

Executive Summary

The parts and service value of China's light passenger vehicle market reached RMB~190 billion in 2007 (US\$27.5 billion).

- Based on a light passenger vehicle parc of over 32 million, segmented 76% and 24% respectively for sedans and small buses
- Demand for major and minor general repairs is the largest segment with a 46% share, with MLR comprising 38% and collision repair 16%.
- By vehicle age, 4 to 9 year old vehicles now have 50% market share, followed by 0 to 3 year old vehicles with 37%.
- Overall, China's market is considered in a "developing" growth cycle phase, exhibiting a mix of crude, undeveloped market characteristics as well as more modern, sophisticated traits.

Mid-sized sedans dominate the market in terms of parts and service demand with a share of almost 40%.

- High end sedans represent the next largest category with 27% share of total spend.
- The average annual repair spend per vehicle ranges from RMB~3,200 for a mini van to over RMB17,000 for a luxury sedan. On average, the annual spend for all vehicle types is RMB5,850.
- The largest market "cell" is major/other repairs for mid-sized sedans which holds 17% share of the total market demand.

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The supply chain continues to represent a key challenge for all market participants as it remains fragmented and highly dynamic.

- At the service level, there are over 350,000 accredited garages with an additional vast number of low end mom & pop operations.
- Service chains still represent a small share of the market but are starting to grow rapidly.
- 4S shops are struggling to make money on vehicle sales and have turned more aggressively to parts and service.
- On the parts supply side, there is continued localization by foreign parts companies seeking to improve competitiveness and response time to market, as well as consolidation among many of the smaller, local players.
- Private consumer ownership of vehicles is approaching 70% of the parc which will change service dynamics, especially as many are first time car owners.
- Parts distributors remain largely regional in nature, with small scale and unsophisticated business systems.
- Larger distributors are developing retail outlets at key parts cities across China, some going upstream into parts manufacture.
- Price and quality tiers indicate 4-5 major levels with counterfeits remaining problematic for branded players.

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China's light passenger vehicle market is expected to grow 19% per year to RMB~452 billion in 2012 (US\$65 billion), slightly slowing from its frenetic pace of the last few years.

- Key drivers of this growth include an 18% per annum expansion in the vehicle parc, an overall increase in the parc's average age and improved vehicle parts and service quality.
- By 2012, mid-sized and high end sedans will strengthen their share of market to a collective 69% driven by their parc growth and aging.
- Conversely, small buses as a group will decline in importance.
- Importantly, 4 to 9 year old vehicles will grow rapidly in share due to parc aging, reaching almost 60% of market value.

China's growing and maturing aftermarket will offer both opportunities and challenges to foreign parts and service suppliers.

- Targeting an appropriate addressable market where your value proposition and cost structure are in line will be fundamental to successful participation.
- Employing the right distribution model and building an effective structure and coverage will be equally critical to success.
- Additionally, dealing with branding issues, counterfeits, building a strong local management team, creating an efficient supply chain, etc. will be important issues to get right.