

The Accenture logo, featuring a purple chevron symbol above the word "accenture" in a white, lowercase, sans-serif font.

accenture

# The future of automotive sales in China







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# Summary

- **With only a minor decline in total sales and strong growth in the premium segment, the Chinese automotive market has shown an astonishingly fast recovery after the initial outbreak of COVID-19. More than 25 million vehicles sold in 2020 make China by far the largest, fastest growing and most profitable market in the world**
- **For many Original Equipment Manufacturers (OEMs), China accounts for up to 50% of their global sales. But with 400+ players, competition is fierce, and China's consumers are tech-savvy and demanding**
- **To stand out, OEMs and dealers must envision a radically new way of selling cars that satisfies consumer demand for transparency, convenience and seamless experience**
- **For established players, change will not come easily—strong dealer associations oppose radical transformation, and the widely diverse Chinese market requires a carefully calibrated approach**
- **The only way for OEMs to continue to thrive in China is to take a bold step and smartly invest in direct customer interaction, meaning they must turn from being a wholesaler to acting as a retailer**

The Chinese automotive market has been essential for the business of OEMs for more than a decade—and will be even more indispensable in the post-COVID era. But given the fierce competition, the strong position of the state, and customers' quickly changing demands, OEMs must develop a precise understanding of what they need to thrive in this quickly-evolving market.

Based on a combination of insights from customers, dealers and top management, this study shows that the time is ripe to radically re-think the way cars are being sold in China. A seamless integration of online and offline channels, combined with market-wide service standards and transparent, haggle-free prices, is key for winning over China's consumers. This will not be an easy job: With seemingly ever-growing sales volumes and opposition from powerful dealer associations, established OEMs are facing barriers to ramping-up their digital capabilities and radically transforming their sales model.

Drawing from industry insights and our Accenture project experience, we seek to provide answers to today's pressing challenges and create a compelling vision for the future of automotive sales in China. That vision involves direct sales from OEMs to consumers in a way that also integrates and benefits the dealer network.

Despite the complexities and risks associated with transforming the sales model, waiting is not an option if OEMs and dealers want to survive the ongoing disruption.

**The future of automotive sales in China starts now.**

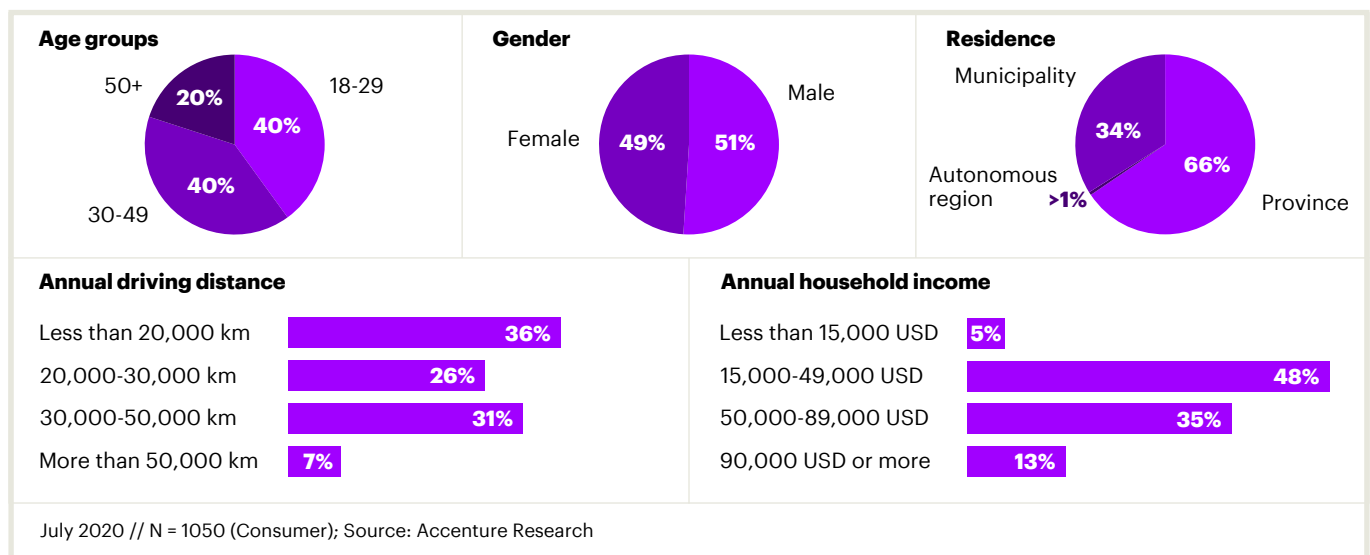
# Our approach

In this study, we combine three different perspectives in our analysis of the future of automotive sales in China:

1. A survey of 1,050 Chinese consumers who recently bought a new car
2. A survey of 250 Chinese automotive dealers
3. In-depth interviews with 12 Chinese and international industry executives, as well as experts on the Chinese automotive market

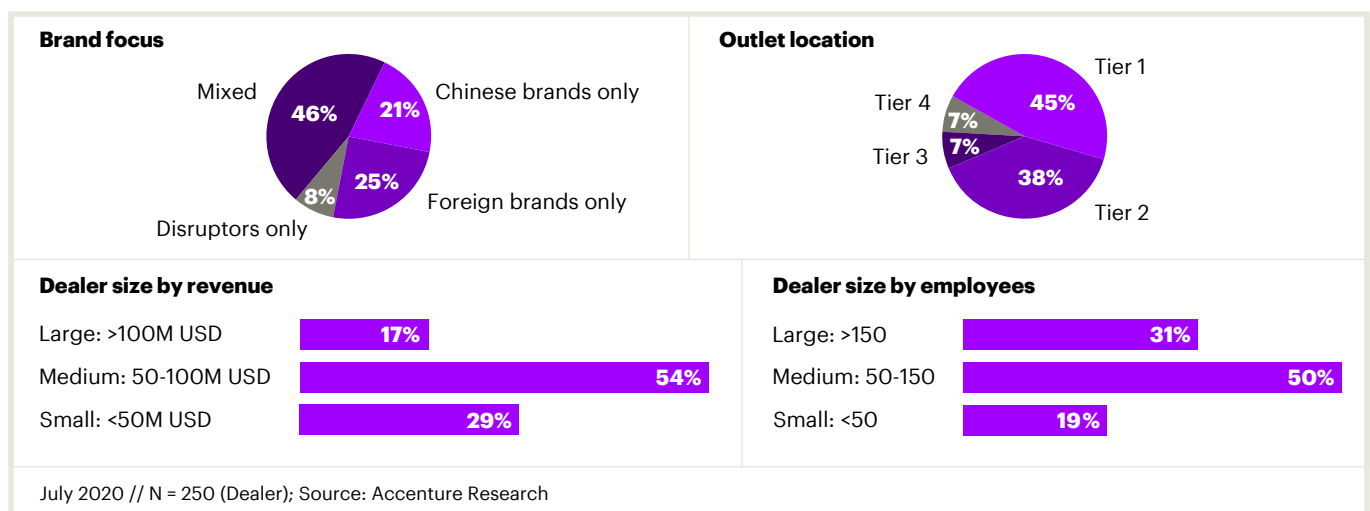
## Consumers

We accessed a consumer panel to reach 1,050 Chinese new car owners. The sample provides a representative distribution across age, gender, income and other metrics to account for potential differences in needs and preferences.



## Dealers

We used an expert panel on the Chinese automotive industry to survey dealership investors and general managers from dealerships in China. We sought a holistic view with a representative distribution across brands, locations and dealer size.



## Executives and experts

To augment our view, we talked to top executives of established OEMs, new market players, third-party providers, and technology giants.



**Bernd Pichler**  
Regional Director Asia Pacific  
Bentley Motors



**Li Hongpeng**  
Chief Business Officer  
Hyundai Motor Group (China)



**Xavier Chardon**  
Vice President  
SAIC-Volkswagen Sales Company



**Anonymous**  
Vice President  
Leading Chinese Tech Company



**Daniel Lescow**  
Vice President, Sales, Marketing & After-Sales  
smart Automobile



**Sean Green**  
Senior Vice President, Sales & Marketing  
BMW Brilliance Automotive



**Dr. Johann E. Wieland**  
President & CEO  
BMW Brilliance Automotive



**Huang Rui**  
Vice President & Head of NSC China  
Byton



**Raymond Lee**  
Managing Director Greater China  
Sime Darby Motor Group



**Anonymous**  
CEO  
Chinese Investor Group



**Fu Qiang**  
Co-Founder & Chairman  
Ai-Ways Cars



**Morris Gao**  
CMO & Head of Business Development  
Faraday Future



# 1. China's automotive market and where it is headed



# 1.1 The Chinese automotive market in numbers

Despite the recent recession that was sped up by the outbreak of the COVID-19 pandemic, China is the biggest automotive market in the world. With a total of 25.76 million passenger and commercial vehicles sold in 2019<sup>1</sup>, the Chinese automotive market has long become a cornerstone of global OEMs' growth strategies and essential for long-term business success. Western OEMs that have established a foothold by forming joint ventures with Chinese players now heavily rely on the Chinese market's performance, which is set to grow even more. With a penetration rate of only around 19%, car ownership in China, for instance, is still much lower than in Germany (59%) or the United States (84%) (see Figure 1).

Since the end of 2019, the COVID-19 pandemic has posed serious challenges for OEMs around the world, with China being the first major market to impose a strict lockdown. At the peak of the crisis in Greater China in February 2020, car sales had declined by a staggering 79% year-over-year (YoY), down 88% from December 2019. This trend continued into March (-43% YoY), before China became the first automotive market to enter a strong recovery beginning in April.<sup>2</sup> In fact, April sales numbers mark the first YoY automotive sales growth since a rollback of tax breaks in July 2018 ended decades of uninterrupted growth.<sup>3</sup> A 30% increase in commercial vehicle sales, driven by strong demand from postal and delivery services due to the soaring e-commerce business and government support, contributed to the hike in automotive sales.

**China accounts for 1/2 of global sales for the five largest carmakers in Q2/2020 (new vehicles only)**

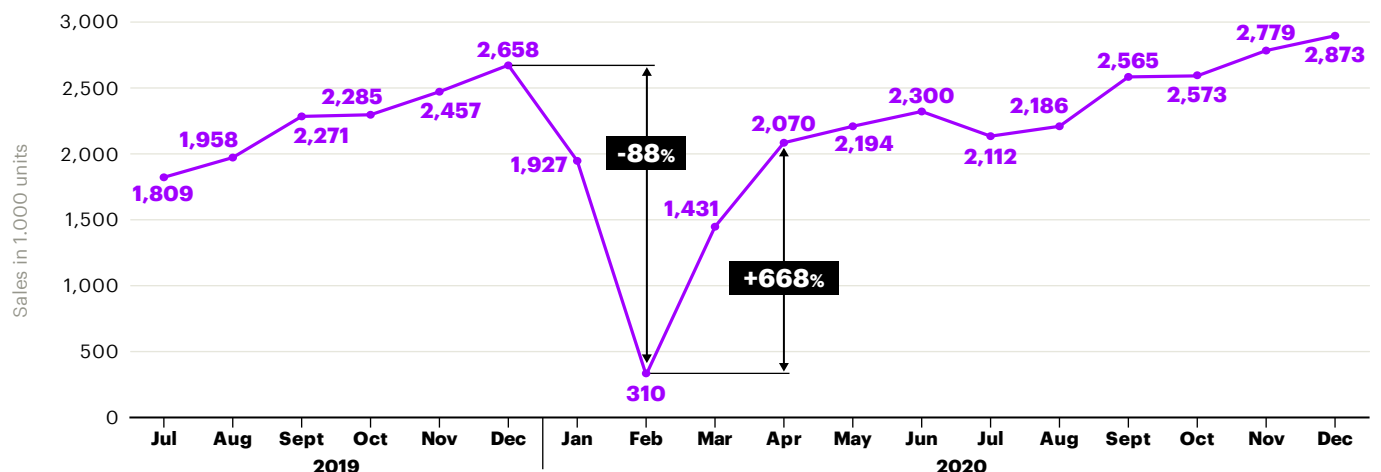
For global OEMs, China's swift recovery led to an even greater dependence on the market. Already in Q2/2019, long before the COVID-19 pandemic, China alone accounted for nearly one-third of global sales for the five largest carmakers in the world. By Q2/2020, during the COVID-19 pandemic, that number climbed to 45.2% on average. This means that for the largest carmakers, China alone accounted for nearly half of all vehicles sold worldwide.

**2-3 new vehicles are being launched in China every day**

At the root of China's fast economic turnaround are substantial subsidies, tax exemptions, and further measures that China's authorities introduced in April 2020 to boost automotive sales post-COVID-19. Delaying the implementation of stricter emissions standards until January 2021, reducing the value-added tax (VAT) for used car dealers to just 0.5%, and giving financial institutions incentives to develop more attractive consumer credit services with low down payments and interest rates are just three of several central measures. In addition, local governments of at least a dozen cities and provinces started offering cash subsidies of as much as \$1,400 per model to new car buyers.

