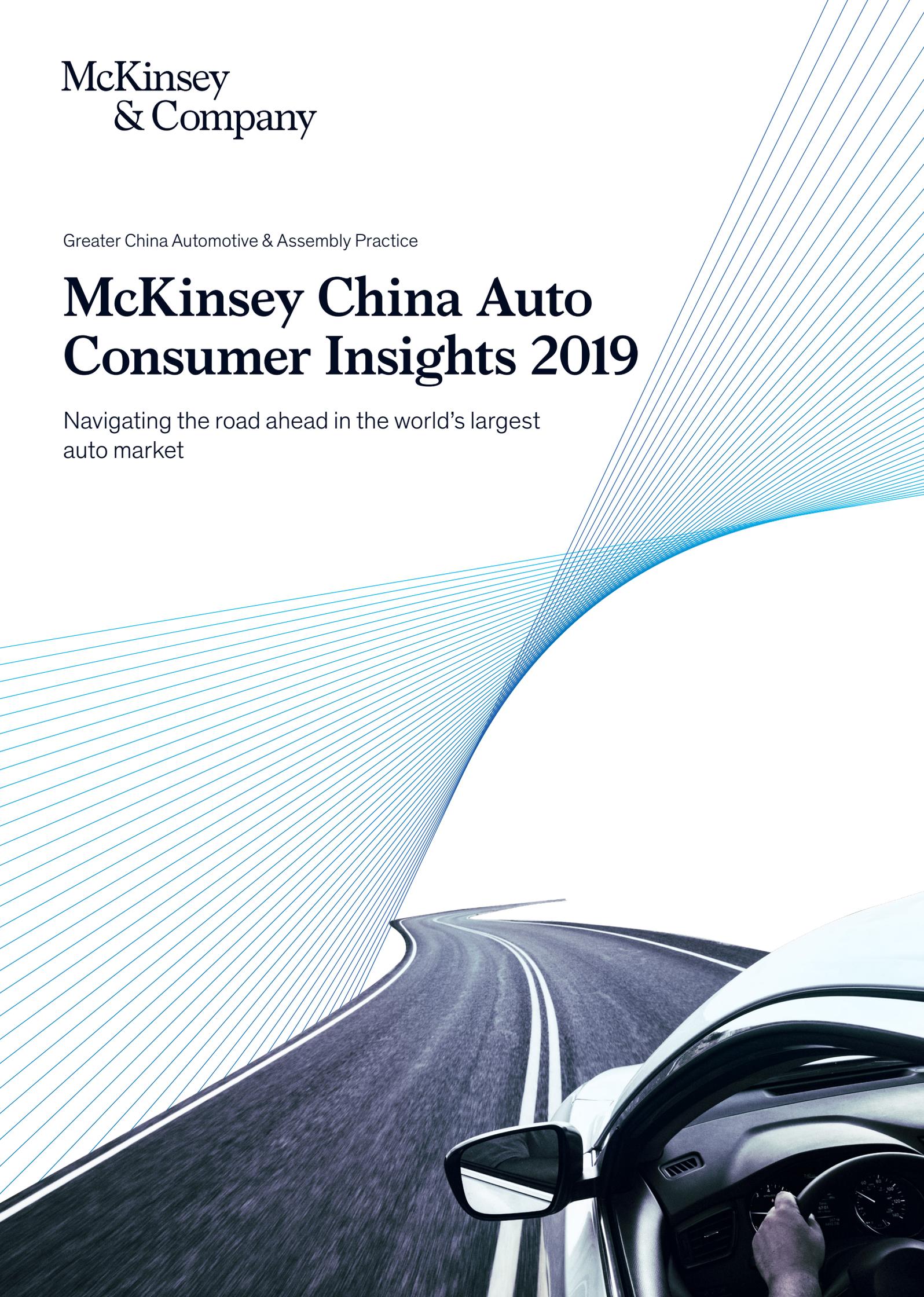


McKinsey  
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Greater China Automotive & Assembly Practice

# McKinsey China Auto Consumer Insights 2019

Navigating the road ahead in the world's largest  
auto market





# Executive Summary

As slowing economic growth becomes the new norm in China, the domestic passenger vehicle market has bid farewell to years of high-speed growth and entered a new phase of development.

This era is characterized by falling overall sales, but we believe this is more a pause for breath than the end of the road, as the potential for growth remains strong, and the future of China's automotive industry is bright. After all, China remains the world's largest automotive market, and exhibits strong demand from prospective and existing car owners, both for new cars and, increasingly, used vehicles as well.

In the short-term, automakers in China face unprecedented challenges in adapting their strategies, and managing their brands, to ensure they are in position to capitalize as and when the market rebounds. Competition is intensifying, narrowing the opportunities for weak and challenger brands. Meanwhile, the proportion of first-time car buyers is declining, so that automakers must attract and maintain the loyalty of existing car owners as they become an increasingly important fulcrum of growth.

Automotive companies also face an urgent task in reframing their approach towards autonomous, connected, electric, and shared (ACES) vehicles and technology if they are to evolve sustainable business models. When it comes to connected car features and autonomous functions in particular, our research suggests consumers are not yet willing to pay premiums that are commensurate with their development costs.

In order to successfully negotiate this historic transition, executives of both foreign and domestic automotive companies must strive harder to understand their customers, and communicate their brands' advantages.

The McKinsey 2019 China Auto Consumer Insights Survey, upon which this report is based, offers insights into what customers are thinking at every stage of their journey to purchasing a vehicle, and beyond. This year, we polled 2,500 respondents of varying demographics and vehicle purchase experience in 20 major Chinese cities, aiming to assess their attitudes to brand, choice of channels, product preference, price sensitivity, and after-sales behavior.

Below are key recommendations based on our findings that will assist decision-makers as we move into the next phase of development in the world's largest automotive market:

- 1. Segment and serve both existing and prospective car owners:** The slowdown is temporary and demands improved understanding of both existing and prospective car owners. China's car parc, or the proportion of car ownership per thousand people, remains relatively low. Considering existing car ownership and the status of highway infrastructure, the potential for car sales growth is robust. Moreover, Chinese consumers remain attracted to the idea of car ownership on grounds of passion for driving, safety, and convenience, suggesting incremental long-term growth. Our survey shows strong willingness for existing owners to trade up towards a price range of 200,000 to 300,000 RMB. The ability to attract prospective customers while maintaining the loyalty of existing car owners is critical for OEMs at this stage.
- 2. Reshape brand perception and penetrate customers' pre-purchase mindset:** China's passenger car market is becoming increasingly concentrated as consumers develop deeper loyalty to brands, especially in the domestic segment, where leading brands take nearly 80 percent market share. The current slowdown and fierce competition is pushing market consolidation as weaker brands are squeezed out. Chinese consumers tend to have only two to three brands in mind when they set out to buy a car, and nearly 60 percent of final purchases are sourced from brands in this group. Improving brand perception and top-of-mind awareness is consequently vital.

- 3. Innovate around omnichannel and improve customer experience:** Although online channels are proliferating across all aspects of the customer journey, offline channels continue to play an irreplaceable role. Integrating both online and offline touchpoints to create an omnichannel experience that meets the changing needs of consumers, and introduces innovative service models, is essential. However, online channels still exhibit multiple pain points, such as information overload, and inefficient communication. OEMs must balance online and offline resources in order to achieve optimal impact.
- 4. Prioritize ACES functions to drive genuine value:** China's new-energy vehicle (NEV) market, comprising battery-electric vehicles (BEVs) and plug-in hybrid electric vehicles (PHEVs) has been growing rapidly thanks to increasing consumer acceptance and knowledge, and strong government support. As their awareness improves, and policy support is withdrawn, consumers are becoming more rational in their choices regarding NEVs. We expect A- and B-class NEVs, or those vehicle sizes most suited to daily use, to dominate. Crucially, consumers are generally unwilling to pay for autonomous driving and connectivity services, making monetization models a key conundrum for automakers to solve. Developing a deeper understanding of customer needs, and improving their experience around ACES functions accordingly, will be key to driving profitability.
- 5. Fix pain points to unlock used car growth:** About one in every five car buyers will now consider buying a used car. Our survey suggests sellers' major concerns are speed and efficiency, rather than securing the highest price, while potential buyers are put off by a lack of mechanisms to allay fears relating to lack of trust. Addressing these demand- and supply-side pain points is critical for auto enterprises to unlock additional revenue streams.

As the Chinese automotive market enters a new phase, we will continue to unearth insights into what makes Chinese automobile consumers tick. Based on the latest automobile consumer insights, this report presents our findings, suggestions and thoughts on how automakers should address customer operations, brand-building, omnichannel development and operations, product innovation and development, and business innovation in the world's largest automotive market.



# Underlying demand will drive a market rebound

## Key insights:

- The slowdown is only short-term, and demand will remain robust in the long-run given the relatively low level of vehicles on the road, and sustained consumer appetite for private cars
- Car owners are buying more additional and replacement cars, and want to trade up; a price range of 200,000 to 300,000 RMB is preferred; SUVs remain the most popular choice

## Luxury, new-energy, and used-car sales shine through the downturn gloom

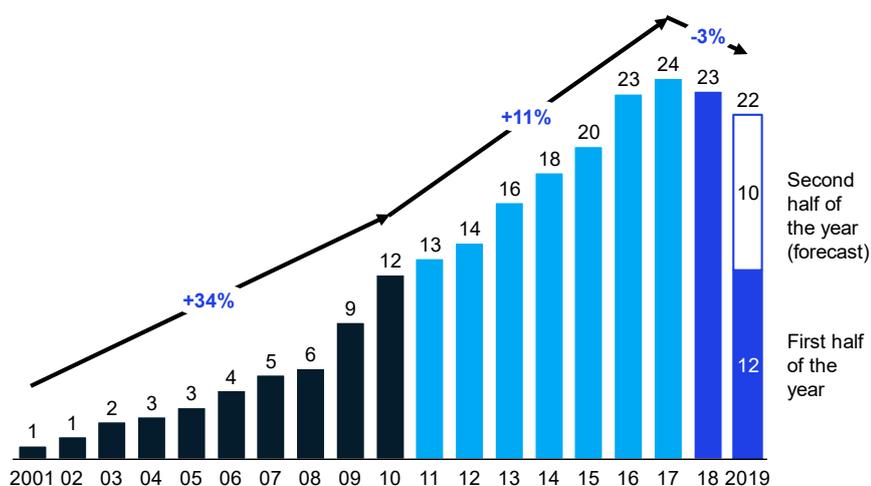
After decades of rapid expansion, China's passenger vehicle market has stalled in response to slowing economic growth, and macroeconomic policy adjustments. In 2018, sales declined for the first time, but despite the pullback in overall customer deliveries, several areas provide encouragement: The luxury, new-energy vehicle, and used car segments all maintain healthy growth. (Exhibit 1)

China remains by far the world's largest automobile market, with annual sales of more than 20 million cars. It is now commonplace to question whether the market has reached a ceiling, or at least to wonder where that ceiling might lie. Our survey finds that robust demand for private cars is set to drive the market forward, and that there are strong indications that the downturn will be short-lived.

Exhibit 1

## Decades of unbroken passenger car sales growth in China have come to an end

Passenger car sales in China  
Millions



### Bright spots include luxury cars and new-energy vehicles:

#### China vs. the US in the first half of 2019

	China	US
<b>Growth of premium car sales</b>	7%	-1%
<b>New-energy vehicle sales</b>	560,000	150,000
<b>Growth of used car sales</b>	4%	0%

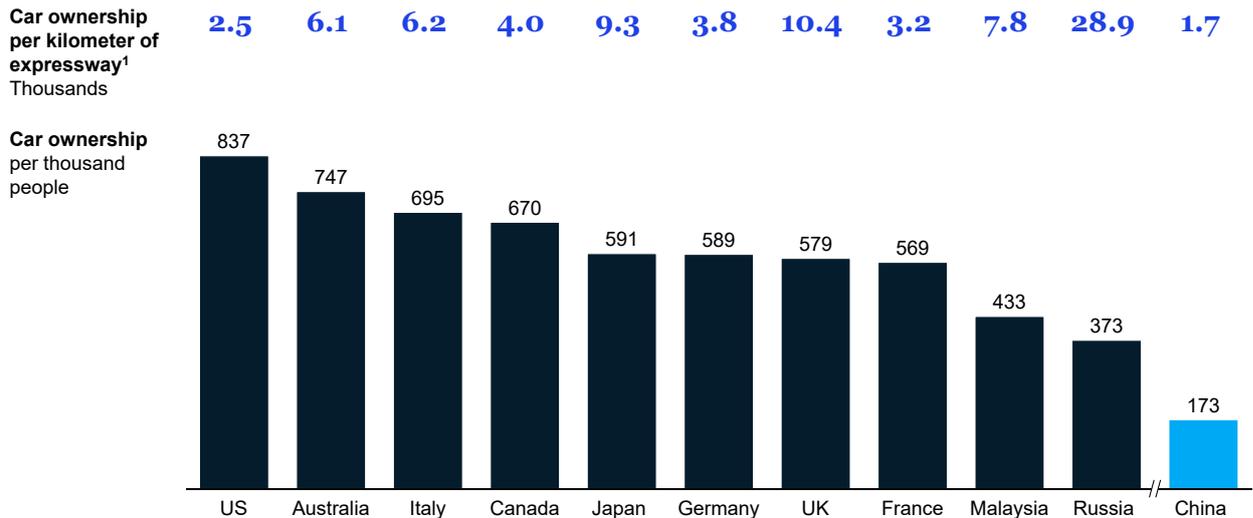
Sources: IHS, China Automobile Dealer Association, McKinsey China Auto Consumer Insights 2019

## Several factors suggest strong potential for incremental growth

China's car parc is relatively low, with only about 173 out of every 1,000 people owning a car. This is markedly lower than other developing markets, such as Malaysia (433) and Russia (373), not to mention leading markets like the United States (837), Australia (747), and Italy (695). China also lags far behind other major automotive markets in terms of car ownership per kilometer of expressway, which provides a further indicator of the strong potential of the domestic passenger vehicle market. (Exhibit 2)

Exhibit 2

### Car ownership in China remains relatively low



1. Data for China, Russia, and Germany from 2018; the UK and the US from 2017; France, Malaysia, Italy, and Canada from 2013; Japan from 2012; and Australia from 2011  
Sources: World Bank, McKinsey China Auto Consumer Insights 2019

The extent to which consumers will embrace shared mobility options over owning their own vehicle is a topic of vigorous worldwide debate, but our survey suggests that demand for private cars remains strong in China.

