

CHINA AUTOMOBILE MARKETING AND SERVICE SUMMIT 2003

Key Issues In Developing Automobile Service Market

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AGENDA

China Auto Servicing Landscape

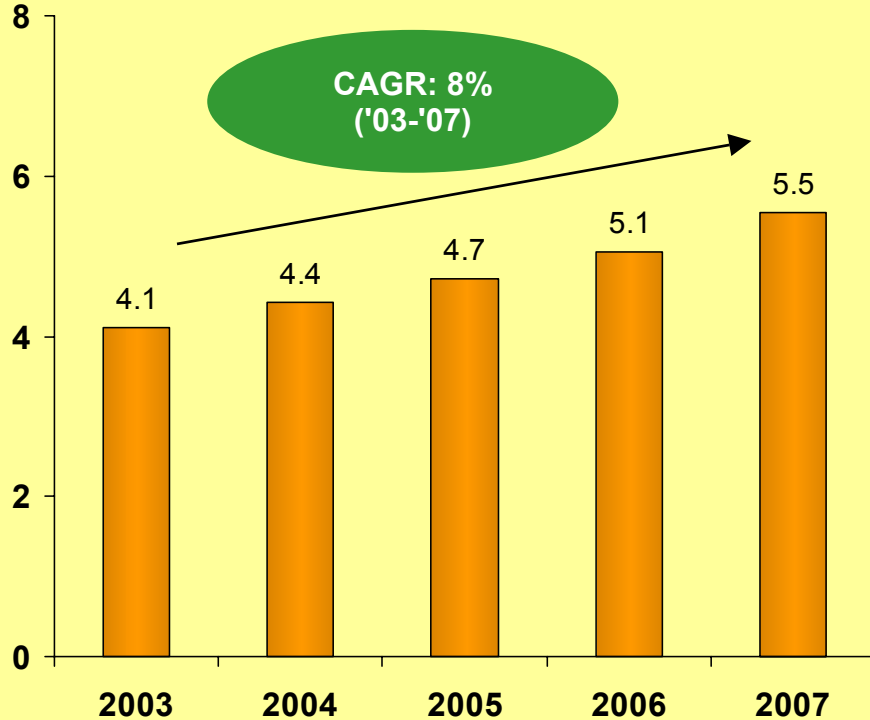
Lessons from Global Auto Servicing Market

Implications for China Auto Servicing Market

THE RAPIDLY GROWING AUTO MARKET WOULD BE ONE KEY DRIVER OF THE GROWTH OF THE AUTO SERVICE MARKET

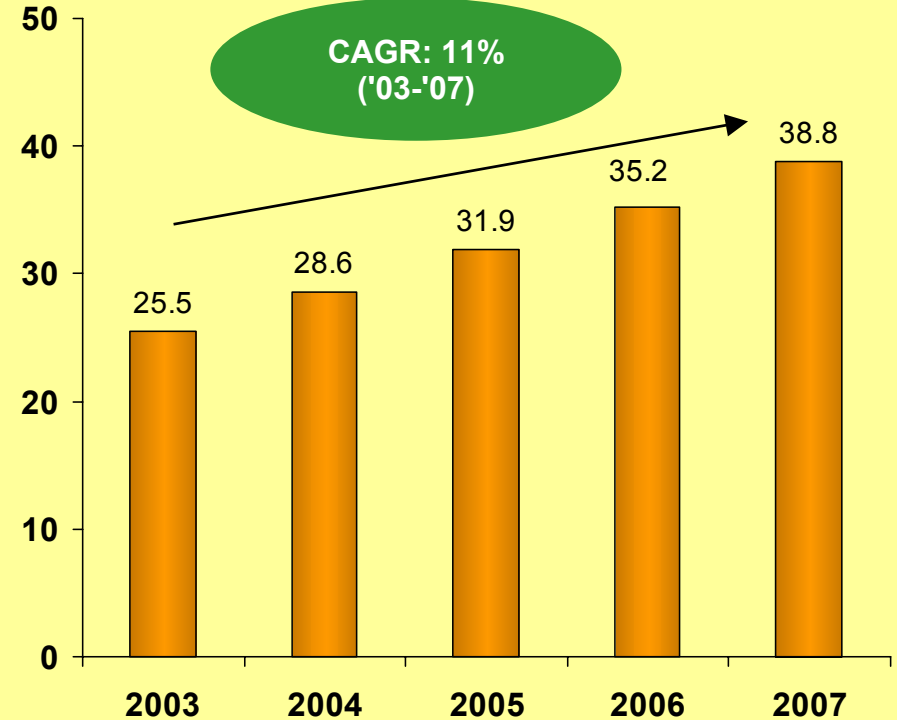
Estimated Vehicle Sales (2003-2007)