Looking at China's generally swift recovery from the COVID-19 pandemic, it appears that no OEM can afford not to sell in China. But with well over 400 OEMs and an average of two to three new models being launched every day, it is an extremely crowded playing field. The most pressing questions that OEMs and dealers face is how to stand out and continue to sell successfully in the future. One thing is clear: The time is ripe to radically re-think the way cars are being sold in China.

Figure 1: Monthly automotive sales in China from July 2019 to December 2020



Source: Accenture Research, Statista (2020)<sup>4</sup>

# 1.2 The automotive (r)evolution: A market that never stands still

Is China the Eldorado for automotive sales? Not quite. Even with its enormous potential, the Chinese automotive market is extremely challenging due to its policies, competitive landscape and powerful technology players.

In recent years, the Chinese government has heavily supported state electric vehicle (EV) brands as they sought to form national champions such as NIO, Weltmeister and Xpeng. Massive investments allowed the EV market to grow by more than 1,000% since 2015. The market now accounts for 4.7% of the total Chinese automotive market. In this way, China has developed into a hotbed for innovation in new energy vehicles (NEVs) and grown to be the most important market for this sub-segment, accounting for more than half of the almost 2 million electric vehicles sold globally in 2019.

With six models and more than 250,000 units sold annually, BYD is China's largest EV manufacturer, followed by the Western OEMs Tesla and Volkswagen. In total, China has more than 500 EV startups. Many, however, have not yet produced more than a concept car. By the end of 2019, only 12 EV startups had actually begun selling vehicles and just 10 were present at the Beijing Motor Show in September 2020. But still, these startups have managed to shake up the industry.



**Morris Gao**  
CMO & Head of Business Development  
Faraday Future



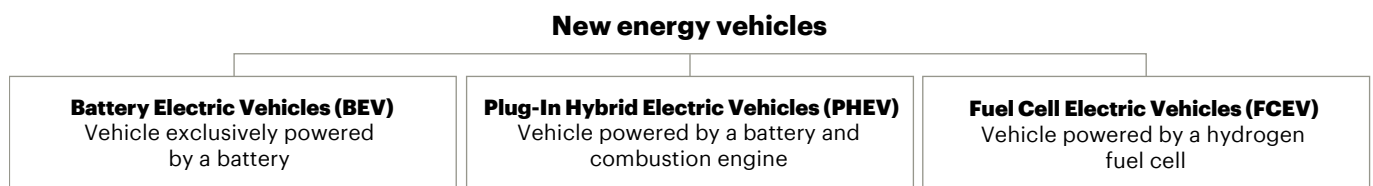
*The future car will run on software. This requires a mind-shift from established OEMs. Currently, they do market research three years before product launch, and when the car is launched, they feel their job is done. But in China, customer preferences change every year. You need to keep working and continuously improve and refine the software to make sure that the car keeps on providing the best experience for customers year over year.*



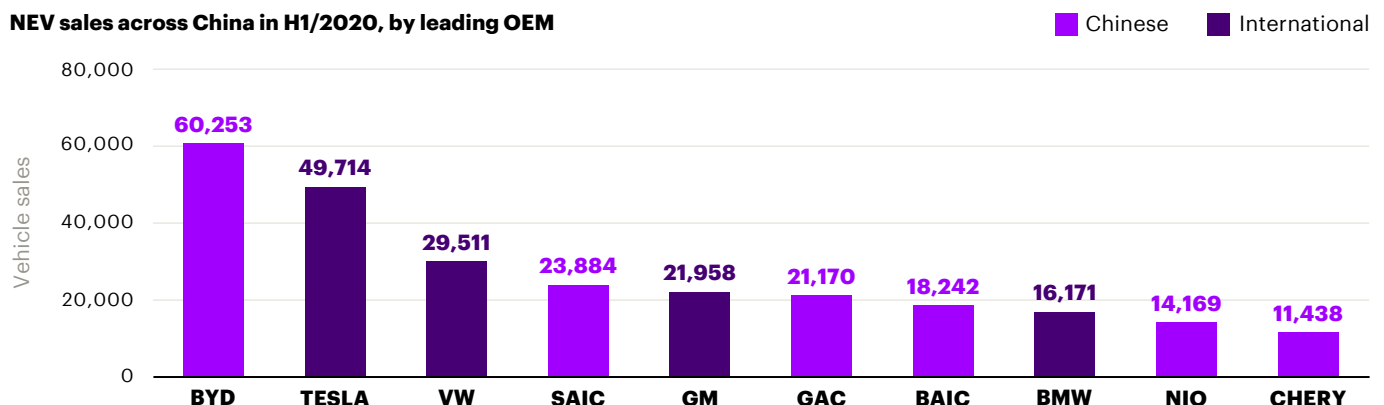
Morris Gao, Chief Marketing Officer and Head of Business Development for Faraday Future China, explains that in contrast to many established OEMs, startups have understood early on that superior software and short innovation cycles are key success factors in the crowded Chinese automotive market.

**1 in 2 electric vehicles**  
sold globally are sold in China

**Figure 2: Differentiation of different types of electric vehicles**



**NEV sales across China in H1/2020, by leading OEM**



Source: Accenture Research, Statista (2020)<sup>5</sup>

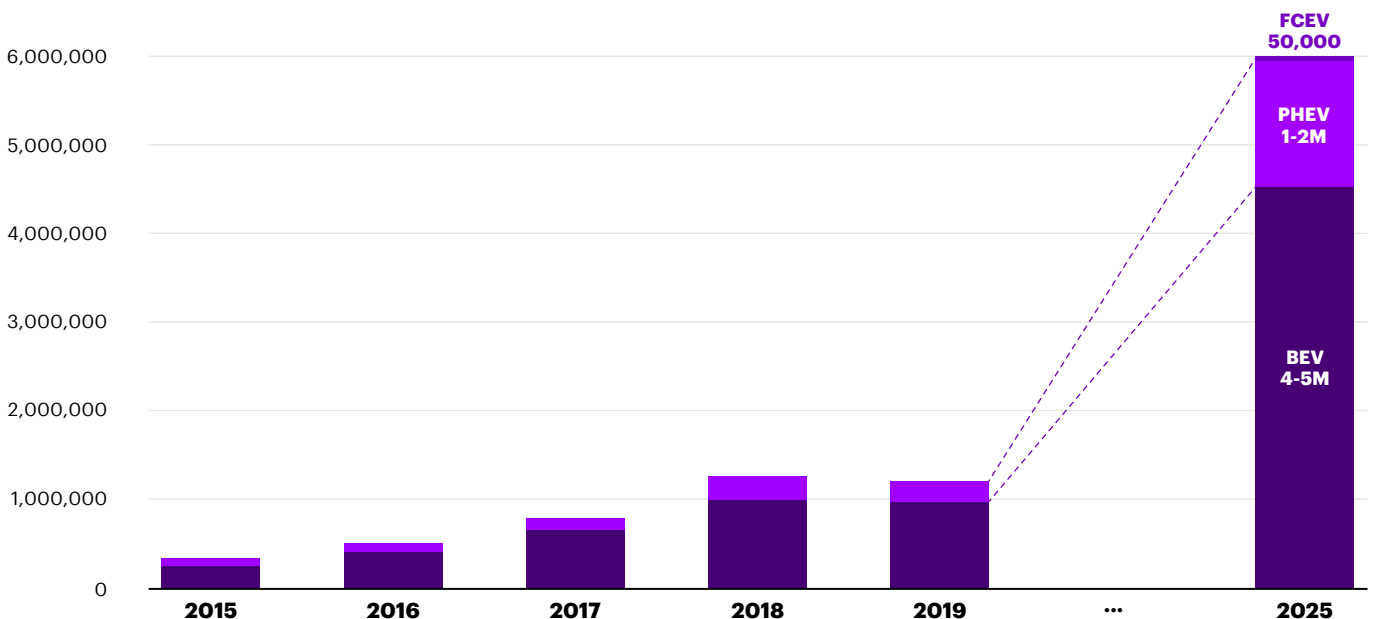


Those companies with strong and confident backing by their investors, however, continue pursuing their ambitious plans for growth: While Polestar opened 20 new stores, NIO continuously ramped up sales of their ES8 and ES6 SUVs and completed a 7-billion-yuan (1.1 billion USD) funding round from state-controlled investors. Alibaba-backed Xpeng also continues to make headlines by launching its P7 sports sedan, an EV with a driving-range of 706 kilometers—the longest currently available in China.

**20% of cars sold in China in 2025 will be NEVs**

Growth in the Chinese EV segment is set to accelerate. By 2025, we expect the overall sales volume for plug-in and fully electric vehicles to reach 6 million units per year. Furthermore, fuel cell electric vehicles (FCEVs) will become increasingly relevant by 2025, with sales potentially reaching 50,000 units or about 1% of total forecasted NEV sales per year. Beyond 2025, China aspires to create the world’s leading market for hydrogen fuel cell cars. In fact, plans have been announced to put 1 million FCEVs on the road by 2030, matching the targets of California and only lagging behind South Korea’s ambition of getting 1.8 million vehicles in circulation.<sup>6</sup> As the world’s leading producer of hydrogen, China has a big advantage in the race to fuel cell supremacy.

**Figure 3: Market size of NEVs in China**



Source: Accenture Research, Statista (2020)<sup>7</sup>



**CEO**  
**Chinese Investor Group**



*The few online success stories that were promoted heavily in China and around the world mainly sold limited editions and at little volume. This is easy to accomplish. The true challenge will be to integrate these online events with the offline dealer world and to turn this into an overall sustainable sales channel that fulfils customers’ needs.*



Another differentiator for the Chinese market—besides its size, policies and competitive landscape—is the strong footprint of digital behemoths like Baidu, Alibaba, and Tencent that seek to connect and integrate vehicles with their respective ecosystems.<sup>8</sup> While pushing the development of autonomous driving, Baidu is also providing the operating system for the connected vehicles of several Chinese OEMs. Meanwhile, Alibaba has introduced an in-car mini-app platform in cooperation with Xpeng, and Tencent provides its own in-vehicle infotainment system focused on voice-operated communication, social media and shopping.

But China’s tech giants have even greater ambitions. Major third-party platforms such as AutoHome, BitAuto, DouYin (TikTok) or DongCheDi, as well as Alibaba’s Tmall, have answered customers’ calls for convenience and digitization. These brands are seeking to establish themselves as the go-to-place for used and new car buyers. As internet businesses, these platforms particularly thrived during the COVID-19 imposed restrictions on physical transactions. And OEMs have taken notice. Many OEMs have started to live stream car sales events on social platforms to connect with consumers, and more than 50 brands participated in Tmall’s Double 11 shopping campaign in 2020, securing a total of 330,000 orders. BMW is even entering into a large-scale strategic partnership with Alibaba to accelerate its digital transformation.

Another example: Tesla had the Chinese online celebrity Wei Ya present the brand’s models, their specs and their prices in an hour-long video stream which attracted 4 million viewers. Chery, on the other hand, launched its new Tiggo 7/ 7 PRO model exclusively via live stream, generating more than 7,000 sales leads, according to official data.

**4 million viewers**  
 tuned in to see Chinese celebrity WeiYa promote Tesla’s models via livestream



**Daniel Lescow**  
 Vice President Sales,  
 Marketing & After-Sales  
 smart Automobile Co., Ltd.



*Even though the smart brand is well established in China, as a new company we can act like a startup in many ways. When it comes to building a future-proof sales model, our opportunity is to accommodate for China’s very demanding customers, while at the same time providing a consistent brand experience. Plus, it needs to have the flexibility to withstand accelerated disruption in China.*



And Tmall, one of China’s biggest e-commerce platforms, is increasingly used for automotive products and services. Recently, it teamed up with AutoHome to promote selected car models during its 818 (18th of August) shopping festival, and also became the exclusive sales channel for Great Wall’s NEV brand ORA.