Respondents told us that the primary reason they would opt for buying a car is the guarantee vehicle ownership gives of being able to meet daily travel needs (62 percent), followed by the sense of safety the car provides (48 percent). Passion for driving ranked third, with 41 percent indicating a love for being behind the wheel as a key reason they would buy a car, rising to 47 percent among 18-to-24-year-olds. A third of this younger cohort also said they viewed car ownership as a status symbol. These underlying motivations, coupled with the perception that driving is quicker and more convenient than public transport, underpin robust latent demand for cars in China.

These survey results provide guidance for automotive OEMs seeking to attract first-time buyers. Marketers would do well to target the strong association young Chinese consumers have for the car as a mark of social advancement, coupled with their love for the act of driving itself, when designing their promotional campaigns. Otherwise, frequent travelers told us they care more about fuel efficiency and maintenance costs, demanding greater emphasis on the car's energy saving and low cost of use when communicating with this customer subset.

## Consumers are increasingly on the hunt for replacement cars

Our survey shows that the proportion of non-first-time buyers has increased over the last two years. In our 2017 McKinsey China Auto Consumer Insights survey, only 10 percent of respondents were non-first-time buyers. That proportion has increased to 30 percent overall, and is as high as 57 percent among those earning high household incomes of more than 48,000 RMB each month. Consumers in the tier 1 cities of Beijing, Shanghai, Shenzhen, and Guangzhou are also more likely to have bought a car before (36 percent). (Exhibit 3)

Exhibit 3

### The proportion of non-first-time buyers is rising



Source: McKinsey China Auto Consumer Insights 2019

## Desire to trade up is strong, with 200,000 to 300,000 RMB the most desirable price range

Consumer desire to buy a better car is strong in China, with most respondents aiming for a price range of 200,000 to 300,000 RMB, according to our research. Nearly 60 percent of respondents told us they would trade up for their next car purchase, with the majority indicating they intended to make a modest upgrade in terms of price. For example, 54 percent of owners whose existing car cost 150,000 to 200,000 RMB said they would increase their budget to 200,000 to 300,000 RMB for their next purchase. This appears to represent something of a key price range in China, with half of those owning a car in the 200,000 to 300,000 RMB bracket intending to stay within that price range when the time comes to replace their vehicle. (Exhibit 4)

Our survey results suggest that car models priced at 200,000 to 300,000 RMB are a vital battleground for auto OEMs. In a bid to counter falling sales, many brands have cut the prices of premium models in recent years, crowding this price range with products that meet consumer demand for both performance and premium experience. OEMs seeking to capitalize on the willingness of consumers to trade up are advised to extend their product portfolio accordingly.

## SUVs remain the most popular vehicle choice

Existing car owners tend to want to buy a sports utility vehicle (SUV) when it comes to purchasing their next car. Nearly 50 percent of respondents said they would buy an SUV next time, with sedans the second-most popular vehicle choice (approx. 43 percent). Consumers aged 18 to 34 prefer sedans (51 percent), while older respondents (aged 35 to 65) said they

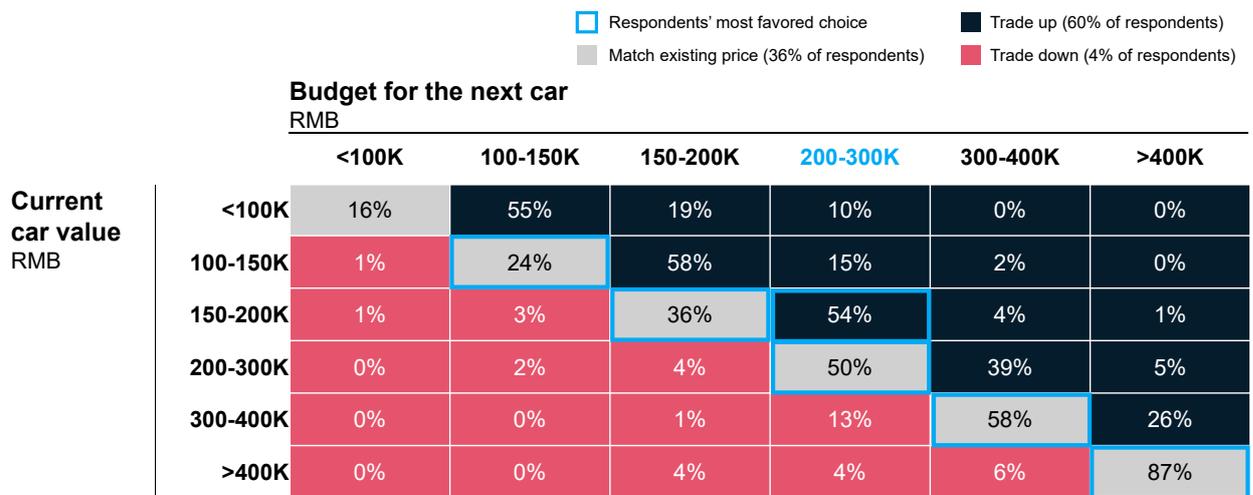
would buy an SUV or multi-purpose vehicle (MPV). At the same time, owners of SUVs and MPVs are more likely to stick with this type of vehicle upon their next purchase, displaying little interest in switching to a sedan. (Exhibit 5)

The growing car replacement market poses a new challenge for OEMs as competition shifts from attracting first-time buyers to retaining existing car owners. Engaging this growing set of mature drivers requires strong understanding of consumer preferences, but OEMs tend to rely on dealers to manage direct consumer interactions. Most lack sufficient access to or awareness of customers, stymieing their ability to collect firsthand data. OEMs must address this shortfall in access to consumer analytics to better understand the market, accurately interpret consumer behavior, and foster impactful decision-making.

Exhibit 4

## Existing car owners exhibit robust preference to trade up, with 200-300K RMB the most favored price point

Proportion of respondents, Budget for next car

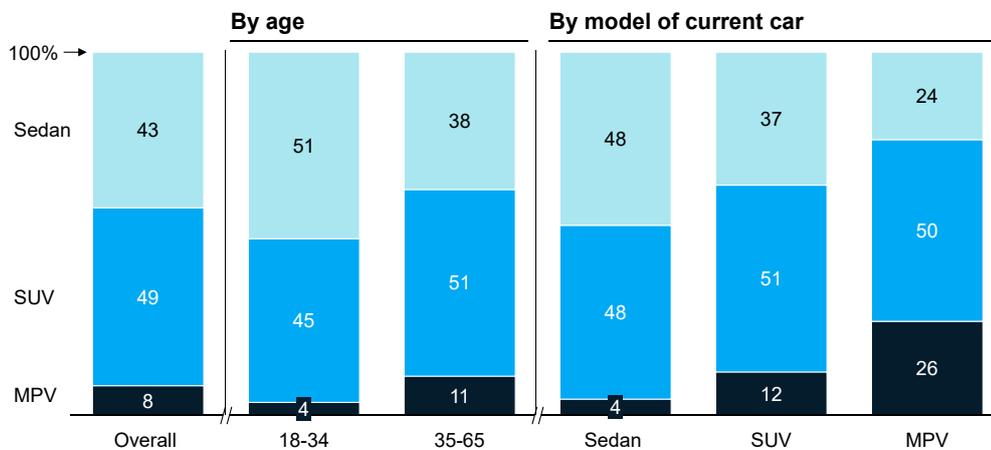


Source: McKinsey China Auto Consumer Insights 2019

Exhibit 5

## Model preferred for next car

Percentage of respondents



Source: McKinsey China Auto Consumer Insights 2019

# Doubling down on brand is essential

## Key insights:

- Market concentration is increasing due to rising brand loyalty, pushing smaller brands out of the picture
- Top-of-head brand awareness is critical; 60 percent of final purchases are from just two or three brands consumers initially considered

## Competition is intensifying

Over the past 30 years, domestic and foreign brands have scrambled for a foothold in China's rapidly growing automotive market, with both finding it relatively easy to grow sales. Moreover, in a market characterized by massive demand from eager first-time buyers, obscure brands were able to thrive alongside global giants, and leading domestic marques. However, the days of such easy co-existence are over. (Exhibit 6)

Even as new brands emerge each year, the market share of leading brands is on the rise. In 2019, China's nine leading brands by sales accounted for 54 percent of the total, with hundreds of other brands competing for the remaining market share. Among domestic brands, the market share of the top eight brands rose from 64 percent in 2016 to 79 percent from January-May 2019, a nearly 15-percentage-point surge in just three years. Market power is evidently concentrating in the hands of a select group of dominant brands, with their weaker counterparts being pushed to the curb.

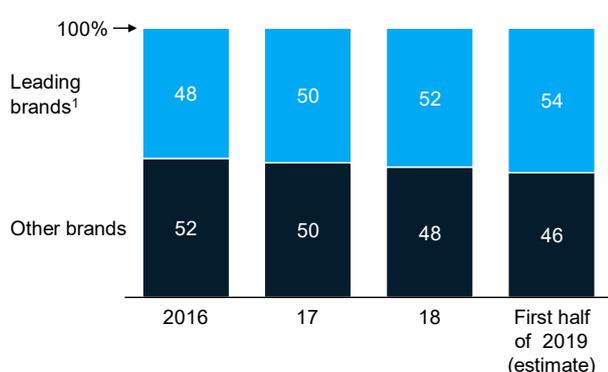
Our survey results reinforce this trend, indicating that loyalty to automotive brands is strengthening in China. According to our 2017 survey, only 12 percent of respondents said they would purchase the same brand again, whereas this proportion rose to 31 percent in

Exhibit 6

## The market is increasingly concentrated

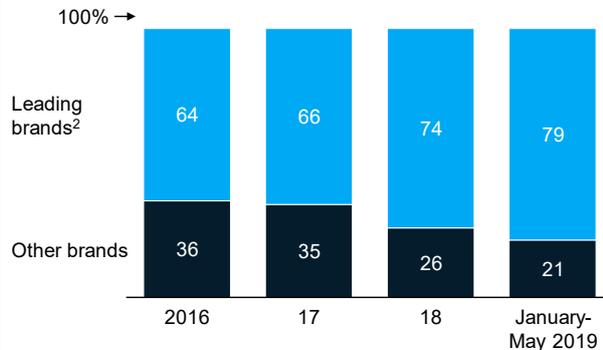
### The top 9 brands now account for 54% of new car sales

Concentration of China's passenger vehicle market  
proportion of sales



### The phenomenon is more acute among domestic OEMs, with 8 major brands taking close to 80% share

Market concentration of domestic brands  
Proportion of sales



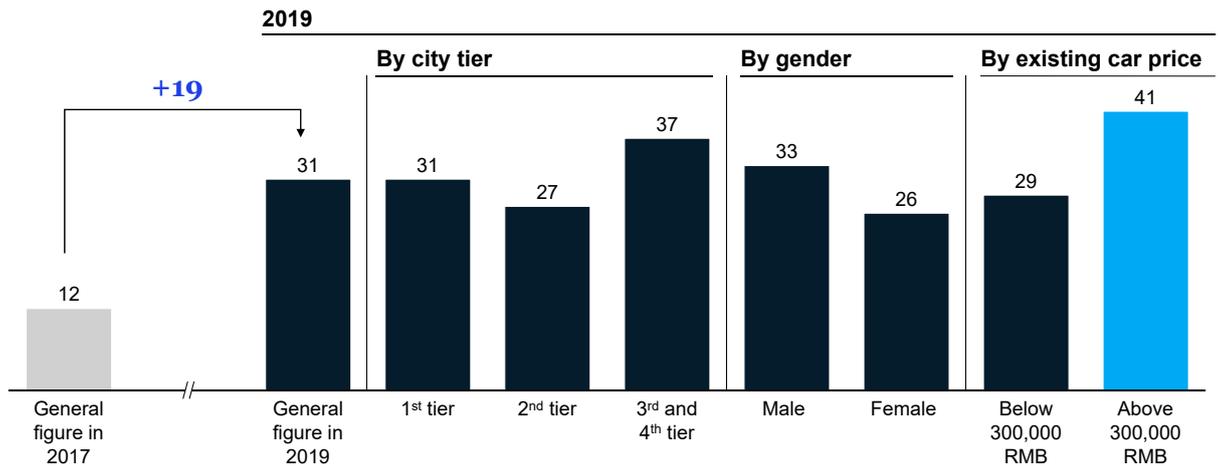
<sup>1</sup> Volkswagen, Honda, Toyota, Geely, Nissan, Baojun, Hyundai, and Haval; selection criteria: top 9 brands in sales over the past 3 years  
<sup>2</sup> Geely, SGMW, Great Wall, Changan, GAC, SAIC, BYD, and Chery; selection criteria: top 8 homegrown brands in sales over the past 3 years and business bigger than other domestic brands (Chery in 8th place on the sales ranking from January to May 2019 has twice as many sales as the automaker in 9th place)  
 Sources: IHS, China Automobile Dealer Association, McKinsey China Auto Consumer Insights 2019

2019. Notably, 40 percent of owners whose existing car values more than 300,000 RMB said they would buy vehicles from the same brand again. This suggests the automotive market is experiencing a demand-driven integration, particularly among high-end consumers. Weaker and new brands face huge challenges in building their market profile. This outlook also suggests that favored OEMs must double down on protecting their brand image, and be aware of the damage that can be done to credibility by pushing sales at the expense of prices. (Exhibit 7)

Exhibit 7

## Brand loyalty is on the rise, particularly among high-end consumers

Proportion of respondents who would buy same brand again



Source: McKinsey China Auto Consumer Insights 2019

## Brand dominates consumers' purchasing considerations; being top-of-mind is key

Chinese consumers are making increasingly informed decisions when it comes to vehicle purchases, especially brand selection.