Vehicles (M units)



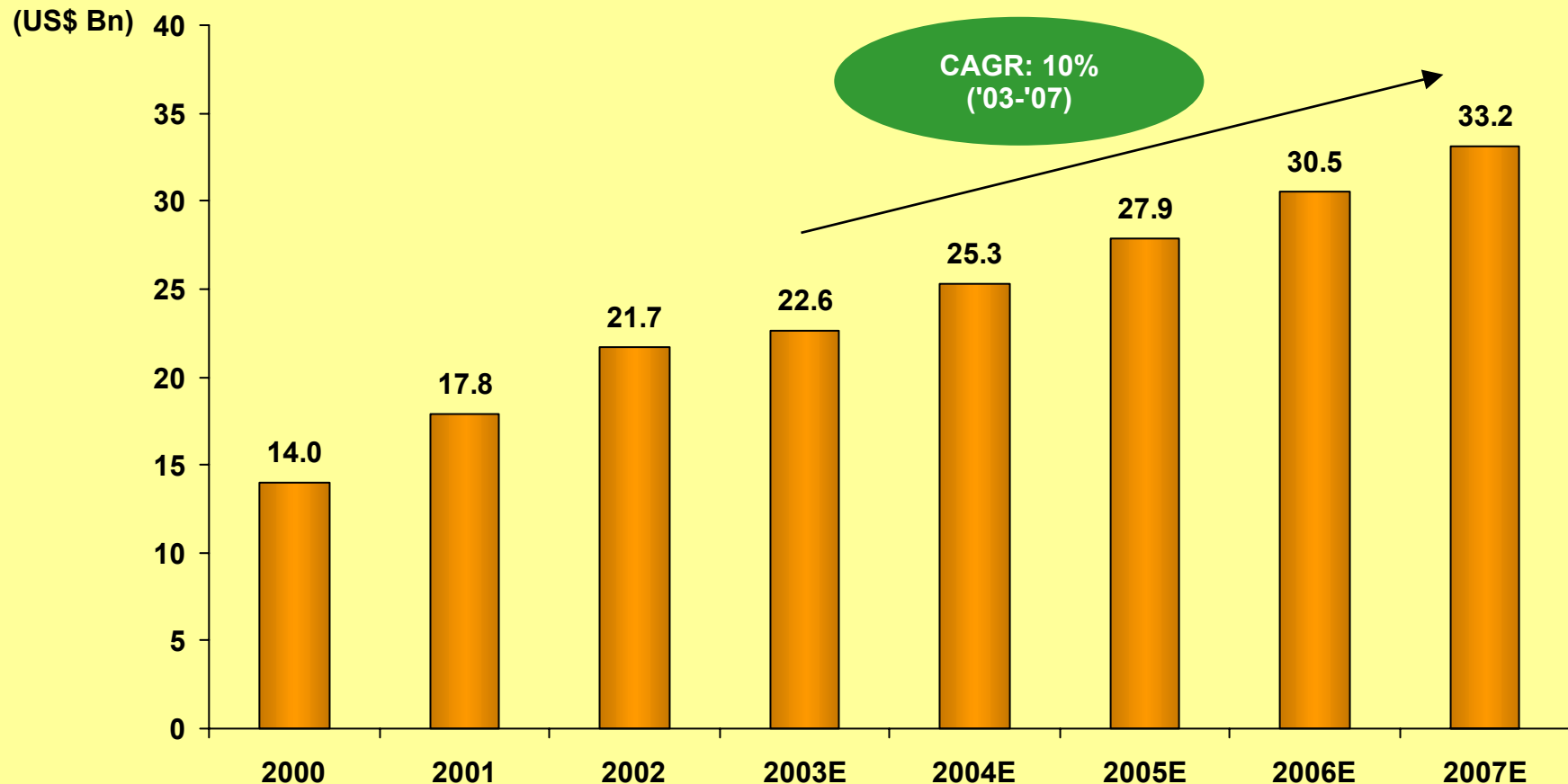
Estimated Car Parc (2003-2007)

Vehicles (M units)



