Chinas car market shifts into top gear

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Fast growth in the passenger vehicle market sets China apart

In 2005, China surpassed Japan and the major European car markets to become the worldâ€™s second largest automotive market. Only in the US are more vehicles sold every year. Since then, Chinaâ€™s auto market has experienced a healthy expansion with year-on-year increases in sales volumes of 20% and more. We have become used to double-digit growth rates since the beginning of the new millennium, and the future also looks bright. With a projected continued annual growth of 20%, China is destined to become the number one auto market within the next three years. Even from the most conservative standpoint, China will gain the global top spot no later than 2015.Â

What makes China stand out among all major auto markets is the tremendous growth of the passenger vehicle market, combined with immense potential for further development.Â Increasing economic prosperity enables more households to purchase passenger vehicles, allowing the owners to enjoy mobility and also to show off their success. The fast-expanding market for cars, MPVs and SUVs is above all driven by first-time buyers, who account for around 70% of new vehicle sales in China. The forecast GDP growth over the next three years of more than 8% annually and the projected increase of household incomes will support the continued expansion of the passenger vehicle market.

Virtually all car manufacturers produce and sell their vehicles on the Chinese mainland. The country has rapidly transformed into a â€˜buyerâ€™s marketâ€™ with consumers empowered by an ever-widening range of choices. Today, new ca buyers can choose from more than 60 car brands. In short, China can be considered one of the most competitive car markets in the world.Â

China has become the ticket to success for many international car makers, allowing them to compensate for stagnating or even declining sales elsewhere. General Motors and Ford, for example, have established flourishing operations with their joint venture partners in China.Â Volkswagen, the longest standing foreign player on the mainland, accomplished record sales in 2007, making mainland China the most important market for this manufacturer outside Germany.Â

The Chinese passenger vehicle market is also a success story for Chinese car manufacturers.Â Within only a few years, several domestic car manufacturers like Chery, Geely, and Lifan have successfully developed their own vehicles and achieved substantial sales without any cooperation with international car makers.Â Chery deserves particular mention, as it has become the 5th largest car manufacturer in terms of sales, after Volkswagen, General Motors, Toyota, and Honda. Altogether, Chinese car brands own some 30% of Chinaâ€™s passenger vehicle market.

In terms of consumer behaviour, China is an emerging yet fast evolving automotive market.Â Functional product features are key to the purchase decision, but brand considerations are gaining more importance as consumer behaviour becomes more sophisticated.Â Brands are most important to young consumers for whom the purchase of a car signifies the expression of a modern life-style.

Results from recent studies show that the number of â€˜modernâ€™ consumers in China is on the rise. This is one reason why car makers should invest further in trendy designs and in wider brand building. So the tremendous growth potential of the Chinese car market alone is no guarantee for sustainable success. Vehicle manufacturers need to be sensitive to emerging consumer needs and must establish strong brands. The latter poses particular challenges to Chinaâ€™s own independent car manufacturers.Â

For many reasons, China stands apart from other promising auto markets like Brazil, Russia and India. Only the correct â€˜readingâ€™ of consumer expectations and market demands will enable car makers to accomplish their ambitious goals.

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