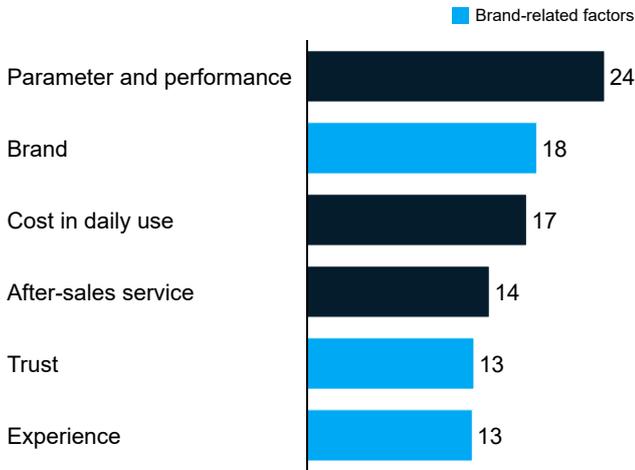
### Brand is the key differentiator affecting purchase decisions in China

Our survey indicates that among the top six factors affecting consumers' auto purchasing decisions, three relate to branding. For the time being, technical considerations no longer serve as a barrier to competition given the maturity of most technological solutions, and their consequently lower costs. On the other hand, maintaining a strong, distinguished brand can help defend market position. For OEMs, developing brand strength, and delivering brand value, is key to standing out in the eyes of the consumer.

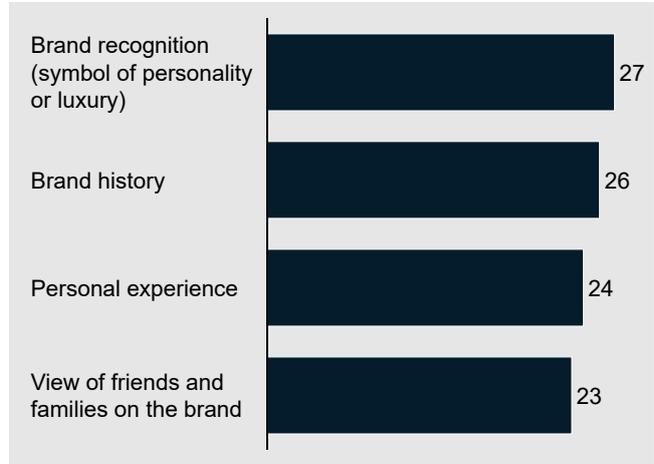
When discussing brand, 27 percent of consumers polled said they are most concerned with brand image, including whether the brand is viewed as a status symbol, a luxury purchase, or as embodying a certain style. Some 26 percent said they value the brand's history, while their personal experience of the brand only slightly edges what their friends and family might think about it. These responses suggest OEMs can improve competitiveness by investing in brand-building and marketing to raise brand image, improve consumer experience, and influence word-of-mouth reputation. (Exhibit 8)

# Brand is a major driver of purchase intent

**Factors influencing purchase**  
Proportion of respondents



**Major brand considerations**  
Proportion of respondents



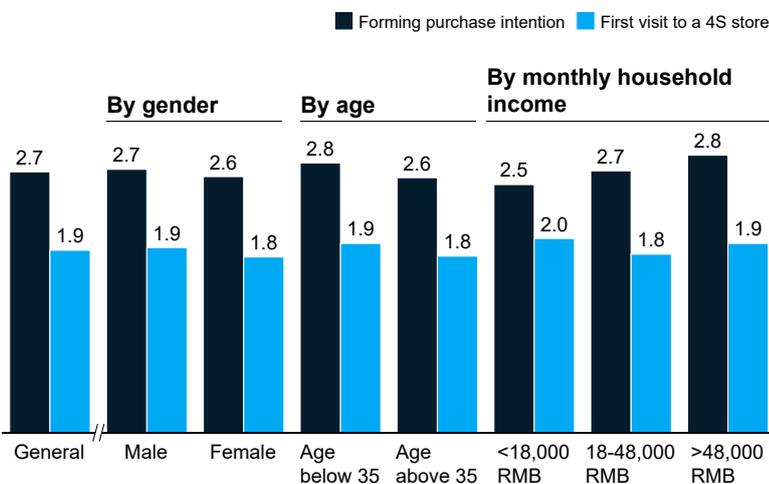
Source: McKinsey China Auto Consumer Insights 2019

## Being among the initial consideration set of brands is vital

Consumers' car purchase journey begins with choosing a brand. When consumers set out to buy a car, they first establish a group of brands to consider and research before making a final decision. Our study shows that for Chinese car buyers, only two or three brands make it into that initial consideration, falling to one to two after a period of research. The trend is remarkably consistent across gender, age, and income bracket. Importantly, over 60 percent of final purchased brands are within the pre-purchase set. Therefore, being on this list is crucial for achieving sales conversion, further reinforcing OEMs' need to concentrate on building brand awareness. (Exhibit 9)

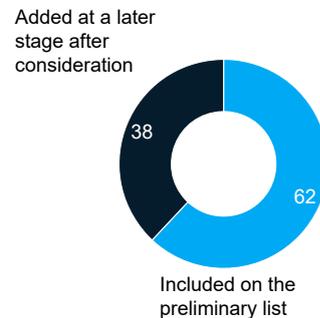
# Consumers start with fewer than 3 brands in mind

Number of brands on consumers' preliminary list



Source: McKinsey China Auto Consumer Insights 2019

**More than 60% of purchased brands are among those initially considered**  
Proportion of purchased brands

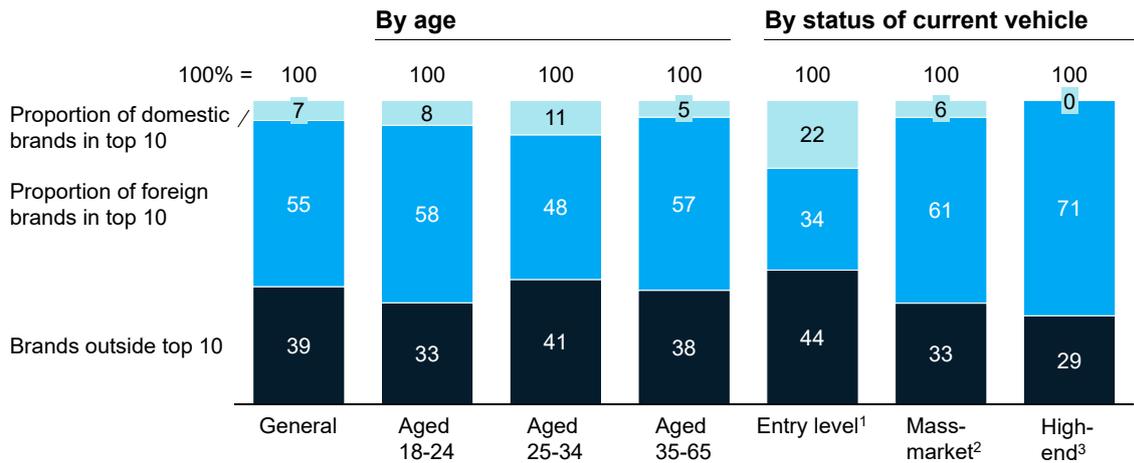


The composition of brands on the list consumers make when intending to buy a car mirrors the data on the concentration of market sales; leading foreign and domestic brands account for 62 percent of the total. Our survey suggests that the younger generation (aged 18 to 24) are more likely to only consider leading brands, as they have relatively less knowledge about vehicles, and are more easily influenced by branding when making purchasing decisions. For consumers buying entry-level vehicles, the concentration of top brands that feature for initial consideration is relatively low, but increases as the price of the car goes up. The message for OEMs in the high-end segment is clear, the market is becoming increasingly concentrated, and the space for new brands is shrinking.

Exhibit 10

## Level of concentration of leading brands in consumers' consideration

Proportion of instances a brand is considered



<sup>1</sup> Most vehicles sell at a price less than 100,000 RMB (less than 200,000 RMB for new-energy vehicles after subsidies)  
<sup>2</sup> Most vehicles sell at prices ranging from 100,000 to 300,000 RMB (less than 400,000 RMB for new-energy vehicles after subsidies)  
<sup>3</sup> Most vehicles sell at prices ranging from 300,000 to 800,000 RMB

Source: McKinsey China Auto Consumer Insights 2019

A deep dive into the data behind the brands selected for initial consideration shows that domestic marques are facing critical challenges. Overall, domestic brands have a slim (7 percent) chance of being considered, and appeal most to people purchasing entry-level vehicles (22 percent). Few consumers chose domestic brands in the mass-market or high-end segments. This indicates that domestic brands face significant challenges to establish high-end brand image in the minds of Chinese consumers. (Exhibit 10)

In light of consumers' tendency to consider just two or three brands when embarking on their purchase journey, and for the majority of these brands to be sourced from the top 10 market players, the onus is on OEMs to break into this set, or face significant difficulty in achieving sales conversion.

For domestic brands in particular, it is a matter of urgency to improve brand perception, and secure a place in consumers' pre-purchase mindset. Our survey further suggests that tailoring brand perception to match consumers' specific preferences is key to achieving both goals.

## OEMs must invest in building brand image tailored to consumer preferences

Before making a purchase, consumers already have a specific set of needs in mind. They then choose brands based on these needs when initially considering their purchase. Our survey shows that brands able to convey a strong brand image enjoy sizeable sales as a result, while those with less clear-cut communication are wrestling with sluggish performance.

The Chinese auto market is consolidating, with leading brands seizing greater market share, and weaker brands incurring increasingly heavy losses. Inaccurate brand perception, or a brand's inability to convey benefits sought by consumers, is a key driver of this trend. For example, prospective buyers of high-end vehicles prefer a premium look, outstanding performance, and a distinctive driving experience. Leading brands in this segment have created a strong brand image around these factors, while those falling behind are characterized by their failure to deliver a clear message to consumers.

The situation is similar in the mass-market, where consumers seek practical utility. Outstanding mass-market brands convey quality, comfort, and energy efficiency. When considering domestic brands, consumers demand value for money, and competitive prices, which are in turn the key determinants of successful brand image. Lagging brands not only fail to communicate these advantages effectively, but also suffer from low brand awareness in general.

Chinese consumers are developing a deeper understanding of brand. Most have a solid understanding of leading brand associations, and how to select one that matches their needs. OEMs must ensure they understand the needs of their target consumers, and establish a clear and accurate brand image that communicates effectively in order to make headway in this maturing market.

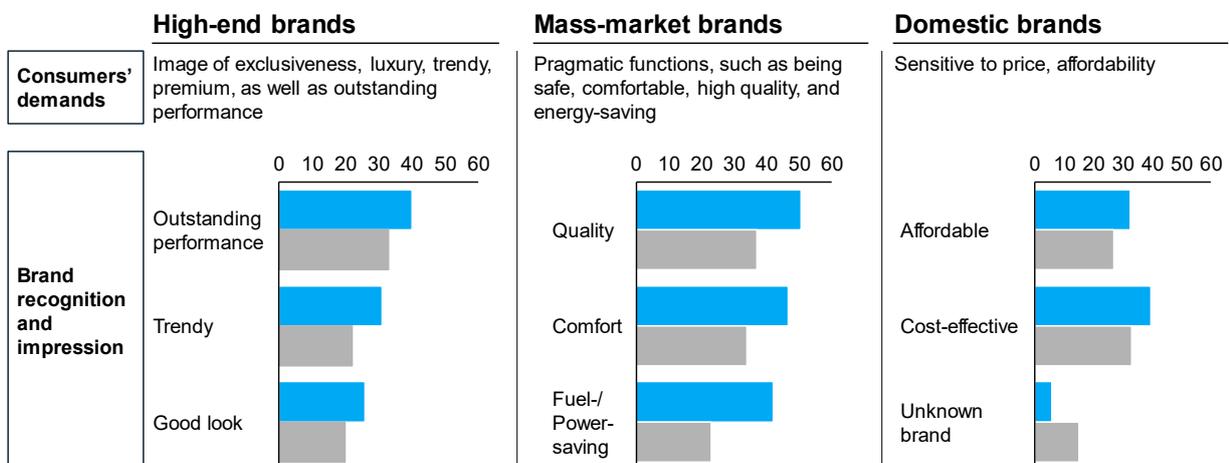
Our survey raises perplexing questions for domestic brands, including why they remain largely excluded from consumers' initial considerations, and are restricted to the entry-level vehicle segment, where they endure cutthroat competition. Low brand awareness among Chinese brands is the key reason for these problems. Our survey investigated around 160 brands, of which 107 are domestic. Only 20 percent of these domestic brands command relatively high brand awareness (i.e. brand awareness higher than 80 percent). The remaining 80 percent are relatively unknown, with more than a fifth of respondents saying they had never heard of them. (Exhibit 11)

Exhibit 11

### Consumers demand different qualities from brands according to market segment

Proportion of respondents

■ Leading brands ■ Lagging brands



Source: McKinsey China Auto Consumer Insights 2019

Too many domestic brands are competing in an already crowded market, while new brands are constantly contending for attention in an ever more competitive field. Keeping this in mind, domestic brands face a critical phase in which they must give careful consideration about which market to compete in, before working hard to establish a differentiated brand image that matches relevant consumer preferences.

Even for domestic brands that enjoy high brand awareness, their brand image generally revolves around being good value for money, and relatively affordable. These are exactly the criteria sought by entry-level consumers, making it clear why domestic brands feature more prominently in the pre-purchase mindset of consumers planning to buy an entry-level vehicle. In comparison, brands from Germany, the US, Japan and the UK communicate high quality, safety, luxury, comfort, and outstanding performance: exactly what high-end consumers are looking for. Domestic brands face an unprecedented challenge in upgrading their brand image.

**Brands from Germany, Japan and the US dominate the high-end segment, whereas domestic brands are notable by their absence**

Clearly, Chinese brands are not top of mind when it comes to high-end auto brands. According to our survey, the top 10 perceived high-end brands are all based overseas. More than 70 percent of respondents favored German brands, followed by Japanese and American peers. Only 3 percent selected a domestic brand. Foreign brands have already established a deep-rooted high-end image among Chinese consumers.