STRONG GROWTH EXPECTED FOR CHINA AUTO AFTERMARKET

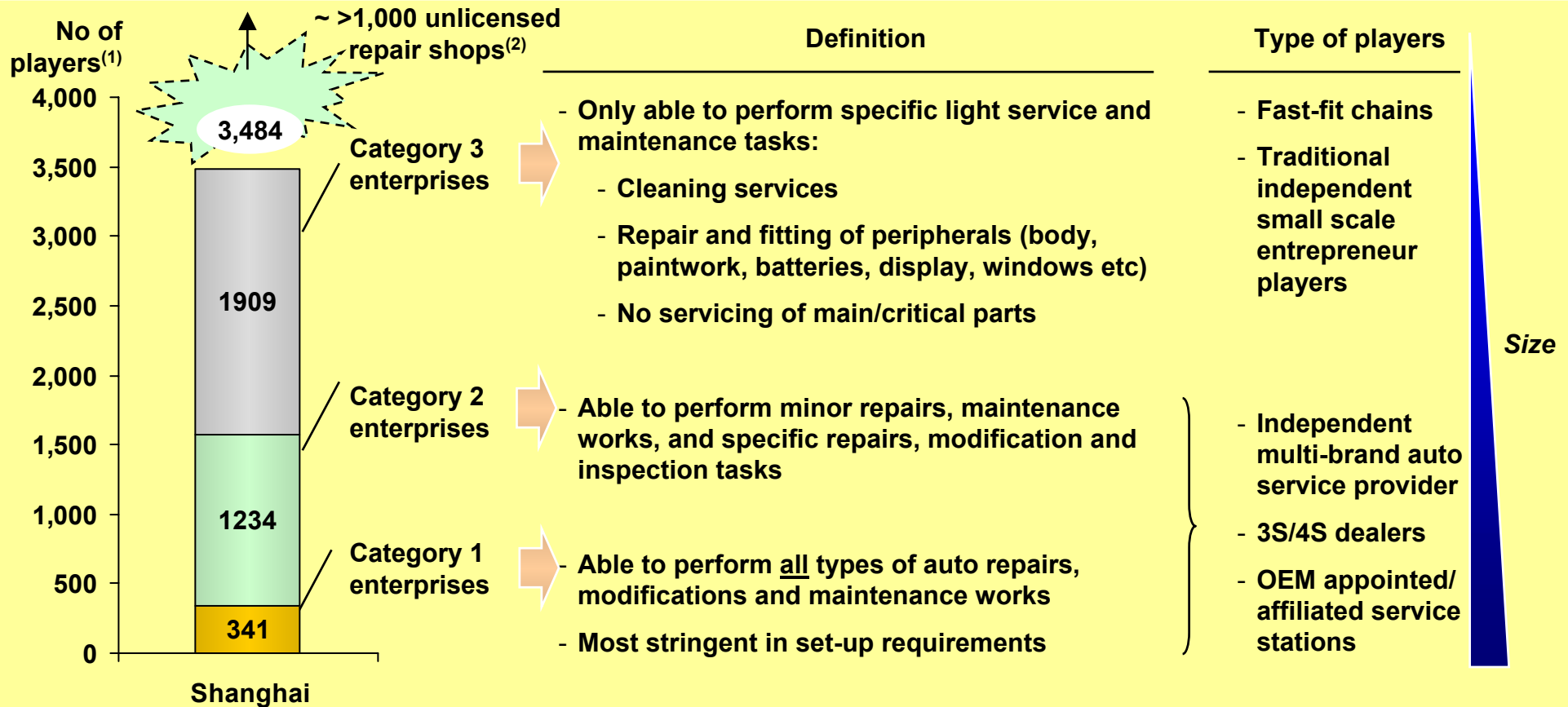
Industry Forecast of China Auto Parts and Aftermarket (US\$ Bn, 2003 – 2007)