**Figure 4: Technology giants in the automotive industry**

	<b>Baidu</b>	<b>Alibaba</b>	<b>Tencent</b>
<b>Main focus</b>	<b>Autonomous driving – Apollo</b>	<b>E-Commerce</b>	<b>Communication &amp; social media</b>
<b>Collaborations</b>	<b>HAVAL H6 GEELY CHERYXEED</b>	<b>XPENG</b>	<b>CHANGAN HONDA BMW</b>
<b>In-Car Software Platform</b>	<b>DUER OS</b> Developer platform for connected vehicle solutions and intelligent transportation	<b>Alipay – Taobao.com – AutoNavi</b> In-car service ecosystem for smart vehicles built on Alibaba’s “super apps”	<b>TAI3.0</b> Tencent Auto Intelligence, in-vehicle infotainment with voice activated shopping
<b>Mini Apps</b>	<ul style="list-style-type: none"> <li>• Core functions voice assistance, navigation or entertainment</li> <li>• 50 mini apps, incl. e-commerce, online video, travel, after-sales</li> <li>• Integrates data flow between riders, vehicles, road and cloud</li> </ul>	<ul style="list-style-type: none"> <li>• Initial focus on driver-centric functions (navigation, travel assistant or driver condition monitoring) with gradual expansion to other mobility, lifestyle and infotainment functions</li> <li>• Open to third-party developers to launch more value-added services</li> </ul>	<ul style="list-style-type: none"> <li>• Onboard app for user preferences</li> <li>• Onboard app powered by AI and big data to optimize and contextualize content</li> <li>• Incorporation of WeChat functionality and access to exclusive content services, including QQ Music and Ximalaya radio</li> </ul>

Source: Accenture

While these examples show that third-party platforms can be valuable tools to increase sales and push digital sales journeys, they also underline OEMs' dependency on their large audiences and technological know-how. Not surprisingly then, relations between OEMs and third-party online platforms are not always harmonious. In August 2020, for example, a legal dispute between Chinese e-commerce giant Pinduoduo and Tesla escalated, because the former sold Tesla's Model 3 sedan for a lower price than advertised in Tesla's own online store. This jeopardized the OEM's price-match guarantee. In addition, dealers' skepticism seems to be growing. The CEO of a Chinese investor group said that many of the online sales events organized by OEMs and e-commerce giants may not be financially sustainable. Already, more and more dealers are turning away from the likes of AutoHome, Bitauto, or DongCheDi, whose fees have become too high for

dealers' slim margins. Considering that 42% of dealers did not generate a profit in 2019, OEMs may have to look for more effective ways to advertise online while supporting their retail network. Subsidizing part of the fees online platforms charge their dealers can only be a first step.

Clearly, China is a unique market for piloting and perfecting the automotive sales strategies of the future. As Daniel Lescow, Vice President Sales, Marketing & After-Sales at Smart describes, OEMs need to develop a precise understanding of Chinese customers' needs, as well as define a clear strategy for how to navigate and leverage China's digital ecosystem to build a future-proof sales model.





## 2. Pressing issues and emerging opportunities



## 2.1 The shifting demands of Chinese consumers

While more than 400 mobility brands compete for market share in China, more than 50% of all new cars sold in 2019 were produced by the top nine brands. Newcomers, in particular, are struggling to appeal to Chinese consumers. In fact, Chinese customers' brand loyalty has increased in recent years. Our survey showed that brand image ranks as the number one reason for choosing a model. Therefore, newcomers primarily target first-time buyers with entry-level models at attractive prices, or by emphasizing their brand's performance, aesthetics, connectivity or service quality.

### 68% of consumers would like to buy a NEV as their next vehicle

Some 56% of drivers agree that on an emotional level, cars provide them with a sense of freedom. The COVID-19 health crisis further amplified this need for independent transportation, as 80% of respondents have become more cautious about their own and others' health. With people growing increasingly hesitant to use public transportation, especially in China's mega cities, interest in buying a new car has shot up 27%, while simultaneously suffering a smaller hit (down 14%) from customers who decided against a purchase due to economic reasons. New mobility services, such as car sharing, fare much better because they provide users with less exposure to other travelers. Some 78% of Chinese car owners report that they also use mobility services like Didi (65%), Dida Chuxing (31%) or Caocao (29%) at least occasionally, and almost all (90%) want to keep using them in the future.



**Huang Rui**  
Vice President and Head of NSC China  
Byton



*When it comes to automotive sales, digital channels already play a very significant role for marketing and product communication. But up until now, transactions are still largely conducted offline. This is due to several reasons. First, a car's price typically exceeds the 10k RMB threshold for online transactions. Second, there is no mature system to conduct financing or insurance transactions online. Third, there is no transparency in discounts and transaction prices, meaning that customers have to negotiate sales offline. And lastly, customers want to do a test drive offline before they buy the car.*



Regarding consumers' preferred models, acceptance and willingness to buy an NEV continues to rise. While the government pushes the target of a 25% NEV market share by 2025, 68% of surveyed car owners report they would like to buy a NEV as their next vehicle. Consumer interest is even stronger in the high-income segment, where 81% of car owners with a household income of more than ¥ 600,000 (92,000 US dollars) per year are interested in buying an NEV. Even the interest of car owners above 50 years, who are typically a more traditional customer segment, is more than twice as high as China's target market share for NEVs.

### Impact of the COVID-19 pandemic on consumers in China



**80% of consumers**  
have become more worried about their health



**85% of consumers**  
have become more willing to shop online

- ▶ While only **3%** of consumers bought their last vehicle online, **14%** want to buy their next one online



**13% more consumers**  
than before intend to buy a new car in the wake of the COVID-19 crisis

- ▶ -14% sales decline due to financial downturn
- ▶ +27% car sales driven by health concerns

July 2020 // N = 1050 (Consumer); Source: Accenture Research

On average, consumers start their buying journey three months before signing the paperwork—and more than 70% of consumers prefer to do so online. This is where they can easily compare prices and product specifications, while researching reviews and user information. Despite Chinese consumers’ general tech-savviness, most consumers (77%) want to switch to physical channels to close the deal, underlining that digital alternatives will most likely not replace the “touch and feel” experience of dealerships. Huang Rui, Byton’s Vice President and Head of its national sales company in China, explains why. Not only do many customers wish to do a test drive prior to purchase, but there is also the need to negotiate the final price and online payment is hindered by technical and legal restrictions.

**77% of consumers still want to buy in a physical store**

However, dealers have to account for the fact that consumers entering their store are better connected and informed than ever—a fact that Fu Qiang, co-Founder and Chairman of Ai-Ways Cars, stresses. According to Fu, “The greatest problem with traditional automotive sales is the lack of transparency for the customer. In the value chain from OEM to dealer to customer, the customer comes last and is the least informed. Thankfully, the internet is putting an end to this. Customers can easily compare prices online.” Moreover, they expect business processes to be integrated and efficient, for instance when in-store conversations need to continue digitally or when a purchased vehicle is tracked through its assembly and delivery across channels.



**Li Hongpeng**  
Chief Business Officer  
Hyundai Motor Group (China)



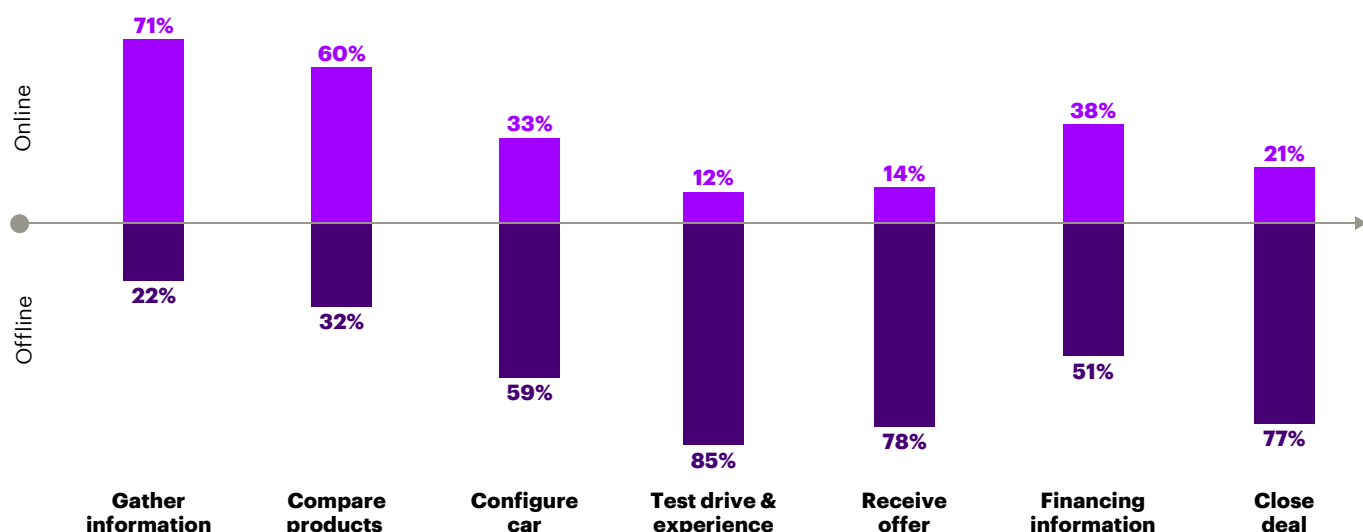
*Price transparency is an issue. What is the reason that a customer visits two or three dealers before buying the car? It is because the customer does not trust the price at the first dealer is transparent enough.*



It is imperative for OEMs and dealers to establish and manage a seamlessly integrated online and offline sales journey without today’s channel breakdowns and clumsy workarounds. Accordingly, Xavier Chardon, Vice President of SAIC-VW, calls for balance between digital touchpoints and the physical business. And Bernd Pichler, Regional Director of Bentley in Asia Pacific, emphasizes the need for brands to differentiate themselves with experiences that focus on empathy and building trust. Chinese consumers are used to convenient and fast-paced shopping experience from the various e-commerce platforms they use every day—and they expect an equal if not greater experience when buying something as valuable as a new car.

**2 in 3 consumers collect competing offer from dealers of the same brand to get the best price**

**Figure 5: Consumer channel preference for customer journey steps**



July 2020 // N = 1050 (Consumer); Source: Accenture Research; difference to 100% = “indifferent”



The behaviors and preferences of Chinese car owners are fueling the development of new sales models. Chinese consumers visit an average of 2.5 dealers before buying a car, with 95% of prospective buyers visiting dealers of the same brand. While some may do so to compare models or service, two in three people surveyed said they do so with the main intention of comparing prices and pitting dealers against each other in negotiation. Li Hongpeng of Hyundai Motor Group (China) said he thinks customers do “not trust the price at the first dealer is transparent enough.” Clearly, this is putting significant additional pressure on dealer margins while hurting the overall brand which almost no customer wants.

In fact, price negotiations are regarded as a nuisance and have been shown to be the number one reason for customer dissatisfaction. In our survey, four out of five Chinese customers preferred fixed transaction prices over negotiations because it would help them feel more confident about the purchase decision and have greater trust in the salesperson. As a result, both dealers and OEMs are looking for ways to increase price transparency and stability.

**81% of customers say that they would prefer fixed and transparent prices without the need for negotiations**

To sum up, while Chinese customers value strong automotive brands and are eager to explore the latest innovations, they are also challenging OEMs and dealers to innovate the buying process, process, for instance, by demanding integrated experiences which



**Bernd Pichler**  
Regional Director Asia Pacific  
Bentley Motors

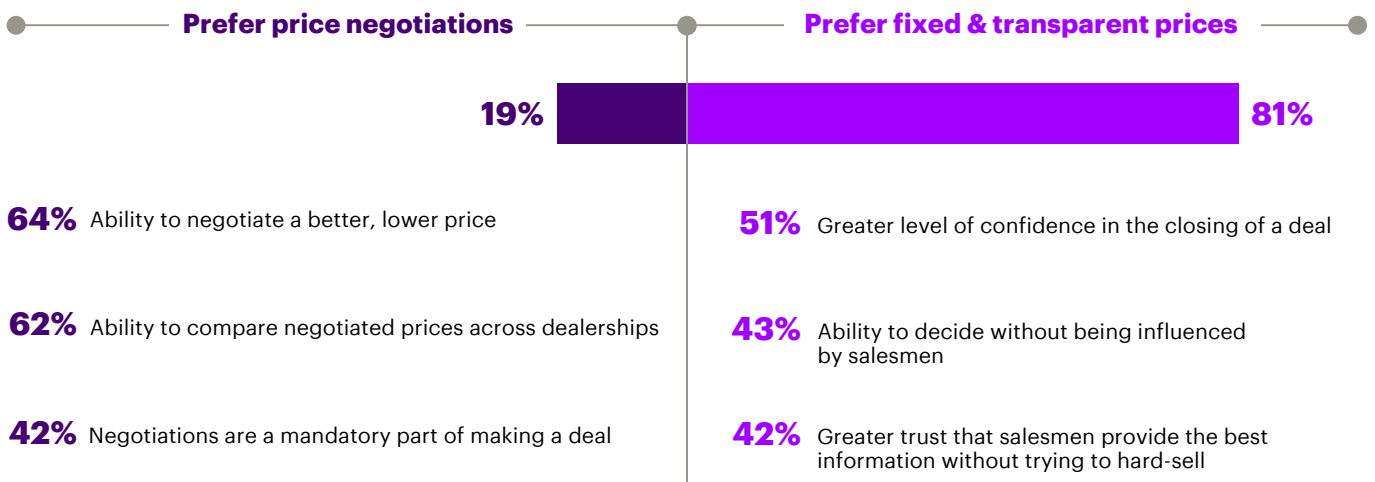


*What differentiates an average sales experience from a superior one is the optimal mix and effective switching between process and empathy. Of course, we must employ the right technology along the sales journey and eliminate breaks between digital and physical channels. But our customers are looking for a person that they can build a relation with, who pays attention to detail, understands their needs and provides advice that can be trusted.*



blur the line between online and offline buying. Seeking to combine the best of both worlds, 87% of Chinese customers are willing to try VR technology to augment the physical purchasing experience, and 77% express interest in having their purchased vehicle delivered contactless to their home. However, while 85% of customers have become more willing to shop online in the wake of COVID-19, they maintained their preference for offline touchpoints towards the end of the automotive sales journey. As SAIC-VW’s Xavier Chardon explains: “Our customer clinics for the ID.4 revealed that customers are very open for an agent sales model.” The question is, are OEMs and dealers ready to enter a new era of sales?