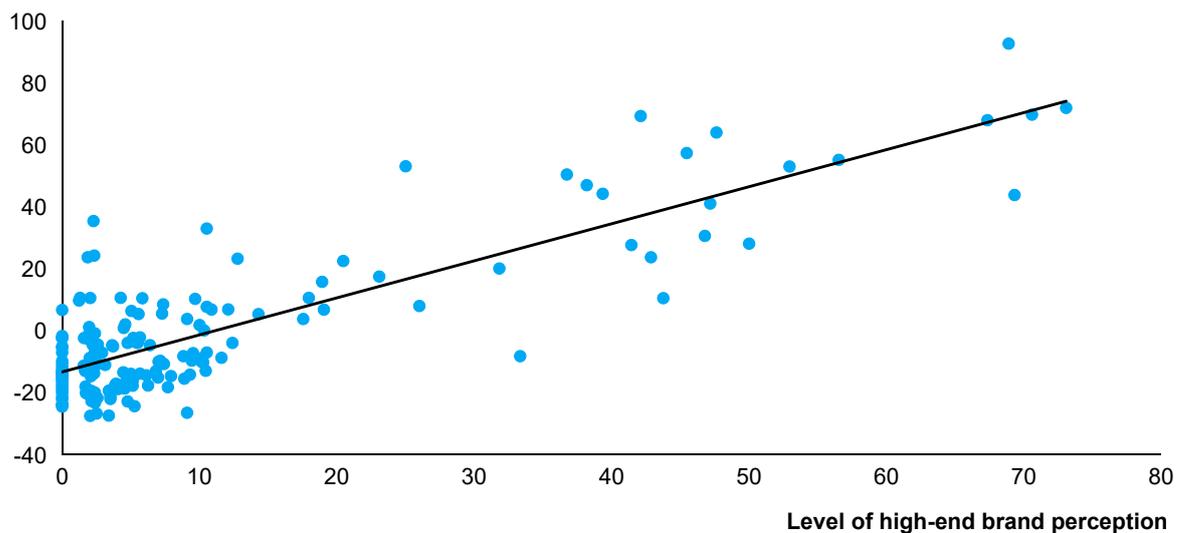
In contrast, domestic brands barely figure in high-end auto consumers' calculations. When asked to give examples of domestic high-end brands, a notable proportion (23 percent) of respondents said they could not think of any. Even among those who could call a high-end domestic brand to mind, the average rating still lagged behind those of foreign brands. Domestic brands have a long road ahead if they are to cement high-end associations among Chinese drivers.

Our survey shows that consumers are willing to pay a premium for high-end brand image. The correlation between brand recognition and willingness to pay more can be seen below. (Exhibit 12)

Exhibit 12

**Consumers are willing to pay a premium for high-end brand image**

**Price premium for a high-end brand compared with a mainstream brand with the same vehicle parameters**



<sup>1</sup> A popular brand is chosen as the benchmark in comparison  
Source: McKinsey China Auto Consumer Insights 2019

# Omnichannel innovation is crucial

## Key insights:

- Consumers are accustomed to actively acquiring information from diverse channels
- Offline channels remain irreplaceable, but consumers are demanding new service models, making it imperative to expand and innovate
- Omnichannel integration is essential for brands to deliver a seamless experience

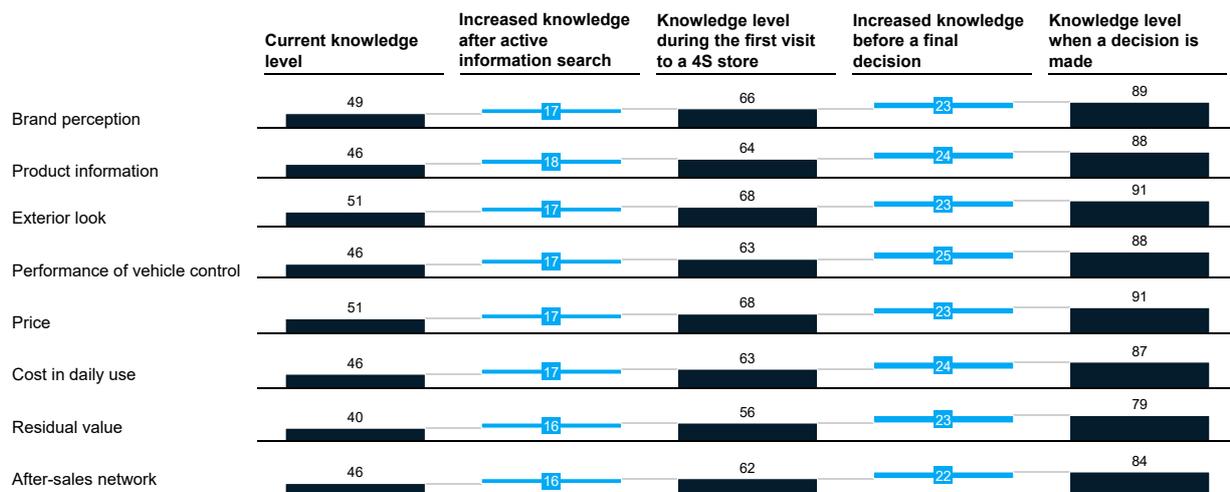
## Consumers have already absorbed half the information they need by the time they start to think about purchasing a car

Consumers obtain brand information through both active learning and passive consumption. According to our survey, when consumers decide to make a purchase, they have already passively absorbed half the information they need to make a final decision. This information, which is obtained in the course of daily life via advertising and word-of-mouth, among other channels, also has a strong bearing on which brands make it into consumers' preliminary list of intended brands to purchase. They will then build on this foundation by actively learning more about the brands, both independently and via visits to a 4S (sales, service, spare parts, and surveys) auto store. Before they make the final decision, consumers have close to 90 percent of information they need: enough to make a purchase decision with confidence. (Exhibit 13)

Exhibit 13

## Consumers begin with half the information they need, and actively acquire further knowledge during the journey to purchase

Average weighted proportion, where 100% = knowing all information needed for a decision



Source: McKinsey China Auto Consumer Insights 2019

## Offline remains dominant even as importance of online channels grows

Passively obtained information helps inform consumers' initial consideration, while actively obtained information helps them make the final decision. Both stages are important when it comes to clinching a sale. Our survey shows that consumers passively absorb information about auto brands through both online and offline channels.

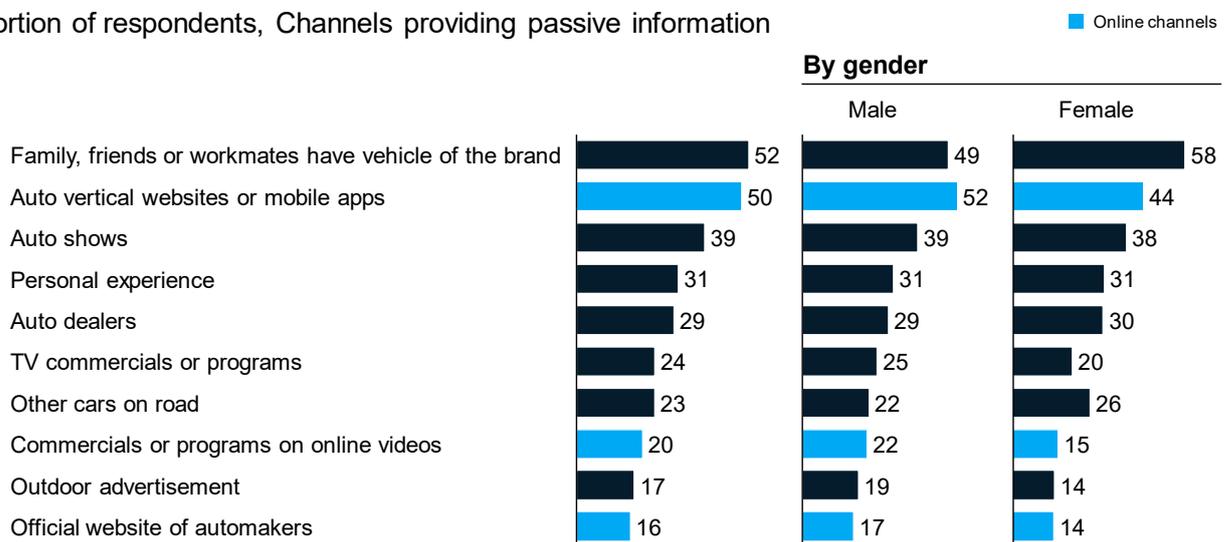
Offline channels remain irreplaceable, led by word-of-mouth recommendations by family and friends (52 percent), auto shows (39 percent), and auto dealers (29 percent). Notably, personal experience is also a form of word-of-mouth recommendation, as people review products based on previous experience, creating a word-of-mouth effect. Among online channels, apart from auto vertical websites and mobile apps (50 percent), consumers obtain information through online video platforms (20 percent), and official automaker websites (16 percent). Developing these channels will effectively help information reach consumers. At the same time, differentiated strategies should be customized for different consumer groups. For example, male consumers pay more attention to auto vertical websites and mobile applications (52 percent), whereas female consumers prefer information from family and friends (58 percent). (Exhibit 14)

As for active learning, visits to 4S stores and other offline channels remain most common. However, official websites of automakers, dealers, and ecommerce platforms are emerging as channels for information acquisition. (Exhibit 15)

Exhibit 14

### Word-of-mouth and online auto verticals are the leading channels through which brands influence consumers' preliminary purchase considerations

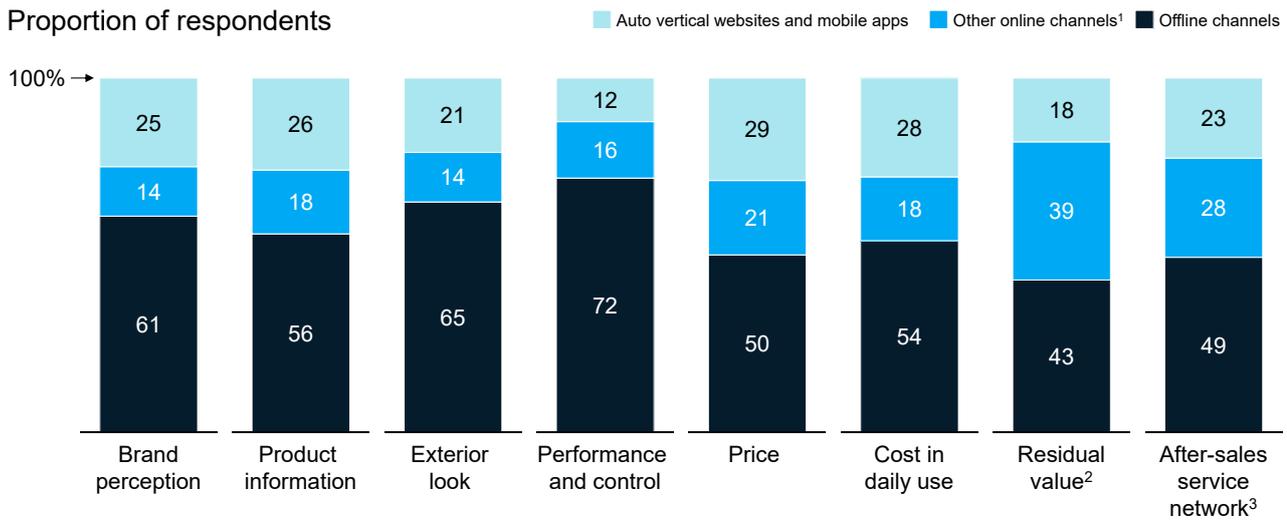
Proportion of respondents, Channels providing passive information



Source: McKinsey China Auto Consumer Insights 2019

## Offline channels remain most important for actively obtaining information

Proportion of respondents



<sup>1</sup> Other online channels include search engine, official websites of automakers, WeChat, apps, websites of auto dealers, e-commerce platforms for new car and second-hand vehicle trading

<sup>2</sup> The main online channel for evaluating the residual value of used cars is e-commerce platforms for second-hand car trading

<sup>3</sup> The main online channel for after-sales service network is the search engine

Source: McKinsey China Auto Consumer Insights 2019

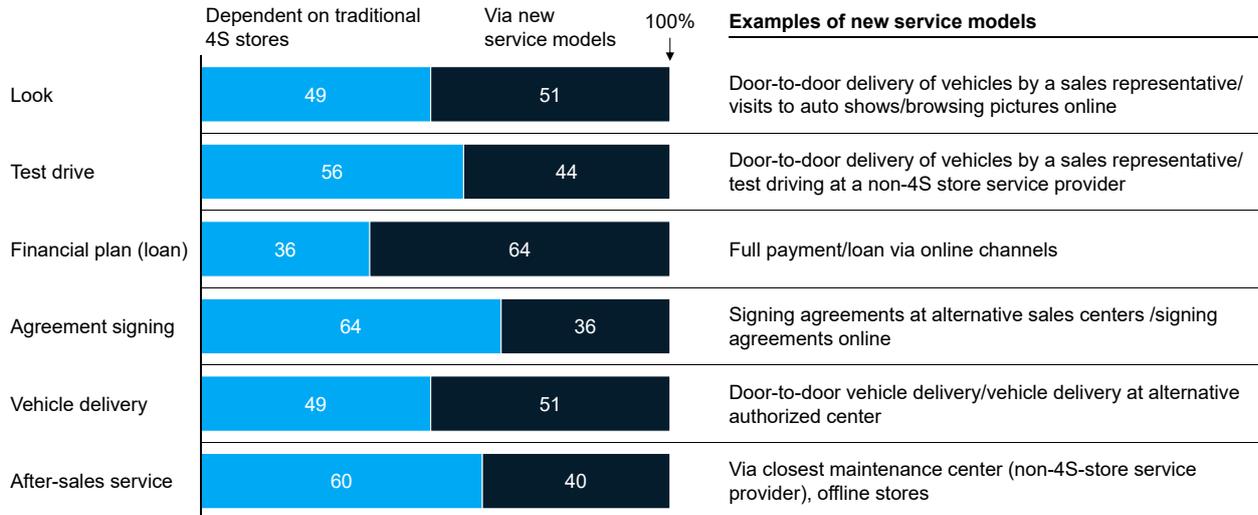
## Consumers are demanding innovative service models

Despite the irreplaceable role of offline 4S stores, consumers are increasingly dissatisfied with traditional service models, and are demanding innovation around customer experience. For example, more than half of our respondents said they would like to learn about the look of cars via online exhibitions, videos, and photos, or by having the vehicle delivered by a sales representative, to supplement a visit to a 4S store. Forty-four percent said they would expect a vehicle to be delivered for test drive by a sales representative. Two-thirds said they would review online price offers alongside those available in multiple offline stores.