CURRENT AUTO SERVICING MARKET IS FRAGMENTED

Due to the Proliferation of Small Sub-scale Players

Fragmented China Auto Servicing Market, e.g. Shanghai



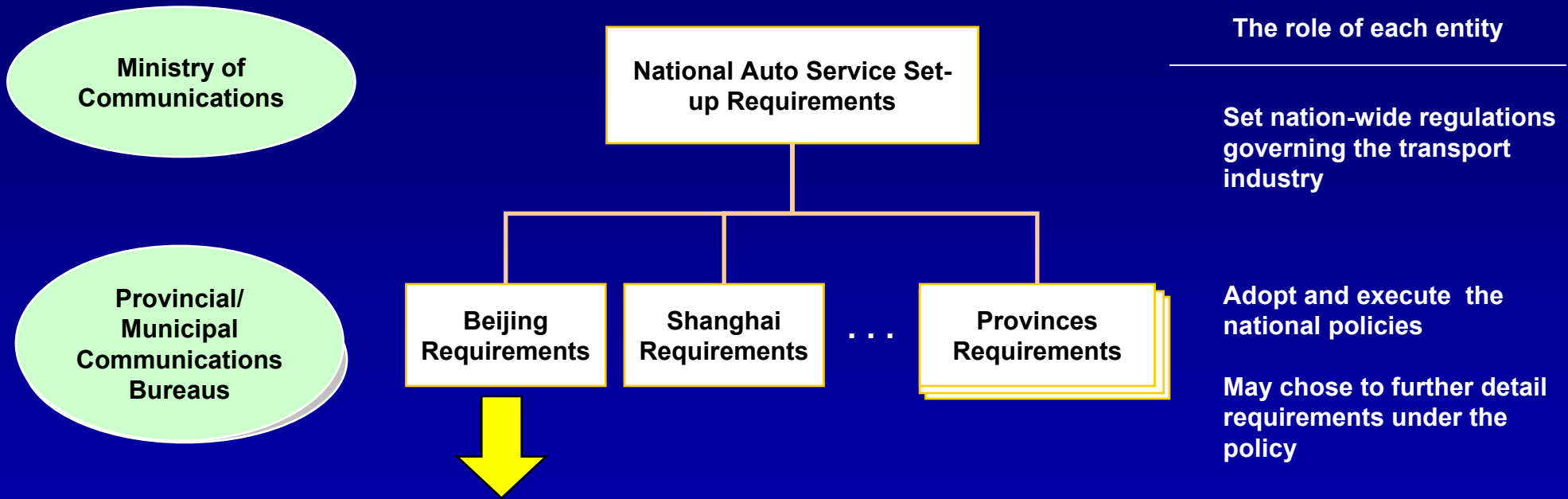
(1) Not inclusive of the unauthorized repair shops and motorcycle repair shops

(2) Estimates from press searches

Source: Press searches

THERE ARE BOTH NATIONAL AND LOCAL REGULATIONS GOVERNING THE SET-UP OF AUTO SERVICE ENTERPRISES

But Effective Enforcement Is the Key Issue



Example : Beijing Category 1 Auto Service Enterprise Set-up Requirements

Facility and equipment

Facility must suitable be for repair works and carpark

- Repair space > 800 m²
- Carpark space > 800 m²

Meets list of required general, special, testing and measurement equipment

Human Resource

Manager: Tertiary Degree holder, >8 years experience

Engineer: At least 1 qualified auto/mechanical engineer,

Inspection engineers: At least 3 properly trained inspection engineers

Others

Working capital > 0.5 M RMB

Must have proper management and quality inspection standards

Must meet all environmental and safety requirements

FOREIGN PLAYERS AGGRESSIVELY TRYING TO GET A PIECE OF THE AUTO SERVICING MARKET

Especially in the Fast-fit Segments



BOSCH

- Already set up over 150 auto service stations in China
- Target set up 1,000 Bosch service stations by 2010



- Biggest auto service and auto parts chain company in Japan
- Investing US\$30 million in JV with the Shanghai Pai-An Group to enter the China market



- Plans to construct a logistics center in Panyu, Guangzhou
- Selected 4 cooperation partners in Guangdong
- Plans to open its first direct sales shop (16,500 m²) in Shanghai



ACDelco
When the right way is the only way.

- Plans to open 200 fast repair shops in Shanghai and other cities in China over the next 2-3 years



- SAIC announced US\$30Mn JV with Shell to enter auto maintenance and repair services
- Initial launch of quick-lube service shops in Shanghai, then nation-wide

KEY ISSUES FACING THE CHINA AUTO SERVICING INDUSTRY

1

Enforcing the Regulatory Requirements

Current proliferation of un-licensed and ill-equipped service providers

Ensuring that service providers meet requirements is the bigger task at hand

2

Increasing Price Transparency & Consumer Education

Wide deviation of price and parts quality across different players

No transparent benchmark of servicing pricing

Lack of consumer understanding on the economics and quality of service and parts

3

Upgrading Quality and Service Standards

Current skill level of auto service may not be able to meet the requirements of the future vehicle market

