

CBC CHINA NEWS

Winter 2010
Volume 2 Issue 6



Auto
Finance
Takes Off



Chinese
Banks Head
To Europe



China
Business
News

Today's Duckling And Tomorrow's Swan

China's Auto Finance Industry And How Market Research Can Help

By James Kuai¹

The Westerners all have either dealt with or are familiar with the convenience provided by auto financing. Globally, the automotive finance industry supports car manufacturers by providing financing to consumers.

Recently, when I got involved in an engagement with a leading auto finance company, I became curious about its status, such as how big and profitable it is in China and how it is different from its counterpart in the West. In the pursuing months as the engagement proceeded, many interesting facts began to unveil themselves.

The Industry's Current Situation

To start with, despite the rapid development of the Chinese auto industry itself, which capped the world with more than 10 million cars sold in 2009, the auto finance companies have been stuck in a dire situation, with the adoption rate of auto financing among new car buyers around a pitiful sub-10%, compared with a typical 80% adoption in the West.

Therefore it is not surprising many of the companies are still in red until recently. In comparison, auto financing is the most profitable part of the auto



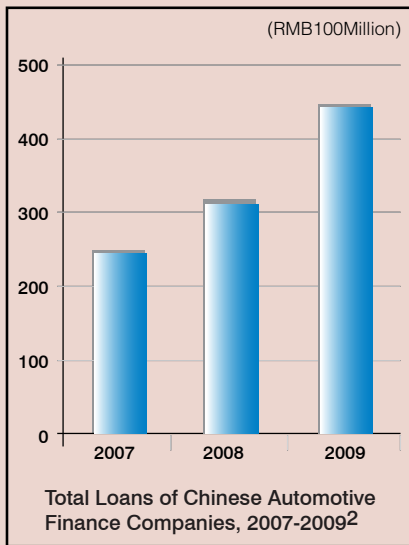
business in the West. Why is the big gap? Well, there are many reasons for the industry's underperformance. I will discuss two chief ones here.

- For one thing, the majority of the car buyers still prefer to pay in full instead of using credit since the credit system is not completely established and the buyers do not view cars as a lasting investment to justify a loan. Also, auto loan approvals in China are quite painful as it not only requires a lot of materials from the candidates such as salary slips, bank statements and house ownership proof, but sometimes it takes home visits by auditors to candidates' residences to validate the info.

- Secondly and more importantly, auto finance companies' higher interest

rates are putting them in an unfavorable situation. For instance, China Merchants Bank's interest rate for a 3-year loan in Beijing was 5.4% in August 2010, while Ford Auto Finance's rate was 11.3%, more than double the bank's. Why? Well, in compliance with the current Chinese law, auto finance companies have to borrow their capital from the banks, and therefore, they are not able to offer equal or lower interest rate. But they have begun to see some silver linings as they have been allowed to issue corporate debts in late 2009.

Things are improving, though, thanks to the robust domestic economic growth. GM Auto Finance, for instance, sold more than 50,000 loans last year, a 20% growth from 2008 and achieved a record month in July that year. Another



strong signal is that leading international and domestic car makers, i.e. BMW, Geely Auto and Chery Auto, have set up their own financing arms and publicly announced their high hopes for it. With another good year foreseen for 2010 car sales, many gurus are predicting a reflecting point for the industry in the near future.

How Market Research Can Help?

If a breakthrough is destined to take place for this industry, then what is marketing research's role in it? For one thing, as decision-makers' loyal friend, we can help them better understand the customers.

For example, what kind of financing options are the potential car buyers currently aware of? Do they prefer bank services where they are already a customer? And what elements in the financing products do they value the most besides the interest rate? Is it the amount of down payment or the retail discount?

And as the industry matures, marketing research can help them predict and understand the consumer demand up and down the value chain where the real value of auto financing is most prominent – after-sales service financing, leasing financing, car clubs, etc., all of which are yet to take off in China.

On the other side, we can help the auto finance companies work better with their indispensable partner – the contracted dealerships. Here are two basic assumptions.

For one, if the dealerships win the hearts and wallets of car buyers, the auto finance companies are more likely to succeed too. Due to the industry's explosive growth, the dealerships, however, have been indulged in a fast expansive mode and many do not have clear marketing and customer service strategies. So we can help both parties to understand what attracts and keeps a customer to a particular dealership.

Also the auto finance companies need to influence the dealerships to sell more of their products versus the competitors. Proper market research can let them find out how satisfied the dealerships are and how their competitors are doing in regard to loan processing, approval rate, marketing support, etc.

A study by the State Economic Information Center shows that Chinese auto sales will grow 13% annually for the next 15 years.⁴ Under this circumstance, the auto finance industry will undoubtedly continue its growth. Currently where we need to focus is to convince more industry stakeholders to be armed with decision-support insights to develop a comprehensive and sound business strategy.



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Worldwide & Parks Associates, both of which are in the U.S., James has been involved in consulting oriented engagements and projects designed to have significant impact on the client's business. He has previously published business research reports that have been quoted by CNN, and Financial Times. James received his BA from the Communications University of China, and completed his Master's Degree at University of Texas in Arlington and Southern Methodist University in Dallas, Texas, USA.