Various new service models are now on offer when it comes to buying a car, covering contract signing, vehicle delivery, and after-sales services. For automakers, revamping service models provided in 4S stores by doubling down on consumer experience will assist with the communication of brand image, and ultimately lead to higher sales. (Exhibit 16)

# Consumers expect service model innovation at every stage of the decision-making process

Proportion of respondents, Service model expectations



Source: McKinsey China Auto Consumer Insights 2019

## Each stage of the decision-making process demands its own specific arrangement

### Auto vertical websites and test driving are major channels for gathering product information

In general, nearly half of people polled rate online channels as important for obtaining information. This is particularly true for males and young consumers aged 18 to 34. Auto vertical websites and mobile apps are top choices due to their convenience and efficiency. At the same time, offline sources such as test driving, visits to 4S stores, recommendations by family and friends, and visits to auto shows remain the most popular channels.

A similar trend emerges when it comes to researching vehicle look and interior design. Auto vertical websites and mobile apps were the most commonly consulted (21 percent), followed by auto shows (13 percent), standalone offline stores (12 percent), test driving (12 percent), and personal experience (8 percent). Young consumers and males place relatively higher value on online channels.

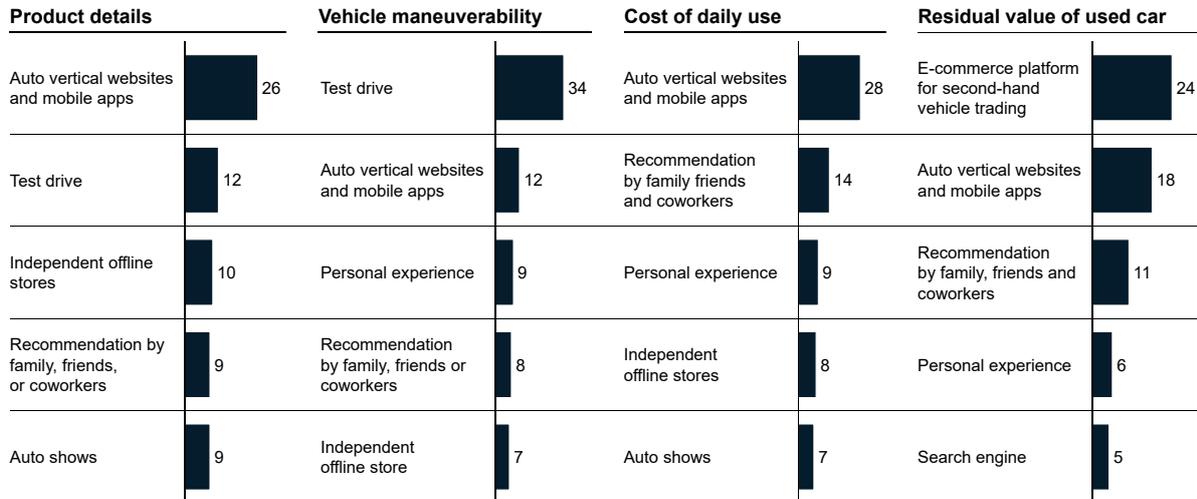
### Test driving is paramount when learning about vehicle performance and control

Test driving is the most direct and informative way to learn about vehicle control systems, but the manner in which drivers access test drives is evolving as new channels emerge. For example, though 4S stores remain the top choice when arranging a test drive (56 percent), consumers increasingly expect alternative options. These include door-to-door delivery (23 percent), test-driving services provided by non-4S store suppliers, and even paid test driving. These new ways of evaluating cars are gaining popularity, and eroding 4S stores' control of the auto experience.

Even so, online channels still play a role, as 12 percent of consumers believe auto vertical websites and mobile apps can provide important information about vehicle control systems. Professional and authoritative agencies also serve to vet such information. Our findings further emphasize the importance of integrating online and offline channels to deliver coherent information about brand and vehicle. (Exhibit 17)

# Consumers switch between online and offline channels when gathering information

Proportion of respondents, Top 5 most important channels for brand information



Source: McKinsey China Auto Consumer Insights 2019

## Consumers tend to compare price and cost of use across multiple channels

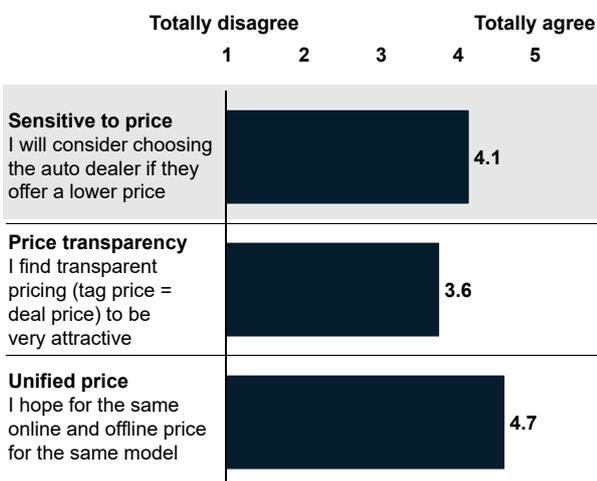
Chinese consumers prefer cost-effective products, and this tendency is especially pronounced when buying vehicles. Our survey shows that when different prices are available for the same auto model, Chinese consumers tend to choose dealers offering the lowest price regardless of other services. (Exhibit 18)

Online channels play a vital role when comparing vehicle prices. Some 63 percent of respondents said they consulted both online and offline sources; only 33 percent said they only use offline channels. At the same time, the older the consumers are, the more they exclusively favor offline channels. Close to half of senior consumers aged 55 to 65 chose offline channels when comparing prices.

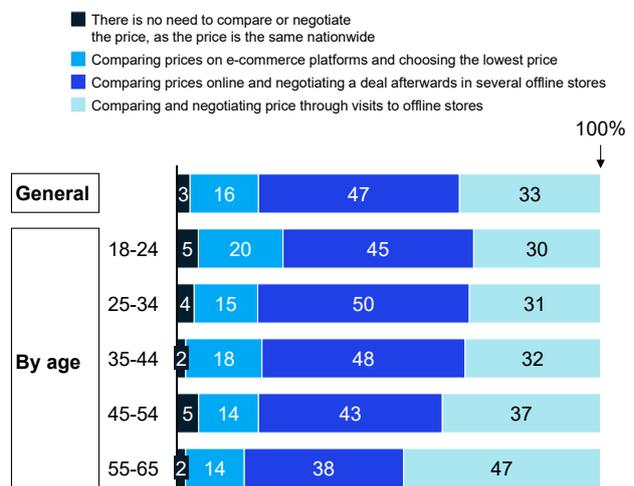
In terms of a vehicle's cost of daily use, consumers tend to obtain information via auto vertical websites and apps (28 percent), and value recommendations by family and friends (14 percent). Online accounts for 46 percent of the major consultation channels, and are preferred by males and young consumers aged 18 to 34.

# Price sensitive consumers compare online and negotiate offline

**Consumers are highly price sensitive**  
Average score for the extent of agreement



**Consumers compare online and negotiate offline**  
Proportion of respondents



Source: McKinsey China Auto Consumer Insights 2019

### Online channels lead when learning about residual value of used cars

Consumers planning to sell their car rely on online channels when learning about their vehicle's residual value. This is true for 57 percent of consumers, of whom those in first- and second-tier cities depend more on online channels. Major channels comprise ecommerce platforms for used car trading (24 percent) and auto websites and apps (18 percent). Among offline channels, recommendation by family and friends, and personal experience, are most prominent.

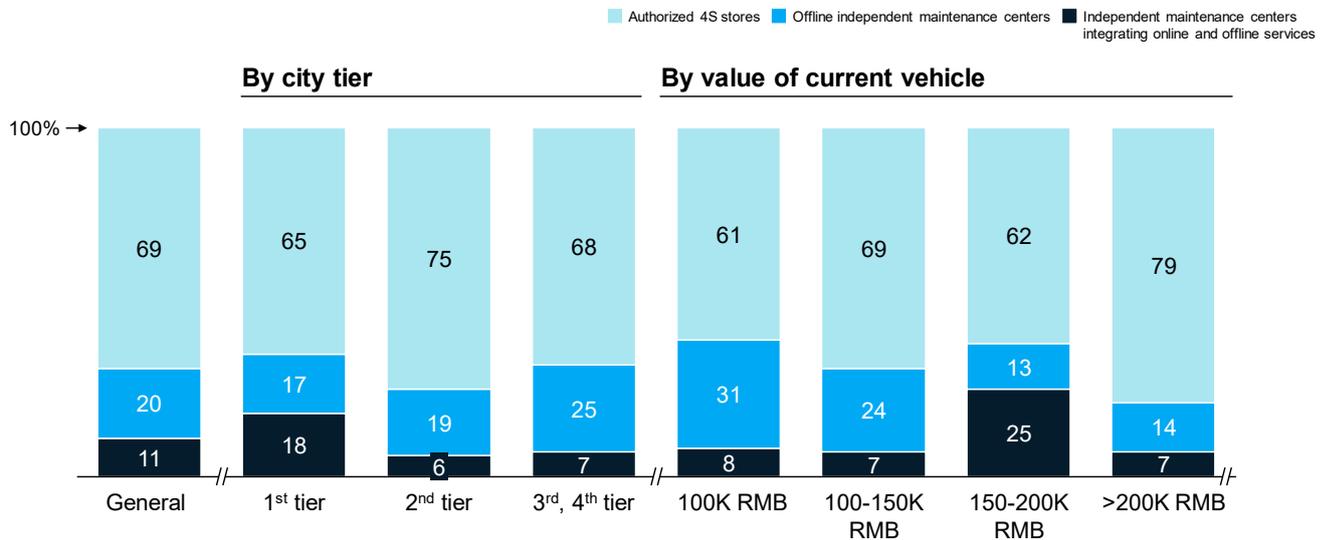
### A new after-sales service model integrating online and offline channels is gaining popularity

Consumers are displaying greater demand for online after-sales services. Our survey indicates that amid the dominant position of 4S stores in the after-sales market, 11 percent of consumers chose service providers that combine online and offline services. Males and young consumers exhibit greater acceptance of such emerging service models. (Exhibit 19)

Exhibit 19

## Main type of after-sales service provider visited in the last year

Proportion of respondents



Source: McKinsey China Auto Consumer Insights 2019

The most important factor affecting consumer decisions on after-sales is the delivery of a professional and quality service. However, technical strength and professional service are no longer exclusive to 4S stores, as many independent maintenance centers now compete in this regard. Some maintenance centers have also rolled out value-added services integrating online and offline services to improve customer experience.

Respondents that chose 4S stores said they did so because they are trustworthy (15 percent), and have a positive service attitude (10 percent). In comparison, respondents that chose other offline independent maintenance centers did so because of proximity (17 percent), favorable prices (15 percent), and rapid service (14 percent).

Service providers integrating online and offline services also ranked highly for providing outstanding service, while being open to dealing with auto parts purchased by consumers themselves. This flexibility is indicative of evolving consumer demand in China, and the direction the market is likely to evolve as competition for customers intensifies. (Exhibit 20)

# Independent, omnichannel service centers command a strong reputation for quality and flexibility

Proportion of respondents, Most important reason for choosing after-sales channel

4S stores	Offline independent maintenance centers	Independent maintenance centers integrating online and offline services
Outstanding skills, being professional	Outstanding skills, being professional	Outstanding skills, being professional
29	21	33
Trustworthy	Close in distance	Trustworthy
15	17	20
Good service attitude	Favorable service rate	Allowing auto parts purchased by car owners
10	15	12
Accurate estimate on finish time and payment	Fast delivery of service	Favorable service rate
8	14	6
Fast delivery of service	Trustworthy	Good service attitude
7	11	6

Source: McKinsey China Auto Consumer Insights 2019

# NEVs are sparking new growth

## Key insights:

- New-energy vehicles (NEVs) are steadily expanding market share
- Consumer understanding of NEVs is improving
- Mileage concerns remain, but automakers should focus on wider consumer demands

## Consumers are more discerning when it comes to NEV purchases

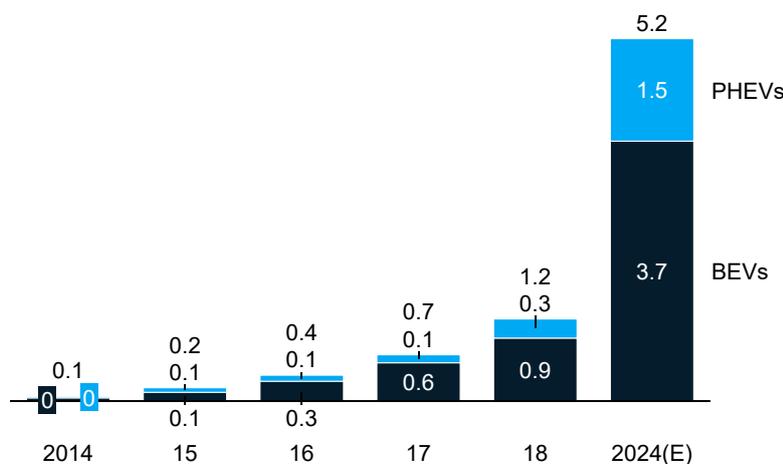
Amid an historic downturn, NEVs are bucking the market and enjoying robust growth. In 2018, total sales of new-energy passenger vehicles reached 1.2 million units, registering an impressive growth rate of 71 percent on year. Battery electric vehicles (BEVs) contributed 75 percent of these sales, with the remainder accounted for by plug-in hybrid electric vehicles (PHEVs). By 2024, sales are forecast to surpass 5 million units, of which 70 percent will be BEVs. (Exhibit 21)

In 2019, despite policy changes and diminishing government subsidies, consumer enthusiasm for NEVs has held up well. During the first half of this year, sales of NEVs in China rose substantially. At the same time, the gradual withdrawal of subsidies, and an expansion of consumer choice, is fostering market maturity. Consumers are now thinking harder about what they want from a NEV, and which model meets their needs.