Need to elevate quality of "self-taught" untrained service providers

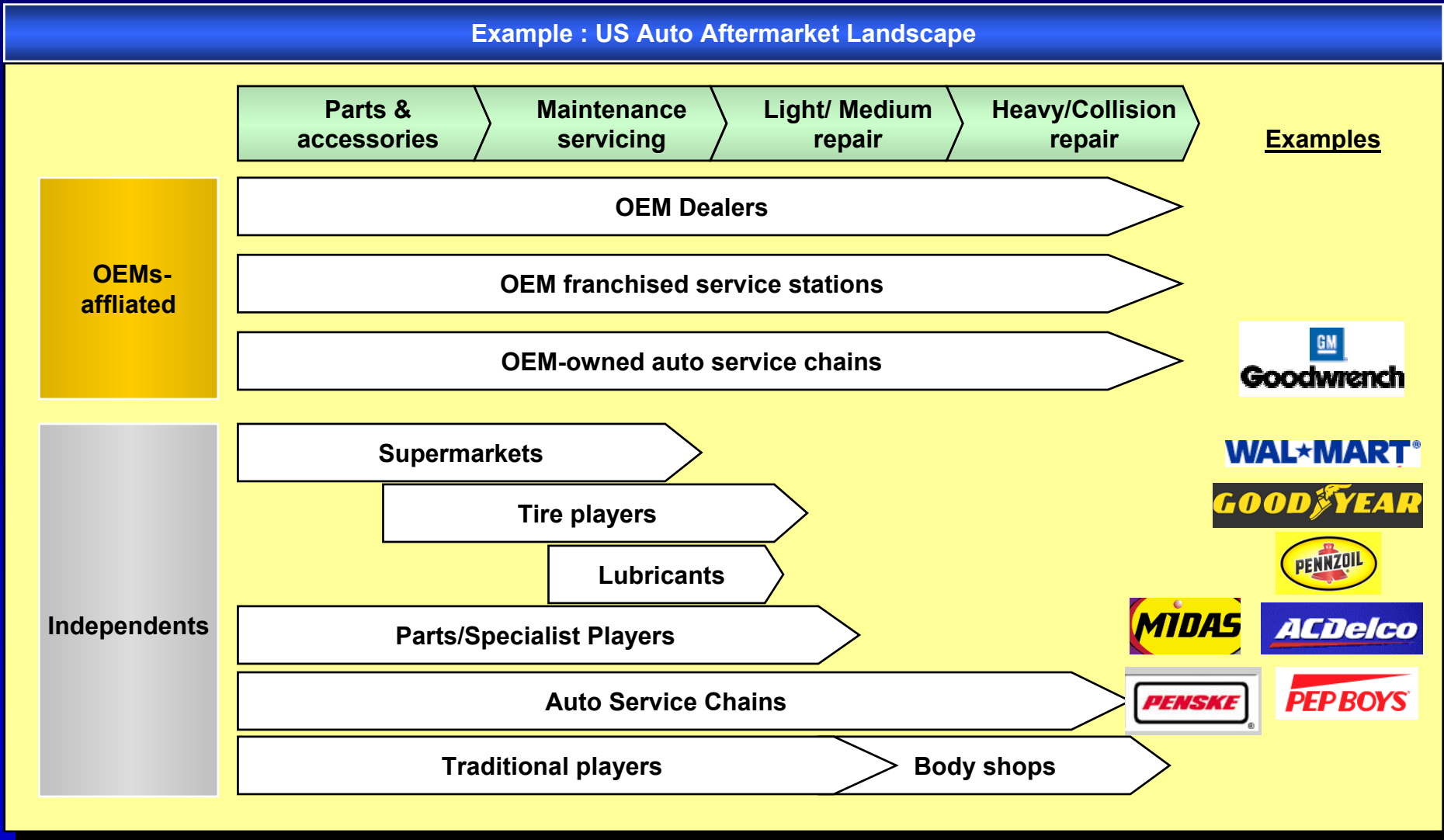
