

# Retuning dealership networks amid shifting trend



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**T**he Year of the Snake will be a year of decision-making for carmakers in China. They have to determine how and where to expand their networks, which will require wisdom as wily as a snake. The general weakness of the economy in 2012 led to a lower-than-expected demand for cars and forced auto original equipment manufacturers (OEMs) to react. In China, OEMs usually didn't want to reduce production quickly and, therefore, accepted high inventories. They also kept sales targets for dealers and did not reduce deliveries to them.

By June, dealers' average inventories stood at almost 60 days, well above the danger zone that starts at 45 days. The dealers had to reduce those inventories by offering significant discounts. While both production and sales looked good for 2012, the OEMs will have to pay the price by carrying unsold inventory and price erosion into this new year.

In 2012, passenger car production grew by 8.2 percent, while sales rose 9.4 percent. Since October, sales plus exports have been higher than production. In the last two months of 2012, the OEMs reduced inventory significantly, especially after dealers managed to bring their average inventory down to 40 days with heavy discounting.

In February 2013, however, production was almost as high as sales, although the OEMs still carry about 230,000 units of inventory on their own and should try to reduce it.

Dealer inventory also rose again to 57 days. This could be the first sign of a repeat

of last year's price war. Currently, there are few discounts in the market. We will know more once the April figures start rolling in.

In 2012, Audi has the highest average sales per dealer at 1,100 cars. Audis are sold by two sales organizations: FAW-VW-Audi, with 299 dealers, and Volkswagen of China for imported cars, with 50 dealers. This number reflects the import rate for Audi at 20 percent. BMW has one sales organization: Brilliance-BMW, with 346 dealers selling 940 vehicles on average.

Daimler has an average of 410 cars per dealer. The company established two sales organizations: Beijing Benz, with 211 dealers, and Mercedes of China for imported cars, with 263 dealers. The percentage of imported cars for Daimler is about 50 percent of sales. Last year Daimler decided to merge the two organizations.

## Costal regions

Looking at the density of dealerships on a province level, all three OEMs have a high number in Beijing and the coastal regions of Guangdong, Zhejiang, Shanghai and Jiangsu. There, purchasing power is high, but the OEMs are also facing restrictions that have led to very intense competition.

In Beijing, registration is now limited to 240,000 cars a year; in Shanghai, 108,300; and in Guangzhou, 120,000 cars. In the capital, the difference of dealerships between Daimler and BMW is very high. Daimler has 60 dealers in Beijing, while BMW has 30. Most probably, Daimler will have to reduce its number of dealers there.

Other premium brands also are having difficulty in Beijing — a market where once more than 1 millions cars were registered every year. On the other hand, all three OEMs have to make an effort to establish new dealerships in regions where the purchasing power is increasing.

For VW, General Motors, Ford, Toyota, Honda and Hyundai, the target provinces are also along the eastern coastal region. But Beijing and Shanghai don't play such a dominant role. On the other hand, the move to inland provinces, like Hebei, Sichuan and Henan, is already obvious.

With respect to sales per dealer, Hyundai is leading with 1,330 cars, followed by VW, GM, Toyota and Ford. Honda is at the bottom of the league, with 670 sold cars per dealer. The problem for Honda could be the very high number of dealers in Guangdong Province, who were hit by registration restrictions imposed in the capital Guangzhou. In total numbers, VW is leading with 1,670 dealers, followed by GM with 1,570. Ford has only 500.

For VW and Hyundai, because their sales per dealer are high, there is more room for more dealerships. However, VW has the problem that identical cars, like the new Jetta, new Santana and Skoda Rapid, are sold by different sales organizations. In the past, there was not much overlap of those organizations.

As competition rises, the big enemy of a VW dealer could be the other sales organizations. Ford does not have this problem, but has to find more dealers to expand its network because its sales are increasing.