Exhibit 21

## Market size of NEVs in China

Sales and growth rate of NEVs<sup>1</sup>  
Millions of vehicles



Annual growth rate  
Percent

	2014-18	2018-24
BEVs	110	27
PHEVs	98	32

<sup>1</sup> Including BEVs and PHEVs

Sources: China Automobile Dealer Association, McKinsey China Auto Consumer Insights 2019

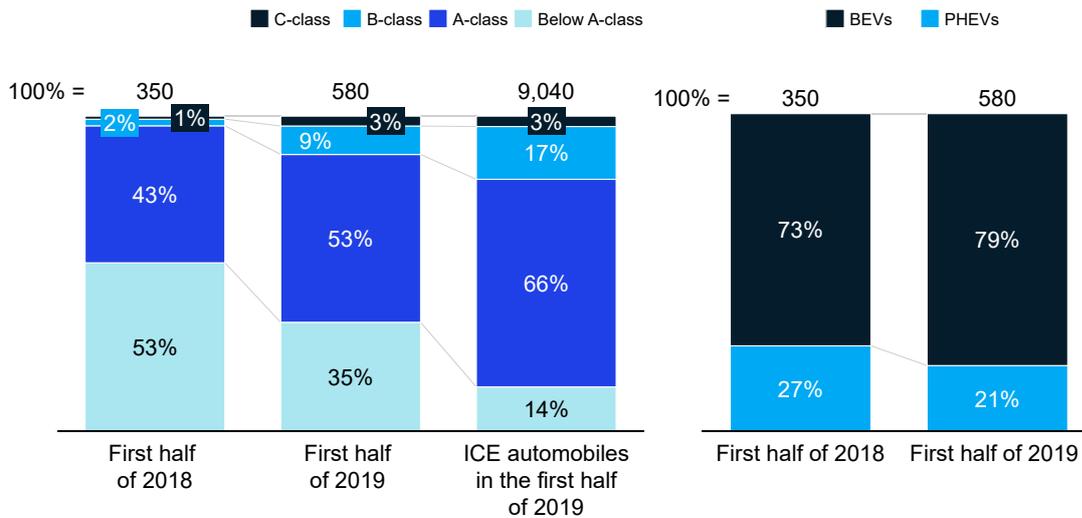
When it comes to vehicle size, Chinese consumers increasingly favor A-class NEVs, with these accounting for more than half the market in the first six months of 2019, up from 43 percent a year earlier. This is in keeping with the trend in traditional internal combustion vehicles, where A-class vehicles now make up two-thirds of sales. B-class models are also increasingly favored in both segments, at the expense of the smallest A-minus-class cars.

In terms of powertrain, BEVs increasingly dominate PHEVs. Although market penetration of NEVs has increased, it remains relatively low compared with consumers' apparent willingness to buy these kinds of cars, indicating robust potential for future sales. (Exhibit 22)

Exhibit 22

## Sales growth of NEVs

Thousands of vehicles



Sources: China Automobile Dealer Association, McKinsey China Auto Consumer Insights 2019

## Consumer awareness of NEVs is improving

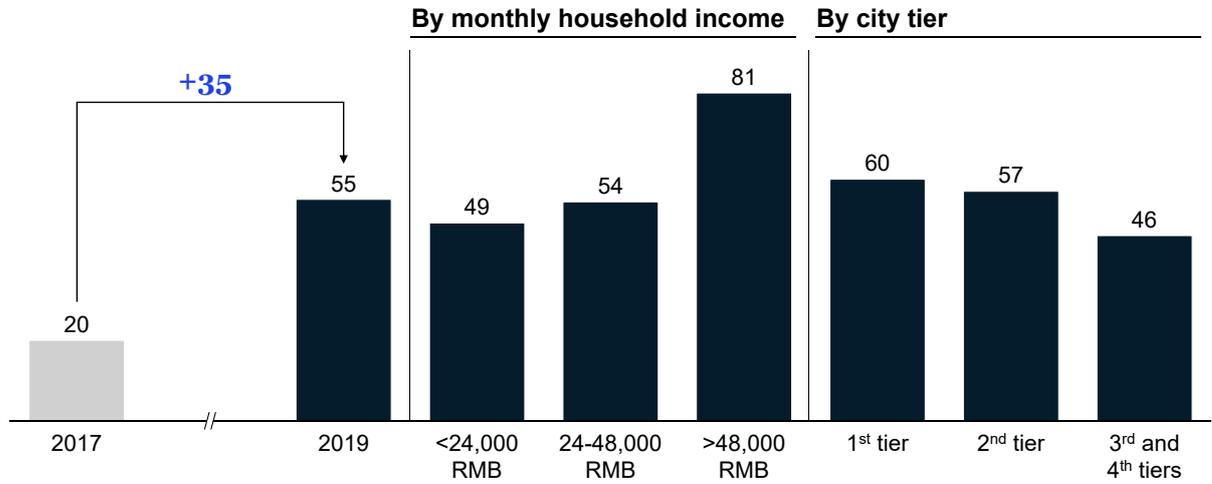
With an increasing number of NEVs on the road, and sales continuing to grow rapidly, Chinese consumer awareness towards NEVs is improving. A winding down of government subsidies has not curtailed growth momentum, but rather encouraged consumers to make purchase decisions based on the quality of the vehicle.

### Consumers are more accepting of NEVs

Since 2017, the proportion of consumers willing to embrace NEVs has risen to 55 percent from 20 percent. High income earners are particularly positive, with 81 percent of those bringing in a monthly household income of more than 48,000 RMB indicating they are willing to consider buying a NEV. Residents in large cities are also more open to NEVs than those from lower-tier cities. Automakers have worked hard to educate consumers, while central government subsidies, and local government perks like expedited or permitted license plate approval, and travel privileges, have all played a part in shifting market sentiment. Expanding charging station infrastructure is also lifting consumers' confidence in NEVs. (Exhibit 23)

# Proportion of respondents considering NEVs for next vehicle purchase

2019



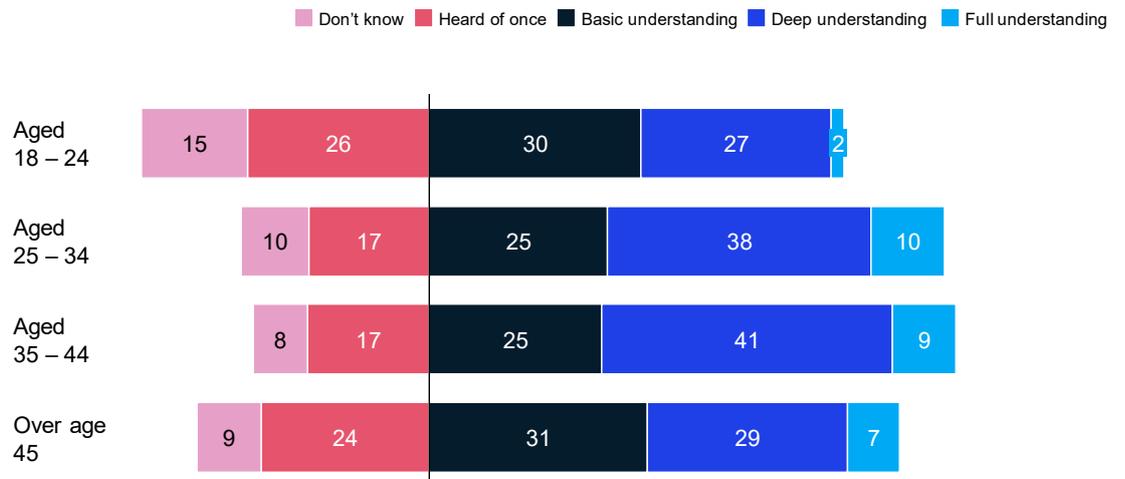
Source: McKinsey China Auto Consumer Insights 2019

## Improved understanding drives higher acceptance of NEV auto products

The majority of consumers now understand NEV products, and have gained preliminary knowledge of their performance and use. Our research shows that at least 60 percent of respondents of different ages have a basic or deep understanding of the capabilities of various powertrains. The young and middle-aged (people aged 25 to 44) have the highest degree of understanding, and constitute the primary group for purchasing such vehicles. Young consumers under the age of 25 have the lowest degree of understanding, suggesting automakers in the segment should step up efforts to communicate with them.

# Consumers' understanding of different NEV powertrains

Proportion of respondents



Source: McKinsey China Auto Consumer Insights 2019

## Informed consumers are more motivated to buy NEVs

Improved awareness of NEVs enables consumers to understand specific product advantages, which in turn is spurring more discerning behavior. Consumers are increasingly concerned with what the car can do, rather than how heavily it is subsidized, or the freedom it offers from license plate restrictions.

In general, consumers that chose either BEVs or PHEVs believe the most valuable advantages of NEVs are environmental friendliness and energy efficiency, and this is typically what consumers are most interested in when they review their purchase options.

Consumers enjoy the status and recognition that comes with being perceived as environmentally friendly, aware of new technology, and willing to try new things. They also recognize the advantage of NEVs in terms of lower running costs. Two major motivations for consumers to consider purchasing BEVs are cutting-edge technology (44 percent) and low noise level inside the vehicle (34 percent). These two benefits facilitate a more enjoyable driving experience. One in 10 consumers polled said they like brands dedicated to producing BEVs, indicating significant support for startup brands in the segment.

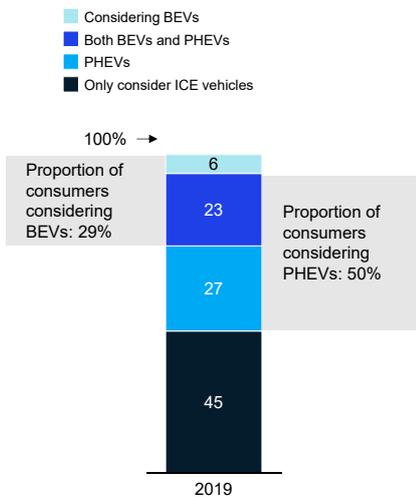
Consumers intending to buy PHEVs are mainly motivated by relatively mature technology, and better endurance. Additional advantages include the perception of better vehicle safety, stability in different weather conditions, and avoiding having to worry about charging infrastructure.

Notably, consumers considering buying PHEVs outnumber those considering BEVs, but the former's demand for vehicle safety and stability can be better satisfied by traditional vehicles fueled by internal combustion engine. Such vehicles cannot satisfy expectations of consumers considering purchasing BEVs. Hybrids consequently face fierce competition from both BEVs and ICE cars. As such, we expect BEVs to occupy the centerground when it comes to the development of China's NEV market. (Exhibit 25)

Exhibit 25

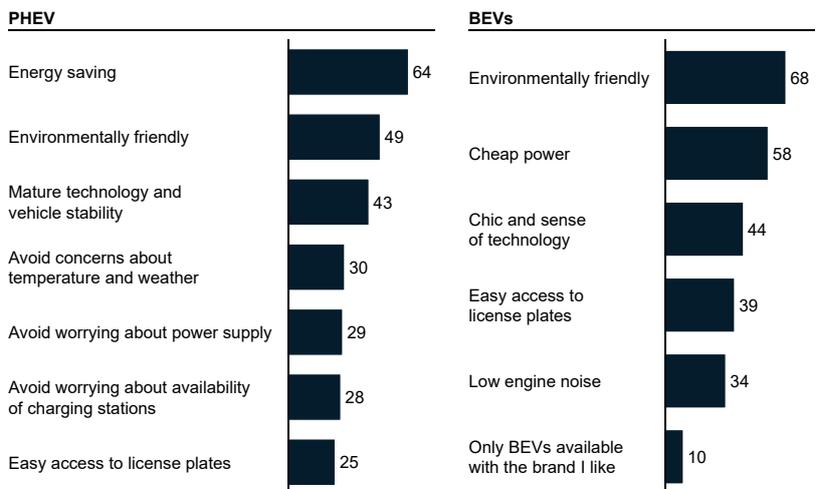
## Consumers want to save energy and protect the environment

### Proportion of consumers polled considering vehicle power in purchase decision



### Reasons for purchasing new-energy vehicles

Proportion of respondents



Source: McKinsey China Auto Consumer Insights 2019

### Consumer decision-making is becoming increasingly sophisticated

As understanding improves, consumers are increasingly mapping the criteria they apply to traditional car purchases to their thinking about NEVs. Our research suggests that in choosing an NEV, total cost (the purchase cost and cost of daily use) is the primary consideration. Although the energy cost for NEVs is lower than that of traditional automobiles, the total cost of NEVs tends to be higher due to the current market situation, in which there are few NEV products and prices remain high.

At the same time, consumers are beginning to pay more attention to vehicle performance, creating new space for automakers to build competitive advantage. For the time being, brand and trust are less of a concern in the NEV market due to the relatively low market penetration of NEV brands. As automakers double down on NEV production and marketing, and consumers mature into non-first-time buyers of NEVs, we expect brand to emerge as a critical deciding factor in purchase decisions.

### Consumer concerns over BEVs are diminishing as range improves

While 45 percent of Chinese consumers have no plans to purchase a NEV, our survey shows public concerns over key elements of their performance have eased significantly since 2017. Doubts over availability of charging infrastructure, range, technological maturity, and safety are markedly less pronounced than they were two years ago. Vehicle range and access to charging points are still the biggest worry, but our research shows that this is now a major concern for less than half of respondents, versus about three-quarters of the survey sample in 2017.

