SPECIAL REPORT BY NICK GIBBS

Global volume brands need to address China slump

SHAPE UP OR SHIP OUT is the stark choice facing global car manufacturers as they try to adapt to a fast-changing Chinese car market that's rapidly turning to home-grown makers, particularly for electric cars.

The share of the world's largest car market for global, rather than Chinese, makers has dropped from 61% in 2020 to 49% so far in 2022, according to research from Bloomberg NEF.

All the signs are that the market will continue to favour the Chinese, who are both gobbling up the lower-priced market to the detriment of brands like Skoda, Peugeot and Chevrolet, while also attacking the premium end with smart new electrified brands like Nio, Xpeng and LI Auto.

It's hard to see how some brands will survive in the market. Skoda, for example, saw its sales drop to just 27,675 units in the first seven months of 2022, down 65% on the year before, according to figures from sales aggregator Bestsellingcarsblog.com.

Piggybacking long-standing joint ventures created by parent Volkswagen boosted the Czech brand's sales and for much of the past 10 years China was its largest market. It created China-specific cars like the sportier Kodiaq GT SUV and currently has nine models on sale built locally in four different factories. That's not sustainable, and the brand's new CEO, Klaus Zellmer, is currently weighing options. "China is a competitive battleground at the moment," he said at an August event. "We haven't made a decision but this is our homework."

Skoda isn't the only one to be hit. Hyundai has slid from eighth biggest brand in 2018 to 20th this year, with sales down 51% in 2022 alone. Kia, meanwhile, barely sold over 50,000 cars in the first seven months in a market that shifted over 10 million across the same timeframe.


VW remains the biggest global car brand in China


Xpeng is on track for rapid growth globally

Smaller Japanese brands like Mazda, Mitsubishi, Suzuki are recording sales so low they, too, have been considering whether it's worth building there any more. Import brand Subaru had to deny it was leaving altogether in August after recording just 9822 sales to the end of June.

Stellantis brands Citroen, Peugeot and Jeep have long struggled in China and in July the parent company pulled its Jeep brand out of a 12-year joint-venture with Guangzhou Automobile Group (GAC) and shut its factory in the central city of Changsha.

Stellantis's JV with Dongfeng continues but CEO Carlos Tavares has touted an "asset-light" strategy in China, focusing on imports from premium brands like Maserati and Alfa Romeo.

Volume brands that are fighting to stay put in China are realising they have to address customer needs for the freshest product, updated regularly and loaded with flashy tech such as the latest infotainment. The pace of development is key to success.

They also need electric cars. "Foreign car makers like VW and GM have not put together a BEV offer capable of competing with the Chinese offer or that of Tesla," French automotive analyst company Inovev wrote in a recent note. In the first six months of this year, EV sales in China stood

Stellantis is switching focus from mainstream to premium

at 19%, with plug-in hybrids taking a further 5%, Marklines data shows.

Heel-dragging in this area from established global players has allowed newcomers room to grow. Bloomberg NEF totted up the sales of new EV or electrified companies such as Xpeng, Hozon New Energy Automobile, Li Auto, Nio, Leap Motor and WM Motor, and found they are selling almost 150,000 EVs a quarter, 10 times what they were from the beginning of 2020.

One executive with experience running a western car maker in China we spoke to emphasised the difference in development speed of Chinese engineers compared to global players. Programmes dismissed as too expensive by western engineers because of the timescale were turned around by Chinese engineers in half or quarter of the time, with only small reductions in quality (Chinese customers tend to be more accepting of ride and handling weaknesses, in particular, that European buyers would flag up, mainly because of their more urban-oriented driving pattens).

The companies succeeding are doing so by studying the constantly changing market tastes carefully and reacting speedily. For example, Ford's best-selling car in the country is now the China-developed Mondeo, a five-metre-long saloon that took its learnings from the Evos, a striking combustion crossover designed to look like an electric car. Citroen, meanwhile,

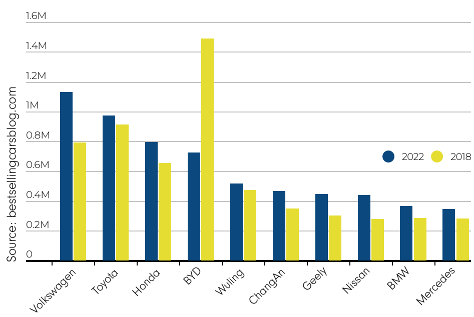
"GIVEN A LEVEL PLAYING FIELD, GLOBAL COMPANIES WOULD HAVE LESS OF A PROBLEM"

experienced a rare growth in sales this year with its now best-selling C5 X, another big car with a plug-in hybrid option and bold coupé-crossover styling.

Global companies, however, are at the risk of political backlash as trade with China becomes more vexatious globally, especially as the US and Europe move to establish home-grown supply chains for areas China has become strong in, for example automotive batteries.

Stellantis's Tavares told investors in July that he was concerned about the "growing

China sales Jan-July 2022 (locally made cars) compared to 2018 positions



political influence on business in China" over the last five years. He drew comparisons with Iran and Russia, two countries where global companies have been forced to leave under pressure from sanctions. "I think that you will see that some of our competitors [in China] will be somewhat challenged in the near future because of these growing geopolitical tensions," he said.

The two biggest global players in China remain General Motors and Volkswagen, and the VW brand was still number one in the market for the first seven months of 2022. VW has in the past been forced to defend its factory in north-west China's Xinjiang region, where China has been accused of maltreatment of the local Uyghur minority, and already new CEO Oliver Blume has been asked by press if he would keep the plant (he said he would).

China remains a key market for global companies, particularly for premium makers, who so far have been more insulated from the pressure from domestic brands. But increasingly they will have to ask whether the cost of local production will pay off. Land Rover, for example, saw its imports overtake local production in the first seven months for the first time in many years. The premium paid for cars like the Defender, its best-selling import currently, more than offsets import duties.

Given a level playing field, global companies would have less of a problem. A study from the global financial rating company Fitch found that, with the exception of BYD, Chinese EV manufacturers remained unprofitable in the first half of 2022. Many of the proliferating EV brands won't make it, but there will be plenty who survive a cash crisis thanks to the wide variety of state or local government support available. Thanks in part to knowledge gleaned from the joint ventures, local companies are providing an increasingly formidable competition. Global car makers have to decide if they want to continue to accept that challenge, knowing they'll always be hobbled politically, or bow out gracefully.