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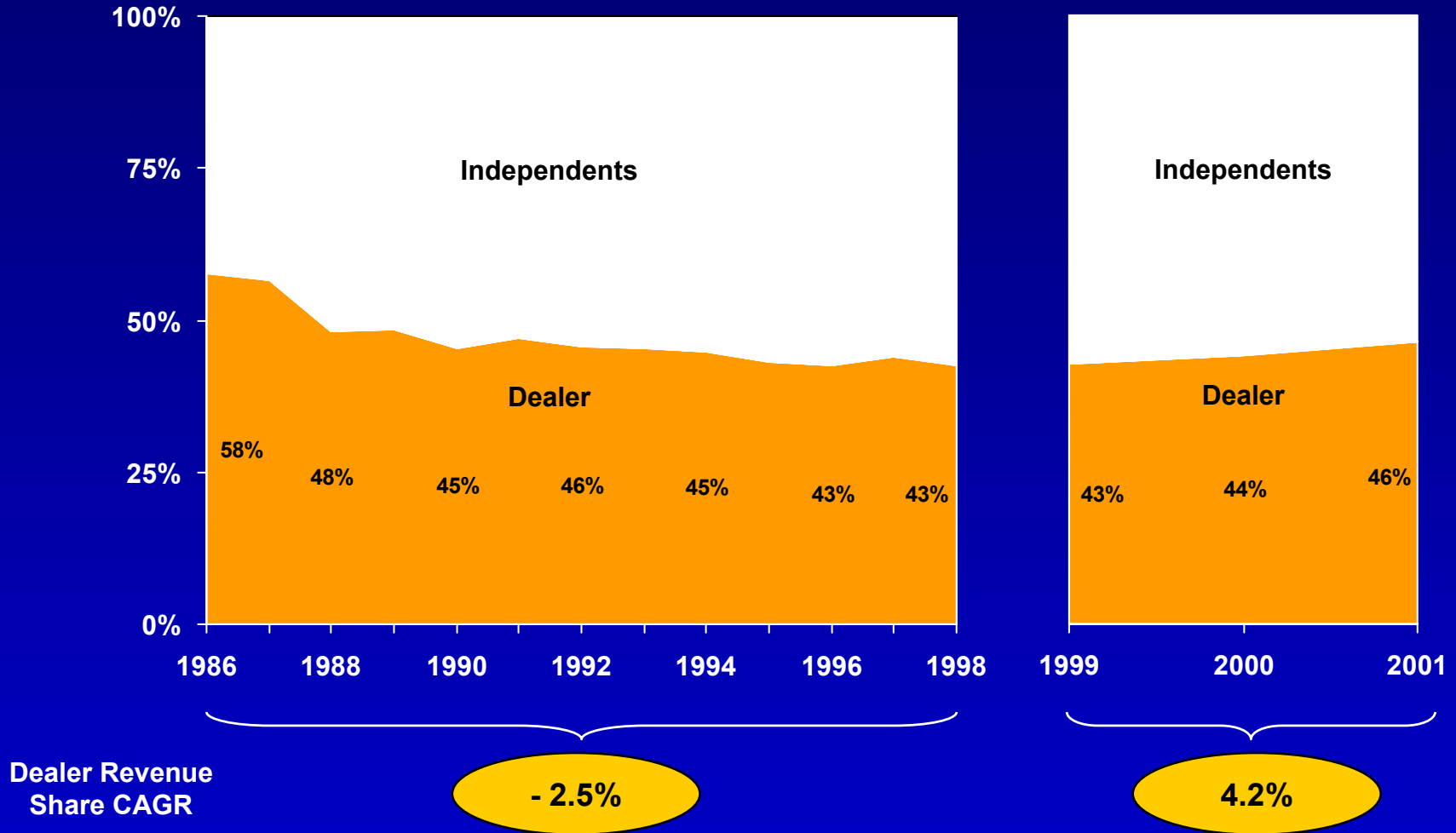
Implications for China Auto Servicing Market