**Figure 6: Consumer pricing preferences**



July 2020 // N = 1050 (Consumer); Source: Accenture Research

## 2.2 The changing role of automotive dealerships in China

Independent dealerships are the backbone of Chinese automotive retail. Dealers maintain a wide sphere of influence, including influence in pricing, retail marketing and customer relationship management. So far, they generate almost all new-car sales revenues for OEMs. Their economic relevance has given dealers an upper hand in disputes with OEMs who tried to implement changes to the current automotive sales model. A prime example is given by Audi's dispute with FAW dealers in 2017. When Audi made plans for a joint venture with SAIC public in 2017, existing FAW dealers started a boycott that led to a decline in Audi's China sales by almost 25% in the first quarter of that year. Audi could only settle by giving FAW dealers deep concessions on contracts and compensation of around 4 billion euros. Since then, OEMs have been cautious not to risk fallout with their dealers.

### 1 in 3 dealers

admit new car sales are not profitable for them



Vice President  
Leading Chinese Tech Co.



*OEMs have been moving online since 2018. Recently, the trend was amplified by COVID-19, during which we saw a boom of live broadcasting. Yet, this is just a way of showing the products, offline experience still remains a must element in the car purchase journey.*



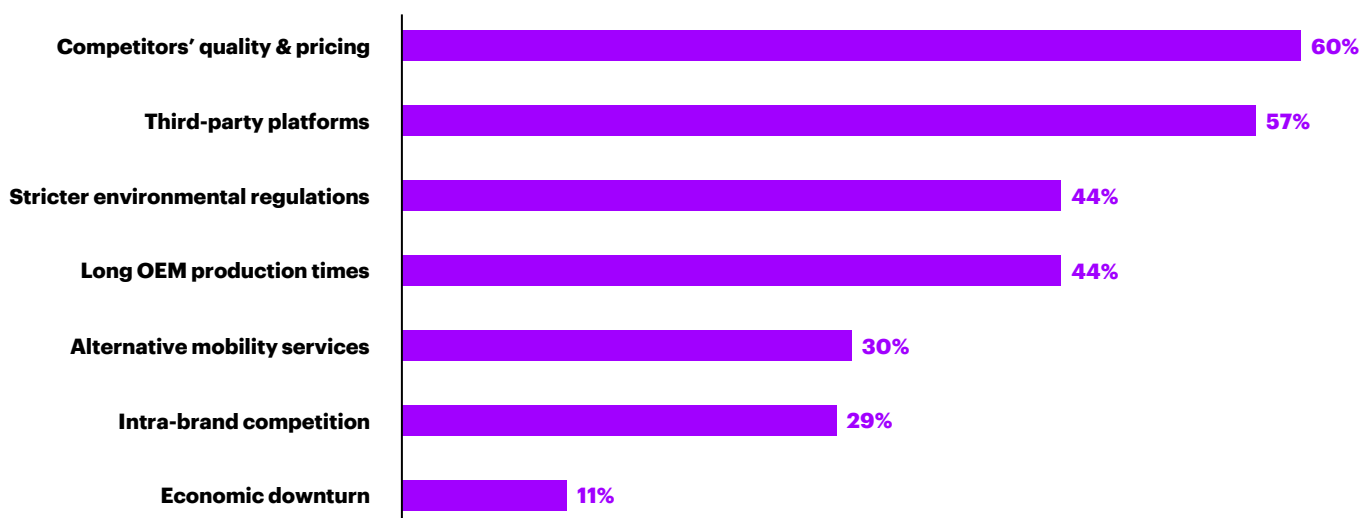
Still, Chinese dealers are far from fundamentally rejecting innovations in automotive sales. In fact, many dealers have realized that customers' purchase preferences are shifting online. Almost all of them (99%) use digital tools to support marketing and sales. Eighty-one percent of dealers offer digital test drives and appointment booking, 78% allow for digital



purchasing and payment, and more than 70% offer direct digital interaction. The Vice President of a leading Chinese technology company said that COVID-19 sped up the ongoing trend of moving online, with especially large dealerships (and their OEMs) diving into video chats (42%, e.g. via DouYin) and live streaming of sales events (44%). However, Chinese dealers will not stop there. Fifty-six percent said digitization and online presence are the top priority for investments in the next three to five years. However, there is significant cost involved, and not all dealers can develop the necessary digital capabilities on their own. Therefore, 38% of dealers rely on third-party platforms—despite their general skepticism of platforms—because these third-party offerings are of higher quality (44%) or are cheaper to use (43%) than the tools provided by the OEM. Going forward, dealers are urging their OEMs to up their game and provide better online options (40%) as well as improve the overall multi-channel experience (35%). However, with the higher demand for better digital solutions supported by OEMs, it is also imperative for dealers to be open to new solutions and seek close collaboration with OEMs, e.g. in terms of data sharing.

Dealers’ requests for OEMs to step in is not new but has intensified over the course of the COVID-19 crisis. Like many other businesses across industries, Chinese automotive dealers have suffered from the fallout of the pandemic. Our survey found that the average time it took dealers to sell a stock vehicle increased by 56%, from 52 to 81 days during the crisis. Not surprisingly, Chinese dealers expect their turnover to decline by more than 30% in 2020, compared to the previous year. And margins from new car sales have been low already: Some 42% of dealers did not generate a profit in 2019. Our survey showed that a third (25-36%) of dealers say that new car sales are not profitable for them. One reason for eroding margins is intra-brand competition, which 29% of dealers name as one of the biggest threats to their business. This comes as no surprise as dealers mention that 69% of their customers actively confront them with competing offers from dealers of the same brand.

**Figure 7: The biggest threats as perceived by Chinese dealers**



July 2020 // N = 250 (Dealer); Source: Accenture Research



Moreover, third-party platforms are disrupting the classic dealer sales journey, propelled by the increasing fragmentation of customer touchpoints and confluence of digital and physical channels. Customers visit AutoHome or Souche.com to research car information and customer opinions, offering an attractive advertisement platform for OEMs and dealers. The likes of JD and Tmall aim to position themselves as the initiators of a vehicle purchase by offering a convenient entry point of sales to consumers shopping for other products on their platform. While desirable for consumers, the increasing loss of control over the customer interface puts pressure on dealers and OEMs alike. As platforms take advantage of the business potential and raise fees, 57% of dealers consider them a major threat to their business.

## 81% of dealers agree their business models need to change to be successful in the future

But major OEMs are confident that even in the face of growing online sales, dealers have a strong future ahead of them. As Sean Green, Senior Vice President Sales & Marketing at BMW-Brilliance, points out, customers need a physical place for test drives,



**Sean Green**  
Senior Vice President,  
Sales & Marketing  
BMW Brilliance Automotive Ltd



*Despite the trend towards online and direct sales, we see a strong future for our dealers. Customers will always need a physical place for test drives, service and repairs. Having a network of 600+ dealers in China is a huge asset for BMW.*

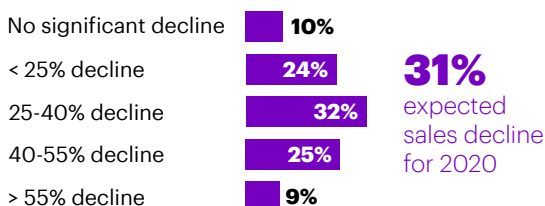


service and repairs. And for this reason, having a strong network of successful dealers is a huge asset for established OEMs.

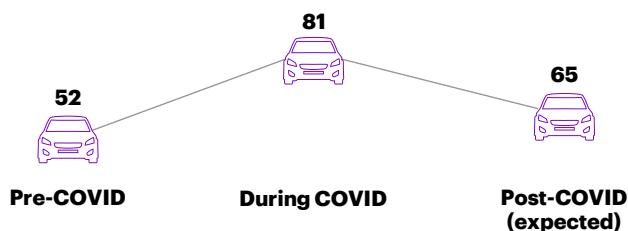
With the Chinese economy recovering from the pandemic, only 11% consider a further economic downturn a substantial business risk. The fact that 44% of dealers view long OEM production times as a threat to their business underlines existing consumer demand. However, dealers need to develop a mindset that embraces change at the customer interface, also in the physical channel, to win and retain customers in the future.

### Impact of the COVID-19 pandemic on dealers in China

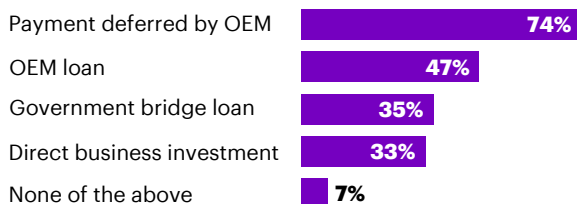
#### Expected sales decline from COVID



#### Average number of days to sell a stock vehicle



#### Support measures received by dealers



#### How will the industry change after COVID?



July 2020 // N = 250 (Dealer); Source: Accenture Research

Chinese dealers know that in order to stay relevant, they need to change the way they operate. In our survey, 81% of dealers stated that they believe their business model needs to change for them to continue to be successful. Dealers know many of their customers are growing tired of the traditional sales process. However, comparing what dealers say is the reason for dissatisfaction and what customers say is the reason that Chinese dealers still underestimate customer discontent, especially in offline steps.

**63% of dealers do not think fixed prices make selling cars more difficult**

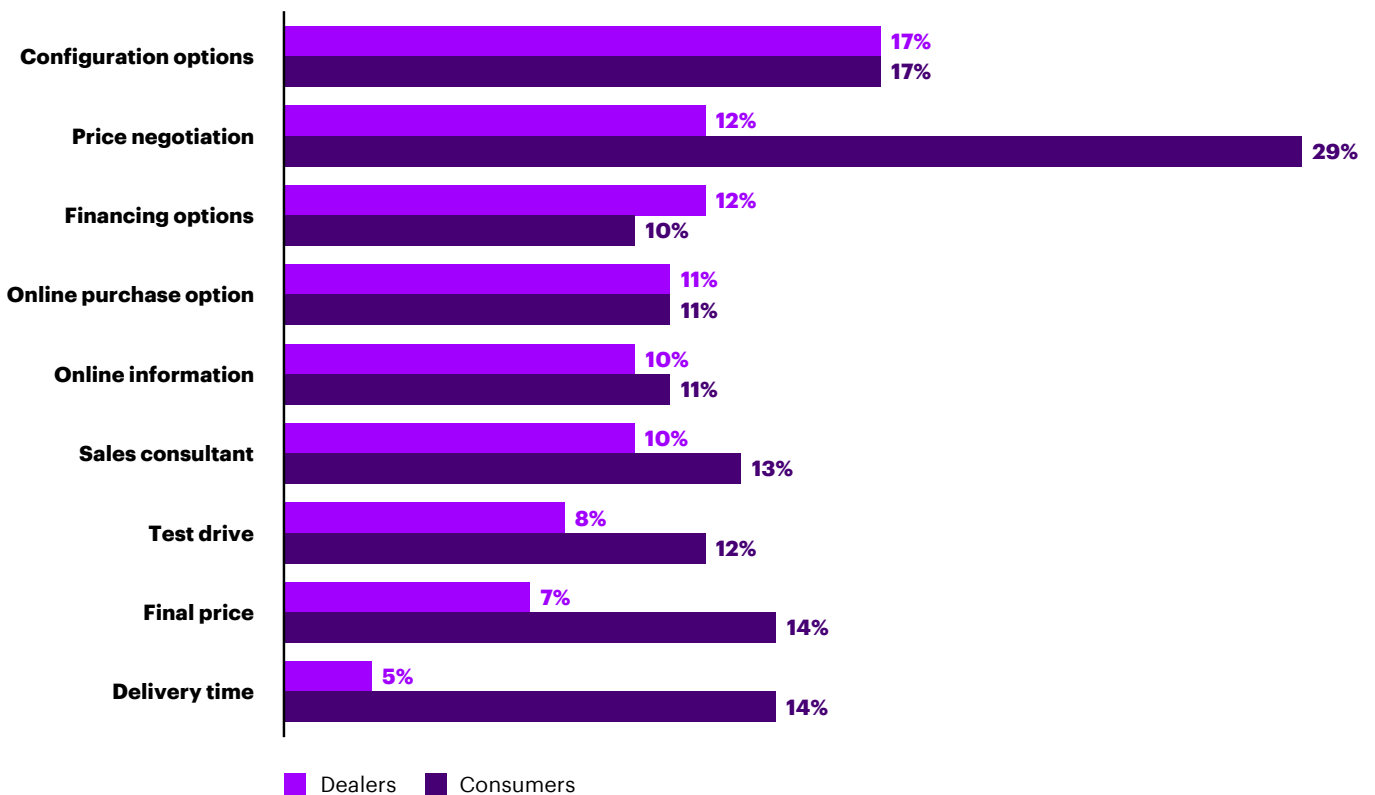
While the need to negotiate prices is the number one driver of customer dissatisfaction, dealers regard it as far less relevant. Still, most Chinese dealers (63%) are not opposed to the idea of fixed and transparent prices, adding to the chance that this customer demand will soon be satisfied. In general, a large number of Chinese dealers are open to new business models, such as automotive subscriptions and sharing, and

they welcome innovations in sales models. Arguably, the most important sales innovation is currently the introduction of the direct sales model, which 87% of dealers have seen their OEMs pilot or rollout.

