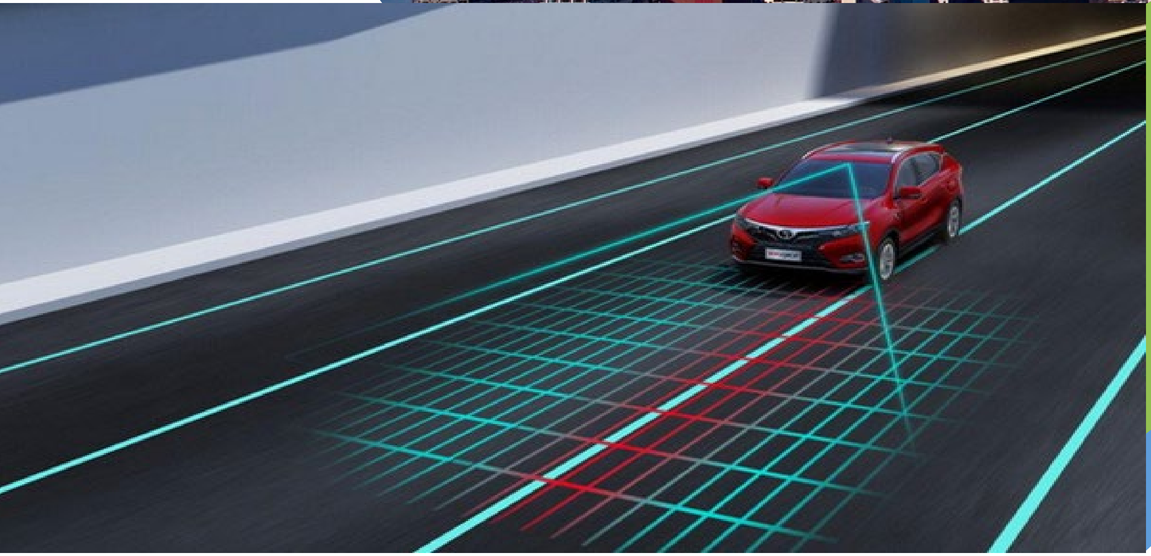


# China Automotive Distribution and Aftermarket Industry Report, 2022-2027

Apr.2022

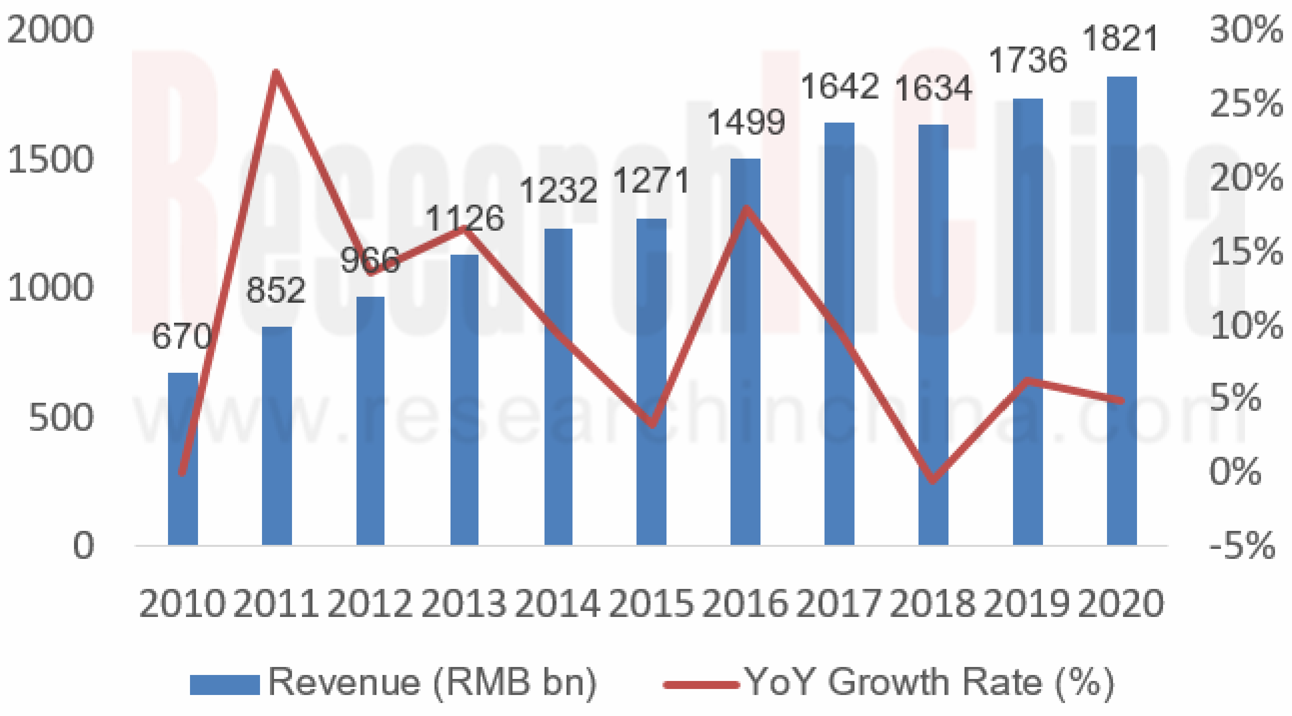
# The Automotive Industry Chain: Upstream, Midstream and Downstream