MANY DIFFERENT CHANNELS HAVE EMERGED IN MATURE MARKETS



OEM DEALERS HAVE LOST SHARE TO INDEPENDENTS IN 80s AND 90s, BUT ARE FIGHTING BACK

Aftermarket Revenue Share (US)



Source: NADA

FAST-FITS MOST SUCCESSFUL OF THE INDEPENDENTS

Rapid Growth In The 80s And 90s

Fast-fit proposition...

Full coverage

- Geographic presence
- Multi-brand

Convenience

- No appointments
- Quick turn-around
- Extended opening hours

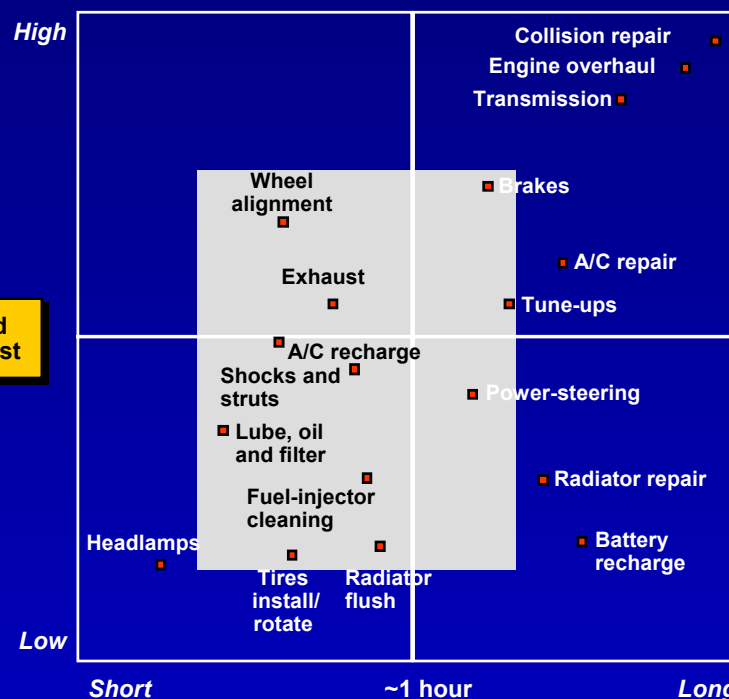
Pricing

- Highly competitive package prices
- Fixed price service for older cars



Expertise and equipment cost

... successfully applied to selected product segments

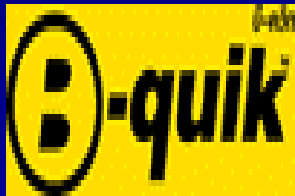


Time-To-Serve

Typical Fast-Fit offering

PROFESSIONALLY OPERATED SERVICE CHAINS ACCELERATING SERVICE, QUALITY STANDARDIZATION AND COST TRANSPARENCY IN SOUTH-EAST ASIA

Traditional Fast-fit Chains Already in Asia



- Leading player in the express services market in Thailand
- Plans to expand from 28 to 43 outlets over next 3 years



- Major Japanese aftermarket specialist
- 1 outlet in Bangkok
- 1 outlet in Singapore
- 4 outlets in Taiwan

Oil Companies & Other Players Leveraging on Existing Network to Get Into the Game



- 49 quick-fix outlets in petrol stations and hypermarkets in Thailand⁽¹⁾
- Also in Singapore



- 2 Auto Express outlets in petrol station in the Philippines
- Variety of service packages



- Operates 54 outlets nationwide (45 are franchised) in Thailand
- Automotive repair services as supplement to tire and wheels retailing

(1) Bought over Max Auto Express from Makro Thailand

DESIGNATED STATE AGENCIES REGULATING THE QUALITY STANDARDS OF US AUTO REPAIR MARKET

Example : California and New York Auto Repair State Regulations

	California	New York
Registration or licensing requirements ?	Registration	Registration
Requirements for registration/ certification?	Document submission	Document submission
Where to apply?	The Department of Consumer Affairs	Department of Motor Vehicles
On-site facility inspection required?	Yes	Yes
Expiration period and renewal?	\$200/year	\$150/ 2years
Mechanic certification required?	Yes	No
What are requirements for certification?	Completion of recognised program (e.g. ASE)	No
Where to gain certification (governing agency)?	Bureau of Automotive Regulations	No
Emission or safety inspection system in place?	Emission	Emission and Safety
What are the requirements for inspection?	Equipment and technician	Equipment and Certified Inspector
Special regulations or systems related to vehicle emission repairs?	Smog check station (Test & Repair) license	No
What is the governing agency	Bureau of Automotive Regulations	Department of Motor Vehicles
Any regulations regarding ongoing vehicle repair work?	Yes	Yes
Parts disclosure for the purposes of consumer protection?	Yes	Yes
Environmental protection regulations (state level)?	Yes	Yes

JAPANESE GOVERNMENT DEREGULATED THE AUTO SERVICE INDUSTRY TO PROMOTE COMPETITION AND CHANGE MARKET STRUCTURE

Auto repair channels

Before Deregulation

Only 2 classifications of garages exist

Relatively high industry entry requirements

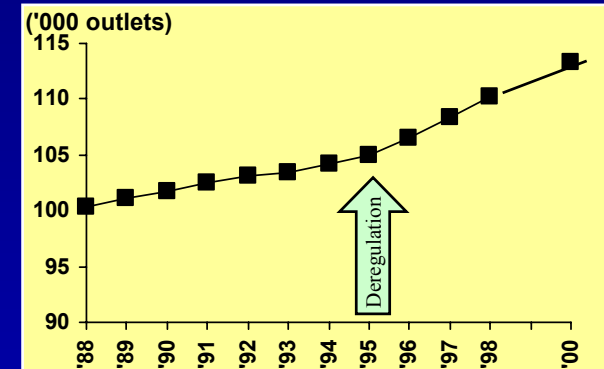
After Deregulation

2 new classifications added to promote entry by other non-traditional businesses

Entry requirements eased, e.g. minimum number of facilities and mechanics decreased