The vast majority (83%) of dealers and particularly large investors are expecting positive effects on their business from selling cars for a fixed commission. Only 11% are actively opposed to the idea. More concretely, Chinese dealers expect to have more time to focus on customers (43%) to receive better targeted and pre-qualified leads (40%), and to incur lower expenses and financial risk (39%) in a direct sales model. In addition, 72% of dealers report they would welcome the OEM to take over larger parts of sales administration, such as stock management, invoicing or credit checks.

**83% of dealers expect positive effects from selling cars for a fixed commission**

**Figure 8: Drivers of dissatisfaction**



July 2020 // N = 1050 (Consumer), N = 250 (Dealer); Source: Accenture Research

There are also concerns that dealers bring up when asked about the direct sales model. These include potentially lower sales volumes and reduced motivation of their sales consultants. Dealers largest concern, however, is a general skepticism if OEMs truly have the technological and operational know-how that is needed to orchestrate sales in a market as diverse China's, where customer expectations and sales journeys differ greatly between mega cities and rural areas.

Overall, we see that Chinese dealers have recognized the need for digitalization and are aware of customers' most pressing pain points. In addition, they are open to new business models and see many advantages in the introduction of direct sales models. Nevertheless, concerns that the OEM could take away the dealers' core business remain, as SAIC-VW's Vice President Xavier Chardon notes. If OEMs want dealers to accept the new sales models, they must make the opportunities and challenges transparent in their communication with dealers.



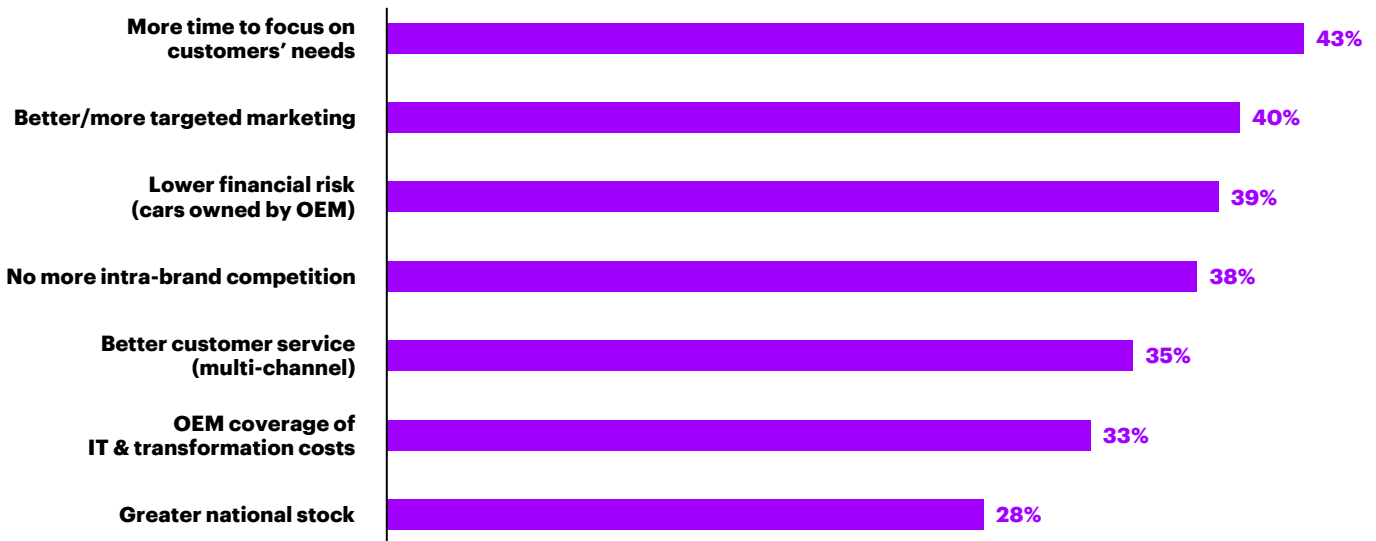
**Xavier Chardon**  
**Vice President**  
**SAIC-Volkswagen Sales Company**



*In general, bigger investors and dealers are looking at a new business model positively—right now they do not make money. But they are still a bit afraid that VW would take away the core business—that is absolutely not our intention, because we believe physical interaction is very important in the sales process.*



**Figure 9: Direct sales benefits as perceived by Chinese dealers**



July 2020 // N = 250 (Dealer); Source: Accenture Research

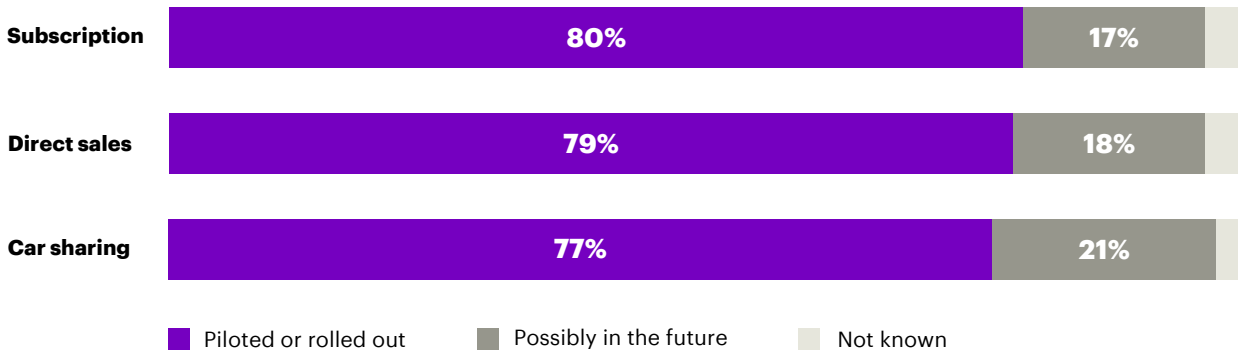




### Dealers' exposure to new business models

In reaction to new competition from EV-startups and digital players, OEMs are piloting new sales and business models. Up to 80% of dealers report that subscription, direct sales and sharing models are being piloted or already in roll-out. Notably, larger dealers are typically exposed to more initiatives (90%) than smaller ones (67%).

### Familiarity of dealers with new sales models



July 2020 // N = 250 (Dealer); Source: Accenture Research



# 3. The road ahead towards future automotive sales in China



## 3.1 The challenges and opportunities of shifting to direct sales

Enhanced by the COVID-19 pandemic, OEMs and their dealers have accelerated their search for more efficient ways to sell cars in China. In fact, almost all OEMs and investors that we interviewed acknowledged that it's time to reinvent the automotive sales model. But is the market really ripe for a radically new way of selling cars?

Compared to Western markets, China is experiencing extraordinary sales growth. And even with growth in new car sales starting to slow, dealers have just begun to tap into the seemingly endless opportunities provided by the used car and financing business. High profits and powerful opposition from dealer associations make it nearly impossible for OEMs to take action. Yet, OEMs and dealers must overhaul their sales model now if they want to stay relevant.

Arguably, the most promising way lies in mixing traditional elements of sales with innovative ones. Global brands like BMW and Mercedes-Benz, for example, have started offering their customers an online digital showroom experience integrated in a WeChat mini program. They also enable real-time interaction through one-to-one video calls with product experts. While the potential car buyer explores a product in the virtual showroom, sales personnel share relevant pictures and specs of the models.

Tesla has also started offering "contactless test drive" options to customers in Beijing and Shanghai. Customers can make appointments by phone or sign e-agreements online. The sales assistant then unlocks the car remotely to avoid any direct physical interaction throughout the process. Instructions and vehicle information are provided via in-car video content on Tesla's large center screen.

To truly win the race for China's consumers, however, OEMs must take a bold step and invest smartly in direct engagement with their customers. Today, OEMs are basically separated from their customers through the indirect wholesale model. To establish a close relationship and create the sales experience that Chinese consumers demand, OEMs need to re-gain control over the customer interface and start selling to customers directly.



**Li Hongpeng**  
Chief Business Officer  
Hyundai Motor Group (China)



*Dealers know that the business model will change, but they do not know how because they are afraid of losing their business, their property. They should rather think like investors, letting a central organization manage showrooms in a unified way. In that, direct sales has advantages, because the OEM can take the role of that central organization, taking control of staff, processes, prices and information.*



The key thus lies in the shift from indirect sales to direct sales (also called agency model), meaning that OEMs must turn from wholesale to retail. This transition requires putting the customer at the center of all operations, which presents a major paradigm shift for OEMs. It requires not only technological innovation but also changes to organization, processes and essentially a shift in mindset. For instance, many OEMs still rely on customer data spread across different systems managed by different departments or even the dealer. Leaders, like Hyundai's Li Hongpeng, have understood that customer data must be unified and used by the OEM to steer the entire network.

Dealers, on the other hand, must embrace their role as investors and accept that to maximize returns they must give up some of their business ownership and independence. Many dealers that we surveyed support the idea of re-inventing the automotive sales model, as long as they remain a central pillar. For example, Raymond Lee, Managing Director Greater China of Sime Darby Motor Group, is certain that "the current automotive sales model is coming to an end." And the speed of innovation around NEVs, together with the recent COVID-19 pandemic, have further fueled calls from dealers for OEMs to introduce reliable sales commissions and reduce the financial risks associated with stock ownership, residual values and pricing.



In China, we have observed that three archetypes of direct sales models are emerging, and each has a different level of dealer involvement: Digital Exclusives, 4S-Transformations, and 4S-Complements\*. While real-life examples may combine aspects of two or all three archetypes, their differentiation provides valuable strategic orientation for OEMs.

**Digital Exclusive** describes OEMs' strategy to make one or a few selected models exclusively available through a dedicated app or platform.

Existing independent 4S dealerships are typically paid a commission to display these models and provide customer consultation. That means customers can experience the models in stores and take them for test drives. For the purchase, however, the dealer will only refer the customer to the OEM's exclusive digital channel. Depending on the back-end processes, this model can provide a strong uplift to OEM margins and create production and logistics efficiencies.

SAIC's Roewe Marvel X is a good example for this archetype. Despite the model's struggles in a dynamic political environment around NEVs, SAIC's approach of showing the car at existing dealerships and selling it exclusively via an app proved successful. It has enabled SAIC to reduce lead times to start production and push manufacturing updates to the customer directly. Similarly, Chinese carmaker Geely partnered with Alibaba-owned Souche.com to sell its model "Light Knight" at a 5% discounted, non-negotiable transaction price. The special edition model is not available through Geely's 4S dealer network.

**4S-Transformation** describes a more holistic but also more complex archetype of direct sales models. Here, the OEM's existing 4S dealerships are transformed into agents, who act on behalf of the OEM. This implies a transition from today's margin and bonus system to one where dealers (or agents) work for a set commission. In return, the OEM assumes much of the risk that today lies with the dealers, such as ownership of stock and demo cars.

So far, China has not seen any major 4S-Transformations yet, but European OEMs have compelling examples. BMW, for instance, piloted an agency model with its BMW i sub-brand in 19 markets from 2012-2016.<sup>9</sup> Daimler launched an agency for its full range of models and customer groups in South Africa and Sweden, and is now planning to extend the agency model to further European markets. Similarly, Volkswagen has also launched its family of ID models in an agency model in Germany, with further markets and VW group brands likely to follow.<sup>10</sup>

\* The term "4S" refers to dealerships that offer sales, service, spare parts and surveys (i.e. customer feedback).