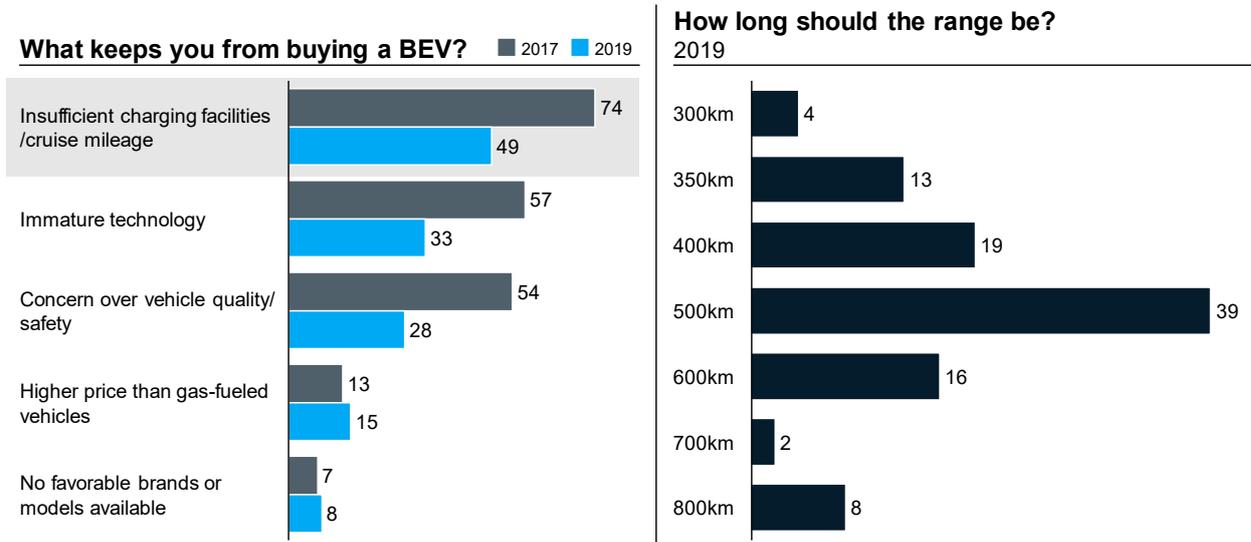
Moreover, our survey shows range of 500 kilometers can satisfy the demands of three-quarters of consumers. As such, we suggest the market is becoming more comfortable about range, and the time is ripe for automakers to focus more on consumers' overall experience. (Exhibit 26)

In terms of charging infrastructure, owners of NEVs in lower-tier cities are more dependent on public charging facilities than those in big cities. However, charging station coverage is relatively weak in these areas, and drivers can suffer long wait times for access to power. Close to 60 percent of the problems can be attributed to insufficient charging facilities, and the remote locations of those in operation. Some 14 percent of consumers told us that waiting times for access are too long. One in 10 said they thought the current price regime for charging was too expensive. NEV automakers should cooperate with local governments,

Exhibit 26

## Consumer concerns over BEVs

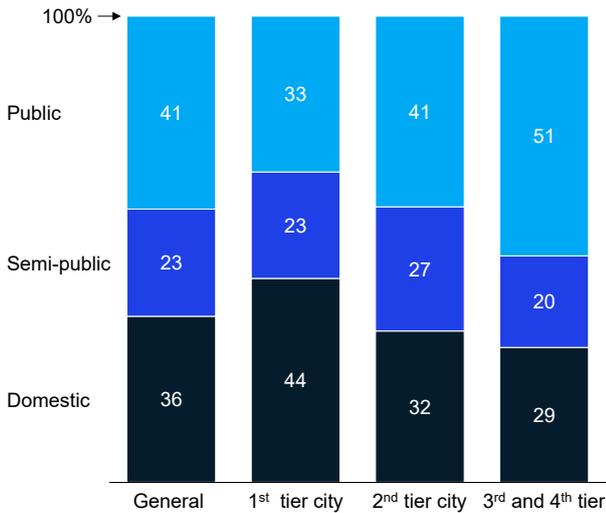
Proportion of respondents



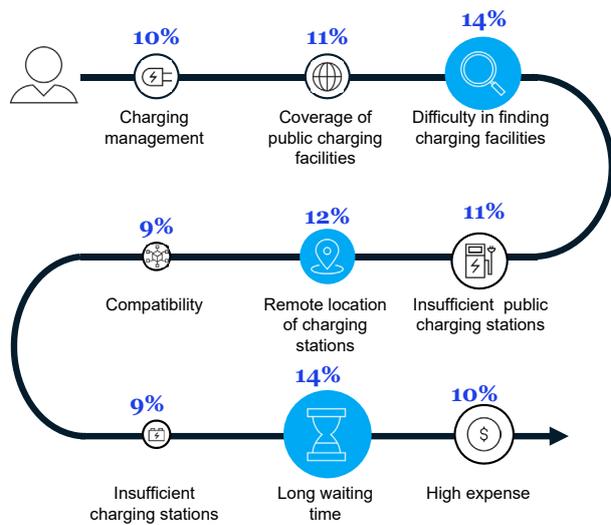
Source: McKinsey China Auto Consumer Insights 2019

## Consumers have a variety of different charging-related concerns

**Locations of charging facilities for BEVs**  
Proportion of charging per 100 times



**Charging-related problems faced by BEV owners**  
General proportion



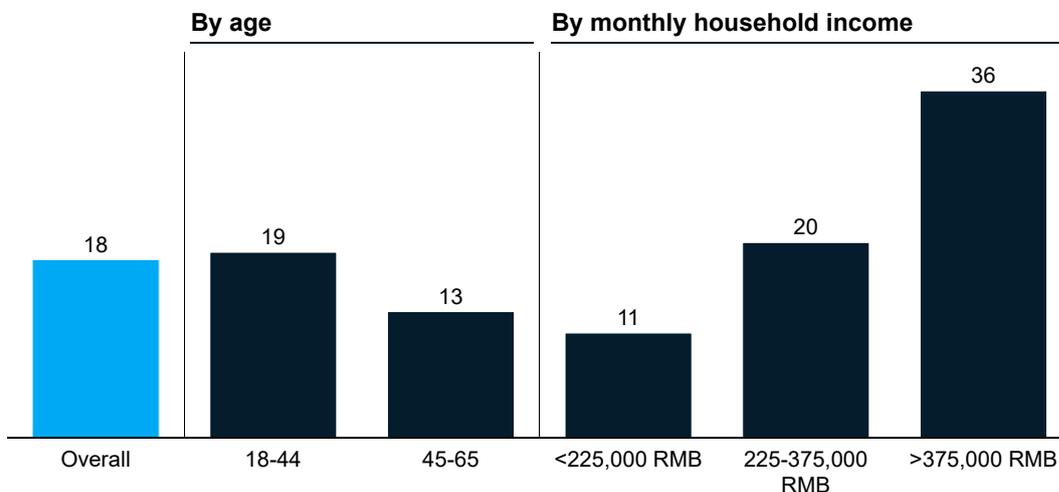
Source: McKinsey China Auto Consumer Insights 2019

power suppliers, and real estate companies to widen charging station coverage. Likewise, manufacturers should continue to research technologies to improve the efficiency and affordability of battery and charging facilities. (Exhibit 27)

### Consumers are willing to pay a premium for NEVs

Deeper understanding and higher acceptance foster stronger willingness among consumers to pay for NEVs. Compared with automobiles they have owned, 18 percent of respondents told us they are willing to pay a higher price for NEVs. This is especially true for high-income populations, where the proportion is 36 percent. Respondents aged 18 to 44 showed greater willingness than those aged above 45. This suggests the long-term demand outlook for NEV sales is secure. Putting aside the influence of license plate quotas on consumers, the figures show the enthusiasm of high-income users, as well as middle-aged and young consumers, for new technology, not to mention their willingness to upgrade consumption.

## Percentage of respondents willing to pay a premium for a new NEV compared to their existing car



Source: McKinsey China Auto Consumer Insights 2019

# Consumer experience is key to prioritizing ACES investment

## Key insights:

- Despite massive research and development investment, automakers have yet to evolve clear-cut ACES strategies or pathways to profitability
- Enhancing consumer experience will help sharpen focus, and reduce misplaced expense

## Consumers have yet to fully buy-in to autonomous technologies

According to our survey, about a quarter of consumers believe that self-driving technology is far from mature, and in some cases makes little sense. About 30 to 40 percent of respondents said they would consider using an autonomous system in certain scenarios, such as autonomous tracking through traffic jams, autonomous parking, and autonomous driving on expressways and closed roads. Most of these needs can be satisfied by a L2 system, where a driver is able to yield to the technology, but must be prepared to assume control. These include autonomous systems and advanced driver assistance systems (ADAS). None of the options drivers are currently interested in require technology ranking L3 or above, where drivers are still necessary, but can shift safety-critical functions to the vehicle in certain circumstances.

Critically, nearly three-quarters of consumers told us they are reluctant to pay more than 5 percent of the vehicle price for these features, indicating that heavy investment in autonomous technology looks difficult to recoup in the short term. (Exhibit 29)

## ADAS is the leading consumer preference

In China, ADAS systems are more widely recognized by consumers than autonomous driving systems. Nearly half of our respondents said they were interested in functions such as ADAS and autonomous parking, adaptive cruise control (ACC), lane-keeping systems, and collision avoidance. Only about 10 percent of consumers indicated ADAS has no value at all, compared with one-quarter of who suggested the same for autonomous systems. (Exhibit 29)

## Bets on connected car technology must start with the consumer

In our 2017 poll, more than 80 percent of respondents were interested in features such as car navigation, online entertainment, and mobile phone screen mirroring, but these figures have all declined to varying degrees in 2019. The latest survey results suggest that while consumers are most interested in voice recognition, they do not have pronounced preference

for other connectivity services such as on-board Internet, or smartphone-to-vehicle links. As technology matures, automakers should strive to acquire a precise understanding of consumer needs, so as to preempt market demand for new connected features. However, it is important to bear in mind that China's super-digital consumers, who are used to enjoying low-cost connectivity across touchpoints in their daily lives, are reluctant to pay for related functions in their cars. (Exhibit 29)

## Careful selection is required when developing connected functions

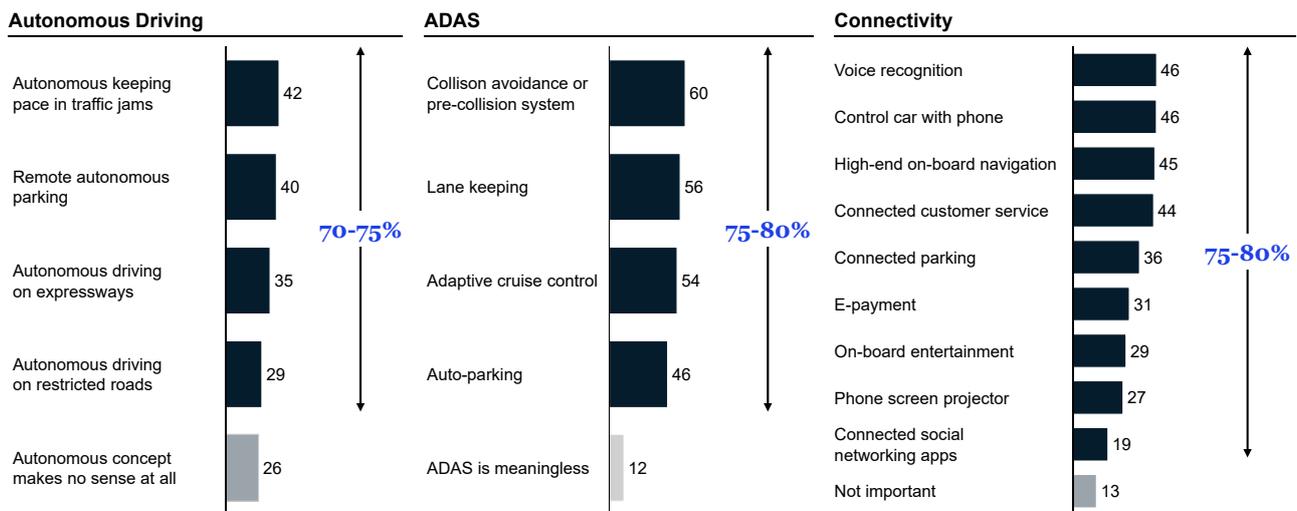
For car companies and service providers, R&D strategies should orient toward an improved consumer experience, and it's imperative to assess the profitability of new functions as early as possible. According to our survey, more than 70 percent of consumers are unwilling to pay more than 5 percent of the total vehicle price for intelligent, networked functions, which puts great pressure on the development of new functions. In the past, we have seen many initiatives abandoned because of their failure to truly enhance consumer experience. Therefore, automakers must review their targeted areas of investment, focusing on their strong suits, and avoid blindly investing without a clear path to profit.

Exhibit 29

## Consumer acceptance of autonomous and connected technologies and willingness to pay for them

Percentage of respondents

xx% Percentage of consumers who are willing to pay no more than 5% of the total vehicle price



Source: McKinsey China Auto Consumer Insights 2019

# The used car market is gaining momentum

## Key insights:

- Consumers are more positive toward used cars
- The growth of the used car market is hindered by concerns over quality, safety, and transaction convenience
- Certified pre-owned programs offer great potential

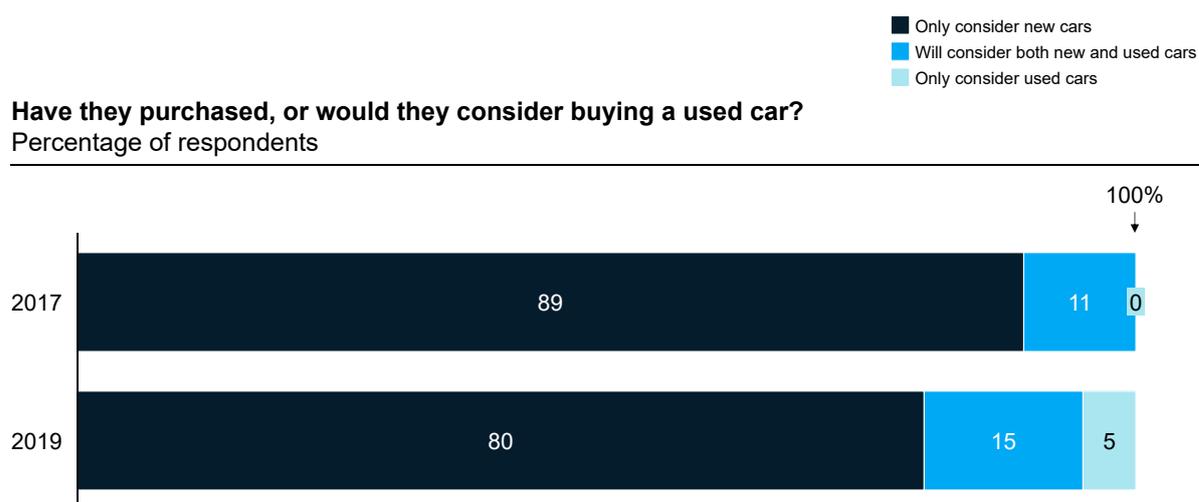
## Increased consumer acceptance is driving demand for used cars

The used car market continues its upward trajectory, even as new car sales decline. In the past three years, used car sales have grown at an annual rate of 15 percent, becoming too important a segment for automotive manufacturers to ignore. Strong consumer demand is powering this growth, underpinned by greater willingness among consumers to consider buying secondhand vehicles, according to our research.