Impact

Overall increase in number of garages



Market scale and structure

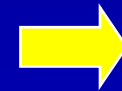
Regulations called for frequent periodic checks and inspections

Scope of repair and inspections restricts choices to consumers

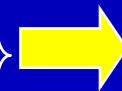
Simplification of periodic inspections items

Revision of repair (disassembling) scope and definition

Abolishment of required inspection for disassembling repairs



Market scale expected to shrink
Decrease burden on consumers



More choices of alternative repairs to consumers
Expansion of markets of specific products

SOUTH-EAST ASIAN COUNTRIES INTRODUCED REGULATORY REQUIREMENTS TO ENFORCE MINIMUM SERVICE STANDARDS



Thailand

- Accreditation review every 2 years
- Minimum accreditation requirement:
 - Facility size > 400 m²
 - Standard paint shop
 - Repair equipment that meet international standards
 - Certified mechanics/technicians
- Provide 6 months warranty on parts and services
- Provide insurance for customers' vehicle
- Comply with pricing guidelines set by Department of Insurance



Indonesia

- 3 repair shop classifications
- Classification valid for 5 years, and is based on:
 - Quality assurance
 - Facilities and equipment
 - Mechanics
 - Information management
- New repair shops must obtain classification within 2 years of operation
- All existing shops must apply for classification



Malaysia

- Motors Repairs Act
 - Display pricing for parts and services
 - Provide 6 months warranty on repairs
 - Fee guidelines for workshops to be introduced
- Approved Repairers Scheme (list of certified repairs shops by Insurance Association)
- Central database for Motor Repairs Estimation
- Considering regulating service cost and spare parts price

Impact

- Force traditional repair shops to upgrade skills/capabilities or will need to exit the business
- Establish minimum service standards for auto repair and begin to organize the industry
- Increase in more professional and standardized operations
- Encourage move towards specialization of repair services

OEMS HAVE ALSO STARTED TO INTENSIFY THEIR INVOLVEMENT IN AUTO SERVICES AND PARTS OFFERINGS

Examples: Honda & Toyota



Honda Offers Express Service and Cheaper Alternative Genuine Parts in Thailand & Japan



30 minute fast maintenance service

Available in 75 Honda service centres



Cheaper alternative Honda genuine parts

6-month warranty

Packaged together with Fast Tech services

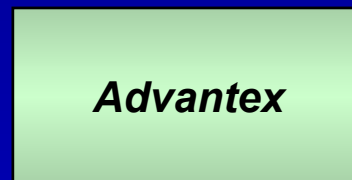


Similar Strategy for Toyota in Philippines, Malaysia and Thailand



Quick repair service system

Open transparent menu pricing on services and parts



~40% cheaper alternative parts for Toyota

Manufacturer's warranty

Packaged together with Thunder Service

TOYOTA MOTORS THAILAND (TMT) PROVIDES STRONG SUPPORT TO DEVELOP AND ENSURE HIGH QUALITY SERVICE STANDARDS

TMT has elaborate training programs that extend to vocational schools to develop future technicians

Provide Training Facility

- Building new training center for TMT staff, dealers and parts suppliers.
- Training is free of charge (includes accommodations, materials, meals)
- TMT sponsors many Vo-Tech programs and establishing “Toyota Vocational Development Centre”

Introduce Training Programs

- Basic training done at dealership or dealer head office for 3-4 months.
- Technician must take qualifying exam for different levels:
 - “Basic” Technician Level 3
 - “Pro” technician - level 2
 - “Master” technician - level 1
- Incentives awarded upon success of each level

Enforce Requirements

- Toyota requires at least 2 “Master” technicians and 70% of service staff to have level 3 qualifications

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ALL MARKET PARTICIPANTS HAVE A ROLE IN THE OVERALL DEVELOPMENT OF THE AUTO SERVICING MARKET

Government

Effectively enforce and maintain regulatory requirements; i.e. weed out unlicensed and unqualified players

Promote pricing transparency by introducing benchmarked pricing guidelines

OEM

Promote consumer education (through dealers and service network) on value of genuine and credible parts and services

Actively build high-quality service networks to capture more auto service share

Develop structured training programs to build strong local technical expertise

Introduce price transparency and consistency on both parts and services

Local independents

Upgrade quality standards to meet up with upcoming competition from OEMs and foreign companies

Seek opportunities to form partnerships with foreign companies with strong technical expertise and expand scale in local operation