**Raymond Lee**  
Managing Director Greater China  
Sime Darby Motor Group



*The current automotive sales model is coming to an end. While I believe that the full transformation will still take at least 10 years, we assume that younger customers will develop a fundamentally different view on car purchases. They are looking for ways to buy online, meaning that in the longer-term test drives may be the only physical experience that is left. That is why we have embarked on various online digital initiatives such as digital showrooms and live streaming on WeChat and Tik Tok. We are even nurturing our sales consultants to be KOLs so that they can promote and sell cars on-line.*



In China, several as yet undisclosed OEMs are said to be currently exploring options for transforming their network of independent 4S dealerships into a network of sales agents.

**4S-Complement** describes an archetype where OEMs launch new direct sales retail formats in addition to existing 4S dealerships. Specifically, OEMs have started launching high-street shops that augment the existing, large-scale premises in the outskirts of cities. The idea is to move sales to the consumer, which in China is oftentimes in shopping malls. The new showrooms aim to attract customers by focusing solely on the display, experience and sale of a selected range of new premium models. After a purchase, customers can rely on the existing 4S dealership for aftersales and services, which Xavier Chardon emphasizes will still be needed: "Unlike Tesla and NIO, we cannot only rely on city showrooms. We have a much broader product portfolio and a bigger stock of cars. Therefore, we still need big showrooms and repair capacities to present our whole range and to service our customers." These 4S dealers are the ones that typically invest in the new downtown retail locations and run operations for a commission. The cars, however, are owned by the OEM who sets standards and prices to ensure consistency.

We expect 4S-Complements to be especially successful in Chinese mega cities, where retail rents are often too high to operate traditional dealerships. Already, several pilots can be found in China. In December 2020, Volkswagen launched its first direct sales city store, the “ID. Store X,” in cooperation with SAIC.<sup>11</sup> Plans are to open a total of 40 ID. Store X stores in 29 Chinese cities over the next one to two years. Besides Volkswagen, several other yet undisclosed Western premium and volume OEMs are pursuing plans to open 4S-Complements. Successful NEV startups, as well, are relying on a very similar combination of self-owned flagship stores and partnerships with investors who provide aftersales and service, according to Fu Quiang, Co-Founder and Chairman of Ai-Ways Cars.

However, whether 4S-Complements will prove to be successful remains to be seen. Hyundai’s Li Hongpeng, for example, warns that city showrooms should rather be viewed as a marketing or branding element than a viable sales format, because “eventually, cars—which are not a very profitable product—should not be sold in places with the highest rent.”

While Digital Exclusives tend to work best with a limited number of models or as pilots, selling larger volumes directly to the customer requires a deeper integration of the physical retail network. Whether to



**Fu Qiang**  
Co-Founder and Chairman  
Ai-Ways Cars



*Similar to established OEMs, we are selling our cars via a network of partners alongside stores owned and operated directly by ourselves. But other than established OEMs, we do not set volume targets or exert stock pressure, and we own the customer contact. Our partners act as Maintenance point or as experience centers who combine traffic with community and delivery.*



transform the retail network or to complement it depends on the individual OEM’s network structure, history, and competitive landscape.

In the following chapters, we break down the business case and show how OEMs can lead a successful transformation from indirect to direct sales. It is a highly complex and ambitious path to commit to, but we believe it is the only road that can lead to a successful future for automotive sales.

**Figure 10: Comparison of direct sales model archetypes**

Archetype	Digital Exclusive	4S-Transformation	4S-Complement
Example	SAIC Marvel X in China	Mercedes-Benz in Sweden	SAIC-VW in China
Setup			
Pros	<ul style="list-style-type: none"> <li>+ <b>Lower complexity</b> (no dealer involvement)</li> <li>+ <b>Production efficiencies</b> through link between app and factory</li> <li>+ <b>Direct customer access</b></li> </ul>	<ul style="list-style-type: none"> <li>+ <b>Fixed prices</b> and intra-brand efficiencies across all channels</li> <li>+ <b>Cost synergies</b> from centralization</li> <li>+ <b>Steering of 3<sup>rd</sup>-party platforms</b> and network stability (in economic crisis)</li> </ul>	<ul style="list-style-type: none"> <li>+ Direct sales focused retail formats, e.g., in <b>city centers</b></li> <li>+ <b>Independent dealers</b> as investors in new formats</li> <li>+ <b>Lab for innovative</b> sales approaches</li> </ul>
Cons	<ul style="list-style-type: none"> <li>- <b>Cannibalization</b> of indirect retail sales</li> <li>- <b>Limited scalability</b> for full portfolio</li> <li>- <b>Limited dealer participation</b> in OEM online sales</li> </ul>	<ul style="list-style-type: none"> <li>- <b>High complexity</b> (full transformation)</li> <li>- <b>Significant IT investments</b> and additional run costs (headcounts, IT)</li> <li>- OEM <b>balance sheet extension</b></li> </ul>	<ul style="list-style-type: none"> <li>- <b>High complexity</b> (greenfield approach)</li> <li>- <b>Major investment</b> in new retail formats</li> <li>- <b>Integration of existing 4S dealerships</b> used for aftersales and service</li> </ul>

Source: Accenture

## 3.2 A financial evaluation of the direct sales model

To determine the financial benefits of a direct sales strategy, we look at two perspectives: that of the dealer and the OEM. From the dealer's perspective, we would advise OEMs to keep dealers' interests in mind and ensure that dealer net profit remains unchanged when transitioning from indirect to direct sales. This means that while the dealer's turnover and costs will change, the bottom line should remain unaffected—a central demand from dealers to protect the investments they have made in their businesses, Sime Darby's Raymond Lee said.

In the traditional indirect sales model, a dealer's gross turnover from car sales is based on the margin and bonus negotiated with the OEM. In addition, dealers may receive other commissions such as financing kickbacks. To make sales, dealers often grant large rebates of up to 25% (10-14% on average), eliminating most of their margin. Further reductions in price may come from marketing and operating costs, personnel expenses, costs of stock ownership (e.g. handling, financing, storage, insurance) and other overhead (e.g. property, administration, depreciation).

In a direct sales model, a dealer's gross turnover is determined by fixed remuneration and certain bonus elements, which, in sum, is typically much lower than today's margin and bonus. The dealer, however, incurs



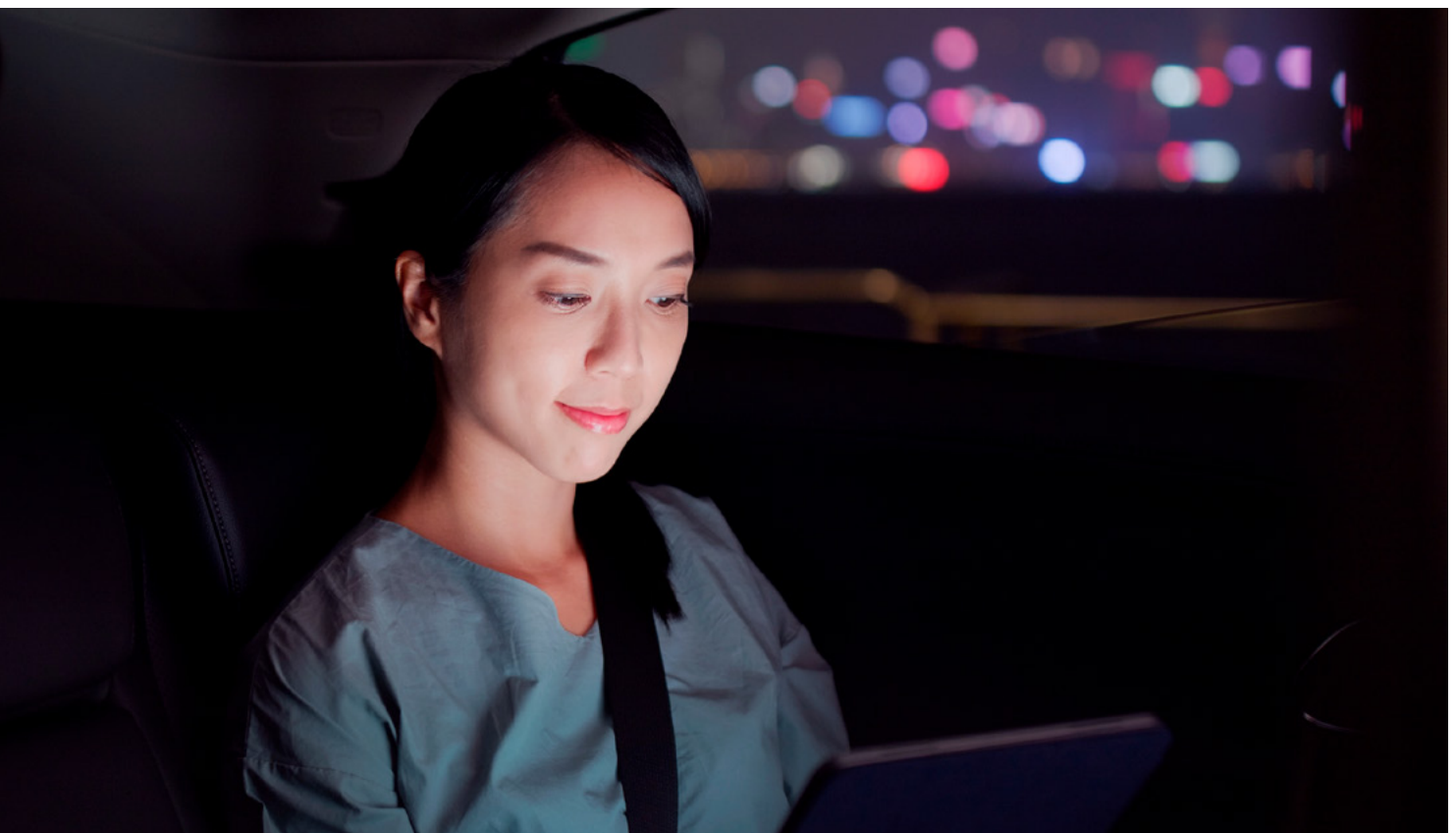
**Raymond Lee**  
Managing Director Greater China  
Sime Darby Motor Group



*The relationship between the traditional OEMs and investors requires close collaboration and reciprocity. Investors have been and still are opening new dealer locations to enable a broad presence and drive volume growth for OEMs. In return, OEMs need to keep the interest of investors in mind when defining new ways to interact with customers and sell cars.*



much lower costs. Most importantly, rebates are granted and covered by the OEM. Additionally, the OEM takes over important functions such as owning and financing the stock, managing orders, invoicing and accounting. This reduces the dealer's costs by up to 2.5%. Ultimately, the remuneration needs to be set at a level at which the dealer's net profit remains stable—usually between 5 and 8% in total, based on our project experience.





To manage the transition, OEMs need to differentiate between the one-time investment for the transformation and the subsequent annual net savings they will gain. The former describes the immediate investment needed and the budget that must be allocated for the transformation project. One major cost driver will be the adaptation of existing IT and the development of new IT systems, such as online stores, pricing, invoicing, customer relationship management (CRM), customer data management (CDM) or point of sale (POS) systems. Further, OEMs will need a dedicated full-time project team, which will oftentimes be supported by an external team of legal, IT and business experts. Lastly, OEMs can expect to incur costs for things like developing training concepts, training dealers, and setting up support functions, among others. The initial investment costs for a market the size of China are estimated at between 50 and 90 million dollars, depending on the maturity and complexity of systems, process readiness, network structure, and the scope of the transformation, our project experience shows.

**On average, dealer remuneration for new car sales amounts to**

**5-8% of the list price**

To calculate the annual net savings OEMs can achieve, we will next look at how the cost of sales will change with the move from an indirect to a direct sales model. We have seen three positive financial factors and three negative financial factors in our projects, although the resulting impact is overwhelmingly positive:

#### **Intra-brand efficiencies**

By exerting price control, OEMs can reduce or even eliminate competition among their brand dealers. When negotiations become a thing of the past\* and prices become channel-agnostic, OEMs can enforce transaction prices which are typically 1-1.5% above prices in an indirect sales model. As Hyundai's Li Hongpeng puts it, "Price consistency is [...] the core of the sales management process."

#### **Online sales**

Only in a direct sales model can OEMs create an attractive online offering that is not thwarted by dealers undercutting online prices. Instead, dealers participate in online sales by receiving a handling fee (i.e. fee for handing over the car to the customer). As online sales enable overall leaner sales processes, with a handling fee below today's dealer margin and bonus, OEMs generate up to 0.5% of further savings.



**Li Hongpeng**  
Chief Business Officer  
Hyundai Motor Group (China)



*What OEMs need to achieve is price consistency. This does not mean a price is the MSRP and it will never be adjusted, but it means that price adjustments need to be unified. Adjustments should be done in the whole market and not by single dealers. In fact, price consistency is a management element that we should consider the core of the sales management process.*



#### **Cost synergies**

In a direct sales model, OEMs take over several tasks and responsibilities from dealers (e.g. invoicing, stock management, stock ownership), meaning that costs shift from the dealer to the OEM. Centralizing tasks can create significant cost synergies, e.g. because the OEM will profit from lower financing costs than individual dealers. Further, the cost reduction on the dealer side amounts to roughly 1-1.5%, which still ensures dealer net profit parity between sales models.