Since the introduction of 4S store model into China at the end of 20th century, China's authorized dealer system has gradually developed from a single-store-based mode to a group-based mode, and from extensive management to refined management. In the automotive industry chain, the upstream parts manufacturers provide all kinds of parts and components to the midstream automakers who are responsible for design, R&D, manufacturing and brand building, while the downstream dealers sell new cars and provide after-sales services for consumers. In the entire industry chain, automakers occupy a dominant position, and they have a strong voice in managing dealers through authorization and rebate measures.

# Automobile Sales in China and Performance of Automotive Dealership Industry

According to data from China Association of Automobile Manufacturers (CAAM), 26.082 million and 26.275 million automobiles were produced and sold respectively in 2021, up 3.4% and 83.8% year-on-year correspondingly. This is the first growth since 2019. The COVID-19 pandemic has brought unprecedented challenges to China's automotive dealership industry which still performs well. According to the data of CAAM, the total revenue and output value of the top 100 automotive dealership groups in 2020 jumped 4.9% year-on-year to RMB1.82 trillion. In 2020, the number of authorized 4S dealers nationwide experienced negative growth for the first time in history. The number of 4S stores in the network dropped to 28,000. A total of 3,920 4S stores withdrew throughout the year, namely over 10 4S stores exited every day averagely.

Sales of China's Top 100 Automotive Dealership Groups, 2010-2020




Source: CAAM, ResearchInChina

# Evolution of Auto Sales Models and Channels

Different from the national dealership model of conventional auto brands, the current sales models and channels of emerging automakers have evolved from the dealership model to the direct operation of chain stores by brand automakers or the cooperative operation with authorized agents. The direct sales model offers users refreshing brand experience through services covering the entire life cycle of products, and avoids many drawbacks (like opaque prices and poor services) of the conventional dealership model. However, it also triggers multiple problems such as huge capital and complex operation, which are not applicable to all new energy vehicle manufacturers. But even if the dealership model is still adopted, the service structure and profit structure of 4S stores will be significantly altered.

**4S Service Structure of Major Emerging New Energy Vehicle Companies**

| | NIO | Xpeng | Li Auto | Tesla |
|---|---|---|---|---|
| **Sale** | Online: Official website, App, WeChat applet<br>Offline: Directly operated stores | Online: Official website, App, WeChat applet<br>Offline: Directly operated stores/franchised stores | Online: Official website, App, WeChat applet<br>Offline: Directly operated stores | Online: Official website, WeChat applet<br>Offline: Directly operated stores |
| **Experience Survey** | NIO Center (43)<br>NIO Space (336) | Directly operated stores/Franchised stores (385) | Directly operated Retail Centers (224) | Directly operated Experience Centers (237) |
| **After-sales services and spare parts** | Directly operated/Authorized Service Centers (379) | Directly operated stores/Franchised Service Centers (385) | After-sales service centers and authorized sheet metal spray painting stores (482) | Directly operated Service Centers (130) |

Note: The data in ( ) indicates the number of stores at the end of 2021.

