

## New Localization Model



**Author: Lin Lei, Co-President & Joint CEO of Sinotrust**

On July 26, Carlos Ghosn announced the mid-term business plan of “Nissan Power 88”. According to the plan, apart from achieving the sales volume of 150,000 units in 2010, Infiniti also considers taking a market share of 10% in the Chinese luxury auto market, which means Infiniti will raise its sales volume to 500,000 units (based on the current market scale). Before Carlos made the announcement, there were many reports saying that Nissan might build a factory in North America or China. Now Carlos’s announcement enhances the possibility of Infiniti’s localization in China.

What’s more, Subaru, Renault and Saab made frequent appearance in the spotlight with their localization plans in the first half of this year, which more or less brings something new to the localization model.

The ever-increasing market scale shows that the auto market in China has not yet reached saturation. Unlike Toyota, Honda and Nissan, Subaru is a second-tier Japanese auto brand. Its announcement of localization winning wide applause among Chinese automakers indicates that the Chinese auto market is still unsaturated. Although VW, GM, Toyota and other first-tier auto brands have large market shares in hand, they are still unable to hold the market entirely. This leaves chances for second-tier foreign auto brands to enter this market by partnering Chinese automakers.

Foreign auto brands and their Chinese partners will form a new cooperative pattern in further game playing. In the past, Chinese automakers simply introduced its foreign partners’ products into the Chinese market and directly adopted their advanced technologies and managerial models. However, in the new localization pattern, both parties will build a mutual manufacturing and technology platform to produce self-made JV brands and, at the same time, improve the domestic brands owned by the Chinese party. Of course, the Chinese party will have more say in the JV than ever.

JV brands’ main products have already gone through the transition from A-segment, B-segment, SUV and MPV to C-segment (and above). As Chinese auto consumers are slowly changing their consumption ideas and gaining greater purchasing power, the SUV, MPV and luxury auto markets in China are slowly releasing their potential and expanding their market scale.

With the large auto sales volume achieved in 2010 and the car-purchasing behaviors becoming more and more rational, the sales growth of this year shows a slowdown and the Chinese auto market is now in another round of consolidation. If foreign auto brands plan to localize their products in this context, they will not want to miss the opportunities in “New channel model introduction and dealership network

establishment” and “Market segmentation and parts/service supplier recruitment”.

Introduce new channel models and establish new dealership networks. Sinotrust believes with the market maturing, the channel model has completed the stages of “Simple function integration” and “Back-office management informationalization” and is slowly entering the stage of “Functional distribution and combination”. In this round of consolidation, most of the automakers have realized that the current 4S model not only raises dealers’ maintenance costs but also causes resource waste.

Suppose there is a tier-2 city whose auto market scale can support only one dealer of a JV brand. If the sales volume increases, one dealer’s service capacity may fall behind the market demand, but two dealers’ service capacity may exceed the market demand and the two dealers may also get involved in a price battle. To cope with this dilemma, what we should do is retain only one dealer in this city and allow the dealer to set up branches to offer after-sales service only in order to better guarantee the after-sales service quality.

This flexible functional combination can reduce dealers’ maintenance costs and expand the after-sales service network into tier-2 and tier-3 cities to increase the recommendation ratio and boost sales. Newly localized brands will be able to adopt this newest channel model directly and save the money that should be spent on the model reform.

Identify new segments and recruit qualified parts/service suppliers. In the ever-expanding SUV, MPV and luxury auto markets, newly localized brands can grasp the market dynamics and identify their niche markets accurately according to their own features. However, we should notice that as SUV, MPV and luxury auto products are more complicated than A- and B-segment vehicles, the threshold for parts/service suppliers will become much higher. Therefore, it is vitally important for automakers to set up a standard parts/service supplier authorization and certification system.

Generally speaking, it takes a while for a product to realize localization. If we can find out qualified parts/service suppliers in the consolidation period, we may be more confident to cope with the market demand when the auto market’s “Spring” comes.

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