#### **Marketing & operations**

Because ownership of customer data is transferred from dealers to the OEM, it is only logical that marketing spending, too, will shift to the OEM. In addition, overall operational costs will increase, e.g. higher IT run costs. In sum, project experience has shown marketing and operational costs will grow by 0.5-1%.

#### **Personnel costs**

As OEM's do more, they will need more people. Project experience has repeatedly shown a full-time equivalent (FTE) increase of 10-15% in OEM sales-related departments, resulting in up to 0.5% additional cost of sales.

#### **Stock ownership**

In the direct sales model, the OEM assumes stock ownership until the car is sold to a customer. This implies an increase in stock financing costs. Moreover, expenses incurred in storing, transporting and handling the vehicle are no longer shared with the dealer. This increases the cost of sales by 1-1.5%.

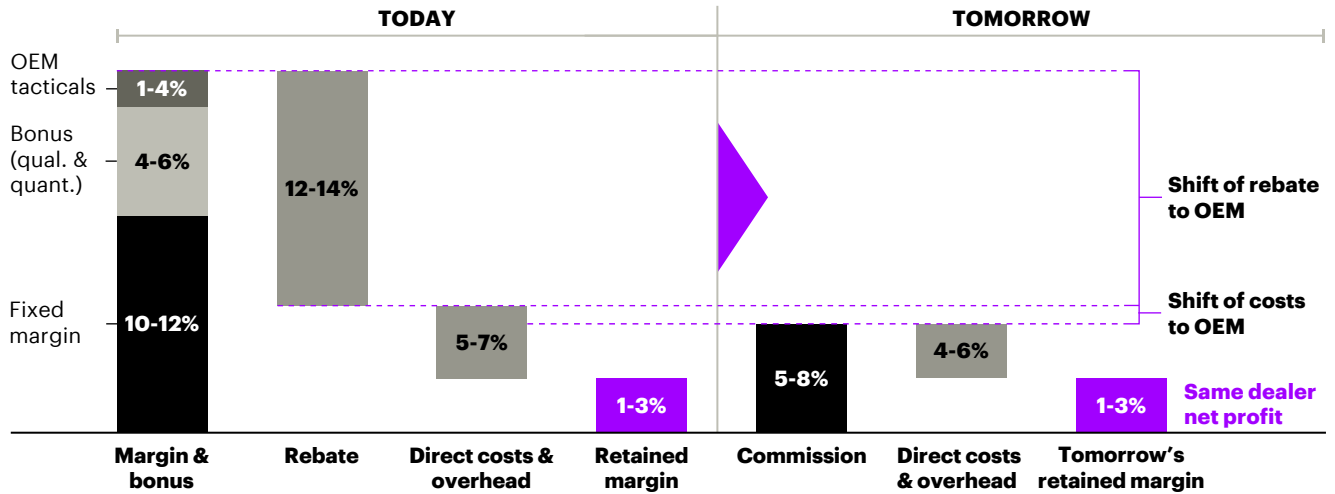
\* Find out more on the future of automotive pricing in our new study: [Vehicle pricing in the new automotive reality](#)

# Direct sales business case

## Dealer perspective

**“How will my net profit change and what will I earn in a direct sales model?”**

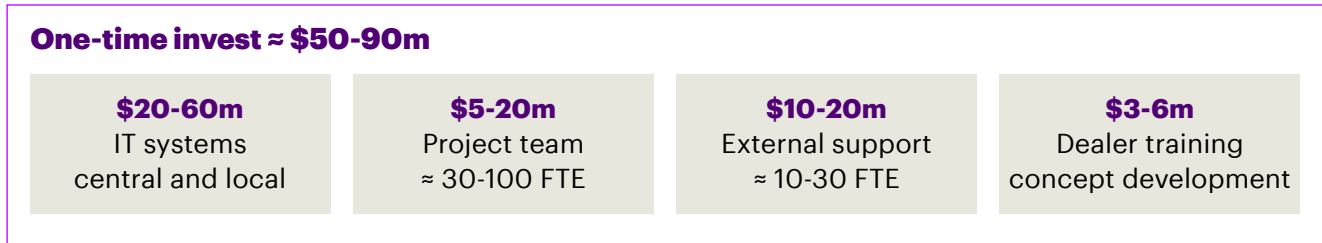
**Annual savings and costs/change in compensation ≈ \$0**



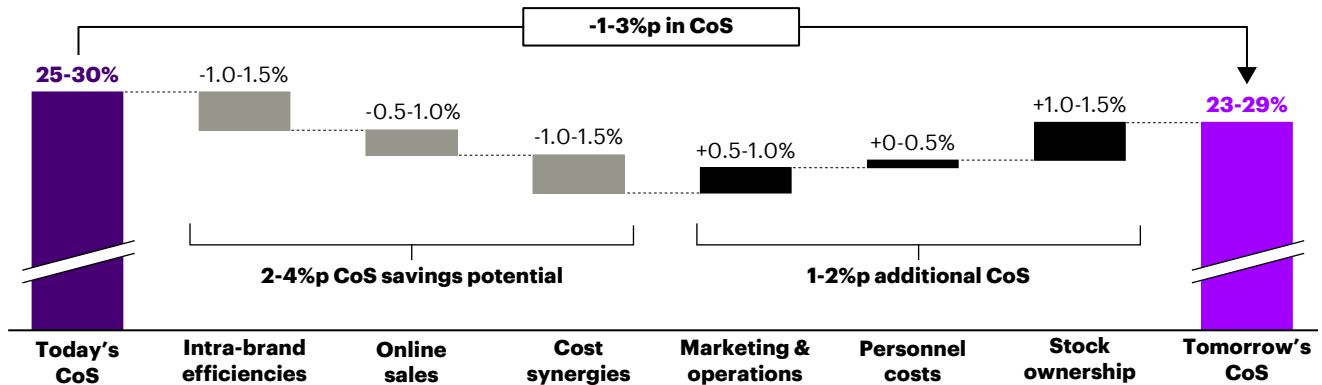
**▶▶ No negative impact on dealer net profit**

## OEM perspective

**“Which savings does a direct sales strategy generate and at which costs?”**



**Annual savings and costs ≈ \$50-90m**



**▶▶ Amortization after 1-3 years**

Source: Accenture

The COVID-19 crisis has increased interest in how an economic downturn would likely affect OEMs' and dealers' performance when operating in an indirect vs. a direct sales model. While real world experience is limited, simulations have revealed a striking resilience of the direct sales model.

To understand how the direct sales model compares to today's indirect model, it is important to acknowledge what typically happens in a crisis: First, customer demand and sales volumes plummet. Then, stock levels within the network increase, leading to longer stock holding periods (i.e. the number of days from production of a vehicle to its handover to a customer). After that, as dealers desperately try to sell their stock, they offer higher discounts, which means that transaction prices fall.

**Launching a direct sales model in China requires a one-time investment of \$50-90 million**

With a direct sales model, dealers profit twofold: For one, the costs of stock ownership are transferred to the OEM. This means that dealers are relieved of high financing costs. Additionally, dealers are protected from falling prices because their remuneration is typically based on the list price and not the transaction price. In sum, the direct sales model can thereby mitigate much of the negative impact of an economic crisis on the dealer and provide an uplift in return on new car sales of up to 28%. (Note that dealers' business in used cars, after sales and service is largely unaffected by the transition to direct sales and therefore is still negatively impacted in a crisis).

For the OEM, the strong financial benefits (i.e. intra-brand efficiencies, online sales and cost synergies) of the direct sales model provide a certain buffer against economic downturns. But if a crisis becomes systemic with a prolonged and severe impact on sales volumes and prices, the financial benefits will be subsumed by the additional cost of sales (i.e. costs of stock ownership, personnel, marketing and operations). This is why the president and CEO of BMW Brilliance, Dr. Johann Wieland, says that while the direct sales model can stabilize dealer margins, OEMs must make sure not to take on more risk than they can digest.



**Dr. Johann E. Wieland**  
**President & CEO**  
**BMW Brilliance Automotive Ltd.**



*Direct sales models hold significant opportunities to stabilize dealers' margins but should be focused on well selected use cases. The dealer network must remain intact and risk consolidation must be digestible for the OEM.*



However, as Bernd Pichler, Bentley's Regional Director in Asia-Pacific, notes, the indirect sales model is not without risk for OEMs as well. During the COVID-19 pandemic, OEMs invested massively into the network to prevent dealerships from financial collapse. They offered measures such as extended payment terms, loans or even equity investments. Such support mechanisms would not be needed in a direct sales model, which would counterbalance OEMs' additional costs.

In the end, the logic is simple: The direct sales model lowers competition between dealers of the same brand, which enables OEMs to realize higher transaction prices. Moreover, it allows OEMs to truly push online sales by eliminating the cannibalization of sales channels and ensuring dealer participation. Lastly, as tasks are centralized at the OEM-level, cost synergies can be created. All of this results in a total margin improvement of up to 2%.

Furthermore, OEMs regain control over all sales channels, allowing them to harmonize dealers' sales activities, optimize logistics, manage resale values, and directly negotiate terms and conditions with third-party platforms. Finally, owning the customer interface means OEMs can start to create a great, consistent experience of the brand across all touchpoints, helping to build truly engaging, life-long relationships and to unlock future value pools.

All of these aspects provide an important advantage in a stable economy but become indispensable when the going gets rough.



## Direct sales in times of economic crisis

### Baseline scenario: 2% return on new car sales

<b>Sales volume</b> 2,000 vehicles/year	<b>Vehicle list price</b> \$32,500	<b>Dealer rebate</b> 12%	<b>Stock age</b> 70 days for BtS and 14 days for BtO
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### Crisis scenario: Reduction of sales volume and increase of rebate and stock age

<b>Sales volume</b> -30% sales volume decline over 3 month	<b>Vehicle list price</b> \$32,500	<b>Dealer rebate</b> +13% (+1%)	<b>Stock age</b> 100 days for BtS (+30) and 14 days for BtO
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Indirect sales			Agency model	
<b>Net turnover</b>	<b>\$ 2.840.879</b>	Introduction of remuneration scheme	<b>Net turnover</b>	<b>\$ 2.810.817</b>
Vehicle sales income	\$ 60.124.427		Fixed remuneration	\$ 1.593.297
OEM purchase price	\$-50.203.897	Rebate covered by OEM	Bonus	\$ 601.244
Discount	\$ 7.695.927		Discount	-
Other income	\$ 616.275	Elimination of stock financing costs	Other income	\$ 616.275
<b>Direct costs</b>	<b>\$ 1.506.670</b>		<b>Direct costs</b>	<b>\$ 1.506.670</b>
Vehicle handover (PDI)	\$ 314.937	Vehicle handover (PDI)	\$ 314.937	
Vehicle handling, fuel, etc.	\$ 830.290	Vehicle handling, fuel, etc.	\$ 830.290	
Other direct costs	\$ 361.443	Other direct costs	\$ 361.443	
<b>Overhead expenses</b>	<b>\$ 2.111.665</b>	<b>Overhead expenses</b>	<b>\$ 1.282.020</b>	
HR	\$ 487.495	HR	\$ 487.495	
Marketing	\$ 300.622	Marketing	\$ 162.498	
Demo cars	\$ 14.733	Demo cars	\$ 7.800	
Admin	\$ 60.453	Admin	\$ 67.708	
Property, rent & insurance	\$ 541.662	Property, rent & insurance	\$ 541.662	
Depreciation	\$ 14.857	Depreciation	\$ 14.857	
Interest	\$ 691.843	Interest	-	
<b>Net profit before tax</b>	<b>- \$ 777.456</b>	<b>Net profit before tax</b>	<b>\$ 22.127</b>	
RoS new car sales	-27,4%	RoS new car Sales	0,8%	



**Up to 28% uplift in dealer return on new car sales**

Source: Accenture





# 3.3 A transformation roadmap for the future of automotive sales

The shift to direct sales requires OEMs to set up a dedicated project team with a carefully calibrated governance structure and clear responsibilities. While different archetypes of direct sales will require focus on different topics, it has proven beneficial to structure the transformation project along the four areas of PMO, concept work, process design and IT systems.