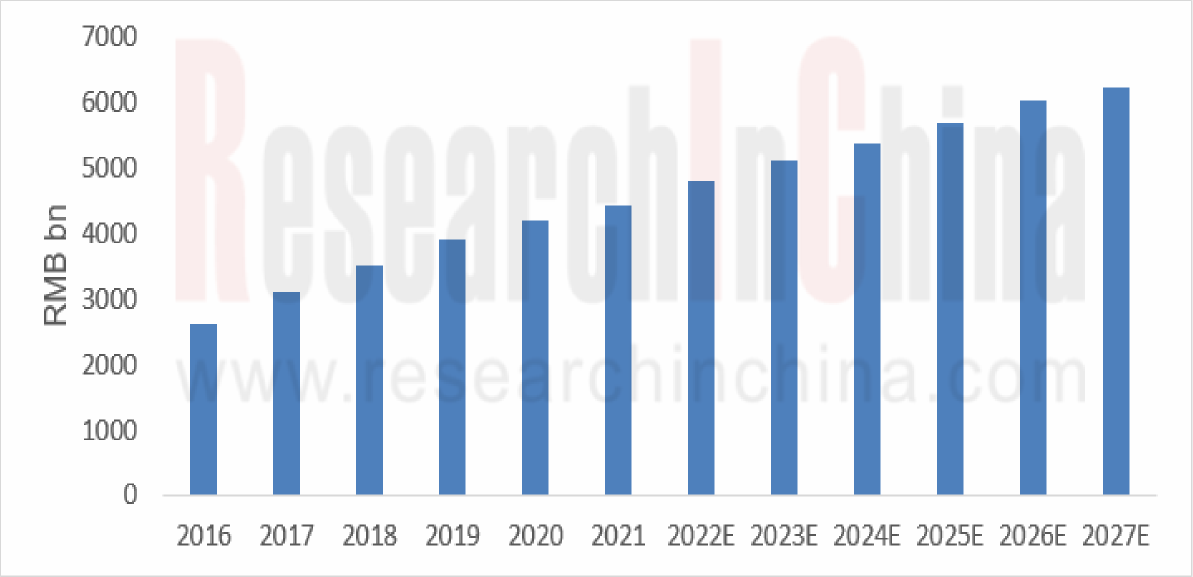
Source: ResearchInChina

# The Lucrative Automotive Aftermarket: Ever Bigger Market Size in China

The automotive aftermarket refers to all the services needed by consumers around the use of automobiles after they are sold until being scrapped.

The automotive aftermarket, especially the maintenance market, expands year by year with the increase of automobile age, because the older the automobile, the more worn the accessories, the more repairs per year, and the higher the repair cost. At present, the average age of automobiles in China has reached 6 years. The growth in both automobile age and automobile ownership has driven the booming development of automotive aftermarket which has gradually become a new industrial focus, meaning the industry has seen lucrative opportunities.

China's Automotive Aftermarket Size, 2016-2027E




Source: ResearchInChina

# Chinese Automotive Aftermarket with a Bullish Trend

The automotive aftermarket mainly includes auto repair and maintenance, auto finance, used cars, car leasing, auto supplies, beauty and modification, car recycling, aftermarket alliance platform integration/automotive e-commerce, etc. Among them, auto finance, auto maintenance and used cars are the top three segments of the automotive aftermarket:

## Used Cars

Factors such as consumption upgrade, occupational needs, and consumer preference will allow car owners to swap their existing cars through channels such as used car dealers and used car e-commerce platforms. In recent years, the state and local governments have increased their efforts to promote automobile consumption, and taken favorable measures to drive the consumption of used cars. China's used car market has maintained growth with a wider transaction scale. In 2020, approximately 17.59 million used cars were transacted in China, a spike of 22.6% over the previous year. In the future, the used car market is expected to raise its market share in the automotive aftermarket.

## Maintenance

Under the background of high automobile ownership, high automobile age and maintenance concept change, the auto repair and maintenance market size continues to swell. The annual automobile maintenance cost escalates year by year with the increase of automobile age, because the older the automobile, the more worn the accessories, the more repairs per year, and the higher the repair cost. According to the experience of developed countries, China is about to see the maintenance demand hit the peak. In the past ten years, the sales volume of automobiles has been considerable, but the growth rate of new car sales volume has slowed down. In the future, the average automobile age will continue to rise, which will prompt the automotive maintenance industry into a golden age. China's auto maintenance market size had reached about RMB1,533 billion as of 2021, and it is expected to exceed RMB2 trillion by 2027. In the context of anti-monopoly, independent auto repairers are gradually encroaching on the market share of traditional 4S stores; with the help of the "Internet +" model, the independent repair model will further burgeon.

## Auto Finance

Pivoting on OEMs, auto finance is the combination of various financial products derived from upstream and downstream of the industry to end consumers. It targets companies, individuals, governments, auto operators and other entities. Typical auto finance products include dealer inventory financing, auto loans, auto leasing, and auto insurance. In recent years, the overall penetration rate of China's new car finance has ticked up year by year. However, compared with mature markets in Europe and the United States, China's new car finance market still lags behind. With consumption upgrade and higher credit acceptance, auto finance will further grow. In 2021, the assets of 25 auto finance companies ascended 15% year-on-year to RMB1.12 trillion.

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