In our 2017 survey, only 11 percent of new car owners said they had considered or would consider buying a used car, compared to more than 20 percent in 2019. In particular, female respondents (nearly 27 percent) were more willing to buy a used car; and the higher the household income, the more open they are to used cars: 31 percent of the high-income group (monthly household income above 48,000 RMB) said they had considered buying used. (Exhibit 30)

Exhibit 30

## Change in consumer attitude towards used cars



Source: McKinsey China Auto Consumer Insights 2019

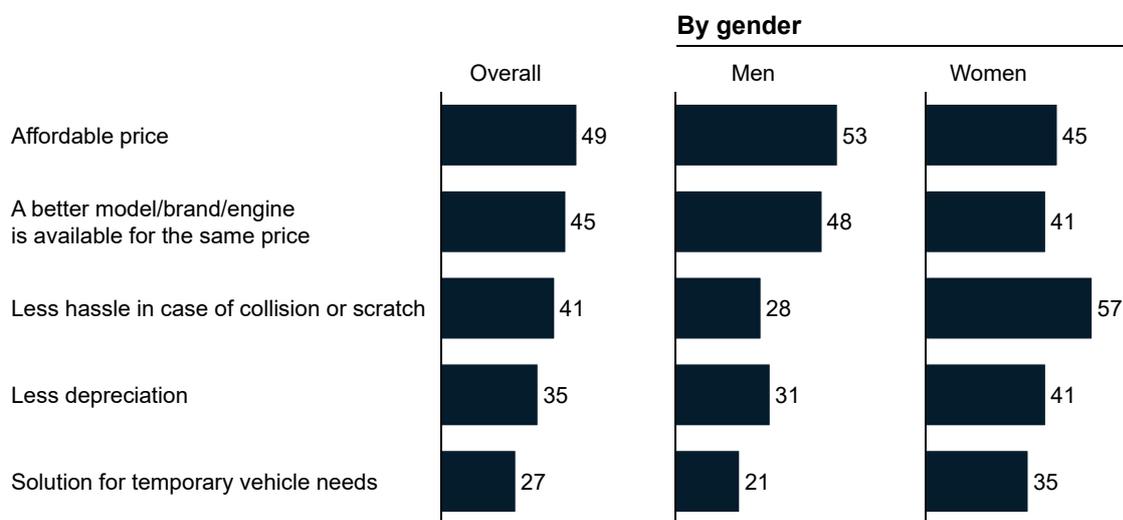
## Low price and high value for money are main reasons for buying a used car

The biggest reason for consumers to buy used cars is their low price (49 percent). After all, an old car of the same model can be at least 30 percent cheaper than a new one. High value for money is the second most-cited reason (45 percent): with the same money, consumers can enjoy better features, brand status, and model specifications from a used car than from a new one. Meanwhile, 41 percent of respondents said it is less nerve-wracking to drive a used car than a new car in case of bumps or scratches. More female respondents (57 percent) cited this as their main reason. (Exhibit 31)

Exhibit 31

### Top 5 reasons for buying a used car

Percentage of respondents



Source: McKinsey China Auto Consumer Insights 2019

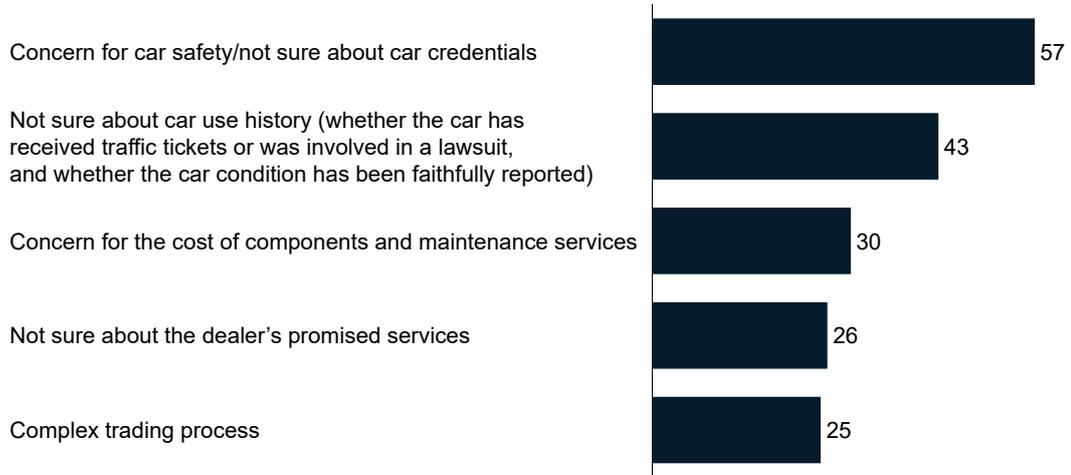
## Addressing pain points in transactions can unlock the used car market

### Certification systems can dispel consumer concerns

Despite growing acceptance of used cars, concerns remain over quality, safety, and post-sale services, our survey suggests. For example, 57 percent of consumers believe that used cars have no safety guarantee; 43 percent believe that the previous owner's usage may present hidden risks; and 30 percent have fears about future maintenance. The complex trading process is another big concern (25 percent). These findings, which point to an overarching lack of trust in the market, were consistent across demographics. Certified pre-owned (CPO) programs can address all these concerns by providing assurances over product quality and provenance, as well as guarantees over safety, and in some cases, options to return vehicles, or redeem warranties, within certain timeframes. (Exhibit 32)

## Top 5 reasons for car buyers who eventually chose a new car over a used car in past year

Percentage of respondents



Source: McKinsey China Auto Consumer Insights 2019

### Automakers can win consumer trust and sales by simplifying used car transactions

Consumers utilize a wide range of channels to dispose of used cars, according to our survey. Some 27 percent of the respondents go to used car dealers, 26 percent visit physical stores authorized by the car manufacturer, 21 percent use online platforms (such as xin.com and guazi.com), while the remainder turn to their friendship circle. (Exhibit 33)

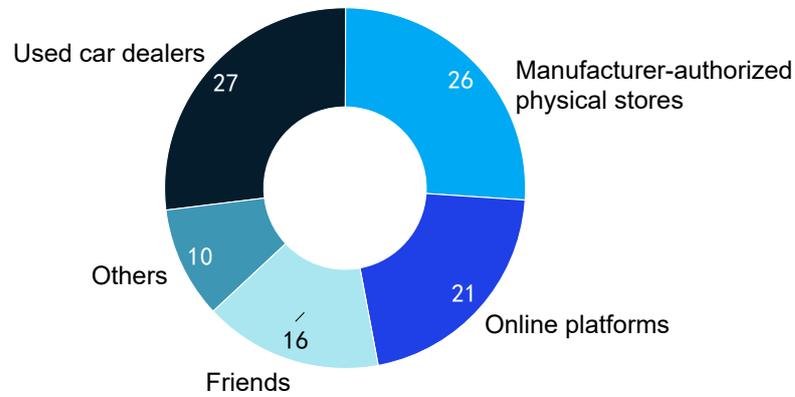
We found that transaction prices, often considered of utmost importance, are in this case not consumers' primary consideration. On the contrary, used car owners place more emphasis on a fast, convenient, safe, and reliable sales channel. Respondents who chose a manufacturer-authorized physical store were enticed by considerable trade-in subsidies (47 percent); those that chose used car dealers and used car websites did so for the one-stop service, and the speed and convenience of transactions; while those who traded their cars with friends did so because it allowed them to quickly close the deal (74 percent).

The findings present considerable opportunity for manufacturers to win the trust of consumers by creating an efficient, fast, and convenient experience for owners to trade their cars. This should drive more impactful results than offering a higher purchase price. (Exhibit 34)

Exhibit 33

## Channels to dispose of used cars

Percentage of respondents

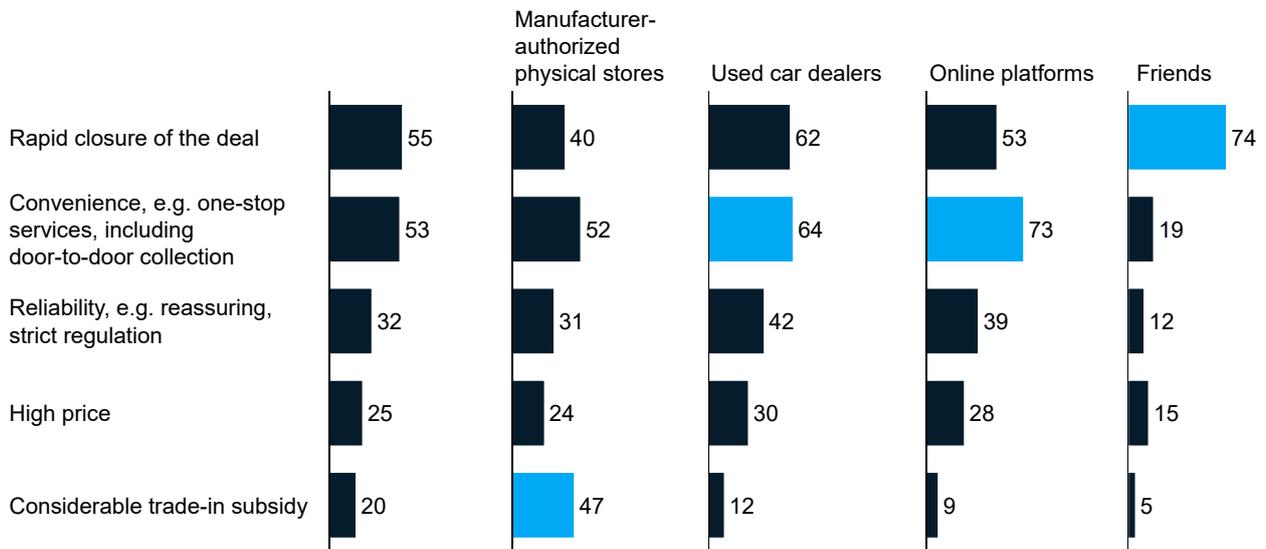


Source: McKinsey China Auto Consumer Insights 2019

Exhibit 34

## Consideration for choosing used car channel

Percentage of respondents



Source: McKinsey China Auto Consumer Insights 2019

# Implications for automakers

Our McKinsey China Auto Consumer Insights 2019 Report suggests that developing a deeper understanding of consumers and their behavior is critical to achieving success in the second-phase of the market's development. Automakers must first and foremost prioritize understanding the needs of their target consumer segment. Then they must focus on meeting these demands by building a brand image and product portfolio that appeals to both existing and prospective car owners.

Based on our extensive research, here are our key summary recommendations for automakers:

## **Segment strategies to target aspiring and current car owners**

An in-depth understanding of consumers is the key to winning market share during this period of intense competition. Car companies should have different products, marketing strategies, and services for first-time buyers and multi-time buyers to meet their different needs.

China's automotive market is maturing, and the proportion of additional car purchases and trade-ins has risen to 30 percent. But there are still 1 billion people without a car, and the demand for first vehicles is just as strong as the demand for upgrades. The ability to launch tailored products and services and attract both prospective and current car owners will be critical in the new phase of market evolution.

## **Reshape brand experience to penetrate pre-purchase thinking**

Auto enterprises must do more to develop and communicate their brand positioning, emphasizing the unique value they provide to the market. This process should be differentiated at the sub-brand level, and aimed at target consumers in the segment. Communicating brand value should be considered at all levels of the production process, from product planning, design, and research and development, to production, marketing and services. By tailoring brand image to specific consumer demands, car companies can maximize the likelihood of making it into the front rank of chosen brands when customers consider buying a new car, significantly raising their chance of eventually winning the sale.

At the same time, car manufacturers should deepen or develop brand loyalty schemes to engage and retain existing customers as repeat purchasers become an increasingly important driver of market activity.

## **Innovate around omnichannel and improve customer experience**

In order to better reach and serve consumers, developing an omnichannel presence has become essential. Automobile enterprises should analyze consumers' channel preference at every stage of the decision-making process, make the most of existing offline resources, and launch additional in-demand services such as vehicle delivery for test drives. They should also enhance their digital capabilities, and work with dealers and platforms to improve their online

offerings, both in terms of presentation of information, and access to services.

Offline channels still play a vital role in the purchase decision, and consumers are demanding more from offline touchpoints and services. Meanwhile, online offerings are underdelivering in terms of customer satisfaction, indicating auto enterprises should pay more attention to digital engagement.

## **Prioritize ACES based on consumer preferences**

Auto companies have so far failed to adequately map ACES functions to the needs of consumers, as evidenced by customers' unwillingness to pay for the vast majority of services currently on offer. Moving forward, car makers and their technology partners must double down on delivering ACES vehicles and services that consumers truly want to use, and which they are capable of delivering to the market ahead of the competition. For example, they should focus on powertrains that match their chosen path for development, and invest around charging infrastructure and partnerships that support the growth of this segment. Customers' willingness to pay for such innovation is key to securing profitability.

As NEV technology matures, and policy support winds down, consumers are becoming more rational in their choice of NEVs. A- and B-class models, or those most suited to daily use, will become increasingly mainstream. However, consumer concern over BEV ranges is spurring sales of PHEVs in the short-term. We believe the rapid rollout of improved battery technology, and the wider deployment of charging infrastructure, will allow BEVs to take a dominate market position in future.

## **Fix pain points to unlock used car revenue**

On the demand side, the guarantee of quality and safety is the main pain point restricting further development of the used car market. Car companies should consider enhancing their CPO program to address these concerns, and ensure their vehicles remain on the road for longer, driving ancillary revenues in components and services.

On the supply side, speed and convenience are what matter most for used car sellers, indicating scope for car companies to work with dealers and used-car trading platforms to streamline the trading process.

# About the McKinsey China Auto Consumer Insights Survey 2019

In July 2019, we surveyed 2,500 auto buyers representing a range of demographic attributes in more than 20 major cities across China. The goal of the survey was to establish a better understanding of buying behavior and attitudes towards autos, with a view to drawing insights that automobile OEMs can use when crafting their strategies. Survey questions addressed major touchpoints along the purchasing journey, including brand and channel preferences, pricing, product preferences, brand loyalty, and after-sales behavior.

# About McKinsey's Automotive & Assembly Practice in Greater China

McKinsey's Automotive & Assembly Practice in Greater China serves the region's leading international and local automotive companies, including original equipment manufacturers (OEMs), dealers and connected service providers. Our services include product planning, strategy development, corporate transformation, marketing and sales transformation, lean operations, big data and digital capability enhancement, pricing, etc. We have more than 140 consultants in China who focus on automotive consulting, all with deep industry experience.

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