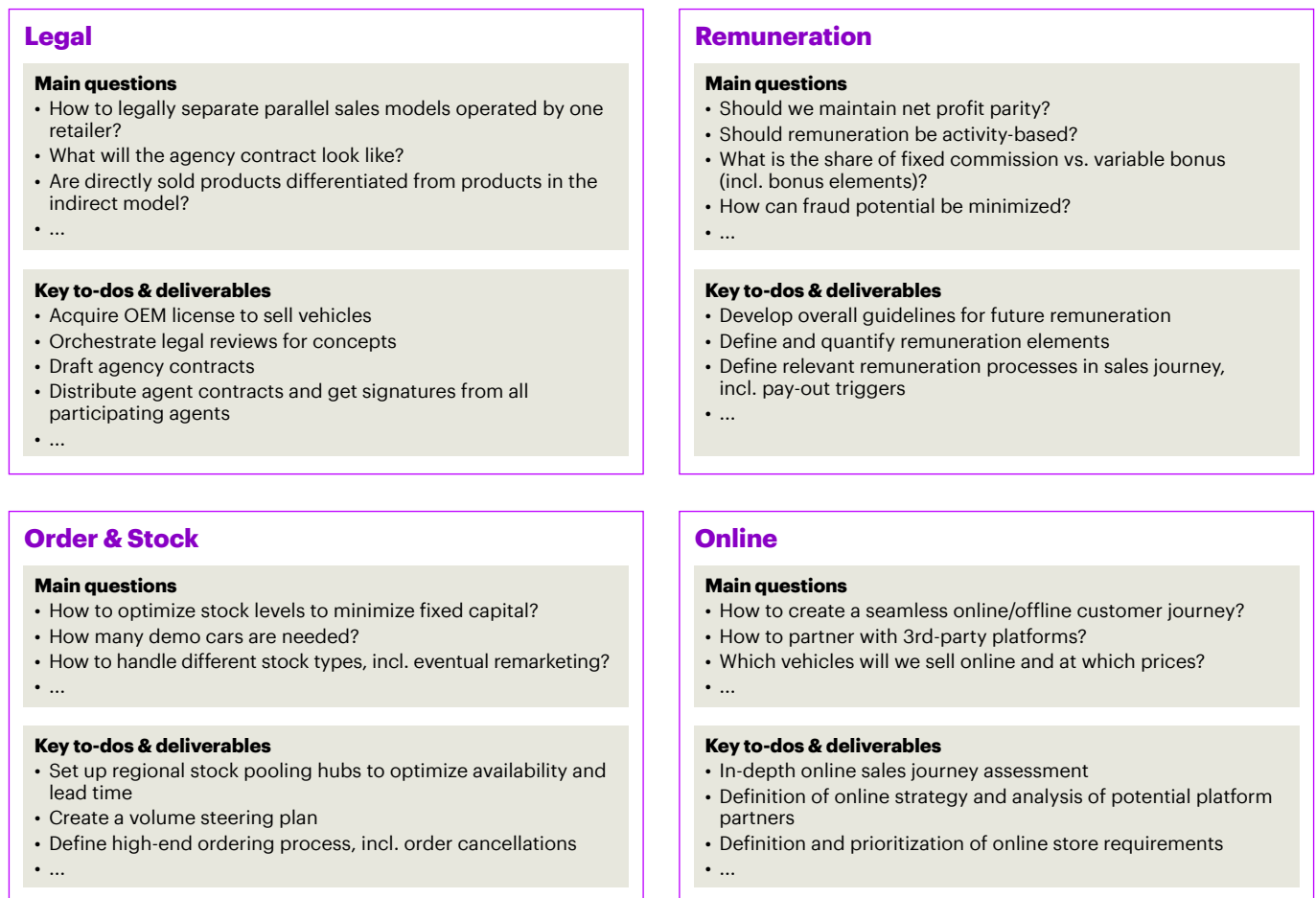
Concepts are drawn for customer-facing, back-office and cross functional business areas. They answer key questions regarding the future sales model and, when combined provide a holistic picture of the target state. Important deliverables include clear guidelines for agent remuneration, a volume steering plan and a legal review of all concepts.

The different concepts all feed into one holistic end-to-end process view, which details the entire sales journey including all possible scenarios—for the customer, the dealer, the OEM and third parties.

Comparing this end-to-end process with the status quo enables the definition of precise IT requirements, ensuring the development of tools for a superior direct sales experience.

Due to the extensive scope of a direct sales transformation, OEMs fare well by starting a smaller pilot before transforming the entire sales network, our project experience has shown. Typically, pilots can focus on selected customer groups (e.g. private or commercial customers), product lines (e.g. ICEs or NEVs), or market regions. This makes the sales transformation more feasible and yields measurable success. However, to maximize discount efficiencies, cost synergies, and the integration of online and offline channels, a full-blown agency rollout is necessary.

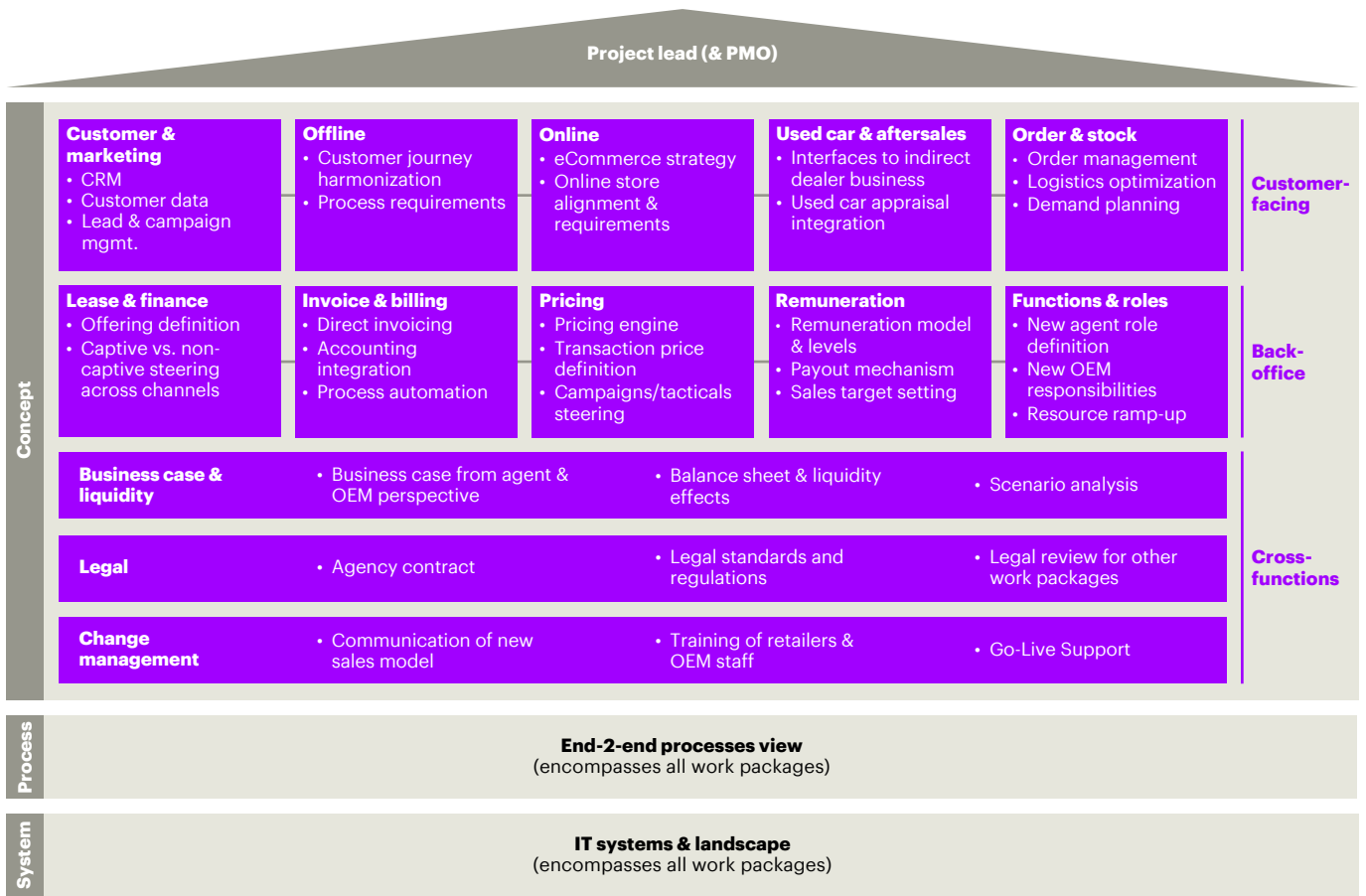
**Figure 11: Considerations and deliverables for selected work packages**



Source: Accenture



**Figure 12: Typical direct sales transformation project setup**

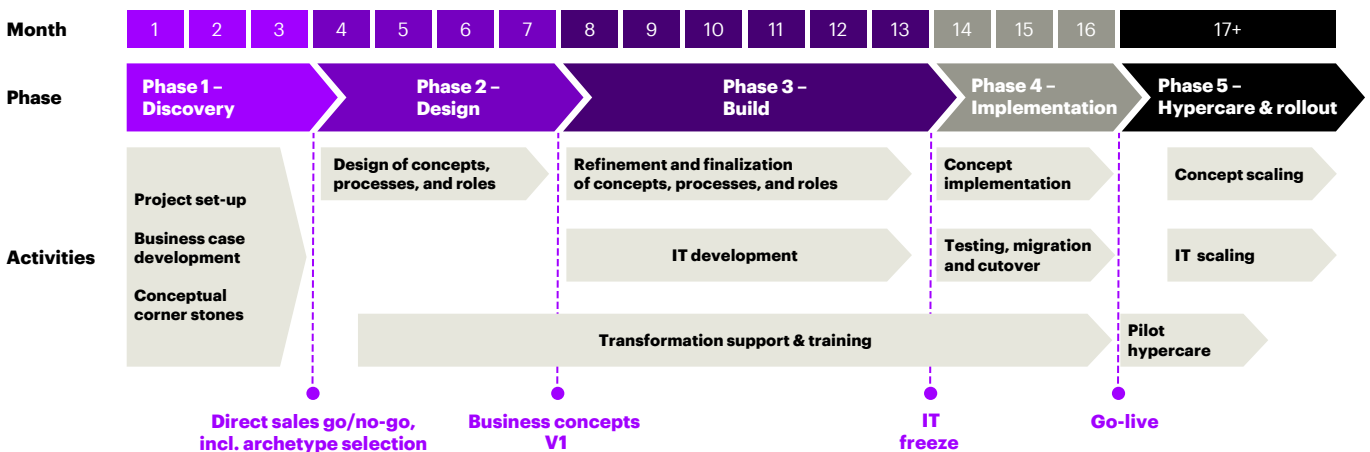


Source: Accenture

With a strong, dedicated team, the shift from indirect to direct sales can be accomplished within 18 to 24 months. Before starting the transformation, we recommend OEMs check the general feasibility and study the market environment to pinpoint the benefits and risks of the project, including an evaluation of the involved stakeholders, such as JV partners and dealer groups. Then they can pass through discovery, design, build, implementation, and the hyper-care and rollout phases to successfully bring the new sales model to life.

In order to excel in the direct sales transformation, OEMs must put the customer at the heart of all operations, something that is easier said than done. It requires OEMs to redefine their role from being a manufacturer to becoming a retailer. This is where the future of automotive sales in China lies.

**Figure 13: Phased transformation approach**



Source: Accenture

# 4. Conclusion

**The Chinese automotive market is crucial for automotive OEMs. Its size and innovation power make it so. But with 400+ OEMs in the market, winning the battle for the customer is hard. To stay ahead, OEMs must radically rethink their sales model. The traditional way of selling cars will soon be obsolete.**

Doing nothing is not an option. OEMs that fail to futureproof their sales model so that it satisfies consumers' demands for a transparent, convenient and seamless experience, risk losing around 30% of revenue to new competitors within the next 10 to 15 years.<sup>12</sup> Only a bold paradigm shift can shield OEMs from impending disruption: They must put the customer front and center.

With powerful investors and strong dealer associations, however, change must offer benefits to OEMs and dealers alike. As this study has shown, implementing an agency model enables carmakers to create truly seamless online-offline journeys, provide touchless sales that have become the norm during the COVID-19 pandemic, and satisfy customer demands for transparent, haggle-free prices. Moreover, it supports dealers by shifting financial risk to the OEM, ensuring that OEMs can preserve the physical network that differentiates them from newcomers who do not have a similar geographical reach. Lastly, it provides OEMs and dealers with the means to protect the customer interface by centrally steering and leveraging third-party players for mutual gain, and it significantly improves sales margins. Thereby, the direct sales model unlocks the strategic and financial levers that are needed to stay ahead of the technological innovation curve in China.

**To be part of and steer the future of automotive sales in China, we recommend OEMs start with the following five actions:**

- 1. Understand what your company needs to thrive in China, including consumer demands, dealer sentiment and competitors' moves**
- 2. Adopt a retailer's mindset that puts the customer front and center**
- 3. Uncover the organizational, technological and financial implications of a direct sales transformation by conducting a thorough feasibility analysis**
- 4. Setup a dedicated project team to draft the direct sales transformation roadmap from early pilot to full-blown rollout**
- 5. Engage with the dealer network to secure investor support and generate strong buy-in**

## **It's time to act. Now.**



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The ideas and information in this publication are the result of many months of work by numerous Accenture experts, who made this perspective on the future of automotive sales in China possible.

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