²<http://www.marketreportchina.com>

³Car dealerships in China normally sell multiple auto financing products from banks, credit agencies, and auto financing companies alike.

⁴<http://www.autonewschina.com/en/index.asp>

ICBC To Be Present In 10 European Countries

The Industrial and Commercial Bank of China said it has received approval to continue its expansion in the European continent.

ICBC, the largest bank in the world, saw its plan to expand its European business approved by national regulators, state media reports. The bank will enter the markets of France, Italy, Spain, the Netherlands and Belgium. The bank will focus on business with international companies, taking into account that Europe's banking sector is very competitive. "To be successful doesn't necessarily mean to be profitable, and our business strategy is to provide global financial services to our clients," Wang Lili, its Vice President, was quoted as saying.

Other Chinese banks expand too

The bank is already present in Germany, England, Russia, Portugal and Luxembourg. Other Chinese banks are expanding in Europe too: China's second largest bank, the Bank of China, set up its European headquarter in Geneva. The Bank of Beijing, which is partly owned by ING Bank, announced the opening of a representative office in Amsterdam.



ICBC

中国工商银行

China Business News



Sinotruk Wants to Close the Gap

Sinotruk is aiming to become one of the world's top three truckmakers by volume within five to 10 years, the company said in a statement. The Chinese company has, according to its own research, overtaken India's Tata as global number four this year and is "closing the gap" on Daimler, the world's largest truckmaker, and its Chinese rivals Dongfeng and FAW. In 2009, Sinotruk sold 125,000 vehicles and plans to sell 190,000 in 2010.

Ford Launches Edge in China

Ford Motor Co. will add the Edge five-door crossover to its Chinese model lineup in December, the company said in a statement. With a growing middle class and better highways, the crossover-sport utility market grew more than 90 percent in 2010, Ford said. Crossovers have the space and versatility of truck-based sport utility vehicles but are more efficient and handle better because they are built on car underbodies. Ford expects to sell 5,000 units in China per year. Ford's market research shows that compact four-door sedans are still the top sellers in China, but projections show the market for vehicles like the Edge rising to about 1.5 million in 2010.



Ford Announces Second Engine Plant

American automaker Ford said it has plans to open a second engine plant in China. An agreement was signed with Chinese officials in the southwestern city of Chongqing. Plant construction starts in 2011 and engine production is scheduled for 2013. With the additional capacity of 400,000 units at the new plant, Ford is more than doubling its existing engine capacity of 350,000, to 750,000 engines annually. The total investment of USD 500 million will be financed by its joint venture Changan Ford Mazda Automobile Ltd.

More Urban Investment Needed

A new report by a Chinese think tank estimates that the country needs to invest USD 3.6 trillion in urban infrastructure by 2020 to accommodate the growing population in its cities. The proportion of the population living in cities could reach 65 percent in the next decade, compared with 47 percent now, according to a report by the China Development Research Foundation.

PSA Does Not Build Luxury Car in China

French auto giant PSA Peugeot Citroen said it wants its cars destined for the Chinese market to be made in China but was not planning to build its luxury C6 model there. The C6 is currently produced in the French city of Rennes. Media reports suggested that PSA

has plans to move the

production to China, in order to save costs. In September, PSA announced it will build a new car plant in Wuhan. This will be the third plant of PSA in the largest auto market in the world.



Air France and China Southern Sign JV

Air France, Europe's second largest airline, and China's China Southern signed a joint venture agreement in Paris, which is based on sharing revenues on the Paris-Guangzhou route. The flights between the two cities are already operated under a code-sharing basis since 2004.

Chinese Nuclear Firm To Spend USD 120 Billion

The China National Nuclear Corp (CNNC), the country's main nuclear power company, plans to invest nearly USD120 billion to expand its business over the next decade, state media reports. To fund its spending, CNNC intends to list its subsidiary, CNNC Nuclear Power Co Ltd. The listing is planned for "the first half of 2011" on a "not-yet-specified stock market", the report said.

Yuan Trading Launched

Thomson Reuters Corp said it launched yuan trading on its foreign exchange matching platform, following the recent relaxation of Chinese currency rules. The platform allows the interbank market to match trades anonymously over an electronic system. A company official said about 1,200 banks subscribed to the system, which offers more than 50 spot currency pairs.

Core Business Of CBC

Marketing Research

CBC Marketing Research uses a variety of quantitative and qualitative methodologies ranging from traditional focus groups and in-depth interviews to CATI surveys and internet-based research.

Quantitative Research:

- Telephone interviews (CATI)
- Personal interviews (CAPI)
- Street intercept interviews
- Central location testing
- Online research
- Mystery shopping
- Car clinics

Qualitative Research:

- Focus groups
- Mini focus groups
- In-depth interviews

Other:

- Desk research
- Retail research

CBC offers movable web streaming technology in Japan and South Korea and FocusVision technology in Bern, Switzerland.

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CBC Business Consulting helps you to successfully setup your company and find the right partners for your expansion in China. We also provide feasibility and industry studies and offer sourcing and office-in-office services.

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