, marketing, industry analysis, operation, program management and engineering, design.
- Led global team across multiple regions
- Held many advisory/consultant roles to senior executives.
- Solid knowledge of key business development phases - assess market opportunity, research customer needs, forecast sales, develop profitable business model and effective marketing strategy as well as establish a systematic process, build a team to implement and provide customer service.

Some high-visibility projects include: GM small-car China entry strategy, GM Commercial Vehicle Asia Pacific strategy, Solstice volume forecasting and launching, Saturn brand business analysis and channel strategy, recommend GM global design work allocation plan, and was involved in Reno & GM merging assessment and heavy duty division selling partner identification and negotiation.
Founder: Felicia Chang’s Bio

EDUCATION:
- MBA - University of Michigan Ann Arbor (Concentration in consulting and international business)
- Master of Landscape Architecture – North Carolina State Univ. School of Design
- Bachelor of Landscape Architecture – Beijing Forestry Univ. City planning/Landscape Architecture

DESIGN RELATED EXPERIENCE:
- Earlier career started as an Urban Planner in China's initial wave of city development. She was the founder of the first-revenue generating company in an Academic environment. She led several projects and won Beijing city mayor's award.
- Operate Skywood Group, LLC – design and visualization firm providing high-quality architectural visualization.

GLOBAL WAVE TODAY:
- Assist small and mid-size American companies assess the viability of entering the Chinese marketplace, form strategic alliances and develop joint ventures for mutual-benefit global projects.
- Help its clients to identify potential opportunities, target markets and entry strategies, and provide roadmap for expanding to China and recommend business /marketing plan.
2nd tier cities generally include Hangzhou, Tianjin, Chengdu, Nanjing, Dalian or Wuhan. Total of 23 cities. On average, their metro area population is around 6-8 million.
- New York is 8 million. Their administrative area population is around 16-18 million.

4,000 of 3rd-4th-tier cities in China – county capital 1-2 million city area/4-6 million surrounding
- Dallas & Philadelphia are 1.5 million

In the U.S., the Meeting Planners International defines a second tier city as a city with a population of more than 300,000 and less than 1 million.
- In China, a city of less than 1 million people is usually just a village or a district of some larger metropolis.
- Metro Detroit is about 1 million people